

Telehop Communications Inc.

**Management's Discussion and Analysis
of
Financial Condition and Results of Operations**

For the Years Ended December 31, 2013 and 2012

Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012
Dated April 29 2014

This document provides management's discussion and analysis ("MD&A") of our financial condition as at, and results of operations for, the year ended December 31, 2013, compared to 2012. This MD&A is intended to help the readers, including shareholders and stakeholders, understand the dynamics of Telehop's business and the key factors underlying its financial results, and should be read together with our audited consolidated financial statements and accompanying notes ("Annual Financial Statements") for the year ended December 31, 2013.

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

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

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

The Annual Financial Statements and information and analysis in the MD&A includes amounts and conclusions based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration as to materiality. In addition, in preparing the financial information, management must interpret the financial information, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information.



FORWARD-LOOKING STATEMENTS

This MD&A is dated April 29, 2014, and may contain forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances. This information is based on our estimates about the conditions in which we operate and our beliefs and assumptions regarding these conditions. Unless otherwise indicated, the forward-looking information in this MD&A describes our expectations on the date of this MD&A. In some cases, forward-looking information may be identified by words such as “anticipate”, “believe”, “could”, “expect”, “plan”, “seek”, “may”, “intend”, “will”, “forecast” and similar expressions.

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

COMPANY OVERVIEW

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

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

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

- Retail
 - o Casual calling

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

- o Subscription

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

- o Home Phone

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

- Business Services

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

- Prepaid calling cards

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

- Wholesale

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

FINANCIAL REVIEW

During the fourth quarter of 2013, the Company maintained a positive EBITDA (as defined on page 11), ending the year with EBITDA of \$277,306. After considering transaction costs of \$149,030 incurred related to the acquisition of our business services customers as well as G3 Telecom Corp. and its group of affiliated companies ("G3 Telecom"), Adjusted EBITDA for the year ended December 31, 2013 was \$426,336. The Company incurred additional telecommunication costs due to foreign exchange losses of over \$64,000 due to the weakening US dollar.

Retail revenues have declined driven mainly by traditional 10-10 "land line" revenues due to heavy substitution with internet and wireless solutions, along with the incumbent carriers offering significant bundling discounts which include Canada and United States long distance calling. The Company has been able to offset some of the declines with new sales from the Business Services division, which was acquired in fiscal 2013, and the increase in #100 revenue, a wireless 10-10 style product.

During the year the Company incurred acquisition transaction costs of \$149,030 related to the purchase of the G3 Telecom business subsequent to year end that were incurred and expensed in the 2013 year. These include consulting fees, legal fees, and additional costs to facilitate the acquisition. In addition, there are additional costs related to the acquisition of G3 Telecom that will be incurred in the first quarter of 2014. As discussed in the section titled "Subsequent events", the company completed the acquisition of G3 Telecom on February 28, 2014.

Excluding acquisition costs, operating expenses were down \$90,750 or 11% for the quarter and \$668,989 or 17% for the full year, as the Company continues to improve its cost structure and efficient marketing spending. The Company continues to institute controls over accounts receivable which have helped to reduce bad debt exposure and align operational costs.

Revenue for the fourth quarter 2013 was down 4% to \$2,006,047 with a net loss of \$44,651 or \$0.002 loss per common share compared to revenue of \$2,094,420 with a net income of \$84,179 or \$0.003 per common share for the fourth quarter 2012. Net income for the year is \$89,122 compared to the prior year of \$44,449.

EBITDA for the fourth quarter of 2013 was \$1,045 compared to \$128,493 in the prior year, and total 2013 EBITDA was \$277,306 compared to \$191,649 in the prior year. See the section titled "Definitions – Additional GAAP Measures and Non-GAAP Measures" for descriptions of Operating Income (loss), EBITDA and Adjusted EBITDA and the reconciliation of EBITDA and Adjusted EBITDA to net income (loss) for the periods presented. These items do not have a standardized meaning under IFRS and therefore unlikely to be comparable to similar measures presented by other companies. EBITDA and Adjusted EBITDA which are non-GAAP measures should not be considered as substitutes or alternatives for GAAP measures.

The Company's gross margin for the fourth quarter was \$842,229 or 42.0% compared to \$914,242 or 43.7% for the same quarter in 2012. In the latter half of the year, the Company experienced foreign exchange pressure on telecommunications costs as a result of the weakening Canadian dollar to the US dollar. The Company expects margins to continue at the average fourth quarter 2013 level.

RESULTS OF OPERATIONS

Consolidated Highlights (\$000's CAD)	Three months ended		Twelve months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Consolidated Income Statement				
Operating revenues	2,006	2,094	8,320	9,024
Gross margin	842	914	3,536	4,021
Gross margin %	42.0%	43.7%	42.5%	44.6%
Operating costs				
General and administration	451	470	2,085	2,320
Marketing and selling	173	199	645	1,070
Development and technical	70	116	395	444
Depreciation and amortization	44	43	154	114
Acquisition transaction costs	149	-	149	-
Operating income (loss) ¹	(45)	85	108	74
Interest expense	1	1	31	34
Other income, net	-	-	(8)	(4)
Net income (loss)	(44)	84	89	44
EBITDA ¹	1	128	277	192
Adjusted EBITDA ¹	150	128	426	192
Earnings (loss) per share – basic and diluted	(0.002)	0.003	0.004	0.002
Consolidated Statement of Cash Flows				
Cash provided (used) by operating activities	36	197	299	(217)
Cash used by investing activities	(38)	(61)	(261)	(98)
Cash provided (used) by financing activities	(18)	(37)	22	614

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

OVERALL PERFORMANCE

Operating Revenue

Consolidated operating revenues decreased quarter over quarter by \$88,373 or 4% to \$2,006,047.

Consolidated operating revenues for the twelve months ending December 31, 2013 declined by \$703,989 or 8% to \$8,319,885.

Comparison of revenue by Segment

	For the quarters ended December 31			
	2013	2012	+/-	%
Retail revenue	\$1,854,661	\$1,979,884	\$(125,223)	(6%)
Wholesale	151,386	114,536	36,850	32%
Total revenues	\$2,006,047	\$2,094,420	\$(88,373)	(4%)

	For the twelve months ended December 31			
	2013	2012	+/-	%
Retail revenue	\$7,785,528	\$8,340,183	\$(554,655)	(7%)
Wholesale	534,357	683,691	(149,334)	(22%)
Total revenues	\$8,319,885	\$9,023,874	\$(703,989)	(8%)

Retail Revenue

Casual Calling continues to be under pressure as retail customers are receiving strong offers from their existing providers to stay with low long distance rate calling offers and strong bundle offers. The incumbent carriers continue to offer strong incentives to keep their existing customers making it challenging to offer lower rates and maintain margins. The Telus #100 wireless service is starting to deliver revenues to help offset this decline but not at the same pace. The launch of Telehop Business Services following the acquisition of business services customers in Q2 2013 has started to grow and help offset declines in casual calling.

Wholesale revenue

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

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

Gross Margin

	2013	2012	+/-	%
For the quarters ended December 31	\$842,229	\$914,242	\$(72,013)	(8%)
	42.0%	43.7%	-1.8%	(4%)
For the twelve months ended December	\$3,535,971	\$4,021,465	\$(485,494)	(12%)
	42.5%	44.6%	-2.0%	(4%)

Gross margin as a % of revenue has decreased by 1.8% from 43.7% in the fourth quarter 2012 to 42.0% in the fourth quarter of 2013. The Company experienced a decline in margin due to a weaker Canadian dollar compared to the US dollar. The Company incurs some telecommunication costs in US dollars. The Company expects margins to continue at the average fourth quarter 2013 level. The foreign exchange loss for the year related to telecommunication costs was over \$64,000.

Operating Expenses

	For the quarters ended December 31			
	2013	2012	+/-	%
General & administration	\$451,205	\$470,453	\$(19,248)	(4%)
Marketing & selling	172,572	199,348	(26,776)	(13%)
Development & technical support	70,172	115,882	(45,710)	(39%)
Amortization	44,457	43,473	984	2%
Acquisition transaction costs	149,030	-	149,030	
Total operating expenses	<u>\$887,436</u>	<u>\$829,156</u>	<u>\$58,280</u>	<u>7%</u>

	For the twelve months ended December 31			
	2013	2012	+/-	%
General & administration	\$2,084,713	\$2,320,147	\$(235,434)	(10%)
Marketing & selling	644,896	1,069,618	(424,722)	(40%)
Development & technical support	395,370	444,183	(48,813)	(11%)
Amortization	153,947	113,967	39,980	35%
Acquisition transaction costs	149,030	-	149,030	
Total operating expenses	<u>\$3,427,956</u>	<u>\$3,947,915</u>	<u>\$(519,959)</u>	<u>(13%)</u>

Overall fourth quarter operating expenses of \$887,436 are \$58,280 or 7% higher than the \$829,156 recorded in the fourth quarter 2012. Annual 2013 operating expenses were down \$519,959 or 13% overall. These changes in operational expenses by line items are discussed below.

General & administration expenses of \$451,205 in the fourth quarter of 2013 have decreased by \$19,248. Overall costs remained consistent with the prior year. For the year, overall reductions across management salaries and stock compensation in addition to reduction in bad debts have lowered the overall general and administrative expenses by \$235,434 or 10%.

Marketing & selling expenses of \$172,572 have decreased by \$26,776 for the quarter as a result of a reduction in print media spending and commissions paid to call centres. Overall marketing expenses for the year have reduced by \$424,722 or 40% due to the reductions in print advertising costs and call enter commissions. These have been slightly offset with an increase in online spending and business services commissions.

Development & technical support expenses decreased by \$45,710 or 39% quarter to quarter as a result of lower staffing levels. The lower salaries also drove the twelve months decrease of \$48,813 or 11%.

Amortization expenses increased by \$984 or 2% compared to the same period last year. The increase of \$39,980 or 35% for the year was mainly driven by the acquisition of Business Services customer lists during the second quarter of 2013 and is being amortized over the expected life of three years.

Acquisition transactions costs are costs incurred in the year by the Company as a result of the G3 acquisition that closed subsequent to year-end. These costs are expensed as they were incurred in the fourth quarter and are not capitalized as part of the transaction.

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

EBITDA, Adjusted EBITDA and Operating Income

EBITDA for the three months ended December 31, 2013 decreased to \$1,045 from \$128,493 and Adjusted EBITDA to \$150,075 after considering the transaction costs related to the G3 acquisition. Operating income decreased to a loss of \$44,651 in the fourth quarter of 2013 driven by costs related to the G3 acquisition.

EBITDA for the twelve months increased to \$277,306 from \$191,649 and Adjusted EBITDA to \$426,336 from \$191,649. Operating income increased to \$108,015 from \$73,550 relative to the same period last year based on the changes in revenue and expenses discussed above.

DEFINITIONS - ADDITIONAL GAAP MEASURES AND NON-GAAP MEASURES

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

Operating Income (Loss)

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

EBITDA

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

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

	For the quarters ended December 31			
	2013	2012	+/-	%
Net income (loss)	\$(44,651)	\$84,179	\$(128,830)	(153%)
Interest costs	1,239	841	398	47%
Income taxes	-	-	-	-
Depreciation and amortization	44,457	43,473	984	2%
EBITDA	<u>\$1,045</u>	<u>\$128,493</u>	<u>\$(127,448)</u>	<u>(99%)</u>

	For the twelve months ended December 30			
	2013	2012	+/-	%
Net income (loss)	\$89,122	\$44,449	\$44,673	101%
Interest costs	34,237	33,233	1,004	3%
Income taxes	-	-	-	-
Depreciation and amortization	153,947	113,967	39,980	35%
EBITDA	<u>\$277,306</u>	<u>\$191,649</u>	<u>\$85,657</u>	<u>45%</u>

Adjusted EBITDA

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

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

	For the quarters ended December 31			
	2013	2012	+/-	%
Net income (loss)	\$(44,651)	\$84,179	\$(128,830)	(153%)
Interest costs	1,239	841	398	47%
Income taxes	-	-	-	-
Amortization	44,457	43,473	984	2%
Acquisition transaction costs	149,030	-	149,030	-
EBITDA	<u>\$150,075</u>	<u>\$128,493</u>	<u>\$21,582</u>	<u>17%</u>

	For the twelve months ended December 30			
	2013	2012	+/-	%
Net income (loss)	\$89,122	\$44,449	\$44,673	101%
Interest costs	34,237	113,967	(79,730)	(70%)
Income taxes	-	-	-	-
Amortization	153,947	33,233	120,714	363%
Acquisition transaction costs	149,030	-	149,030	-
EBITDA	<u>\$426,336</u>	<u>\$191,649</u>	<u>\$234,687</u>	<u>122%</u>

QUARTERLY RESULTS SUMMARY

The following table sets forth certain unaudited consolidated statements of operation information for the most recent quarter of operations ending December 31, 2013 as well as historical periods. The operating results for any quarter are not necessarily indicative of results for any future period:

Summary of results (\$000's)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	2,006	2,135	2,149	2,031	2,094	2,095	2,386	2,449
Telecommunication costs	1,164	1,233	1,177	1,210	1,180	1,111	1,290	1,422
Gross margin	842	902	972	821	914	984	1,096	1,027
Gross margin as a %	42%	42%	45%	40%	44%	47%	46%	42%
Operating expenses								
General & administrative	451	535	583	514	470	553	629	668
Marketing & selling	173	146	174	152	199	244	333	294
Development & technical support	70	117	123	85	116	110	109	109
Amortization	44	44	42	24	43	24	20	26
Acquisition transaction costs	149							
	887	842	922	775	828	931	1,091	1,097
EBITDA	1	104	98	69	128	77	27	(41)
Interest expenses	1	9	11	10	1	14	(8)	27
Other income	0	0	6	2	-	-	2	1
Income (loss) before tax	(45)	51	45	38	84	39	15	(94)
Income tax (recovery)	-	-	-	-	-	-	-	-
Net income (loss)	(45)	51	45	38	84	39	15	(94)
Earnings (loss) per share	(0.002)	0.002	0.002	0.002	0.004	0.002	0.004	(0.010)

FINANCIAL CONDITION

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

(\$000's)	Dec. 31 2013	Dec. 31 2012	Changes	
Current assets				
Cash and cash equivalents	773	713	60	8.4%
Trade and other receivables, net of allowance for doubtful accounts	1,217	1,293	(76)	-5.9%
Prepaid expenses and other	79	53	26	49.1%
Non-current assets				
Property and equipment	467	502	(35)	-7.0%
Intangible assets	185	43	142	330.2%
Current liabilities				
Accounts payable and accrued liabilities	1,345	1,350	(5)	-0.4%
Provisions	20	75	(55)	-73.3%
Note payable - current	51	-	51	-
Obligations under finance lease	8	7	1	14.3%
Non-current liabilities				
Obligations under finance lease	6	9	(3)	-33.3%
Total shareholders' equity	1,290	1,162	128	11.0%

CAPITAL RESOURCES AND LIQUIDITY

Since December 31, 2012, the Company's working capital, which is defined as current assets less current liabilities, has increased by \$17,658 from \$626,770 at December 31, 2012 to \$644,428 at December 31, 2013.

Investing activities for the twelve months ended December 31, 2013 were \$261,314 and were mainly the purchase of intangible assets related to business services.

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

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

- Note Payable

On April 1, 2013, the Company completed an asset purchase whereby the Company acquired certain business services customer lists. The purchase price of \$200,000 included a cash portion of \$80,000 paid immediately and a note payable of \$120,000, repayable over eighteen months with an annual interest rate of 5%. The Company has made principal payments on the note payable of \$69,170 during 2013 and the balance of \$50,830 will be paid during fiscal 2014.

- Contractual obligations

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

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

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

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

In September 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which will expire in September 2014. During the year ended December 31, 2013, the Company recognized \$91,200 as the expense in profit or loss as part of telecommunication costs in respect to the operating lease for the switch facility (2012 - \$87,000).

During the year ended December 31, 2012, the Company entered into a carrier billing services agreement with a major national 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.

- Other leases

The Company entered into a lease in 2009 for a mailing machine, included in furniture and fixtures that will expire in 2014. As at December 31, 2013, the net carrying value of the mailing machine is \$9,279 (2012 - \$16,260). Depreciation expense relating to the leased mailing machine total \$7,011 in 2013 (2012 - \$7,011).

The Company entered into a lease in 2013 for a copier, included in furniture and fixtures that will expire in 2018. As at December 31, 2013, the net carrying value of the copier is \$5,490 (2012 - nil). Depreciation expense relating to the copier totaled \$602 in 2013 (2012 - nil).

SOURCES AND USE OF CASH

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

(\$000's except ratios)	Twelve months ended		\$Change	% Change
	December-13	December-12		
Cash provided (used) by operating activities	299	(217)	516	238%
Cash used in investing activities	(261)	(98)	(163)	(166%)
Cash used by financing activities	22	614	(592)	96%
Increase in cash	60	299	(239)	80%
Cash and cash equivalents	773	713	60	(8%)
Current assets	2,069	2,059	10	(0%)
Current liabilities	1,424	1,432	(8)	1%
Working capital	645	627	18	(3%)
Current ratio	1.5	1.4		

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

Cash provided by operating activities increased to \$299,474 and was largely attributed to the results of operations previously discussed and due to reductions in receivables from the prior year.

Cash used in investing activities increased to \$261,314 as compared to last year at \$97,995 primarily due to the purchase of Business Services assets.

Cash provided by financing activities of approximately \$22,000 was mainly due to the proceeds of the note payable related to the Business Services assets.

CAPITALIZATION

As at December 31, 2013 the Company had 24,272,083 common shares outstanding and 2,008,875 share options, which are exercisable at an average strike price of \$0.122 per share prior to April 2018.

RISKS AND UNCERTAINTIES

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

The Company's Audit Committee oversees how management monitors compliance with the Company's risk

management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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

- Competition

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

- Technology

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

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

- Reliance on systems and system failures

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

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

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

have a material adverse effect on our operating results.

- Regulatory

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

- Management team and dependence on key personnel

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

The success of the Company is heavily dependent on its management team and key personnel and on its ability to motivate, retain and attract highly skilled persons. There can be no assurance that the Company will successfully attract and retain additional qualified personnel to manage its current needs and anticipated growth. The failure to attract such qualified personnel to manage growth effectively and/or the replacement of any management team member or key personnel could have a material adverse effect on the Company's business, financial condition or results of operations. All team members are encouraged to document each of their key tasks and responsibilities as a means of mitigating this risk.

- Niche company

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

-Integration Risk

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

- Currency

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The assets, liabilities, revenues and expenses denominated in U.S. dollars

will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

On occasions, the Company makes use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at December 31, 2013 the Company did not possess foreign currency forward contracts.

- Credit

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

- Liquidity

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

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

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

- General economic conditions

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

- Dependence on service providers

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

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

The Company uses a number of key performance indicators as measurement tools, which are outlined below. The following key performance indicators are not measurements in accordance with IFRS and should not be used as an alternative to net income (loss) or any other measure of performance under IFRS.

- Gross Margin

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

- EBITDA

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

- Adjusted EBITDA

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

SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance:

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

The consolidated financial statements were approved by the board of directors and authorized for issue on April 28, 2014.

Comment [p1]: See previous comment

(b) Basis of preparation:

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

(c) Basis of consolidation:

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company where control is the power to govern the

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

(ii) Transactions eliminated on consolidation:

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

(d) Revenue:

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

(i) Retail:

(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 entering into a contract with the Company. Revenue is recognized when a customer completes a long-distance call as access and usage of the Company's network has occurred.

(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) 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.

(e) Business Services:

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

(ii) Wholesale:

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

(e) Share-based payment transactions:

Equity-settled share-based payments granted to employees and non-employees providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in note 10 to the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period of each tranche of the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

(f) Income taxes:

Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and a valuation allowance taken to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Foreign currency translation:

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

(h) Financial instruments:

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

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

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

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

The three levels of the fair value hierarchy are:

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

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation (see note 11 to the consolidated financial statements).

(j) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably,

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

(k) Property and equipment:

(i) Recognition and measurement:

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

(ii) Cost of replacements:

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

(iii) Depreciation:

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

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

Switch equipment	10 years
Telecommunication equipment	5 years
Furniture and fixtures	5 years
Computer and customer equipment	3 years
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
Acquired customer lists	3 years

(m) Leased assets:

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

(n) Impairment of assets:

The carrying 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 or cash generating unit ("CGU") is estimated in order to determine the extent of the impairment loss. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset or CGU to the recoverable amount. The recoverable amount is the asset's or CGU's value in use and is determined based on the future discounted net cash flows expected to be generated by the asset or CGU. An impairment loss is recognized whenever the carrying amount of an asset or the CGU exceeds its recoverable amount. Impairment losses are recorded in the consolidated 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 as well as the calculation of value in use requires use of assumptions;
- Stock-based compensation - In valuing stock options granted, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock;
- Provisions - Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows and the probability of the occurrence of future events; and
- Valuation of deferred income tax assets and liabilities - A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies.

(p) Cash and cash equivalents:

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

(q) Earnings (loss) per share:

The Company presents basic and diluted 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, 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 Executive Officer ("CEO") to make decisions about the allocation of resources and to assess their performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's corporate office), head office expenses, personnel costs, depreciation and amortization, finance income and finance costs, net, other income and income tax expenses.

(s) Recent accounting pronouncements:

(i) Consolidated financial statements:

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

(ii) Disclosure of interests in other entities:

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

(iii) Fair value measurement:

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

(iv) Other comprehensive income:

On January 1, 2013, the Company adopted amendments to IAS 1, Presentation of Financial Statements ("IAS 1"). The amendments require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the statement of comprehensive earnings

separately from those items that will never be recognized. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The Company has assessed the impact of these amendments and determined there is no impact on its consolidated financial statements.

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

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

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

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

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

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

(t) Recent accounting pronouncements:

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

(i) Financial instruments:

In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") and in October 2010, the IASB published amendments to IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The new standard removes the January 1,

2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

(ii) Levies:

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

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

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

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

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

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

CONTINGENT LIABILITIES

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

RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with companies, the partners or senior officers of which are directors of Telehop, in the normal course of business. Total amounts paid to these related parties, directly or indirectly, totaled \$13,499 in 2013 (2012, \$32,290) for consulting and marketing expenses.

In connection with the private placement in 2012, directors of the Company subscribed to a total of 1,020,000 units for proceeds of \$102,000. The units issued to directors had the same terms and conditions as the units issued to all other subscribers.

SUBSEQUENT EVENTS

On February 28, 2014 the Company completed the acquisition of a combination of shares and assets of G3 Telecom.

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

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

In connection with the transaction, the Company completed a concurrent private placement of \$3.0 million of unsecured, five-year debentures. The debentures will mature five years from the date of closing of the offering and will bear interest at a rate of 10% per annum, payable semi-annually in cash on June 30 and December 31 in each year, commencing on June 30, 2014, with the final payment due on the maturity date. Each debenture was priced at a 2% discount, namely at \$980 per \$1,000 of the principal amount thereof. On and after June 30, 2016, and at any time prior to the maturity date, the debentures are redeemable at the option of the Company at a price equal to \$1,000 per debenture plus accrued and unpaid interest thereon up to but excluding the date of redemption. The Company engaged Jones, Gable & Company Ltd. ("Jones Gable") to act as finder in connection with the offering and paid Jones Gable a \$195,000 fee equal to 6.5% of the gross proceeds raised from the sale of the debentures. The debentures issued pursuant to the offering will be subject to a statutory four-month-and-one-day hold period.

ADDITIONAL INFORMATION

Additional information about Telehop is available:

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