MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2013

Dated August 16, 2013

Management's Discussion and Analysis ("MD&A") is intended to help shareholders, analysts and other readers understand the dynamics of Telehop Communications Inc.'s ("Telehop" or the "Company") business and the key factors underlying its financial results. It explains trends in Telehop's financial condition and operating results for the three and six months ended June 30, 2013, compared with the operating results for the three and six months ended June 30, 2012. The MD&A should be read in conjunction with the Unaudited Interim Consolidated Financial Statements for the three and six months ended June 30, 2013. This MD&A is based on financial statements that reflect the adoption of International Financial Reporting Standards ("IFRS"). All financial amounts, unless otherwise indicated, are in Canadian dollars and in accordance with IFRS.

Forward-Looking Statements

The consolidated financial statements and information and analysis in the management's discussion and analysis necessarily includes amounts and conclusions based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration as to materiality. In addition, in preparing the financial information, management must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information.

Certain statements in the MD&A also constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the results, performance or achievements of Telehop to be materially different from those expressed or implied by such statements. Such factors include, amongst others, the following: general economic and business conditions, demographic changes, regulation, major technology changes, and timing of product introductions, competition, and the ability of Telehop to attract and retain key employees. Readers are cautioned not to place undue reliance on forward-looking statements as various factors could cause actual future results, conditions or events to differ materially from expectations or estimates expressed in the forward-looking statements.

FINANCIAL REVIEW

During the second quarter of 2013, the Company's financial performance improved over the same period in 2012 due to a strong focus on cost efficiencies on the core business and the acquisition and launch of Telehop Business Services. Retail revenues have declined driven mainly by traditional 10-10 revenues due to ongoing internet and wireless substitution solutions along with the incumbent carriers offering significant bundling discounts which include Canada and United States long distance calling. The Company has been able to offset some of the declines with new sales from Business Services and the increase in #100 revenue.

With the launch of Business Services in the second quarter of 2013, the Company incurred expenses of over $40,000 for the acquisition that were expensed during the quarter. These include consulting fees, legal fees, and additional telecommunication costs that the Company will not have to incur going forward.

Operating expenses were down $236,925 or 10% for the quarter and $658,483 or 14% year to date, as the Company continues to maximize its cost structure and efficient marketing spending. The Company has developed improved processes and controls over accounts receivables which have helped to reduce bad debt exposure. While this has helped the bad debt expenses, it has impacted top line revenues.

Revenue for the second quarter 2013 was $2,148,802 with a net income of $45,022 or $0.002 per common share compared to revenue of $2,385,727 with a net income of $15,312 or $0.001 per common share for the second quarter 2012. Net income year to date is $92,468 compared to the prior year a loss of ($78,248).

EBITDA for the quarter grew to $98,281 compared to $27,149 and a year to date of $179,650 compared to $(13,975) in the prior year comparative periods. See the section titled "Definitions – Additional GAAP Measures and Non-GAAP Measures" for descriptions of Operating Income (loss) and EBITDA and the reconciliation of EBITDA to net income (loss) for the periods presented. These items do not have a standardized meaning under IFRS and therefore unlikely to be comparable to similar measures presented by other companies. EBITDA which is a non-GAAP measure should not be considered as a substitute or alternative for GAAP measures.

The Company's gross margin for the second quarter was $971,694 or 45.2% compared to $1,095,969 or 45.9% for the same quarter in 2012.

COMPANY OVERVIEW

Established in 1993, Telehop is a full-service long distance provider operating within the telecommunications industry and is registered with the Canadian Radio-television and Telecommunications Commission ("CRTC") as a licensed Class "A" Telecom Carrier. Telehop is listed on the TSE Venture Exchange and has been trading publicly since 1997 under the symbol "HOP".

Telehop's core network resides in Toronto, Ontario, with virtual points-of-presence in major cities across Canada. Revenues are earned from the access to, and the use of, our telecommunications network and infrastructure from both residential and business consumers.

Telehop operates under two major business segments – retail and wholesale services. The services are provided as follows:

- Retail
    - Casual calling

Telehop’s casual calling services allow customers to access Telehop's long distance Equal Access network from most telephones across Canada, without having to subscribe to the service or pay any monthly fees. The dial-around service or casual calling service allows a user to bypass or ‘dial around’ their existing long-distance provider on any call by entering the digits “10-10-620” or “10-10-100” before making a call, without having to switch carriers. 10-10-100 is designed for users who make shorter calls and want to pay low per-minute pricing, and 10-10-620 is meant for those who want to enjoy longer calls for a set price. Any calls made using Telehop’s “10-10-620” and “10-10-100” Casual Calling services appear on the customers’ regular monthly telephone bills at Telehop’s discounted rates. Telehop has entered into Billing & Collection Agreements with most of the major Local Exchange Carriers (“LECs”) across Canada and will continue to strive towards partnerships with other LECs to further improve its geographical reach. In 2012 the Company launched a #100 service on the TELUS Mobility network that offers a similar service allowing customers to access the Company’s network from their prepaid or postpaid TELUS cell phone and receive the charges on their TELUS bill, without having to sign up with the Company.

    - Subscription

The Company is a provider of “Equal Access” long distance services worldwide to its residential and business customers. The term “Equal Access” refers to a long distance service that offers equal ease of access to all customers. This allows Telehop customers to directly dial long distance calls on Telehop's network using the normal ‘1+’ or ‘011+’ dialing pattern from their traditional landlines. Telehop offers a variety of plans that cater to specific markets and their calling needs, including toll-free phone numbers, flexible per minute or block plans. Customers can choose from per-minute plans or block plans with Telehop's long distance service. They may also choose from a variety of payment methods including prepaid plans, pre-authorized debit or credit card, or post or direct pay. The customer subscribes to this long distance service and is required to transfer carriers upon sign up.

    - Home Phone

The Company markets a VoIP (voice-over-internet-protocol) service under its Telehop Home Phone brand. This service allows a customer to place local and long-distance calls through a high-speed Internet connection allowing the customer to replace their traditional landline home phone. Telehop Home Phone is a feature packed service that allows customers to choose the home phone plan that best suits their lifestyle.

    - Business Services

The Company markets a Hosted PBX service under its Telehop Business Services brand. This service allows small and medium sized businesses to purchase phone and fax services at considerable savings from traditional carriers. This feature rich offering includes a number of features and North American calling.

    - Prepaid calling cards

The Company offers prepaid long distance calling cards, where the customer dials a toll free number to make their long distance call through the Company’s network.

- Wholesale

The Company offers discounted rates by selling bulk minutes worldwide to high volume resellers to carry their calls through the Company’s network. Bulk minutes are sold by destination. These high volume resellers can then repackage the minutes purchased at discounted rates with their own unique branding and services.

RESULTS OF OPERATIONS

Consolidated Highlights **($000's CAD)**	**Three months ended** **June 30, 2013**	 **June 30, 2012**	**Six months ended** **June 30, 2013**	 **June 30, 2012**
Consolidated Income Statement				
Operating revenues	**2,149**	**2,386**	**4,179**	**4,838**
Gross margin	**972**	**1,096**	**1,792**	**2,123**
Gross margin %	**45.2%**	**45.9%**	**42.9%**	**43.9%**
Operating costs				
General and administration	**583**	**629**	**1,088**	**1,296**
Marketing and selling	**174**	**333**	**327**	**626**
Development and technical	**123**	**109**	**208**	**218**
Amortization	**42**	**20**	**66**	**46**
Operating income (loss)[1]	**49**	**5**	**103**	**(64)**
EBITDA[1]	**98**	**27**	**180**	**(14)**
Other income	**6**	**2**	**7**	**(4)**
Net income (loss)	**45**	**15**	**92**	**(78)**
Earnings per share – basic and diluted	**0.00**	**0.00**	**0.00**	**0.00**
Consolidated Statement of Cash Flows				
Cash provided (used) by operating activities			**191**	**(147)**
Cash used by investing activities			**(225)**	**(30)**
Cash provided (used) by financing activities			**77**	**(2)**

[1] See "Definitions – Additional GAAP Measures and Non-GAAP Measures" for descriptions of Operating Income (loss) and EBITDA and a reconciliation of EBITDA to net income (loss) for the periods presented.

OVERALL PERFORMANCE

Operating Revenue

Consolidated operating revenues declined quarter over quarter by $236,925 or 10% to $2,148,802.

Consolidated operating revenues for the six months ending June 30, 2013 declined by $658,483 or 14% to $4,179,319.

Comparison of revenue by Core Business Product Lines

	For the quarters ended June 30			
	2013	**2012**	**+/-**	**%**
Retail revenue	$2,015,522	$2,206,393	$(190,871)	(9%)
Wholesale	133,280	179,334	(46,054)	(26%)
Total revenues	$2,148,802	$2,385,727	$(236,925)	(10%)

	For the six months ended June 30			
	2013	**2012**	**+/-**	**%**
Retail revenue	$3,913,979	$4,427,595	$(513,616)	(12%)
Wholesale	265,340	410,207	(144,867)	(35%)
Total revenues	$4,179,319	$4,837,802	$(658,483)	(14%)

Retail Revenue

Casual Calling continues to be under pressure as retail customers are receiving strong offers from their existing providers to stay with low long distance rate calling offers and strong bundle offers. The incumbent carriers continue to offer strong incentives to keep their existing customers making it challenging to offer lower rates and maintain margins. Telus #100 service is starting to deliver revenues to help offset this decline but not at the same pace. The launch of Telehop Business Services has started to grow and help offset declines in casual calling.

Wholesale revenue

Wholesale revenue has a significantly lower gross margin than the other lines of business. Wholesale customers buy “bulk minutes” from Telehop at discounted prices. This line of business is very competitive and margins for the overall Canadian market in this segment have declined. The Company is aggressively pursuing new Wholesale clients, in a highly competitive marketplace.

The Company is continuing to develop new customers, but have seen existing customer minute volumes decreasing overall.

Gross Margin

	2013	2012	+/-	%
For the quarters ended June 30	$971,694	$1,095,969	$(124,275)	(11%)
	45.2%	45.9%	-0.72%	(2%)
For the six months ended June 30	$1,791,581	$2,123,160	$(331,579)	(16%)
	42.9%	43.9%	-1.02%	(2%)

Gross margin as a % of revenue has decreased by 0.7% from 45.9% in the second quarter 2012 to 45.2% this quarter, primarily as a result of lower revenues and additional costs related to migration of new business customers.

Operating Expenses

	For the quarters ended			
	2013	2012	+/-	%
General & administration	$583,164	$628,707	$(45,543)	(7%)
Marketing & selling	174,223	332,483	(158,260)	(48%)
Development & technical Support	123,334	109,243	14,091	13%
Amortization	41,919	20,326	21,593	106%
Total revenues	$922,640	$1,090,759	$(168,119)	(15%)

	For the six months ended			
	2013	2012	+/-	%
General & administration	$1,088,186	$1,296,538	$(208,352)	(16%)
Marketing & selling	326,506	626,236	(299,730)	(48%)
Development & technical Support	208,202	218,544	(10,342)	(5%)
Amortization	65,575	46,227	19,348	42%
Total revenues	$1,688,469	$2,187,545	$(499,076)	(23%)

Overall operating expenses of $922,640 are $168,119 or 15% less than the $1,090,759 recorded in the second quarter 2012. We measure expense on a total basis, monitoring them very closely and adjusting them where it is felt they are required. These changes in operational expenses by line items are discussed below

General & administration expenses of $583,164 have decreased $45,543 overall quarter over quarter. Reductions across management salaries and stock compensation in addition to a significant reduction in bad debts have lowered the overall expenses.

Marketing & selling expenses of $174,223 have decreased by $158,260 a result of a reduction in print media spending and commissions paid to call centres.

Development & technical support expenses decreased by $19,348 or 5% quarter to quarter as a result of staffing level increases for the on-going support of our network.

Amortization expenses increased by $19,348 or 42% compared to the same period last year. The increase was mainly driven by the acquisition of customer lists for the Business Services during the second quarter and is amortized over three years.

The Company continues to monitor operating expenses closely to keep them at a sustainable level for the existing market conditions.

EBITDA and Operating Income

EBITDA for the three months ended June 30, 2013 increased to $98,281 from $27,149 and operating income increased to $49,055 from $5,210 relative to the same period last year based on the changes in revenue and expenses discussed above.

EBITDA for the six months ending June 30, 2013 increased to $179,649 from $(13,975) and operating income increased to $103,112 from $(64,386) relative to the same period last year based on the changes in revenue and expenses discussed above.

DEFINITIONS - ADDITIONAL GAAP MEASURES AND NON-GAAP MEASURES

The Company measures the success of its strategy through certain key performance indicators, which are outlined below. The following key performance indicators are not measurements in accordance with IFRS and should not be used as an alternative to net income or any other measure of performance under IFRS.

Operating Income (Loss)

We include Operating Income (Loss) as an additional GAAP measure in our consolidated statements of operations and comprehensive income (Loss). Operating Income (Loss) is defined as revenue less telecommunications costs and operating expenses, and excludes finance income and costs, net, other income and gain on disposal of assets. We include operating income (loss) as an additional GAAP measure in our consolidated statements of operations and comprehensive income (loss). We consider operating income (loss) to be representative of the activities that would normally be regarded as operating in nature for the Company. We believe this measure provides relevant information that can be used to assess the consolidated performance of the Company and therefore, provides meaningful information to investors.

EBITDA

We define EBITDA as earnings before interest costs, taxes, depreciation and amortization. EBITDA, which is a non-GAAP financial measure, is a standard measure used in the telecommunications industry to assist in understanding and comparing operating results. EBITDA is reviewed regularly by management and our Board of Directors in assessing performance and in making decisions regarding the ongoing operations of the business and the ability to generate cash flows. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with IFRS. EBITDA is not a measure of financial performance nor does it have a standardized meaning under IFRS. In evaluating these measures, investors should consider that the methodology applied in calculating such measures may differ among companies and analysts. We have reconciled EBITDA to its most comparable measure calculated in accordance with IFRS, being net income (loss) in the tables below.

Below is a reconciliation of “EBITDA” to net income (loss) for the periods presented:

	For the quarters ended 2013	2012	+/-	%
Net Income	$45,022	$15,312	$29,710	194%
Interest costs	11,340	(8,489)	19,829	(234%)
Income taxes	-	-	-	-
Amortization	41,919	20,326	21,593	106%
EBITDA	$98,281	$27,149	$71,132	262%

	For the six months ended 2013	2012	+/-	%
Net Income	$92,468	$(78,248)	$170,716	(218%)
Interest costs	21,606	18,046	3,560	20%
Income taxes	-	-	-	-
Amortization	65,575	46,227	19,348	42%
EBITDA	$179,649	$(13,975)	$193,624	(1386%)

QUARTERLY RESULTS SUMMARY

The following table sets forth certain unaudited consolidated statements of operation for the most recent quarter of operations ending June 30, 2013 as well as historical periods. The operating results for any quarter are not necessarily indicative of results for any future period:

Summary of results	**2013**		**2012**				**2011**		
($000's)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	2,149	2,031	2,094	2,095	2,386	2,449	2,367	2,701	2,647
Telecommunication costs	1,177	1,210	1,180	1,111	1,290	1,422	1,563	1,494	1,474
Gross margin	972	820	914	984	1,096	1,027	804	1,207	1,173
Gross margin as a %	45%	40%	44%	47%	46%	42%	34%	45%	44%
Operating expenses									
General & administrative	583	514	470	553	629	668	735	636	727
Marketing & selling	174	152	199	244	333	294	334	524	399
Development & technical support	123	85	116	110	109	109	121	128	189
	880	751	785	907	1,070	1,071	1,190	1,288	1,315
EBITDA	98	69	128	77	27	(41)	(381)	(80)	(142)
Amortization	42	24	43	24	20	26	216	41	36
Interest expenses	11	10	1	14	(8)	27	16	1	1
Other income	6	2	-	-	2	1	-	-	-
Income (loss) before tax	45	38	84	39	15	(94)	(613)	(122)	(179)
Income tax (recovery)	-	-	-	-	-	-	333	(46)	(29)
Net income (loss)	45	38	84	39	15	(94)	(946)	(76)	(150)
Earnings (loss) per share	0.00	0.00	0.00	0.00	0.00	(0.01)	(0.06)	(0.01)	(0.01)

FINANCIAL CONDITION

The following table presents the variations in the Consolidated Statement of Financial Position as at June 30, 2013 as compared to December 31, 2012:

($000's)	June 30 2013	Dec. 31 2012	Changes	
Current assets				
Cash and cash equivalents	756	713	43	6.0%
Trade and other receivables, net of allowance for doubtful accounts	1,164	1,293	(129)	-10.0%
Prepaid expenses and other	65	53	12	22.6%
Non-current assets				
Property and equipment	479	502	(23)	-4.6%
Intangible assets	225	43	182	423.3%
Current liabilities				
Accounts payable and accrued liabilities	1,252	1,285	(33)	-2.6%
Provisions	65	140	(75)	-53.6%
Note payable - current	57	-	57	-
Obligations under finance lease	7	7	-	0.0%
Non-current liabilities				
Note payable	24	-	24	-
Obligations under finance lease	6	9	(3)	-33.3%
Total shareholders' equity	1,279	1,162	117	10.1%

CAPITAL RESOURCES AND LIQUIDITY

Since December 31, 2012, the Company’s working capital has decreased by $22,466 from $626,770 at December 31, 2012 to $604,304 at June 30, 2013.

Investing activities for the three months ended June 30, 2013 were $225,180 and were mainly the purchase of business assets.

We manage liquidity risk to maintain sufficient liquid financial resources to fund our balance sheet and meet our commitments and obligations in the most cost-effective manner possible.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

- Note Payable

On April 1, 2013 the Company completed an asset purchase with G3 Telecom Corp., under which the Company acquired G3's business services customer lists. The purchase price included a cash portion and a note payable of $120,000, repayable over eighteen months with an annual interest rate of 5%. The Company made an additional principal payment of $30,000 in April, 2013.

- Contractual obligations

Our material obligations under firm contractual arrangements are summarized below as at December 31, 2012:

	Total	2013	2014	2015
Operating leases	439,489	267,743	171,746	-
Obligations under capital lease	16,260	6,981	7,372	1,907
Total	455,749	274,724	179,118	1,907

- Operating leases

The Company leases its corporate office that expires in July 2014. In September 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which will expire in September 2014. These amounts are included in the above table.

During the year ended December 31, 2012, the Company entered into a carrier billing services agreement with a major national communications provider. Under the terms of the 5-year agreement, the Company has committed to generating minimum gross billings of $25 million through the five-year term. To the extent that the minimum gross billings and related carrier billings fees are not achieved, the Company may be subject to obligations for the shortfall.

SOURCES AND USE OF CASH

The Company's cash flows from operating, investing and financing activities, as presented in the consolidated statements of cash flows, are summarized in the following table:

	Six months ended			
($000's except ratios)	**June-13**	**June-12**	$Change	% Change
Cash provided (used) by operating activities	**191**	**(130)**	321	247%
Cash used in investing activities	**(225)**	**(30)**	(195)	(650%)
Cash used by financing activities	**77**	**(20)**	97	485%
Increase (decrease) in cash	**43**	**(180)**	223	124%
Cash and cash equivalents	**756**	**235**	521	(222%)
Current assets	**1,985**	**1,617**	368	(23%)
Current liabilities	**1,381**	**1,816**	(435)	24%
Working capital	**604**	**(199)**	803	404%
Current ratio	**1.4**	**0.9**		

Cash provided by operating activities increased by $320,692 to ($191,122), and was largely attributed reductions in receivables from year end.

Cash used in investing activities increased to $225,180 as compared to last year at $30,046 due to purchase of Business Services assets.

Cash provided (used) by financing activities increased mainly due to the proceeds of the note payable related to the Business Services assets.

CAPITALIZATION

As at June 30, 2013 the Company had 24,272,083 common shares outstanding and 1,748,875 share options, which are exercisable at an average strike price of $0.129 per share prior to May 2016.

RISKS AND RISK MANAGEMENT

The following areas summarize the principal risks and uncertainties that could affect Telehop's future results.

Competition

Telecommunications providers are continually increasing the range of services they offer as well as lowering their long-distance rates to become more competitive. Telehop intends on mitigating these risks through offering more innovative solutions that will distance the Company from the price sensitive market, and further reduce its cost structure in anticipation of future price declines.

Technology

The market for the Company's services is characterized by rapid change and technological improvements. Failure to respond in a timely and cost-effective way to these technological developments could result in serious harm to the Company's business and operating results. A substantial portion of the Company's revenues are derived and expected to continue to be derived from providing telecommunications services that are based upon today's leading technologies and that are capable of adapting to future technologies.

Regulatory

Regulatory changes issued by the Canadian Radio and Telecommunications Commission (CRTC) could have a material adverse impact on Telehop's procedures, costs and revenues. The company is federally regulated by the CRTC and Industry Canada. The CRTC regulates certain tariff charges in which Telehop pays to certain local carrier exchanges and may issue changes which may have a material unfavourable impact on the Company's financial results. To mitigate these risks, the Company monitors industry developments very closely through industry advisors.

Management Team

Telehop operates with a small but effective and experienced management team that strives to oversee all aspects of operations, and by calling upon the services of financial, industry and technology experts when deemed appropriate.

The replacement of any management team member may have an adverse impact on operating results as their experience and skills may be difficult to find and match in the event of a management change. However, all team members are encouraged to document each of their key tasks and responsibilities as a means of mitigating this risk.

Niche Company

As a niche telecommunications long-distance provider serving primarily ethnic communities, the Company at this time does not have the full diversification in services compared to other larger telecommunications companies. Therefore, the Company is exposed to unforeseen changes in the long-distance market which could adversely affect the Company's future financial results. To mitigate these risks steps have been taken toward being a more diversified company by offering not only long-distance services but as a provider of additional telecommunications services.

Foreign Exchange

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The assets, liabilities, revenues and expenses denominated in U.S. dollars will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

The Company makes use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. From time to time the Company makes use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at March 31, 2012 the Company did not possess any foreign currency forward contracts.

Credit

The Company is subject to credit risk through accounts receivables, which consists of amounts represented by the large number of subscription services customers which are invoiced directly, and amounts owed from various LEC's from casual calling revenues.

More than 50% of the Company's accounts receivables are owed by a few LECs across Canada. The LEC's provide billing and collection services on behalf of the Company through billing and collections agreements. Credit risks are mitigated from this group of LECs by purchasing long-distance services from them, which offsets at least 50% of the accounts receivables.

CONTINGENT LIABILITIES

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of business. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the Company's financial condition or results of operation.

ADDITIONAL INFORMATION

Additional information about Telehop is available:

- At the www.telehop.com website
- At the www.sedar.com website
- Via email to investorinquiry@telehop.com, or
- Via phone at 416-494-4490