



**TELEHOP COMMUNICATIONS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING March 31, 2014 and 2013
(UNAUDITED)**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated interim statements of financial position of Telehop Communications Inc. at March 31, 2014 and the consolidated interim statements of income, statements of equity, statements of operations and comprehensive income and cash flows for the three-month period then ended have not been reviewed by the Company's auditors, KPMG LLP.

These financial statements are the responsibility of management and have been reviewed and approved by the Company's Audit Committee and Board of Directors.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Financial Position

(in Canadian dollars)

	Notes	(Unaudited) March 31, 2014	Audited December 31 2013
Assets			
Current assets:			
Cash and cash equivalents	3	\$ 1,805,977	\$ 773,154
Trade and other receivables, net of allowance for doubtful accounts	4	2,597,167	1,217,137
Prepaid expenses and other		222,381	78,618
		4,625,525	2,068,909
Non-current assets:			
Property and equipment	5	1,413,041	466,541
Intangible assets	5	2,617,834	185,450
Goodwill	5	1,115,000	–
		5,145,875	651,991
		\$ 9,771,400	\$ 2,720,900

Liabilities and Shareholders' Equity

Current liabilities:			
Accounts payable and accrued liabilities		\$ 3,010,479	\$ 1,345,173
Provisions		20,000	20,000
Note payable - current	7	785,803	50,830
Obligations under finance lease - current		8,478	8,478
		3,824,760	1,424,481
Non-current liabilities:			
Obligations under finance lease		6,020	6,291
Note payable – long term	7	750,000	–
Future income tax liability	5	350,000	–
Debentures – long term	7	2,713,625	–
		7,644,405	1,430,772
Shareholders' equity:			
Share capital	8(a)	3,119,265	2,319,265
Warrants	8(d)	185,625	185,625
Options reserve	8(c)	318,250	286,213
Deficit		(1,496,145)	(1,500,975)
		2,126,995	1,290,128
Commitments	12		
Contingencies	14		
Subsequent events	17		
		\$ 9,771,400	\$ 2,720,900

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ Lawrence Cyna

Director

/s/ Rajan Arora

Director

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Operations and Comprehensive Income

(in Canadian dollars)	Three months ended March 31		
			(Unaudited)
	Notes	2014	2013
Revenue	15	\$ 2,833,843	\$ 2,030,517
Telecommunications costs		1,656,723	1,210,280
Gross margin		1,177,120	820,237
Operating expenses:			
General and administrative		701,080	514,859
Marketing and selling		212,523	152,284
Development and technical support		110,273	84,868
Depreciation and amortization	5,6	78,249	24,005
Acquisition transaction costs	16	62,669	—
		1,164,794	776,016
Operating income		12,326	44,221
Finance income and finance costs, net		(43,554)	(7,500)
Other income		36,058	876
		(7,496)	(6,624)
Income before income taxes		4,830	37,597
Income taxes		—	—
Net income		4,830	37,597
Other comprehensive income		—	—
Comprehensive income		\$ 4,830	\$ 37,597
Earnings per share			
Basic and diluted	9	\$ 0.000	\$ 0.002

See accompanying notes to consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Consolidated Statements of Changes in Shareholders' Equity

Three months ended March 31, 2014 and 2013

(Unaudited)

(in Canadian dollars)

	Share capital	Options reserve	Warrants	Hedge reserve	Deficit	Total
Balance, December 31, 2013	\$ 2,319,265	\$ 286,213	\$ 185,625	\$ –	\$ (1,500,975)	\$ 1,290,128
Net income	–	–	–	–	4,830	4,830
Shares issued	800,000	–	–	–	–	800,000
Stock-based compensation	–	32,037	–	–	–	32,037
Balance, March 31, 2014	3,119,265	318,250	185,625	–	(1,496,145)	2,126,995
Balance, December 31, 2012	2,319,265	247,322	185,625	–	(1,590,097)	1,162,115
Net income	–	–	–	–	37,597	37,597
Stock-based compensation	–	8,946	–	–	–	8,946
Balance, March 31, 2013	\$ 2,319,265	\$ 256,268	\$ 185,625	\$ –	\$ (1,552,500)	\$ 1,208,658

See accompanying notes to consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Consolidated Statements of Cash Flows

(in Canadian dollars)	Three months ended March 31	
	2014	(Unaudited) 2013
Cash provided by (used in):		
Operating activities:		
Net income	\$ 4,830	\$ 37,597
Adjustment for non-cash items:		
Depreciation and amortization	78,249	24,005
Gain on disposal of equipment	—	—
Finance income and finance costs, net	43,554	7,500
Stock-based compensation	32,037	8,946
	158,670	78,048
Change in non-cash operating working capital:		
Trade and other receivables	(1,380,030)	(61,157)
Prepaid expenses and other	(143,763)	(91,596)
Accounts payable, accrued liabilities and provisions	2,015,306	131,905
	650,183	57,200
Financing activities:		
Proceeds of debentures net	2,713,625	—
Proceeds of note payable	1,500,000	—
Proceeds from issue of shares	800,000	—
Principal payments on note payable	(15,027)	—
Payments of obligations under finance lease	(271)	(1,710)
Finance costs paid	(43,554)	(7,500)
	4,954,773	(9,210)
Investing activities:		
Acquisition of property and equipment	(987,133)	(5,768)
Acquisition of intangible assets	(2,470,000)	—
Acquisition of goodwill	(1,115,000)	—
	(4,572,133)	(5,768)
Increase in cash and cash equivalents	1,032,823	42,222
Cash and cash equivalents, beginning of year	773,154	712,787
Cash and cash equivalents, end of year	\$ 1,805,977	\$ 755,009

See accompanying notes to consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2014 and 2013

1. Nature of business:

Telehop Communications Inc. (the "Company") is a company incorporated under the laws of the Province of Ontario. The Company's registered office and its head office is located at 200 Consumers Road, Toronto, Ontario M2J 4R4. The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries including International Telehop Network Systems Inc., Telehop Long Distance Service Ltd., Telehop Premium Business Services Inc., G3 Telecom USA Inc., 7140282 Canada Inc. Ellora Telecom Philippines Inc, ALO Mobile Inc., ALO Telecom Inc., Telehop Agencies Inc., and CardTel Corp. The Company is a full service telecommunication provider and is registered with the Canadian Radio-Television and Telecommunications Commission as a licensed Class "A" Telecom Carrier.

2. Significant accounting policies:

(a) Statement of compliance:

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and accounting policies adopted in accordance with International Financial Reporting Standards ("IFRS"). These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the financial position as at March 31, 2014 and the results of operations, comprehensive income and cash flows for the three month period ended March 31, 2014. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

The interim consolidated financial statements were approved by the board of directors and authorized for issue on May 29, 2014.

(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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

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, Telehop Home Phone and Telehop Business Services), prepaid calling cards and wholesale as follows:

(i) Retail:

(a) 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 our carrier identification codes ("CIC") owned by the Company or dialling a local access code. Revenue is recognized when a customer dials a CIC code or local access code and completes a connected long-distance call.

(b) 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. For monthly block plans, the customer is provided a fixed number of minutes per month for a flat monthly fee, and revenue is recognized during the month of service. For per-minute plans, customers are charged a fixed rate per minute for each call, and revenue is recognized when a customer completes a long-distance call as access and usage of the Company's network has occurred.

(c) Home Phone:

The Company markets a VoIP (voice-over-internet-protocol) service under its 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 for a stated monthly fee. Revenue is recognized monthly over the term of the contract.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(d) Telehop Business Services:

The Company offers hosted PBX (Private Branch Exchange) business services that target businesses and provide the customer with business telephone services for a stated monthly fee per line. Revenue is recognized monthly over the term of the contract and as additional services are used.

(e) 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.

(f) 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. Revenue is recognized monthly over the term of the contract and as usage is incurred.

(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 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 10.

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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

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 reduced to the extent that it is no longer probable that the related tax benefit will be realized.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(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.

(h) Financial instruments:

Financial assets and financial liabilities are recognized in the statements 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), notes payable (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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

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 (note 16).

(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 an employee's 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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

The estimated useful lives of property and equipment 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
Computer software	5 years
Website development	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.

(I) 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	5 years
Customer lists	3 years

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

Purchased intangible assets are initially recorded at fair market value. Finite life intangible assets are amortised over their useful economic lives on a straight line. Intangible assets that are deemed to have indefinite lives and intangible assets that are not yet ready for use are not amortised; they are reviewed annually for impairment.

The company considers that intangible assets have indefinite lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the company. The factors considered in making this determination include the existence of contractual rights for unlimited terms; or evidence that renewal of the contractual rights without significant incremental cost can be expected for indefinite future periods in view of the company's investment intentions. The life cycles of the products and processes that depend on the asset are also considered.

(ii) Goodwill:

Where the fair value of consideration paid for a business combination exceeds the fair value of the Group's share of identifiable net assets acquired, the difference is treated as purchased goodwill.

Goodwill is not amortised; it is tested annually for impairment.

(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 statements of financial position.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(n) Impairment of assets:

The carrying amount of property and equipment and intangible assets is reviewed at each statements of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset or cash generating unit ("CGU") is estimated in order to determine the extent of the impairment loss. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset or CGU to the recoverable amount. The recoverable amount is the higher of the asset's or CGU's value in use and fair value less costs to sell and is determined based on the future discounted net cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized whenever the carrying amount of an asset or the CGU exceeds its recoverable amount. Impairment losses are recorded in the consolidated statements of operations. Impairment losses recognized in prior periods are assessed at each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years, net of accumulated depreciation and amortization.

(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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

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 such as estimates of future cash flows, discount rates and terminal growth rates;
- 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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(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 per share:

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings 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 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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(s) Adoption of new accounting pronouncements:

(i) Consolidated financial statements:

On January 1, 2013, the Company adopted IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10, which replaced the consolidation requirements of SIC-12, Consolidation - Special Purpose Entities, and International Accounting Standard ("IAS") 27, Consolidation and Separate Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. In accordance with the provisions of IFRS 10, the Company re-assessed the control conclusion for its investees as at January 1, 2013. The Company has assessed the impact of this standard and determined there is no impact on its consolidated financial statements in the current or comparative period.

(ii) Disclosure of interests in other entities:

On January 1, 2013, the Company adopted IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company has assessed the impact of this standard and determined there is no impact on its consolidated financial statements.

(iii) Fair value measurement:

On January 1, 2013, the Company adopted IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 aims to improve consistency and reduce complexity by providing precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. It does not introduce new fair value measurements, nor does it eliminate the exceptions to fair value measurements that exist under certain standards. These disclosures are set out in note 12 to these consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(iv) Other comprehensive income:

On January 1, 2013, the Company adopted amendments to IAS 1, Presentation of Financial Statements ("IAS 1"). The amendments require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the statement of comprehensive income separately from those items that will never be reclassified. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The Company has assessed the impact of these amendments and determined there is no impact on its consolidated financial statements.

(v) Disclosures - offsetting financial assets and financial liabilities:

On January 1, 2013, the Company adopted amendments to the disclosure requirements in IFRS 7, Financial Instruments: Disclosures ("IFRS 7"). The amendments require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32, Financial Instruments: Presentation ("IAS 32"). The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The Company has assessed the impact of these amendments and determined there is no impact on its consolidated financial statements.

(vi) Annual Improvements to IFRSs 2009-2011 Cycle - various standards:

On January 1, 2013, the Company adopted Annual Improvements to IFRSs 2009-2011, which contain amendments to certain existing standards. The Company has assessed the impact of these amendments and determined there is no impact on its consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(vii) Recoverable amount disclosures for non-financial assets:

On January 1, 2013, the Company early adopted the amendments to IAS 36, Impairment of Assets, which reduce the circumstances in which the recoverable amounts of assets or CGU's are required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs to sell) is determined using a present value technique.

(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) Financial instruments:

The IASB issued IFRS 9, Financial Instruments ("IFRS 9") which replaces IAS 39, Financial Instruments: Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new mandatory effective date for IFRS 9 is January 1, 2018.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

2. Significant accounting policies (continued):

(ii) Levies:

In May 2013, the IASB issued IFRIC 21, Levies, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time.
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

This new standard is effective for the Company's annual consolidated financial statements commencing January 1, 2014.

(iii) Annual Improvements to IFRSs 2010-2013 Cycle - various standards:

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014.

The Company is assessing the impact of these upcoming standards on its consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

3. Income Cash and cash equivalents:

	2013	2012
Bank balances	\$1,805,977	\$ 712,787

The Company's exposure to interest rate risk for both 2014 and 2013 was not considered significant and is disclosed in note 11.

4. Trade and other receivables:

(a) Trade receivables:

The average credit period for receivables is 30 days. Interest and late payment charges are charged thereafter at 2% per month on the outstanding balance.

The Company has credit evaluation, approval and monitoring processes to assess new customers' credit quality that mitigate potential credit risks. Credit limits are imposed on each customer, which are reviewed annually.

TELEHOP COMMUNICATIONS INC.

DRAFT Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

5. Property and equipment:

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 ("G3 Telecom").

In accordance with the terms of the Agreement the Company acquired G3 Telecom's wireless telecommunications licences for Huntsville, Ont., and Dawson Creek, B.C., as well as its telecommunications businesses in the U.S. and the Philippines. G3 Telecom is a facilities-based reseller of telecommunication services in Canada, and is registered with the Canadian Radio-television Telecommunications Commission (CRTC) and the Federal Communications Commission (FCC) in the United States.²⁰

The aggregate purchase price of the acquisition was \$4.3 million, payable \$2.0 million in cash on the date of closing, \$1.5 million over 24 months from the date of closing by way of a secured promissory note with interest at 5% per annum and the issuance of 8,000,000 common shares of the Company at a deemed value of \$0.10 per common share. The Agreement provides for a price reduction of \$1.0 million should Industry Canada not approve the transfer consents of two wireless spectrum licences to the Company's control within 90 days from the date of closing. This reduction will be offset against the \$1.5 million outstanding secured promissory note over 24 months after closing. The Agreement also provides for the cancellation of 5,000,000 common shares issued to the vendors in the event that the FCC fails to approve the transfer consents of G3 Telecom's U.S. subsidiary to the Company's control within 120 days from closing.

The acquisition will be accounted for using the acquisition method under IFRS 3, *Business Combinations*, with the results of operations included in the consolidated financial statements from the date of the acquisition. The purchase price of \$4.3 million is subject to working capital adjustments that have not yet been finalized.

Due to the complexity and timing of the acquisition, the Company is in the process of determining the estimated fair value of the net assets acquired as part of the acquisition. The amounts determined on a provisional basis generally relate to net asset assessments and measurement of the assumed liabilities.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

5. Property and equipment (continued):

The impact of acquisition accounting applied on a provisional basis in connection with the acquisition of G3 Telecom is as follows:

Assets acquired:	
Cash	\$ 825,000
Property and equipment	985,000
Wireless spectrum licenses	1,000,000
Customer lists	670,000
FCC licenses	50,000
Trademarks	750,000
	4,280,000
Liabilities	
assumed:	745,000
Deferred income taxes	350,000
	1,095,000
Goodwill	1,115,000
Total consideration	\$ 4,300,000

The goodwill to be recognized in connection with this acquisition is primarily attributable to the synergies with the Company's existing business and other intangibles that do not qualify for separate recognition including assembled workforce.

	Cost	amortization	Value	Cost	amortization	Value
Telecom equipment	\$ 1,954,508	\$ 945,997	\$ 1,008,511	\$ 970,821	\$ 925,111	\$ 45,710
Switch equipment	476,524	119,131	357,393	476,524	107,230	369,294
Computer software	212,792	212,792	-	212,792	212,792	-
Computer and customer equipment	310,574	277,300	33,274	308,323	271,977	36,346
Leasehold improvements	80,382	80,382	-	80,382	80,382	-
Website development	30,101	28,905	1,196	30,101	28,267	1,834
Furniture and fixtures	109,249	99,208	10,041	110,680	97,323	13,357
	\$ 3,174,130	\$ 1,763,715	\$ 1,410,415	\$ 2,189,623	\$ 1,723,082	\$ 466,541

Depreciation expense for the three month period ended March 31, 2014 was \$40,633 (2013: \$21,068).

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

6. Intangible assets:

	March 31, 2014			December 31, 2013		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Wireless spectrum	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -
Trademarks	\$ 750,000	\$ -	\$ 750,000	\$ -	\$ -	\$ -
FCC registrations	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -	\$ -
Customer lists	\$ 870,000	\$ 85,278	\$ 784,722	\$ 200,000	\$ 50,000	\$ 150,000
Software licences and reporting system	\$ 358,024	\$ 324,912	\$ 33,112	\$ 358,024	\$ 322,574	\$ 35,450
	\$ 3,028,024	\$ 410,190	\$ 2,617,834	\$ 558,024	\$ 372,574	\$ 185,450

Amortization expense for the three month period ended March 31, 2014 was \$37,616 (2013: \$2,938).

7. Notes and debentures payable:

(a) Notes payable

On April 1, 2013, the Company completed an asset purchase with G3 Telecom Corp. ("G3"), under which the Company acquired G3'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 \$69,170 during the three months ending March 31, 2014 and the balance of \$50,830 will be paid during fiscal 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.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

7. Notes and debentures payable (continued):

(b) Debentures payable

In connection with the G3 Group transaction, the Company completed a concurrent private placement of \$3.0 million of unsecured, five-year debentures. The debentures will mature five years from the date of closing 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 June 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. The debentures issued pursuant to the offering will be subject to a statutory four-month-and-one-day hold period.

8. Capital and other components of equity:

(a) Share capital:

The Company is authorized to issue an unlimited number of common shares. The number of outstanding common shares are as follows:

	2013		December 31, 2013	
	Number of shares	Amount	Number of shares	Amount
Shares issued and outstanding, beginning of year	24,272,083	\$ 2,319,265	24,272,083	\$ 2,319,265
Issued for consideration of the G3 acquisition	8,000,000	800,000	–	–
Shares issued and outstanding, end of year	32,272,083	\$ 3,119,265	24,272,083	\$ 2,319,265

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

8. Capital and other components of equity (continued):

(b) Issuance of common shares:

On February 28, 2014 the Company completed the acquisition of the G3 Group of companies and as part of the acquisition issued 8,000,000 common shares of the Company as a deemed value of \$0.10 per common share.

On July 26, 2012 the Company completed a private placement for gross proceeds of \$750,000 through the issuance of 7,500,000 units (each, a "Unit" and collectively, the "Units") at a price of \$0.10 per Unit, where each Unit consists of one common share and one-half of one common share purchase warrant ("Warrant") (note 8(e)). Net proceeds of the capital raised was \$653,024, of which \$467,399 was allocated to share capital and \$185,625 was allocated to warrants.

(c) Issuance of share options:

As at December 31, 2014, directors and senior employees held 2,308,875 (2013 - 1,908,875) options of the Company, with variable expiration dates from 2014 to 2018 (2012 - 2014 to 2017). Share options granted under the Company's Employee Share Option Plan carry no rights to dividends and no voting rights.

(d) Warrants:

In connection with the private placement on July 26, 2012, the Company issued 4,218,750 warrants, consisting of:

- 3,750,000 warrants issued to subscribers to the private placement. Each Warrant entitles the holder to purchase one common share over a two-year period (subject to acceleration in the event that the closing price of the Company's common shares on the TSX Venture Exchange, for a period of 10 consecutive trading days, exceeds \$0.25 per common share) at a price of \$0.15 per common share.
- 468,750 warrants issued to a third party as a finder's fee for the private placement. Each Warrant entitles the holder to purchase one common share over a one-year period (subject to acceleration in the event that the closing price of the Company's common shares on the TSX Venture Exchange, for a period of 10 consecutive trading days, exceeds \$0.25 per common share) at a price of \$0.15 per common share.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

8. Capital and other components of equity (continued):

The pro-rata fair value of the 4,218,750 warrants issued was determined to be \$185,625, using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected volatility	146%
Expected life	2 years
Dividend yield	0%
Risk-free interest rate	1.1%

(f) Hedge reserve:

The hedge reserve was primarily related to unrealized gains/losses on cash flow hedges. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. As at March 31, 2014, the Company does not have any foreign currency forward contracts outstanding.

9. Earnings per share:

Three months ending March 31	2014	2013
Net income	\$ 4,830	\$ 37,597
Basic and diluted - earnings per share	\$ 0.000	\$ 0.002

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

9. Earnings per share (continued):

The weighted average number of common shares used in the calculation of basic and diluted earnings per share is as follows:

Three months ending March 31	2014	2013
Shares outstanding, beginning of year	24,272,083	24,272,083
Effects of shares issued in February related to G3 acquisition	8,000,000	—
Weighted average number of shares, end of year	32,272,083	24,272,083

At March 31, 2014 and 2013, there is no effect of potentially dilutive securities. All warrants and outstanding stock options were excluded from the diluted weighted average number of common shares calculation, as their effect would have been anti-dilutive. If applicable, the average market value of the Company's shares for purposes of calculating the dilutive effect of share options would be based on quoted market prices for the period during which the options were outstanding.

10. Share-based payment transactions:

Employee Share Option Plan of the Company:

The Company has a share option plan (the "2005 Plan") for directors, officers, employees and consultants under written contract of the Company and its subsidiaries, as approved by the shareholders of the Company.

In 2011, the Company adopted a new 10% rolling Incentive Stock Option Plan (the "2011 Plan"), which replaced the fixed 2005 Plan where only a maximum of 1,800,000 options could be granted. Under the 2011 Plan, the aggregate number of optioned shares that may be issued will not exceed 10% of the number of issued and outstanding shares of the Company at the time of the granting of options. As at December 31, 2013, there are 2,008,875 options outstanding and the Company can issue 418,333 additional options under the 2011 Plan.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

10. Share-based payment transactions (continued):

Each employee share option converts into one ordinary common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Board administers the granting of all options under the 2011 Plan and 2005 Plan and has the discretion to prescribe vesting restrictions for options granted.

The following share based payment arrangements were in existence during the current and prior years:

Option series	Number of options	Grant date	Expiry date	Exercise price	Per option fair value at grant date
1	100,000	January 23, 2009	January 23, 2014	\$ 0.215	\$ 0.19
2	300,000	May 13, 2010	May 13, 2015	0.170	0.15
3	98,500	January 31, 2011	January 31, 2016	0.101	0.08
4	100,000	April 11, 2011	April 11, 2016	0.200	0.18
5	201,500	May 27, 2011	May 27, 2016	0.100	0.09
6	500,000	January 1, 2012	January 1, 2017	0.100	0.07
7	223,875	March 21, 2012	March 21, 2017	0.100	0.07
8	100,000	May 1, 2012	May 1, 2017	0.100	0.07
9	125,000	August 27, 2012	August 27, 2017	0.120	0.11
10	260,000	April 4, 2013	April 4, 2018	0.100	0.10
11	400,000	February 27, 2014	February 27, 2019	0.120	0.12

Options granted vest over a period not exceeding five years and expire 90 days after a recipient ceases to qualify as a director, officer, employee or consultant under written contract. All stock options granted have an exercise price equal to the higher of the fair market value of the common shares at grant date and \$0.10.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

10. Share-based payment transactions (continued):

The following table presents information concerning stock options movement under the Plan:

	March 31, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,008,875	\$ 0.122	1,748,875	\$ 0.126
Granted	400,000	0.120	260,000	0.100
Options outstanding, end of year	2,408,875	0.121	2,008,875	\$ 0.122
Options exercisable, end of year	1,535,542	\$ 0.127	1,535,542	\$ 0.127

The following table summarizes information regarding stock options outstanding as at December 31, 2013:

Exercise price	Options outstanding		Options exercisable	
	Number of options	Weighted average life in years	Number of options	Weighted average exercise price
\$0.100	1,383,875	3.23	943,875	\$ 0.100
\$0.120	125,000	3.74	125,000	0.120
\$0.170	300,000	1.31	300,000	0.170
\$0.200	100,000	2.36	66,667	0.200
\$0.210	100,000	0.15	100,000	0.210
	2,008,875	2.78	1,535,542	0.127

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

11. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk management framework:

The Board of Directors 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 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 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.

(a) Credit risk:

Trade and other receivables:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

11. Financial risk management (continued):

A credit policy is established under which each new customer is analyzed individually or in groups for creditworthiness and given appropriate credit limits. The Company's review includes agent review, external ratings when available, and in some cases, bank references. Credit limits are established for each customer and these limits are reviewed on an ongoing basis. Customers that fail to meet the Company's creditworthiness benchmark may transact with the Company only on a prepayment basis.

Trade and other receivables relate mainly to the Company's retail and wholesale customers. Sales made to "high risk" customers are made on a prepayment basis.

The Company establishes an allowance for doubtful accounts that represents its estimate of uncollectible accounts in respect of trade and other receivables. The allowance for doubtful accounts is used to record potential impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amounts are written off against the financial asset directly. The Company makes significant estimates pertaining to allowance for doubtful accounts.

Credit risk associated with cash and cash equivalents are minimized significantly by ensuring that these financial instruments are placed with major financial institutions. Credit risk associated with trade and other receivables is mitigated by the Company's large and unrelated customer base and the application of its credit evaluation, control and monitoring processes.

Allowance for doubtful accounts:

The Company maintains an allowance for doubtful accounts that is assessed on an ongoing basis

TELEHOP COMMUNICATIONS INC.

DRAFT Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2013 and 2012

11. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels.

(c) Market risk:

(i) Currency risk:

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 value of financial instruments or cash flows associated with the instruments 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.

On occasion, the Company utilizes a hedging program to mitigate a portion of its currency risks. As at March 31, 2014, the Company does not hold any derivative instrument or cash flow hedges.

(ii) Interest rate risk:

The Company's primary interest rate risk consists of interest rate fluctuations, which may affect the Company's factoring and lease obligations. The Company does not currently use derivative instruments to limit interest rate risks.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured from prior year.

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

11. Financial risk management (continued):

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- Ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a program of periodic reviews undertaken by senior management. The results are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

11. Financial risk management (continued):

Fair value of financial instruments:

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7, Financial Instruments - Disclosures.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - unobservable inputs for the asset or liability which are supported by little or no market activity.

The fair values of cash and cash equivalents are based on quoted market values. The fair values of short-term financial assets and liabilities, including trade and other receivables, accounts payable and accrued liabilities and provisions, as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of finance leases and notes payable approximates its carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security. There are no financial assets or liabilities measured using Level 3.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

12. Commitments:

The Company has entered into lease agreements for premises expiring at various periods up to 2017. The future minimum annual rental payments on the non-cancellable operating leases are payable as follows:

2014	\$ 298,318
2015	150,000
2016	155,200
2017	26,400

The Company leases its corporate office that expires in July 2014. During the year ended December 31, 2013, the Company recognized \$180,474 as an expense in profit or loss as part of general and administrative cost in respect to this operating lease (2012 - \$176,000).

On March 1, 2014, the Company entered into a lease for new corporate office that expires in March 2017. The commitment associated with this lease is included in the table above.

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. During the year ended December 31, 2013, 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 (2012 - \$87,000).

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 million through the first two years of the agreement, and an aggregate of \$25 million 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 has the right to require the Company to remit the shortfall on demand. No liability has been recorded relating to this commitment as a shortfall of the obligation as management does not consider it probable that such a payment will be required based on current facts and circumstances.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

12. Commitments (continued):

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.

13. Capital management:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above-average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which consists of issued capital, warrants, reserves and deficit.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business that may include various acquisition proposals, as well as capital and operating budgets.

There were no changes in the Company's approach to capital management during the year.

14. Contingencies:

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 operations.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

15. Operating segments:

The Company has two reportable segments based on the customers it serves, retail and wholesale. These strategic business units are managed separately and require different marketing and selling strategies. All assets of the business supporting these business units are located in Canada.

The following summary describes the operations in each of the Company's reportable segments:

- Retail - includes casual calling, subscriptions, home phone, business phone and prepaid calling cards services serving non telecommunication customers.
- Wholesale - involves selling of bulk minutes to resellers at discounted rates.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

15. Operating segments (continued):

(a) Segment revenue and results:

	Segment revenue		Segment profit	
	2014	2013	2014	2013
Retail	\$ 2,726,032	\$ 1,898,457	\$ 1,168,434	\$ 810,608
Wholesale	107,811	132,060	8,686	9,629
	<u>\$ 2,833,843</u>	<u>\$ 2,030,517</u>	1,177,120	820,237
Operating expenses			(1,164,794)	(776,016)
Other expenses			(7,496)	(6,624)
Income before taxes			4,830	37,597
Income taxes			-	-
Net income			\$ 4,830	\$ 37,597

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2013 - nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. Segment profit represents the profit earned by each segment after telecommunication costs, both fixed and variable, without allocation of operating costs, depreciation and amortization, finance costs, other income and income tax expense. This is the measure reported to the CEO for purposes of resource allocation and assessment of segment performance. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the same industry.

The Company serves a large and unrelated customer base and no single customer contributed 10% or more to the Company's revenue for both 2013 and 2012.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

15. Operating segments (continued):

(b) Segment assets and liabilities:

	2014	2013
Segment assets:		
Retail	\$ 9,398,413	\$ 2,543,939
Wholesale	372,987	176,961
Total segment assets	\$ 9,771,400	\$ 2,720,900
Segment liabilities:		
Retail	\$ 7,353,199	\$ 1,337,718
Wholesale	291,705	93,054
Total segment liabilities	\$ 7,644,904	\$ 1,430,772

For the purposes of monitoring segment performance and allocating resources between segments, assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments, and liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

16. Acquisition transaction costs:

During the three months ending March 31, 2014, the Company incurred transaction costs of \$62,669 (2013 - nil) with regard to acquisition related activities which have been expensed in the consolidated statement of operations.

17. Subsequent events:

On May 1, 2014 the Company acquired the business assets 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 asset group is \$400,000 which may be reduced if revenues in the first 12 months following the purchase are less than \$1 million, and if revenues in the first 12 months exceed \$1.2 million the purchase price will increase by \$100,000. \$170,000 of the price was paid on closing and the balance by way of a 12 month promissory note which will be subject to the price adjustments noted above.

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)

Three months ended March 31, 2014 and 2013

17. Subsequent events (continued):

On May 23, 2014 the Company received approval from Industry Canada to transfer the wireless spectrum licenses that were included in the asset and share purchase of G3 Telcom.

18. Related parties:

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 beneficial ownership of G3 Telecom, subsequently joined the Board of Directors of the Company in the quarter and became a related party.

As of March 31, 2014 and pursuant to the purchase and sale agreement, there is a receivable balance of \$512,455 owed to the Company in post-closing adjustments as outlined and defined in the agreement. The Company also has notes payable outstanding to entities connected to the director in the amount of \$1,535,803 arising from the purchase of G3 Telcom.

Key management personnel compensation:

In addition to their salaries and allowances, key management personnel also participate in the Company's share option program and short-term health and dental benefits.

Certain executive officers are subject to a mutual term of notice of two months. Upon resignation at the Company's request, they are entitled to certain termination benefits, either cash or a percentage of gross salary.

19. Comparative figures:

Certain 2013 comparative balances have been reclassified in order to reflect current year consolidated statements of financial position classification.