TELEHOP COMMUNICATIONS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING JUNE 30, 2013 and 2012
(UNAUDITED)

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The interim consolidated statement of financial position of Telehop Communications Inc. at June 30, 2013, the interim consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2013 and June 30, 2012, and the interim consolidated statements of shareholders’ equity and cash flows for the six-month periods ended June 30, 2013 and June 30, 2012 have not been reviewed by the Company's auditors, KPMG LLP.

These interim consolidated 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

(Unaudited)

(in Canadian dollars)	**June 30, 2013**	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 755,617**	$ 712,787
Trade and other receivables, net of allowance for doubtful accounts (Note 8 (a))	**1,164,245**	1,293,324
Prepaid expenses and other	**65,351**	52,967
	1,985,213	2,059,078
Non-current assets:		
Property and equipment (Note 6)	**479,045**	501,976
Intangible assets (Note 7)	**225,184**	42,648
	$ 2,689,442	$ 2,603,702
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,251,843**	$ 1,285,327
Provisions	**65,349**	140,000
Note payable – current (Note 7)	**56,639**	-
Obligations under finance lease - current (Note 9)	**7,078**	6,981
	1,380,909	1,432,308
Non-current liabilities:		
Note payable (Note 7)	**23,691**	-
Obligations under finance lease (Note 9)	**5,740**	9,279
	1,410,340	1,441,587
Shareholders' equity:		
Share capital	**2,319,265**	2,319,265
Warrants	**185,625**	185,625
Option reserve	**271,841**	247,322
Deficit	**(1,497,629)**	(1,590,097)
	1,279,102	1,162,115
	$ 2,689,442	$ 2,603,702

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(in Canadian dollars)	Three months ending June 30th		Six months ending June 30th	
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	2013	2012	**2013**	2012
Revenue	**$ 2,148,802**	$ 2,385,727	**$ 4,179,319**	$ 4,837,802
Telecommunications costs	**1,177,108**	1,289,758	**2,387,738**	2,714,642
Gross margin	**971,694**	1,095,969	**1,791,581**	2,123,160
Operating expenses				
General and administration	**583,164**	628,707	**1,088,186**	1,296,538
Marketing and selling	**174,223**	332,483	**326,506**	626,236
Development and technical support	**123,334**	109,243	**208,202**	218,545
Depreciation and amortization	**41,919**	20,326	**65,575**	46,227
	922,640	1,090,759	**1,688,469**	2,187,546
Operating income (loss)	**49,054**	5,210	**103,112**	(64,386)
Other items				
Finance income and costs, net	**(10,427)**	8,490	**(17,928)**	(18,046)
Other income	**6,395**	1,612	**7,284**	3,830
Gain on disposal of assets	**-**	-	**-**	354
	(4,032)	10,102	**(10,644)**	(13,862)
Income (loss) before income taxes	**45,022**	15,312	**92,468**	(78,248)
Net income (loss)	**45,022**	15,312	**92,468**	(78,248)
Comprehensive income (loss)	**45,022**	15,312	**92,468**	(78,248)
Basic and diluted earnings (loss) per share (Note 5)	**0.002**	0.001	**0.004**	(0.005)

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Changes in Shareholders' Equity
For the six month periods ended June 30, 2013 and 2012
(Unaudited)

(in Canadian dollars)	Share capital	Option reserve	Warrants	Deficit	Total
Balance at December 31, 2012	$ 2,319,265	$ 247,322	$ 185,625	$(1,590,097)	$ 1,162,115
Net income for the period	-	-	-	92,468	92,468
Stock-based compensation	-	24,519	-	-	24,519
Balance at June 30, 2013	2,319,265	271,841	185,625	(1,497,629)	1,279,102
Balance at December 31, 2011	$1,846,190	$157,176	-	$(1,634,546)	$368,820
Net loss for the period	-	-	-	(78,248)	(78,248)
Stock-based compensation	-	39,942	-	-	39,942
Balance at June 30, 2012	1,846,190	197,118	-	(1,712,794)	330,514

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

(in Canadian dollars)	Six months ending June 30th (unaudited) 2013	(unaudited) 2012
Cash flow provided by (used in)		
Operating activities		
Net income (loss)	**$92,468**	$ (78,248)
Adjustments for non-cash items:		
Depreciation and amortization	**65,575**	46,227
Gain on disposal of equipment	**-**	(354)
Finance income and finance costs, net	**10,427**	17,928
Stock-based compensation	**24,519**	39,942
	192,989	25,495
Changes in working capital items:		
Trade and other receivables	**129,079**	138,828
Prepaid expenses and other	**(12,384)**	17,016
Accounts payable, accrued liabilities and provisions	**(118,562)**	(310,909)
Cash provided (used) by operating activities	**191,122**	(129,570)
Investing activities		
Acquisition of intangible assets (note 7)	**(200,000)**	-
Acquisition of property and equipment	**(25,180)**	(30,400)
Proceeds on disposal of equipment	**-**	354
Cash used by investing activities	**(225,180)**	(30,046)
Financing activities		
Proceeds of note payable	**120,000**	-
Principal payments on note payable	**(39,670)**	-
Finance costs paid	**-**	(17,928)
Payments of obligations under finance lease	**(3,442)**	(1,619)
Cash provided (used) by financing activities	**76,888**	(19,547)
Net increase (decrease) in cash and cash equivalents	**42,830**	(179,163)
Cash and cash equivalents, beginning of period	**712,787**	414,084
Cash and cash equivalents, end of period	**$ 755,617**	$ 234,921

The accompanying notes are an integral part of these interim consolidated financial statements

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. and CardTel Corp. (together referred to as the "Company"). 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 June 30, 2013 and the results of operations, comprehensive income and cash flows for the three and six month periods ended June 30, 2013. These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2012.

The interim consolidated financial statements were approved by the board of directors and authorized for issue on August 16, 2013.

(b) Basis of preparation:

The interim 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

2. Significant accounting policies (continued):

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 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 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.

(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 sign up of 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.

(c) 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.

(d) Telehop Business Services:

The Company acquired a customer list during the second quarter of 2013 and now has started offering a hosted PBX business services. These services target small and medium size businesses. 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.

(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.

2. Significant accounting policies (continued):

(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 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 at 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.

2. Significant accounting policies (continued):

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.

2. Significant accounting policies (continued):

(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
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.

(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
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.

2. Significant accounting policies (continued):

(n) Impairment of assets:

The carrying amount of property and equipment and intangible assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset 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 to the recoverable amount. The recoverable amount is the asset's value in use and is determined based on the future discounted net cash flows expected to be generated by the asset. An impairment loss is recognized whenever the carrying amount of an asset or the asset's cash generating unit, exceeds its recoverable amount. Impairment losses are recorded in the consolidated statement 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. 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 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.

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 (loss) per share:

The Company presents basic and diluted 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 period, adjusted for own shares held. 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, adjusted for own shares held, 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 operating 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 income tax assets and liabilities.

3. 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 period as compared to December 31, 2012.

4. 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 June 30, 2013, there are 2,008,875 options outstanding and the Company can issue 418,333 additional options under the 2011 Plan.

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 and 2005 Plans and has the discretion to prescribe vesting restrictions for options granted.

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.

The fair value of share options granted were priced using the Black Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past five years.

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

	Six months ended June 30, 2013		Year ended December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	1,748,875	$0.129	850,000	$0.154
Granted	260,000	0.100	1,048,875	$0.104
Exercised	-	-	(33,333)	$0.100
Cancelled	-	-	(116,667)	$0.126
Options outstanding, end of period	2,008,875	$0.125	1,748,875	$0.126
Options exercisable, end of period	1,568,875	$0.129	1,048,875	$0.129

4. Share-based payment transactions (continued):

The following table summarizes information regarding stock options outstanding as at June 30, 2013:

	Options outstanding		Options exercisable	
Exercise price	Number of options	Weighted average life in years	Number of options	Weighted average exercise price
$0.100	1,383,875	3.73	977,208	$0.100
$0.120	125,000	4.24	125,000	$0.120
$0.170	300,000	1.81	300,000	$0.170
$0.200	100,000	2.86	66,667	$0.200
$0.210	100,000	0.65	100,000	$0.210
	2,008,875	3.28	1,568,875	$0.129

5. Earnings per share:

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share. The following table sets forth the computation of basic and diluted earnings per share:

Three months ending June 30

	June 30, 2013	June 30, 2012
Net income for the period	$45,022	$ 15,312
Weighted average shares for earnings per share	24,272,083	16,738,750
Earnings per share	$ 0.002	$ 0.001

Six months ending June 30

	June 30, 2013	June 30, 2012
Net income for the period	$92,468	$ (78,248)
Weighted average shares for earnings per share	24,272,083	16,738,750
Earnings per share	$ 0.004	$ (0.005)

6. Property and equipment:

	June 30, 2013			December 31, 2012		
	Cost	Accumulated amortization	Net book Value	Cost	Accumulated amortization	Net book Value
Telecom equipment	$ 958,509	$ 916,979	$ 41,530	$ 948,764	$ 912,329	$ 36,435
Switch equipment	476,524	84,581	391,943	476,524	59,566	416,958
Computer software	212,792	212,792	-	212,792	212,792	-
Computer and customer equipment	289,439	259,511	29,928	280,340	250,413	29,927
Leasehold improvements	80,382	80,382	-	80,382	80,382	-
Website development	30,101	27,993	2,108	30,101	27,717	2,384
Furniture and fixtures	104,659	91,123	13,536	104,659	88,387	16,272
	$ 2,152,406	$ 1,673,361	$ 479,045	$ 2,133,562	$ 1,631,586	$ 501,976

Depreciation expense for the three and six month period ended June 30, 2013 was $22,139 and $42,858 (2012: $15,642 and $37,208), respectively.

7. Intangible assets:

	June 30, 2013			December 31, 2012		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Customer Lists	$ 200,000	$ 16,667	$ 183,333	$ -	$ -	$ -
Software licences and reporting system	$ 358,024	$ 316,173	$ 41,851	$ 352,771	$ 310,123	$ 42,648
	$ 558,024	$ 332,840	$ 225,184	$ 352,771	$ 310,123	$ 42,648

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

Amortization expense for the three and six month period ended June 30, 2013 was $19,780 and $22,717 (2012: $4,684 and $9,019), respectively.

8. 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.

A credit policy is established under which each new customer are 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.

8. Financial risk management (continued):

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.

The following table summarizes the Company's exposure to credit risk.

	June 30, 2013	December 31, 2012
Cash and cash equivalents	$ 755,617	$ 712,787
Accounts receivable	1,245,371	1,354,937
Allowance for doubtful accounts	(81,126)	(61,613)
Total	$ 1,919,862	$2,006,111

Cash and cash equivalents: Credit risk associated with cash and cash equivalents, which are held in short-term deposits, are minimized significantly by ensuring that these financial instruments are placed with major financial institutions with investment grade ratings and the avoidance of asset-backed commercial papers.

Accounts receivable: Credit risk associated with accounts receivable is minimized by the Company's large customer base and its geographic dispersion across Canada. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

	June 30, 2013	December 31, 2012
Trade receivables	$ 1,134,118	$1,320,388
Allowance for doubtful accounts	(81,126)	(61,613)
	1,052,992	1,258,775
Other receivables	111,253	34,549
Total	$ 1,164,245	$1,293,324

The Company has recognized an allowance for doubtful accounts of 100% against receivables over 90 days except for certain accounts that are deemed collectible or have been collected subsequent to period-end. Allowance for doubtful accounts is also recognized against current and under 90 days receivables based on account status at end of the reporting period. The concentration of credit risk is limited due to the large and unrelated customer base serviced by the Company.

In November 2011, the Company entered into a two-year master purchase and sale agreement where certain receivables of the Company are factored for interest and fees. 50% of the face values of factored receivables are advanced upon presentation of verified invoices, with the other 50% remitted back to the Company, net of interest and fees upon payment by the end customers. The facility bears an administration fee of 0.5% of the face value of the amounts factored and an advance fee calculated as interest upon the daily net outstanding balance at prime rate, based on the Bank of America rate for loans in Canadian dollars, plus 2.5%. Other facility fees, including shortfall and chargeback fees, also apply. The facility is secured by a general security agreement over all of the assets of the Company.

8. 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 US 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 June 30, 2013, the Company does not hold any derivative instrument or cash flow hedges.

A sensitivity analysis of the Canadian dollar against the U.S. dollar was performed as at June 30, 2013 based on the Company's currency risk exposure. The results of the sensitivity analysis resulting in an increase or decrease on the Company's profit or loss and equity was not considered significant.

(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 behavior. Operational risks arise from all of the Company's operations.

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;

8. Financial risk management (continued):

- 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.

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 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.

9. Commitments:

The Company has entered into lease agreements for premises expiring at various periods up to 2014. The future minimum annual rental payments on the non-cancellable operating leases are payable as follows:

2013	$	138,042
2014		178,319
	$	316,361

The Company leases its corporate office that expires in July 2014.

In September 2011, the Company has 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, 2012, the Company entered into a carrier billing services agreement with a major national communications provider. Under the terms of the five-year agreement, the Company has committed to generating minimum gross billings of $25 million through the five-year term. To the extent that the minimum gross billings and related carrier billings fees are not achieved, the Company may be subject to obligations for the shortfall.

10. 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 services and prepaid calling cards services serving primarily residential customers.
- Wholesale - involves selling of bulk minutes to resellers at discounted rates.

(a) Segment revenue and results for three months ending June 30:

	Segment revenue		Segment profit	
	2012	2011	2012	2011
Retail	2,015,522	2,206,393	963,697	1,085,209
Wholesale	133,280	179,334	7,997	10,760
	2,148,802	2,385,727	971,694	1,095,969
Operating expenses			(922,640)	(1,090,759)
Other items			(4,032)	10,102
Net income before taxes			45,022	15,312
Income taxes			-	-
Net income			45,022	15,312

(b) Segment revenue and results for six months ending June 30:

	Segment revenue		Segment profit	
	2012	2011	2012	2011
Retail	3,913,979	4,427,595	1,775,661	2,098,548
Wholesale	265,340	410,207	15,920	24,612
	4,179,319	4,837,802	1,791,581	2,123,160
Operating expenses			(1,688,469)	(2,187,546)
Other items			(10,644)	(13,862)
Net income (loss) before taxes			92,468	(78,248)
Income taxes			-	-
Net income (loss) before taxes			92,468	(78,248)

Segment revenue reported above represents revenue generated from external customers.
There were no inter-segment sales in the current periods (2011 - nil).

10. Operating segments (continued):

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 2012 and 2011.

(b) Segment assets and liabilities:

	June 30, 2013	December 31, 2012
Segment assets		
Retail	$ 2,397,092	$ 2,320,672
Wholesale	292,350	283,030
Total segment assets	$ 2,689,442	$ 2,603,702
Segment liabilities		
Retail	$ 1,261,818	$ 1,289,774
Wholesale	148,522	151,813
Total segment liabilities	$ 1,410,340	$ 1,441,587

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.