



**TELEHOP COMMUNICATIONS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING JUNE 30, 2015 and 2014
(UNAUDITED)**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The interim consolidated statement of financial position of Telehop Communications Inc. at June 30, 2015, the interim consolidated statements of operations and comprehensive income (loss) for the six-month period ended June 30, 2015 and June 30, 2014, and the interim consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2015 and June 30, 2014 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
(in Canadian dollars)

	Notes	(Unaudited) 30-Jun-15	(Audited) 31-Dec-14
Assets			
Current assets:			
Cash and cash equivalents		\$ 1,563,764	\$ 1,767,302
Trade and other receivables, net of allowance for doubtful accounts		1,429,615	1,746,351
Note receivable	4	-	127,071
Prepaid expenses and other		577,922	718,080
		3,571,302	4,358,804
Non-current assets:			
Property and equipment	5	932,582	1,036,955
Intangible assets	3, 6	2,514,433	2,737,548
Goodwill	3	1,440,000	1,440,000
		4,887,015	5,214,503
Total assets		\$ 8,458,317	\$ 9,573,307
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 1,877,780	\$ 2,442,143
Income taxes payable		135,000	135,000
Provisions		51,007	13,988
Deferred revenue		1,341,667	1,232,199
Note payable - current	7	375,000	855,596
Obligations under finance lease - current		5,164	8,508
		3,785,618	4,687,433
Non-current liabilities:			
Obligations under finance lease		16,298	5,715
Note payable - long term	7	100,000	100,000
Future income tax liability	3	171,323	171,323
Debentures	7	2,789,991	2,761,354
		3,077,613	3,038,392
Total liabilities		\$ 6,863,230	\$ 7,725,824
Shareholders' equity:			
Share capital	8 (a)	3,279,265	3,279,265
Warrants	8 (e)	185,625	185,625
Options reserve	8 (d)	361,938	343,886
Retained earnings (Deficit)		(2,231,741)	(1,961,293)
		1,595,086	1,847,482
Commitments	11		
Contingencies	12		
Total liabilities and shareholders' equity		\$ 8,458,317	\$ 9,573,307

See accompanying notes to the consolidated interim financial statements.

Approved on behalf of the Board:

"RAJAN ARORA"

DIRECTOR

"RAJIV JAGOTA"

DIRECTOR

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Operations and Comprehensive Income
(in Canadian dollars)

Three and six months ended June 30, 2015 and 2014

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2015	2014	2015	2014
Revenue	13	\$ 4,758,702	\$ 4,719,619	\$ 9,515,772	\$ 7,553,462
Telecommunications costs		2,984,941	3,022,342	5,863,461	4,679,065
Gross margin		1,773,761	1,697,277	3,652,311	2,874,397
Operating expenses					
General and administration		940,631	1,080,702	1,963,517	1,781,783
Marketing and selling		520,534	390,684	1,067,006	603,206
Development and technical support		175,713	134,027	354,296	244,300
Depreciation and amortization	5, 6	174,099	161,297	348,340	239,546
Acquisition costs		-	35,973	-	98,642
		1,810,978	1,802,683	3,733,159	2,967,477
Operating (loss) income		(37,217)	(105,406)	(80,848)	(93,080)
Other items					
Finance costs, net		(97,764)	(91,347)	(195,661)	(134,900)
Other income		(221)	3,712	6,061	39,770
		(97,985)	(87,635)	(189,600)	(95,130)
Income (loss) before income taxes		(135,202)	(193,041)	(270,448)	(188,210)
Income taxes		-	-	-	-
Net (loss) income		(135,202)	(193,041)	(270,448)	(188,210)
Other comprehensive income		-	-	-	-
Comprehensive (loss) income		\$ (135,202)	\$ (193,041)	\$ (270,448)	\$ (188,210)
Earnings (loss) per share - basic and diluted	9	\$ (0.004)	\$ (0.007)	\$ (0.008)	\$ (0.007)

See accompanying notes to the consolidated interim financial statements.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Cash Flows
(in Canadian dollars)

Six months ended June 30, 2015 and 2014
(Unaudited)

	2015	2014
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ (270,448)	\$ (188,210)
Adjustment for non-cash items:		
Depreciation and amortization	348,340	239,546
Finance income and finance costs, net	195,661	134,900
Stock-based compensation	18,052	37,730
	<u>291,605</u>	<u>223,966</u>
Change in non-cash operating working capital:		
Trade and other receivables	316,736	(896,059)
Prepaid expenses and other	267,229	(639,803)
Accounts payable, accrued liabilities and provisions	(527,344)	2,511,035
Deferred revenue	109,468	-
	<u>457,694</u>	<u>1,199,139</u>
Financing activities:		
Proceeds of debentures	-	3,000,000
Finance costs of debentures	-	(286,375)
Proceeds of note payable	-	1,730,000
Proceeds from issue of shares	-	800,000
Principal payments on note payable	(480,596)	(166,018)
Payments of obligations under finance lease	-	(454)
Financing of capital equipment lease	7,240	-
Finance income and finance costs received (paid), net	(167,023)	(139,730)
	<u>(640,379)</u>	<u>4,937,423</u>
Investing activities:		
Acquisition of property and equipment	(20,853)	(1,035,353)
Acquisition of intangible assets	-	(2,865,000)
Acquisition of goodwill	-	(1,115,000)
	<u>(20,853)</u>	<u>(5,015,353)</u>
Increase in cash and cash equivalents	(203,538)	1,121,209
Cash and cash equivalents, beginning of period	1,767,302	773,154
Cash and cash equivalents, end of period	<u>1,563,764</u>	<u>1,894,363</u>

See accompanying notes to the consolidated interim financial statements.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Changes in Shareholders' Equity
(in Canadian dollars)

Three and six months ended June 30, 2015 and 2014
(Unaudited)

	Share capital	Options reserve	Warrants	Deficit	Total
Balance, December 31, 2013	2,319,265	286,213	185,625	(1,500,975)	1,290,128
Net income (loss)				(193,041)	(193,041)
Shares issued	800,000	-	-	-	800,000
Stock-based compensation		37,730			37,730
Balance, June 30, 2014	\$ 3,119,265	\$ 323,943	\$ 185,625	\$ (1,694,016)	\$1,934,817
Balance, December 31, 2014	3,279,265	343,886	185,625	(1,961,293)	1,847,482
Net income (loss)	-	-	-	(270,448)	(270,448)
Stock-based compensation (note 8(d))	-	18,052	-	-	18,052
Balance, June 30, 2015	\$ 3,279,265	\$ 361,938	\$ 185,625	\$ (2,231,741)	\$1,595,086

See accompanying notes to the consolidated interim financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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 1039 McNicoll Ave. Toronto, Ontario. 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors and authorized for issue on August 18, 2015.

(b) Basis of preparation:

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

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

The consolidated financial statements are prepared in Canadian dollars, which is the Company's functional currency.

(c) Basis of consolidation:

(i) Subsidiaries:

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

(ii) Transactions eliminated on consolidation:

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

(d) Revenue:

The Company earns its revenues from access to, and usage of, its telecommunications network by its customers. Its main service is to provide long-distance services through access to its network, which has the capability to track pertinent data for each individual call to a particular country destination. This allows the Company to rate each call by applying predetermined long-distance rates by country to the volume of minutes provided. The Company recognizes revenues at the fair value of the consideration received or receivable, including billed and unbilled, when it is probable that the consideration will be collected and services have been performed as described below.

Amounts billed to customers, but not yet earned, are recorded and presented as deferred revenue. Costs associated with these amounts are also deferred and recognized in the same period as the revenue is earned.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

The Company has three operating segments – retail, wireless 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, wireless services 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 the Company's 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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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.

(ii) 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.

(iii) 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.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche of the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

(f) Income taxes:

Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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 and note receivable (classified as loans and receivables), accounts payable and accrued liabilities (classified as other financial liabilities), notes payable (classified as other financial liabilities), finance leases (classified as other financial liabilities) and debentures (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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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.

(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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

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

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

(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, if any.

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:

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

Software	5 years
Website development	5 years
Customer lists	3 years

Intangible assets that are deemed to have indefinite lives and intangible assets that are not yet ready for use are not amortized; 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 identifiable net assets acquired, the difference is treated as purchased goodwill.

Goodwill is not amortized, 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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

(n) Impairment of assets:

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

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

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

(o) Use of estimates and critical judgments:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

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 intangible assets and property and equipment - Management's judgment involves determining the expected useful lives of depreciable assets, to determine depreciation and amortization 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;

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

- 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. Detailed 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; and
- Purchase price allocation – Upon purchase of another business from a third party the Company reviews the purchase price paid for the shares or assets acquired. The Company calculates a reasonable fair value of assets and liabilities acquired using IFRS guidelines and reasonable industry estimates.

(p) Cash and cash equivalents:

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

(q) Earnings (loss) per share:

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

(r) Segment reporting:

A business segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO") to make decisions about the allocation of resources and to assess their performance, and for which discrete financial information is available.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's corporate office), head office expenses, personnel costs, depreciation and amortization, finance income and finance costs, net, other income and income tax expenses.

(s) New standards and interpretations adopted:

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

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

(ii) IFRIC Interpretation 21, Levies:

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

(t) Recent accounting pronouncements:

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

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

In May 2014, the IASB issued this standard which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and are currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

(ii) IFRS 9, Financial Instruments:

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

3. Business Acquisition:

On February 28, 2014, the Company completed the acquisition of G3 Telecom Corp. and its group of affiliated companies ("G3 Telecom").

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

The aggregate purchase price of the acquisition was \$4,460,000, payable \$2,000,000 in cash on the date of closing, subject to working capital adjustments at the date of closing, \$1,500,000 over 24 months from the date of closing by way of a secured promissory note bearing interest at 5% per annum and the issuance of 8,000,000 common shares of the Company at a fair value of \$0.12 per common share. The net working capital adjustment was determined to be \$349,000 which resulted in a net payment of \$4,111,000. The purchase agreement (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. The Company consolidated G3 Telecom's U.S. subsidiary as of March 1, 2014 because the Agreement noted that Telehop would receive the economic benefits of the business until the FCC licenses were transferred. In addition, management believes that the transfer consents are administrative in nature and there are no indications the

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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3. Business Acquisition (continued):

transfer will not be approved in due course. As of May 28, 2015 the FCC licences have successfully transferred to the Company and the shares held in trust will be released in due course.

The acquisition has been 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 Company completed a valuation model considering the synergies of the businesses, the continued revenues from the business and potential opportunities for growth to value the customer lists and trademarks. Based on the closing date of February 28, 2014 the following summarizes the purchase consideration, the goodwill and net assets acquired in the transaction:

Assets acquired:	
Cash	\$ 893,558
Accounts Receivable	\$ 676,297
Property and equipment	\$ 985,000
Wireless spectrum licenses	\$ 1,000,000
Customer lists	\$ 570,000
FCC licenses	\$ 50,000
Trademarks	\$ 750,000
	<hr/>
	\$ 4,924,855
Liabilities assumed:	
Accounts payable	\$ 930,914
Deferred revenue	\$ 967,941
Deferred income taxes	\$ 355,000
	<hr/>
	\$ 2,253,855
Goodwill	\$ 1,440,000
Total Consideration	<hr/>
	\$ 4,111,000

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
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3. Business Acquisition (continued):

The goodwill 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. The Company previously estimated goodwill related to the acquisition of G3 Telecom on a preliminary basis, as disclosed as a subsequent event in the 2013 audited consolidated financial statements, of \$1,115,000 based on the information available at the date of the issuance of the 2013 consolidated financial statements. The goodwill value of \$1,440,000 is based on the final purchase price allocation, including the final valuations of the acquired intangible assets, as disclosed above.

4. Note receivable:

	30-Jun-15	31-Dec-14
Note Receivable	\$ -	\$ 127,071

As part of the G3 Telecom purchase (note 3), the Company acquired a redundant switch that was not required for operating the business. The estimated fair value of the asset was \$190,000 and was subsequently sold on June 1, 2014 for that price. The purchaser paid \$20,000 in cash and the Company received a \$170,000 note receivable at 10% interest with fifteen monthly payments from June 1, 2014 to August 1, 2015. As of June 30, 2015 the purchaser made an early payment to clear the outstanding balance.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
 Three and six months ended June 30, 2015 and 2014
 (Unaudited)

5. Property and equipment:

	Switch equipment	Telecom equipment	Furniture and fixtures	Computer and customer equipment	Leasehold improvements	Total
Cost						
Balance, December 31, 2013	476,524	970,821	110,680	308,323	80,382	1,946,730
Additions	655,000	103,856	51,109	125,508	37,280	972,753
Dispositions	(190,000)	-	-	-	-	190,000
Balance, December 31, 2014	941,524	1,074,677	161,789	433,831	117,662	2,729,483
Additions	-	1,875	-	18,978	-	20,853
Dispositions	-	(440,143)	(40,274)	-	(80,382)	(560,799)
Balance, June 30, 2015	\$ 941,524	\$ 636,409	\$ 121,515	\$ 452,809	\$ 37,280	\$ 2,189,537
Accumulated depreciation						
Balance, December 31, 2013	107,230	925,111	97,323	271,977	80,382	1,482,023
Depreciation	86,390	70,058	16,933	30,913	6,212	210,506
Balance, December 31, 2014	193,620	995,169	114,256	302,890	86,594	1,692,529
Depreciation	43,105	19,016	9,995	49,380	3,728	125,225
Dispositions	-	(440,143)	(40,274)	-	(80,382)	(560,799)
Balance, June 30, 2015	\$ 236,725	\$ 574,042	\$ 83,977	\$ 352,270	\$ 9,940	\$ 1,256,955
Carrying amount						
As at December 31, 2013	\$ 369,294	\$ 45,710	\$ 13,357	\$ 36,346	\$ -	\$ 464,707
As at December 31, 2014	747,904	79,508	47,533	130,941	31,068	1,036,954
As at June 30, 2015	704,799	62,367	37,538	100,539	27,340	932,582

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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6. Intangible assets:

	Wireless spectrum licenses	Trademarks	FCC licenses and registration	Wireless Customer lists	Website development	Software	Total
Cost							
Balance, December 31, 2013	-	-	-	200,000	30,101	358,024	588,125
Additions	1,000,000	750,000	50,000	1,065,000	-	32,756	2,897,756
Balance, December 31, 2014	1,000,000	750,000	50,000	1,265,000	30,101	390,780	3,485,881
Additions	-	-	-	-	-	-	-
Balance, June 30, 2015	1,000,000	750,000	50,000	1,265,000	30,101	390,780	3,485,881
Accumulated Amortization							
Balance, December 31, 2013	-	-	-	50,000	28,267	322,574	400,841
Amortization	-	-	-	335,000	550	11,942	347,492
Balance, December 31, 2014	-	-	-	385,000	28,817	334,516	748,333
Amortization	-	-	-	210,833	275	12,007	223,115
Balance, June 30, 2015	-	-	-	595,833	29,092	346,523	971,448
Carrying amount							
As at December 31, 2013	\$ -	\$ -	\$ -	\$ 150,000	\$ 1,834	\$ 35,450	\$ 187,284
As at December 31, 2014	1,000,000	750,000	50,000	880,000	1,284	56,264	2,737,548
As at June 30, 2015	1,000,000	750,000	50,000	669,167	1,009	44,257	2,514,433

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

7. Notes and debentures payable:

(a) Notes payable

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

On February 28, 2014, the Company completed an asset and share purchase with G3 Telecom under which the Company acquired the remainder of G3 Telecom's business (note 3). As part of the purchase price of \$4,111,000, the Company entered into a note payable of \$1,500,000 to the vendor, repayable over twenty four months at an annual interest rate of 5% with principal payments made quarterly, starting April 1, 2014. The Company made principal payments on the note payable of \$375,000 during 2015 and the balance outstanding as of June 30, 2015 was \$375,000 (2014 - \$1,125,000).

On May 1, 2014, the Company acquired the customer lists of iRoam Mobile Solutions Inc., a Canadian company that operates under the iRoam and Brightroam brands in the United States and Canada. The purchase price of the assets is \$400,000 which may be reduced if revenues in the first 12 months following the purchase are less than \$1,000,000, and if revenues in the first 12 months following May 1, 2015 exceed \$1,200,000 the purchase price will increase by \$100,000. \$170,000 of the price was paid on closing and the balance of \$330,000 by way of a 12-month promissory note which will be subject to the price adjustments noted above. The Company has recorded the additional \$100,000 in consideration as management believes it is probable that the amount will be paid to the seller.

(b) Debentures:

In connection with the G3 Telecom transaction (note 3), the Company completed a concurrent private placement of \$3,000,000 of unsecured, five-year debentures. The debentures will mature five years from the date of closing of the offering of February 28, 2014 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

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
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7. Notes and debentures payable (continued):

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.

Total transaction costs including the discount related to the debenture offering were \$286,375 and were recorded as an offset to the carrying value of the debentures. During the six month period ended June 30, 2015, the Company recorded \$28,637 of amortization of these transaction costs in finance costs.

8. Capital and other components of equity:

(a) Share capital:

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

	Jun 30, 2015		Dec 31, 2014	
	Number of Shares	Amount	Number of Shares	Amount
Shares issued and outstanding, beginning of year	32,272,083	\$ 3,279,265	24,272,083	\$2,319,265
Issued for consideration of the G3 Telecom acquisition (note 3)	-	-	8,000,000	960,000
Shares issued and outstanding, end of period	32,272,083	\$ 3,279,265	32,272,083	\$3,279,265

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 Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
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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 Telecom (note 3) companies and as part of the acquisition issued 8,000,000 common shares of the Company at a value of \$0.12 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 were \$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 June 30, 2015 directors and senior employees held 2,252,875 (2014 - 2,308,875) options of the Company, with variable expiration dates from 2015 to 2019. Share options granted under the Company's Employee Share Option Plan carry no rights to dividends and no voting rights.

(d) Options reserve:

	30-Jun-15	31-Dec-14
Opening balance	\$ 343,886	\$ 286,213
Reclassification to share capital for exercised options	-	-
Stock-based compensation expense	18,052	57,673
Ending balance	\$ 361,938	\$ 343,886

The options reserve comprises the impact of stock option expense and net of the impact of any related exercises.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
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8. Capital and other components of equity (continued)

(e) 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. On May 30, 2014 the Company filed an application with the TSX Venture Exchange to extend the expiry date that were set to expire July 24, 2014. Effective May 30, 2014, the warrants were extended to January 31, 2015 and effective January 14, 2015, the warrants were extended to January 31, 2016.
- 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. These warrants expired unexercised on July 26, 2013.

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	1.10%

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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9. Earnings (loss) per share:

Three months ending June 30	2015	2014
Net (loss) income	\$ (135,202)	\$ (193,041)
Basic and diluted - earnings (loss) per share	(0.004)	(0.007)

Six months ending June 30	2015	2014
Net (loss) income	\$ (270,448)	\$ (188,210)
Basic and diluted - earnings (loss) per share	(0.008)	(0.007)

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

Six months ending June 30	2015	2014
Shares outstanding, beginning of year	32,272,083	24,272,083
Effect of shares issued on February 28, 2014 related to G3 Telecom (note 3) acquisition	-	2,666,667
Weighted average number of shares	32,272,083	26,938,750

At June 30, 2015 and 2014, 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 June 30, 2015, there are 2,252,875

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
 Three and six months ended June 30, 2015 and 2014
 (Unaudited)

10. Share-based payment transactions (continued):

options outstanding and the Company can issue 974,333 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 of Directors 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 outstanding at June 30, 2015:

Option series	Number of options	Grant date	Expiry date	Exercise price	Per option fair value at grant date
1	98,500	January 31, 2011	January 31, 2016	\$ 0.10	\$ 0.08
2	100,000	April 11, 2011	April 11, 2016	0.20	0.18
3	201,500	May 27, 2011	May 27, 2016	0.10	0.09
4	500,000	January 1, 2012	January 1, 2017	0.10	0.07
5	223,875	March 21, 2012	March 21, 2017	0.10	0.07
6	125,000	August 27, 2012	August 27, 2017	0.12	0.11
7	160,000	April 4, 2013	April 4, 2018	0.10	0.10
8	300,000	February 27, 2014	February 27, 2019	0.12	0.10
9	194,000	September 30, 2014	September 30, 2019	0.15	0.11
10	150,000	November 25, 2014	November 25, 2019	0.15	0.11
11	150,000	April 24, 2015	April 15, 2020	0.15	0.07
12	50,000	May 29, 2015	May 29, 2020	0.10	0.06
Total	2,252,875				

Options granted vest over a period not to exceed 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 inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

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Notes to Interim Consolidated Financial Statements (continued)
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10. Share-based payment transactions (continued):

Option Series	1	2	3	4	5	6	7	8	9	10	11	12
Grant date share price	\$ 0.09	\$ 0.20	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.12	\$ 0.08	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.10	\$ 0.10
Exercise price	\$ 0.10	\$ 0.20	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.12	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.09
Expected volatility	125%	122%	124%	147%	147%	147%	151%	114%	110%	109%	103%	82%
Expected life	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	2.5%	2.5%	2.5%	2.5%	1.5%	1.5%	1.2%	1.6%	1.6%	1.5%	0.9%	0.9%

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

	June 30, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,352,875	\$ 0.123	2,008,875	\$ 0.122
Granted	200,000	0.138	745,500	0.134
Canceled	(300,000)	0.170	(401,500)	0.134
Options outstanding, end of period	2,252,875	0.119	2,352,875	0.123
Options exercisable, end of period	1,790,208	0.114	1,870,208	0.121

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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10. Share-based payment transactions (continued):

The following table summarizes information regarding stock options outstanding as at June 30, 2015:

Exercise price	Options outstanding		Options exercisable	
	Number of options	Weighted average life in years	Number of options	Weighted average exercise price
\$0.10	1,233,875	3.18	1,325,542	\$ 0.10
\$0.12	425,000	3.22	200,000	0.12
\$0.15	494,000	4.47	164,667	0.15
\$0.20	100,000	0.78	100,000	0.20
	2,252,875	3.37	1,790,208	\$ 0.11

11. Commitments:

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

2015	\$	136,797
2016		235,182
2017		106,482
2018		81,555
2019		14,088

The Company leases its corporate office that expires in March 2017. During the six month period ended June 30, 2015, the Company recognized \$74,400 as an expense in profit or loss as part of general and administrative cost in respect to this operating lease (2014 - \$72,000).

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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11. Commitments (continued):

In September 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which will expire in October 2015. During the six month period ended June 30, 2015, the Company recognized \$45,600 as the expense in profit or loss as part of telecommunication costs in respect to the operating lease for the switch facility (2014 - \$45,600). The Company also assumed additional switch facility space as part of the acquisition of G3 Telecom (note 5). The term for this leased space is from March 2014 to February 2019. The Company recognized \$33,818 in expense for the six months ended June 30, 2015 (2014 – \$22,104).

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

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

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

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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12. 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.

13. Operating segments:

The Company has three reportable segments based on the customers it serves, retail, wireless and wholesale. In 2014, the Company acquired the wireless business lines from the G3 Telecom acquisition (note 3) and the iRoam acquisition. 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.
- Wholesale – involves selling of bulk minutes to resellers at discounted rates.
- Wireless – includes sales to customers for long distance roaming sims, machine-to-machine, data services, and third party solutions

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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13. Operating segments (continued):

(a) Segment revenue and results for the three month period ending June 30:

	Segment revenue		Segment profit	
	2015	2014	2015	2014
Retail	\$ 3,630,491	\$ 3,939,170	\$ 1,355,944	\$ 1,430,679
Wireless	1,029,777	647,645	411,911	259,058
Wholesale	98,434	132,804	5,906	7,540
	4,758,702	4,719,619	1,773,761	1,697,277
Operating expenses			(1,636,878)	(1,802,683)
Other expenses (net)			(272,084)	(87,635)
Net (loss) income before taxes			\$ (135,202)	\$ (193,041)

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

	Segment revenue		Segment profit	
	2015	2014	2015	2014
Retail	\$ 7,224,361	\$ 6,528,226	\$ 2,800,831	\$ 2,544,323
Wireless	2,099,985	784,621	839,994	313,848
Wholesale	191,426	240,615	11,486	16,226
	9,515,772	7,553,462	3,652,311	2,874,397
Operating expenses			(3,384,819)	(2,967,477)
Other expenses (net)			(537,940)	(95,130)
Net (loss) income before taxes			\$ (270,448)	\$ (188,210)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2014 - nil).

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

13. 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 2015 and 2014.

(c) Segment assets and liabilities:

		30-Jun-15		31-Dec-14	
Segment assets:					
	Retail	\$	7,104,986	\$	8,041,578
	Wireless		1,268,748		1,435,996
	Wholesale		84,583		95,733
<hr/>					
	Total segment assets	\$	8,458,317	\$	9,573,307
<hr/>					
Segment liabilities:					
	Retail	\$	5,765,114	\$	6,489,692
	Wireless		1,029,485		1,158,874
	Wholesale		68,632		77,258
<hr/>					
	Total segment liabilities	\$	6,863,230	\$	7,725,824

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

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2015 and 2014
(Unaudited)

14. Related party transactions and balances:

On February 28, 2014 the Company completed the acquisition of a combination of shares and assets of G3 Telecom (note 3). One of the individuals who had beneficial ownership of G3 Telecom, subsequently joined the Board of Directors of the Company in the first quarter of 2014 and became a related party.

The vendor of the G3 Telecom sale is entitled to 5% of gross wireless sales for thirty-six months after the closing date of February 28, 2014. The royalty is paid quarterly as it is earned. For the six month period ending June 30, 2015, the total royalty expense was \$86,663 (2014 – \$39,576). The Company also has notes payable outstanding to entities connected to the Director in the amount of \$375,000 (2014 - \$1,125,000) arising from the purchase of G3 Telecom. The Company paid interest of \$16,406 (2014 - \$35,156) to the Director in connection with the notes payable during the six month period ending June 30, 2015. The Company rents its head office space from a company owned by the vendor of the G3 Telecom sale, the rental expense paid in the six month period ending June 30, 2015 was \$74,400 (2014 – \$72,000).

Key management personnel compensation:

	June 30, 2015	December 31, 2014
Wages, salaries and other benefits	\$ 211,278	\$ 549,182
Canada Pension Plan, Employment Insurance and other remittances	6,821	10,146
Share-based compensation	13,100	35,515
	<u>\$ 231,199</u>	<u>\$ 594,843</u>

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.