



Telehop Communications Inc.

Management's Discussion and Analysis

For the Years Ended December 31, 2014 and 2013

Management's Discussion and Analysis
For the twelve months ended December 31, 2014 and 2013
Dated April 24, 2015

This document provides management's discussion and analysis ("MD&A") of Telehop Communications Inc.'s ("Telehop" or the "Company") financial condition as at, and results of operations for, the year ended December 31, 2014 compared to 2013. This MD&A is intended to help the readers, including shareholders and stakeholders, understand the dynamics of Telehop's business and the key factors underlying its financial results, and should be read together with our consolidated financial statements and accompanying notes (the "Financial Statements") for the year ended December 31, 2014.

The Financial Statements, along with the comparative periods presented in them, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in this document are in Canadian dollars.

Throughout this document, unless otherwise specified or the context otherwise indicates, the "Company", "Telehop", "we", "us" and "our" refer to Telehop Communications Inc. and its subsidiaries.

Additional information on Telehop is available and can be found on Telehop's website at www.telehop.com or through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Company's other recent financial reports, securities and continuous disclosure documents.

The Financial Statements and information and analysis in the MD&A 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 financial information, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information.



FORWARD-LOOKING STATEMENTS

This MD&A is dated April 24, 2014, and may contain forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances. This information is based on our estimates about the conditions in which we operate and our beliefs and assumptions regarding these conditions. Unless otherwise indicated, the forward-looking information in this MD&A describes our expectations on the date of this MD&A. In some cases, forward-looking information may be identified by words such as “anticipate”, “believe”, “could”, “expect”, “plan”, “seek”, “may”, “intend”, “will”, “forecast” and similar expressions.

This information is subject to important risks and uncertainties, which are difficult to predict, and is based on and subject to assumptions, which may prove to be inaccurate. Some of the risk factors that could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; ability to achieve strategies and plans; timing of product introductions; ability to manage our cost structure; general economic and business conditions; demographic changes; reliance on systems; changing technology; demand for our products and services; changing regulations; dependence on key suppliers; reliance on key personnel; legal contingencies and changes in laws; and tax related risks. Some of these risk factors are largely beyond our control. Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions, non-recurring or other special items, announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information as various factors could cause actual future results, conditions or events to differ materially from expectations or estimates expressed in these forward-looking statements.

COMPANY OVERVIEW

Established in 1993, Telehop is a full-service long distance and wireless provider and has grown into one of the largest alternative telecommunications providers to both residential and business customers. Registered with the Canadian Radio-Television and Telecommunications Commission (“CRTC”) as a licensed Class “A” Telecom Carrier and American Federal Communications Commission (“FCC”), Telehop has been publicly traded on the TSX Venture Exchange (TSX:HOP) since 1997. Telehop’s core network resides in Toronto, Ontario, with virtual points-of-presence in major cities, provinces, and states across Canada and the United States.

In 2014, Telehop acquired its own wireless spectrum in Ontario and British Columbia as part of the acquisition of G3 Telecom Corp. and its group of affiliated companies (“G3 Telecom”). This has allowed the Company to expand its industry presence and broaden its wireless product offerings.

Revenues are earned from the access to, and the use of, our telecommunications network and infrastructure. Numerous types of telecommunications services are sold and packaged in different forms, which includes casual calling, subscriptions, wireless solutions, wholesale, Business Services, VoIP HomePhone, and prepaid calling cards.

FINANCIAL REVIEW

Telehop completed two major acquisitions in 2014 by purchasing G3 Telecom in Q1 and iRoam in Q2. The Company purchased G3 Telecom for \$4,111,000 and iRoam for \$500,000. Telehop acquired a combination of businesses and assets through the G3 Telecom purchase while acquiring customer lists in the iRoam acquisition. The acquisitions allow the Company accelerated product expansion into higher growth markets of voice and data wireless services. Through the purchases of G3 Telecom and iRoam, the Company is now diversifying revenues from declining traditional long distance dial-around markets. Product offerings of SIM cards, data roaming devices and worldwide Wi-Fi roaming solutions are showing opportunities for revenue growth in a variety of enterprises and consumer offerings. The Company will continue to explore expansion opportunities in these emerging wireless driven markets.

Revenue for 2014 was up 106% to approximately \$17,114,000 with a net loss of (\$460,000) or (\$0.015) loss per common share compared to revenue of \$8,320,000 with a net income of \$89,000 or \$0.004 per common share for 2013. The Company's gross margin for 2014 was approximately \$6,664,000 or 39% compared to approximately \$3,536,000 or 43% for 2013. Gross margins have decreased by 4% in 2014 due to the new acquisitions having lower gross margins in their product and service mix. The Company continues to experience negative foreign exchange pressure on telecommunications costs as a result of the weakening Canadian dollar to the US dollar considering a majority of vendors are paid in US dollars while sales are mostly in Canadian dollars. Also, unexpected fluctuations in international carrier costs have a significant impact on gross margins. Despite the lower gross margins, Telehop is experiencing increased revenues from the wireless products from the recent acquisitions which is offsetting the traditional long distance revenue declines. Telehop's new acquisitions earn certain revenue in USD which helps offset foreign exchange fluctuations. This diversification in products and services is pivotal to the organization maintaining revenue growth for the future while reducing foreign exchange risks.

The Company incurred net interest expense of approximately \$364,000 in 2014 related to the debentures and note payable required to complete the purchases of the G3 Telecom business and the iRoam assets.

EBITDA for 2014 was approximately \$413,000 compared to \$270,000 in the prior year. Telehop continues to integrate the newly acquired business and assets which will help derive synergies which can deliver continued performance in future periods.

See the section titled "Definitions – Additional GAAP Measures and Non-GAAP Measures" for descriptions of Operating Income (loss), 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 are unlikely to be comparable to similar measures presented by other companies. EBITDA is a non-GAAP measure which should not be considered as a substitute or alternative for GAAP measures.

RESULTS OF OPERATIONS

Consolidated Statements of Operations

Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Revenue	\$ 17,113,670	\$ 8,319,885	\$ 9,023,874
Telecommunications costs	10,449,447	4,783,914	5,002,409
Gross margin	6,664,223	3,535,971	4,021,465
Gross margin %	38.9%	42.5%	44.6%
Operating expenses			
General and administration	4,055,042	2,084,713	2,320,147
Marketing and selling	1,451,835	644,896	1,069,618
Development and technical support	695,538	395,370	444,183
Depreciation and amortization	557,999	153,947	113,967
Acquisition costs	98,642	149,030	-
	6,859,056	3,427,956	3,947,915
Operating (loss) income	(194,833)	108,015	73,550
Other items			
Finance costs, net	(364,226)	(27,132)	(33,233)
Other income	50,064	8,239	3,778
Gain on disposal of equipment	-	-	354
	(314,162)	(18,893)	(29,101)
Income (loss) before income taxes	(508,995)	89,122	44,449
Income tax expense (recovery)	(48,677)	-	-
Net (loss) income	(460,318)	89,122	44,449
Earnings (loss) per share - basic and diluted	(0.015)	0.004	0.002
EBITDA ¹	413,230	270,201	191,649

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

OVERALL PERFORMANCE

Operating Revenue

Consolidated operating revenues for the year ending December 31, 2014 increased by \$8,794,000 or 106% to \$17,114,000. The major driver of the revenue increase was the consolidation of the G3 Telecom and iRoam purchase.

Comparison of revenue by segment

	<u>2014</u>	<u>2013</u>	<u>+/-</u>	<u>%</u>
Retail	\$ 14,177,025	\$ 7,785,528	\$ 6,391,497	82%
Wireless	2,495,142	-	2,495,142	-
Wholesale	441,503	534,357	(92,854)	(17%)
Total revenues	<u>17,113,670</u>	<u>8,319,885</u>	<u>8,793,785</u>	<u>106%</u>

Retail revenue

Overall retail revenue increased with the consolidation of Telehop and G3 Telecom companies. The market is still seeing Casual Calling 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. The increase in bundled subscription plans, business services, and Telus #100 wireless services are helping to offset this decline.

Wireless revenue

Wireless revenue reflects the roaming sim service Telehop acquired as part of the G3 Telecom purchase. In addition, the sales of the iRoam business lines are included in wireless revenue due to the majority of those sales being wireless solutions. Telehop will focus on growing its wireless sales division to compensate for the decrease in casual calling and long distance services. This division is a key growth driver for the organization.

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 continues to service its existing Wholesale customer base but this is not a high growth area for the Company due to low margins and alternatives available to wholesale customers.

Gross Margin

	<u>2014</u>		<u>2013</u>		<u>+/-</u>	<u>%</u>
Gross Margin	\$ 6,664,223	\$	3,535,971	\$	3,128,252	88%
	39%		43%			

Gross margin as a percentage of revenue has decreased by 4% from 43% in 2013 to 39% in 2014. The Telehop companies typically had a gross margin in the 40-45% range for the past three years. However the recently acquired G3 companies' gross margins range from 30%-35%. This difference is related to the nature of the businesses, Telehop has been traditionally a post-paid company therefore there is collectability risks associated with retail customers. G3 Telecom's customers predominately prepay for their services which offers no collectability risk but must offer its services at a lower selling price thus reducing gross margin. In addition, foreign exchange impact of paying vendors in US dollars while most of Telehop's sales are in Canadian dollars has a significant impact on gross margin. In 2014, the foreign exchange was unfavorable for Canadian telecom resellers such as Telehop, therefore gross margins were lower due to both of these factors.

Operating Expenses

	<u>2014</u>		<u>2013</u>		<u>+/-</u>	<u>%</u>
General & administration	\$ 4,055,042	\$	2,084,713	\$	1,970,329	95%
Marketing & selling	1,451,835		644,896		806,939	125%
Development & technical support	695,538		395,370		300,168	76%
Depreciation & amortization	557,999		153,947		404,052	262%
Acquisition transaction costs	98,642		149,030		(50,388)	(34%)
Total operating expenses	6,859,056		3,427,956		3,431,100	100%

Operating expenses increased in 2014 after the acquisition of G3 Telecom and iRoam. Operating expenses approximately doubled year-over-year due to the acquisitions.

General and Administration expenses of \$4,055,000 in 2014 have increased by \$1,970,000. The General and Admin expense is higher from prior year because of several factors such as: double the size of the labor force through the G3 and iRoam acquisition, the expenses of a remote call center, restructuring charges, additional overhead expenses and moving of the corporate head office.

Marketing & selling expenses of \$1,452,000 have increased by \$807,000 compared to the same time last year as a result of an increase in advertising initiatives and the combined marketing teams of the newly acquired operations.

Development & technical support expenses increased by \$300,000 or 76% from 2013. The increase is mostly attributed to additional G3 and iRoam technical and development staff joining the Telehop team.

Depreciation and amortization expenses increased by \$404,000 compared to last year. The increase is related to the amortization of customer lists from the G3 and iRoam acquisitions which are being amortized over a three year timespan. Depreciation also increased because of newly acquired assets from the recent acquisitions.

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. 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:

	2014	2013	+/-	%
Net income (loss)	\$ (460,318)	\$ 89,122	\$ (549,440)	(617%)
Interest costs	364,226	27,132	337,094	1242%
Income taxes	(48,677)	-	(48,677)	N/M
Depreciation and amortization	557,999	153,947	404,052	262%
EBITDA	<u>413,230</u>	<u>270,201</u>	<u>143,029</u>	<u>53%</u>

"N/M" - not meaningful comparison

EBITDA and Operating Income/Loss

The Company acquired G3 Telecom and iRoam in 2014, the consolidation of G3 Telecom as of March 1, 2014 and iRoam as of May 1, 2014 enabled the Company to achieve revenues of \$17,114,000 in 2014 with positive EBITDA of \$413,000 compared to 2013 sales and EBITDA of \$8,320,000 and \$270,000 respectively. Net income decreased from \$89,000 to a net loss of \$460,000 based on the changes in revenue and expenses discussed above.

The Company earned \$4,826,000 in sales for Q4 2015 based on higher long distance revenue earned during the peak holiday season and growing wireless revenue. The Company paid \$149,000 in acquisition expenses in Q4 2013 due to the G3 Telecom acquisition, this negatively impacted earnings in 2013. These expenses were non-recurring which enabled the Company to earn \$101,000 in EBITDA for Q4 2014.

Interest expenses related to the debentures issued totaled \$250,000 in 2014. The Company issued this debt to complete the G3 Telecom and iRoam acquisitions in 2014. Depreciation and amortization expense increased due to increased assets purchased and amortization of customer lists and other intangibles for G3 Telecom and iRoam. The amortization expense will be significant in 2014 – 2016 because the customer lists will be amortized for a 36 month period.

QUARTERLY RESULTS SUMMARY

The following table sets forth certain unaudited consolidated statements of operation information for the operation quarter ending December 31, 2014 as well as historical periods. The operating results for any quarter are not necessarily indicative of results for any future period:

Summary of results (\$000's)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	4,826	4,734	4,720	2,834	2,006	2,135	2,149	2,030
Telecommunication costs	2,862	2,908	3,022	1,657	1,164	1,233	1,177	1,210
Gross margin	1,963	1,826	1,698	1,177	842	902	972	820
Gross margin %	41%	39%	36%	42%	42%	42%	45%	40%
Operating expenses								
General and administration	1,214	1,059	1,081	701	451	535	583	516
Marketing and selling	420	428	391	213	173	146	174	152
Development and technical support	239	213	134	110	70	117	123	85
Depreciation and amortization	181	138	161	78	44	44	42	24
Acquisition costs	-	-	36	63	149	-	-	-
	2,053	1,838	1,803	1,165	887	842	922	777
Operating (loss) income	(90)	(12)	(105)	12	(45)	60	50	43
Finance costs, net	133	92	94	45	1	9	11	6
Other income	10	-	4	36	-	-	6	2
Income (loss) before income taxes	(213)	(104)	(195)	3	(46)	51	45	39
Income tax (recovery)	(49)	-	-	-	-	-	-	-
Net (loss) income	(164)	(104)	(195)	3	(46)	51	45	39
Earnings (loss) per share	(0.005)	(0.003)	(0.006)	-	(0.002)	0.002	0.002	0.002
EBITDA	101	126	60	126	(1)	104	98	69

FINANCIAL CONDITION

The following table present the variations in the Consolidated Statement of Financial Position as at December 31, 2014 as compared to December 31, 2013:

(\$000's)	Dec 31 2014	Dec. 31 2013	Changes	
Current assets				
Cash and cash equivalents	1,767	773	994	129%
Trade and other receivables, net of allowance for doubtful accounts	1,746	1,217	529	43%
Note receivable	127	-	127	-
Prepaid expenses and other	718	79	639	813%
Total current assets	4,359	2,069	2,290	111%
Non-current assets				
Property and equipment	1,037	465	572	123%
Intangible assets	2,738	187	2,550	1362%
Goodwill	1,440	-	1,440	-
Total assets	9,573	2,721	6,852	252%
Current liabilities				
Accounts payable and accrued liabilities	2,442	1,345	1,097	82%
Income taxes payable	135	-	135	-
Provisions	14	20	(6)	-30%
Deferred revenue	1,232	-	1,232	-
Note payable - current	856	51	805	1583%
Obligations under finance lease	9	8	-	0%
Total current liabilities	4,687	1,424	3,263	229%
Non-current liabilities				
Obligations under finance lease	6	6	-	-
Note payable - long term	100	-	100	-
Future income tax liability	171	-	171	-
Debentures	2,761	-	2,761	-
Total Liabilities	7,725	1,431	6,295	440%
Total shareholders' equity	1,847	1,290	557	43%
Total liabilities and shareholders' equity	9,573	2,721	6,852	252%

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

(\$000's)	Dec. 31 2013	Dec. 31 2012	Changes	
Current assets				
Cash and cash equivalents	773	713	60	8%
Trade and other receivables, net of allowance for doubtful accounts	1,217	1,293	(76)	-6%
Note receivable	-	-	-	-
Prepaid expenses and other	79	53	26	48%
Total current assets	2,069	2,059	10	0.5%
Non-current assets				
Property and equipment	465	502	(37)	-7%
Intangible assets	187	43	144	336%
Goodwill	-	-	-	-
Total assets	2,721	2,604	117	4%
Current liabilities				
Accounts payable and accrued liabilities	1,345	1,286	59	5%
Provisions	20	140	(120)	-86%
Deferred revenue	-	-	-	-
Note payable - current	51	-	51	-
Obligations under finance lease	8	7	1	21%
Total current liabilities	1,424	1,433	(9)	-1%
Non-current liabilities				
Obligations under finance lease	6	9	(3)	-30%
Note payable - long term	-	-	-	-
Future income tax liability	-	-	-	-
Debentures	-	-	-	-
Total Liabilities	1,431	1,442	(11)	-1%
Total shareholders' equity	1,290	1,162	128	11%
Total liabilities and shareholders' equity	2,721	2,604	117	4%

Changes in financial condition in 2014

Total current assets have increased by 111% while current liabilities have increased by 229%. Cash increased due to the Company holding customer deposits for prepaid customers, which is a major component of G3 Telecom's business. Similarly the deferred revenue has increased to reflect this future service obligation for customers. The note payable represents the debt issued to finance the G3 Telecom and iRoam acquisitions. The Company is reviewing options to convert current debt into equity which would increase working capital. Overall, management believes that the Company has sufficient assets to service its obligations for the foreseeable future.

Total assets have increased by 252% relating to the new equipment, customer lists, wireless spectrum, trademarks, and goodwill as part of the G3 Telecom and iRoam purchases. Total liabilities have increased to reflect the \$3,000,000 in debentures issued to finance the acquisitions of G3 Telecom and the note payable for the acquisition of the iRoam assets. Telehop repaid \$925,000 in principal payments for debt in 2014 while maintaining a cash balance of \$1,767,000 at the end of the year. The Company has consistent operational cash flow and will look to deleverage the balance sheet in 2015.

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:

(\$000's except ratios)	2014	2013	\$Change	% Change
Cash provided by operating activities	276	299	(23)	8%
Cash provided (used) by investing activities	(883)	(261)	(622)	(238%)
Cash provided (used) by financing activities	1,601	22	1,579	7110%
Increase in cash	994	60	934	1547%
Cash and cash equivalents	1,767	773	994	129%
Current assets	4,359	2,069	2,290	111%
Current liabilities	4,687	1,424	3,263	229%
Working capital	(329)	644	(973)	(151%)
Current ratio	1	1.5		

Note that working capital is defined as current assets less current liabilities, and current ratio is calculated as current assets as compared to current liabilities.

Cash provided by operating activities decreased to \$276,000 and was largely attributed to the results of operational changes previously discussed and changes in working capital.

Cash used in investing activities totaled \$883,000 due to payments for the G3 Telecom and iRoam purchases.

Cash provided by financing activities increased by \$1,601,000 due to the proceeds of the debentures and principal payments towards the notes payable related to the G3 and iRoam acquisition.

The Company manages 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

- Notes Payable

On April 1, 2013, the Company completed an asset purchase with G3 Telecom Corp. ("G3"), under which the Company acquired G3 Telecom's business services customer lists. The purchase price of \$200,000 included a cash portion of \$80,000 paid immediately and a note payable of \$120,000, repayable over eighteen months with an annual interest rate of 5%. The Company has made principal payments on the note payable of \$50,830 during fiscal 2014 (\$69,170 – 2013). The note payable obligation was fully repaid as of October 1, 2014.

On February 28, 2014, the Company completed an asset and share purchase with G3 Telecom Corp., under which the Company acquired the remainder of G3's business. As part of the purchase price of \$4,300,000, the Company entered into a note payable of \$1,500,000 to the vendor, repayable over twenty four months with an annual interest rate of 5% with principal payments made quarterly, starting April 1, 2014. The Company made principal payments on the note payable of \$750,000 during fiscal 2014 and the balance outstanding as of December 31, 2014 was \$750,000.

On May 1, 2014 the Company acquired the customer lists of iRoam Mobile Solutions Inc., a Canadian company that operates under the iRoam and Brightroam brands in the United States and Canada. The purchase price of the assets is \$400,000 which may be reduced if revenues in the first 12 months following the purchase are less than \$1,000,000, and if revenues in the first 12 months exceed \$1,200,000 the purchase price will increase by \$100,000. Upon closing \$170,000 of the purchase price was paid. The balance of \$330,000 by way of a 12 month promissory note which will be subject to the price adjustments noted above. The Company has recorded the additional \$100,000 in consideration as management believes it is probable that the amount will be paid to the seller.

- Debentures payable

In connection with the G3 Telecom transaction, the Company completed a concurrent private placement of \$3,000,000 of unsecured, five-year debentures. The debentures will mature five years from the date of closing, February 28, 2014, of the offering and will bear interest at a rate of 10% per annum, payable semi-annually in cash on June 30 and December 31 in each year, commencing on June 30, 2014, with the final payment due on the maturity date. Each debenture was priced at a 2% discount, namely at \$980 per \$1,000 of the principal amount thereof. On and after September 30, 2016, and at any time prior to the maturity date, the debentures are redeemable at the option of the Company at a price equal to \$1,000 per debenture plus accrued and unpaid interest thereon up to but excluding the date of redemption. The Company engaged Jones, Gable & Company Ltd. ("Jones Gable") to act as finder in connection with the offering and paid Jones Gable a \$195,000 fee equal to 6.5% of the gross proceeds raised from the sale of the debentures.

- Contractual obligations

The Company has entered into various lease agreements for premises expiring at various periods up to 2019. The future minimum annual rental payments on the non-cancellable operating leases are payable as follows:

2015	\$	302,709
2016		235,947
2017		107,247
2018		82,435
2019		13,665

The Company leases its corporate office that expires in March 2017. During the year ended December 31, 2014, the Company recognized \$107,078 as an expense in profit or loss as part of general and administrative cost in respect to this operating lease (2013 - \$180,474).

In September 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which will expire in October 2017. During the year ended December 31, 2014, the Company recognized \$91,200 as the expense in profit or loss as part of telecommunication costs in respect to the operating lease for the switch facility (2013 - \$91,200). The Company also assumed additional switch facility space as part of the acquisition of G3 Telecom. The term for this leased space was from March 2014 to February 2019. The Company recognized \$55,260 in expense for 2014 (2013 - nil).

During the year ended December 31, 2012, the Company entered into a carrier billing services agreement with a major national telecommunications provider (the "Telco") to create a long-distance dial-around service for wireless customers of that Telco. Under the terms of the agreement, which has a term of five years and ends on December 31, 2017, the Company is required to pay a Carrier Billing Processing Fee to the Telco that is calculated based on a fixed percentage of the amount of gross billings received by the Company for use of the service. Under the terms of the agreement, the Company has committed to remitting a minimum amount of Carrier Billing Processing Fees to the Telco based on revenue earned under the service by the Company of \$7,000,000 through the first two years of the agreement, and an aggregate of \$25,000,000 through the entire five-year term of the agreement.

To the extent that the minimum Carrier Billing Processing Fees are not paid to the Telco by the second and fifth anniversary dates, the Telco may require the Company to remit the shortfall on demand. The Company and the Telco are in the process of renegotiating the agreement which would revise the terms of this arrangement, including the volume commitments relating to the previous and anticipated shortfalls in the Carrier Billing Processing Fees. In addition, the parties are negotiating revised prospective commitments as well as the products and services to be delivered by both parties. No liability has been recorded relating to the existing arrangement as management does not consider it probable that such a payment will be required based on current facts and circumstances, including the status of negotiations and the anticipated outcome.

If a remittance to the Telco is required, the Company would utilize existing cash resources. If existing cash resources are not sufficient, the Company may be required to secure additional sources of financing; however, there can be no assurances that any such financing will be available to the Company or that such funds will be available on acceptable terms.

CAPITALIZATION

As at December 31, 2014 the Company had a weighted average of 30,938,750 common shares outstanding and 2,352,875 share options, which are exercisable at an average strike price of \$0.123 per share at various dates prior to November 2019. The Company notes that there are 5,000,000 shares in escrow as per the G3 Telecom purchase agreement in the event the FCC fails to approve the transfer consents of G3 Telecom's U.S. subsidiary to the Company's control. Management believes that the transfer consents are administrative in nature and there are no indications the transfer will not be approved in due course. As of December 31, 2014, the transfer was waiting final FCC approval and should be completed by Q2 2015.

BUSINESS RISKS AND UNCERTAINTIES

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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. There can be no assurance that our current or future competitors will not provide services superior to those we provide, or at lower prices, adapt more quickly to evolving industry trends or changing market requirements, enter the market in which we operate, or introduce competing services. Any of these factors could decrease our revenue, lower our subscriber base or increase churn. Telehop intends on mitigating these risks through offering more innovative solutions that will remove itself from the price sensitive market, and further optimize its cost structure in anticipation of future price declines and drive more aggressive pricing.

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.

In addition, the day-to-day operations of our business are highly dependent on their information technology systems. An inability to enhance information technology systems to accommodate additional customer growth and support new products and services could have an adverse impact on our ability to acquire new subscribers, manage subscriber churn, produce accurate and timely subscriber invoices, generate revenue growth and manage operating expenses, all of which could adversely impact our financial results and position.

Reliance on systems and system failures

We rely on various complex systems that are used in the provision of services to customers and the management of customer relationships and billings. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and related data. The success of our operations depends on how well these components are protected against damage from fire, adverse weather, natural disasters, power loss, hacking, computer viruses, disabling devices, vandalism, acts of war or terrorism, and other events. Any of these things could cause operations to be shut down indefinitely and adversely affect our revenues and costs.

Our operations also depend on timely replacement and maintenance of our networks and equipment. To mitigate the effect of this risk, we have business continuity and disaster recovery plans, including certain redundancies that have been built into our network to reduce downtime arising from natural and other disasters; however, there can be no assurance that these plans will be effective.

In addition, many aspects of our business depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time, sometimes at significant cost. Implementing system and software upgrades and conversions is a very complex process, which may cause adverse consequences including billing errors and delays in customer service. Should these consequences occur, these events could significantly damage our customer relationships and business and have a material adverse effect on our operating results.

Regulatory

Regulatory changes issued by the Canadian Radio-television 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 that may have a material unfavorable impact on the Company's financial results. To mitigate these risks, the Company monitors industry developments very closely through industry advisors.

Management team and dependence on key personnel

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 in areas when deemed appropriate.

The success of the Company is heavily dependent on its management team and key personnel and on its ability to motivate, retain and attract highly skilled persons. There can be no assurance that the Company will successfully attract and retain additional qualified personnel to manage its current needs and

anticipated growth. The failure to attract such qualified personnel to manage growth effectively and/or the replacement of any management team member or key personnel could have a material adverse effect on the Company's business, financial condition or results of operations. 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 that 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 such as wireless.

Integration Risk

On February 28, 2014 and May 1, 2014, the Company closed the acquisition of the G3 Telecom business and the iRoam assets, respectively. Integration of these acquisitions and any future acquisitions involves a number of special risks, including the following: failure to integrate successfully the personnel, information systems, technology, and operations of the acquired business; failure to maximize the potential financial and strategic benefits of the transaction; failure to realize the expected synergies from acquired businesses; possible impairment of relationships with employees and customers as a result of any integration of new businesses and management personnel; possible losses from liabilities assumed in customer contracts; impairment of goodwill and intangible assets; and reductions in future operating results from amortization of intangible assets.

Currency

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 Company purchases wholesale long distance minutes in U.S. dollars but a majority of the sales are in Canadian dollars, therefore gross margins are negatively impacted by a weaker Canadian dollar. 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.

Credit

The Company is subject to credit risk through trade and other receivables, which consists of amounts represented by the large number of subscription services customers that are invoiced directly, and amounts owed from a large number of customers through various LECs from casual calling revenues.

Liquidity

The Company derives most of its liquidity from cash from operating activities. The Company may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to Telehop.

Where Telehop issues shares in the future, such issuance will result in the then existing shareholders of Telehop sustaining dilution to their relative proportion of the equity in the Company.

In order to finance future operations and development efforts, the Company may raise funds through the

issue of common shares or securities convertible into common shares. The articles of the Company allow it to issue, among other things, an unlimited number of common shares for such consideration and on such terms and conditions established by its directors without the approval of its shareholders. The Company cannot predict the size of future issues of common shares or securities convertible into common shares or the effect, if any, that future issues and sales of the common shares will have on the price of the common shares. Any transaction involving the issue of previously authorized but unissued common shares or securities convertible into common shares would result in dilution, possibly substantial, to present and prospective shareholders of the Company.

General economic conditions

Our businesses are affected by general economic conditions, consumer confidence and spending. Recessions or declines in economic activity or economic uncertainty generally cause an erosion of consumer and business confidence and may materially reduce discretionary consumer spending. Any reduction in discretionary spending by consumers and businesses or weak economic conditions may materially negatively affect us through decreased demand for our products and services including decreased revenue and profitability, higher churn and higher bad debt expense.

Dependence on service providers

A number of service providers provide certain essential components of our business operations to our employees and customers, including network, payroll, call center support, certain information technology functions, and invoice printing and facilitation. Our network systems are connected to the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Interruptions in these services can adversely affect our ability to provide services to our customers. To mitigate this risk, we have contracted with a number of service providers to enable redundancies in critical areas.

Minimum commitment to service provider

During the year ended December 31, 2012, the Company entered into a carrier billing services agreement with a major national telecommunications provider (the "Telco") to create a long-distance dial-around service for wireless customers of the Telco. Under the terms of the agreement, which has a term of five years and ends on December 31, 2017, the Company is required to pay a Carrier Billing Processing Fee to the Telco that is calculated based on a fixed percentage of the amount of gross billings received by the Company for use of the service. Under the terms of the agreement, the Company has committed to remitting a minimum amount of Carrier Billing Processing Fees to the Telco based on revenue earned under the service by the Company of a fixed percentage of \$7,000,000 through the first two years of the agreement, and an aggregate of a fixed percentage of \$25,000,000 through the entire five-year term of the agreement.

To the extent that the minimum Carrier Billing Processing Fees are not paid to the Telco by the second and fifth anniversary dates, the Telco may require the Company to remit the shortfall on demand. The Company and the Telco are in the process of renegotiating the agreement which would revise the terms of this arrangement, including the volume commitments relating to the previous and anticipated shortfalls in the Carrier Billing Processing Fees. In addition, the parties are negotiating revised prospective commitments as well as the products and services to be delivered by both parties. No liability has been recorded relating to the existing arrangement as management does not consider it probable that such a payment will be required based on current facts and circumstances, including the status of negotiations and the anticipated outcome. If a remittance to the Telco is required under the existing arrangement, the Company would utilize existing cash resources. If existing cash resources are not sufficient, the Company may be required to secure

additional sources of financing; however, there can be no assurances that any such financing will be available to the Company or that such funds will be available on acceptable terms.

KEY PERFORMANCE INDICATORS (KPI's) AND NON-IFRS MEASURES

The Company uses a number of key performance indicators as measurement tools, 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 (loss) or any other measure of performance under IFRS.

Gross Margin

Gross margin is determined by deducting all telecommunications-related expenses from revenue. Telecommunications expenses include fixed and variable carrier costs, billing and collections charges to local exchange carriers and support costs for all telecommunications facilities. Gross margin is an indicator of the Company's profit directly tied to its services before general operating expenses.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a standard used in the telecommunications industry to assist in understanding and comparing operating results. The Company believes that this measure is important in assessing its profitability before the impact of depreciation and amortization and non-operating factors. EBITDA is also a useful measure of the Company's ability to service debt, invest in capital equipment or distribute dividends to its shareholders.

SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance:

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

The consolidated financial statements were approved by the board of directors and authorized for issue on April 24, 2015.

(b) Basis of preparation:

The consolidated financial statements have been prepared on the historical cost basis except for certain assets and financial instruments that are measured at their fair values, as explained in the significant accounting policies below. Historical cost is based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are prepared in Canadian dollars, which is the Company's functional currency.

(c) Basis of consolidation:

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company where control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements. All subsidiaries of the Company are wholly owned and controlled by the Company.

(ii) Transactions eliminated on consolidation:

Inter-company balances and transactions between subsidiaries are eliminated in preparing the consolidated financial statements.

(d) Revenue:

The Company earns its revenues from access to, and usage of, its telecommunications network by its customers. Its main service is to provide long-distance services through access to its network, which has the capability to track pertinent data for each individual call to a particular country destination. This allows the Company to rate each call by applying predetermined long-distance rates by country to the volume of minutes provided. The Company recognizes revenues at the fair value of the consideration received or receivable, including billed and unbilled, when it is probable that the consideration will be received, and services have been performed as described below. The Company has two operating segments - retail and wholesale services. The Company's services are packaged in different forms that include casual calling, subscriptions (equal access service and Telehop Home Phone), prepaid calling cards, business services and wholesale as follows:

(i) Retail:

(1) Casual calling:

This service allows customers to access the Company's network without the need to subscribe to a service contract or pay any direct fees. Customers can complete a long-distance call by dialing one of two carrier identification codes ("CIC"), "10-10-100" or "10-10-620", owned by the Company. Revenue is recognized when a customer dials a CIC code and completes a connected long-distance call. 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 a contract with the Company.

(2) Subscriptions:

This service allows a customer to directly dial their long distance number, by dialing "1+" or "011+". The customer subscribes to this long distance service and is required to transfer carriers upon entering into a contract with the Company. Revenue is recognized when a customer completes a long-distance call as access and usage of the Company's network has occurred.

(3) Telehop 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 customers to replace their home phone line with the Company's network. Revenue is recognized monthly over the term of the contract.

(4) Prepaid calling cards:

The Company offers prepaid long distance calling cards, where the customers dial a toll free number to make their long distance call through the Company's network. Proceeds on the sale of cards are deferred and revenue is recognized when a customer completes a connected long-distance call or at

the time allotment on the card has expired.

(5) Business Services:

The Company markets a Hosted PBX (Private Branch Exchange) 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.

(6) Wireless Services:

The Company provides global cellular phone communications services, SIM cards, roaming devices and worldwide Wi-Fi roaming solutions that are sold directly and through distributors for use around the world. Wireless product offerings include international voice and data through top global wireless carriers, SMS messaging and access to 1.1 million Wi-Fi hotspots globally including inflight Wi-Fi on a number of major airlines. Enterprise packages can be custom built for a business's unique workforce and scaled as required with prepaid or short term subscription options.

(ii) Wholesale:

The Company offers discounted rates to high volume resellers to carry their calls through the Company's network. Bulk minutes are sold by destination. Revenue is recognized when the resellers' customers make long-distance calls through the Company's network.

(e) Share-based payment transactions:

Equity-settled share-based payments granted to employees and non-employees providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in note 13 to the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche of the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

(f) Income taxes:

Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current

tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and a valuation allowance taken to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Foreign currency translation:

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks which are accounted for through other comprehensive income.

(h) Financial instruments:

Financial assets and financial liabilities are recognized in the statement of financial position when the Company has become party to the contractual provisions of the instruments. The Company's financial instruments primarily consist of cash and cash equivalents (classified as held-for-trading), trade and other receivables (classified as loans and receivables), accounts payable and accrued liabilities (classified as other financial liabilities) and finance leases (classified as other financial liabilities). The fair values of these financial instruments approximate their carrying values. Initial and subsequent measurement and recognition of changes in the value of financial instruments depend on their initial classification:

Loans and receivables and other financial liabilities are initially measured at fair value plus any directly attributable transaction costs and are subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period profit and loss.

Held-for-trading financial instruments are measured at fair value. All gains and losses are included in profit and loss for the periods in which they arise.

A fair value hierarchy is used to determine the significance of inputs used in fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

(k) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

(ii) Cost of replacements:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized on replacement. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its estimated residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each major component of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years are as follows:

Switch equipment	10 years
Telecommunication equipment	5 years
Furniture and fixtures	5 years
Computer and customer equipment	3 years
Leasehold improvements	Term of lease

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(l) Intangible assets:

(i) Recognition and measurement:

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization:

Amortization is calculated over the cost of the asset less its estimated residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative periods is as follows:

Software licenses and reporting system	5 years
Website development	3 years
Acquired customer lists	3 years

(m) Leased assets:

Leases whereby the Company assumes substantially all the risks and rewards of ownership of the underlying assets are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments over the lease term. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are classified as operating leases and the leased assets are not recognized in the Company's consolidated statement of financial position.

(n) Impairment of assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and indefinite life intangible assets, the recoverable amount is estimated annually on December 31 of each fiscal year.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the Company uses discounted cash flows which are determined using a pre-tax discount rate specific to the asset or CGU. The discount rate used reflects current market conditions including risks specific to the assets. Significant estimates within the cash flows include recurring revenue growth rates and operating expenses. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, which for the Company's purposes is typically representative of the business unit level within the corporate and management structure. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

(o) Use of estimates and critical judgments:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key areas requiring judgment and estimation uncertainty include:

- Allowance for doubtful accounts - In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the earnings for the period;
- Useful lives of property and equipment - Management's judgment involves determining the expected useful lives of depreciable assets, to determine depreciation methods, and the asset's residual value;
- Impairment of non-financial assets - The process to determine whether there are triggering events of impairment of non-financial assets as well as the calculation of value in use requires use of assumptions;
- Stock-based compensation - In valuing stock options granted, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock;
- Provisions - Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows and the probability of the occurrence of future events; and
- Valuation of deferred income tax assets and liabilities - A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies.

(p) Cash and cash equivalents:

Cash and cash equivalents is defined as cash and short-term investments having an original maturity of three months or less.

(q) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding and for the effects of all dilutive potential common shares, which comprise warrants and share options granted to employees.

(r) Segment reporting:

A business segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO") to make decisions about the allocation of resources and to assess their performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's corporate office), head office expenses, personnel costs, depreciation and amortization, finance income and finance costs, net, other income and income tax expenses.

(s) New standards and interpretations adopted:

(i) IAS 32, Financial Instruments — Presentation (revised):

Effective January 1, 2014, the Company adopted this amendment issued by the IASB which clarifies the requirements for offsetting financial assets and liabilities. The adoption of this amendment did not have a material impact on the consolidated financial statements.

(ii) IFRIC Interpretation 21, Levies:

Effective January 1, 2014, the Company adopted this interpretation issued by the IASB which clarifies when the liability for certain levies should be recognized and requires retroactive adoption. The adoption of this interpretation did not have a material impact on the consolidated financial statements.

(t) Recent accounting pronouncements:

Certain new standards, interpretations, amendments and improvements to existing standards have been issued by the IASB and become applicable at a future date. The standards impacted that may be applicable to the Company are as follows:

(i) IFRS 15, Revenue from Contracts with Customers:

In May 2014, the IASB issued this standard which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures.

This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and are currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(ii) IFRS 9, Financial Instruments:

In July 2014, the IASB issued this standard which replaces IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, and allows earlier adoption. The standard introduces a new model for the classification and measurement of financial assets, a single expected credit loss model for the measurement of the impairment of financial assets, and a new model for hedge accounting that is aligned with a company's risk management activities. The Company does not intend to adopt this standard early and are currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

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.

RELATED PARTY TRANSACTIONS

On February 28, 2014 the Company completed the acquisition of a combination of shares and assets of G3 Telecom Corp. and its group of affiliated companies. One of the individuals who has a beneficial ownership of G3 Telecom, subsequently joined the Board of Directors of the Company in the quarter and became a related party.

As of December 31, 2014 and pursuant to the purchase and sale agreement, there is a receivable balance of \$73,906 owed to the Company in post-closing adjustments as outlined and defined in the agreement. The Company also has a note payable outstanding connected to the director in the amount of \$750,000 arising from the purchase of G3 Telecom. The Company paid interest of \$62,109 to the director in connection with the note payable during 2014. The vendor of the G3 Telecom sale is entitled to 5% of gross wireless sales for thirty-six months after the closing date of February 28, 2014. The royalty is paid quarterly as it is earned. In 2014, the total royalty payment was \$95,385 (2013 – nil). The Company rents its head office space from a company owned by the vendor/director, the rental expense paid in 2014 was \$120,600 (2013 – nil).

Outside of directors' fees, certain directors or companies affiliated with these directors also participated in transactions with the Company for consulting and related services and received amounts totaling \$114,713 (2013 - \$13,499), which is the amount agreed to by the parties.

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 416-499-5463