



**INTERIM CONSOLIDATED FINANCIAL STATEMENTS of
TELEHOP COMMUNICATIONS INC.
PERIODS ENDED
JUNE 30, 2016 and 2015
(UNAUDITED)**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The interim consolidated statement of financial position of Telehop Communications Inc. at June 30, 2016, the interim consolidated statements of operations and comprehensive income (loss) for the six-month period ended June 30, 2016 and June 30, 2015, and the interim consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2016 and June 30, 2015 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-16	(Audited) 31-Dec-15
Assets			
Current assets:			
Cash and cash equivalents		\$ 993,507	\$ 712,410
Trade and other receivables, net of allowance for doubtful accounts		1,167,440	1,419,204
Prepaid expenses and other		764,668	580,902
		2,925,616	2,712,516
Non-current assets:			
Property and equipment	4	718,746	818,805
Intangible assets	3, 5	1,177,057	2,021,330
Goodwill	3, 5	1,368,000	1,368,000
		3,263,803	4,208,135
		\$ 6,189,419	\$ 6,920,651
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 1,202,199	\$ 1,748,796
Income taxes payable		102,530	102,530
Provisions		11,910	7,000
Deferred revenue		1,172,336	1,248,020
Obligations under finance lease - current		5,554	5,355
		2,494,529	3,111,701
Non-current liabilities:			
Obligations under finance lease		10,745	13,572
Deferred income tax liability		59,261	59,261
Debentures	6	2,847,266	2,818,630
		2,917,272	2,891,463
		5,411,801	6,003,164
Shareholders' equity:			
Share capital	7 (a)	3,279,265	3,279,265
Warrants	7 (e)	185,625	185,625
Options reserve	7 (d)	378,554	373,035
Deficit		(3,065,825)	(2,920,438)
		777,618	917,487
Commitments	10		
Contingencies	11		
		\$ 6,189,419	\$ 6,920,651

See accompanying notes to interim consolidated 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, 2016 and 2015
(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Revenue	12	\$ 3,764,994	\$ 4,758,702	\$ 7,785,915	\$ 9,515,772
Telecommunications costs		2,303,139	2,984,941	4,834,482	5,863,461
Gross profit		1,461,855	1,773,761	2,951,433	3,652,311
Operating expenses					
General and administrative		\$ 933,757	\$ 940,631	1,881,956	1,963,517
Marketing and selling		256,152	520,534	525,264	1,067,006
Development and technical support		163,981	175,713	310,880	354,296
Depreciation and amortization	4, 5	107,971	174,099	236,639	348,340
		1,461,861	1,810,977	2,954,740	3,733,159
Operating income (loss)		(5)	(37,216)	(3,307)	(80,848)
Finance costs, net		(83,954)	(97,764)	(173,006)	(195,661)
Other income (loss)		254	(221)	924	6,061
Gain on disposal of assets		30,000	-	30,000	-
		(53,699)	(97,985)	(142,082)	(189,600)
Loss before income taxes		(53,704)	(135,201)	(145,388)	(270,448)
Income tax expense (recovery)		-	-	-	-
Net loss		(53,704)	(135,201)	(145,388)	(270,448)
Other comprehensive income		-	-	-	-
Comprehensive loss		\$ (53,704)	\$ (135,201)	\$ (145,388)	(270,448)
Loss per share:					
Basic and diluted	8	\$ (0.002)	\$ (0.004)	\$ (0.005)	\$ (0.008)

See accompanying notes to interim consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Changes in Shareholders' equity
(In Canadian Dollars)

Six months ended June 30, 2016 and 2015
(Unaudited)

	Share capital	Options reserve	Warrants	Deficit	Total
Balance, December 31, 2014	\$ 3,279,265	\$ 343,886	\$ 185,625	\$ (1,961,293)	\$ 1,847,483
Net loss	-	-	-	(270,448)	(270,448)
Stock-based compensation (note 7(d))	-	18,052	-	-	18,052
Balance, June 30, 2015	3,279,265	361,938	185,625	(2,231,741)	1,595,087
Balance, December 31, 2015	3,279,265	373,035	185,625	(2,920,438)	917,487
Net loss	-	-	-	(145,388)	(145,388)
Stock-based compensation (note 7(d))	-	5,519	-	-	5,519
Balance, June 30, 2016	\$ 3,279,265	\$ 378,554	\$ 185,625	\$ (3,065,825)	\$ 777,617

See accompanying notes to interim consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Cash Flows
(In Canadian Dollars)

Six months ended June 30, 2016 and 2015
(Unaudited)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (145,388)	\$ (270,448)
Adjustment for non-cash items:		
Depreciation and amortization	236,639	348,340
Finance income and finance costs, net	173,006	195,661
Stock-based compensation	5,519	18,052
Gain on sale of assets	(30,000)	-
	239,776	291,605
Change in non-cash operating working capital:		
Trade and other receivables	251,764	316,736
Prepaid expenses and other current assets	(183,767)	267,229
Accounts payable, accrued liabilities and provisions	(541,684)	(527,344)
Deferred revenue	(75,684)	109,468
	(309,595)	457,694
Financing activities:		
Principal payments on note payable	-	(480,596)
Payments of obligations under finance lease	(2,629)	-
Financing of capital equipment lease	-	7,240
Finance income and finance costs paid/received, net	(144,370)	(167,023)
	(146,999)	(640,379)
Investing activities:		
Acquisition of property and equipment	(1,527)	(20,853)
Acquisition of intangible assets	(40,782)	-
Proceeds on disposal of assets	780,000	-
	737,691	(20,853)
Increase (decrease) in cash and cash equivalents	281,097	(203,538)
Cash and cash equivalents, beginning of period	712,410	1,767,302
Cash and cash equivalents, end of period	\$ 993,507	\$ 1,563,764
Non-cash financing and investing activities:		
Non-cash additions to property and equipment	\$ -	\$ -

See accompanying notes to interim consolidated financial statements.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements
Three and six months ended June 30, 2016 and 2015
(Unaudited)

1. Nature of business:

Telehop Communications Inc. (the "Company") is 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 iRoam Mobile Solutions Ltd. 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:

These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and the accounting policies we have adopted in accordance with International Financial Reporting Standards (IFRS). These unaudited interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the Company's financial position as at June 30, 2016 and the Company's financial performance, comprehensive income and cash flows for the three and six months ended June 30, 2016.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2015.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on August 30, 2016.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(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 collected and services have been performed as described below.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

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.

The Company has two operating segments – retail and wireless 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, wholesale, and wireless services 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, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(d) Telehop Business Services:

The Company offers hosted PBX (Private Branch Exchange) business services that target small 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.

(e) 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.

(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.

(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 9.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(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, 2016 and 2015
(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, 2016 and 2015
(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 twelve 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, 2016 and 2015
(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, 2016 and 2015
(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 lives of intangible assets for the current and comparative periods is as follows:

Software	5 years
Website development	5 years
Customer lists	3 years

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

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. Indefinite life intangible assets include wireless spectrum licenses, trademarks, and FCC licenses and registration. 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, 2016 and 2015
(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, 2016 and 2015
(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, 2016 and 2015
(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) Loss per share:

The Company presents basic and diluted loss per share data for its common shares. Basic 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 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"), being the chief operating decision marker ("CODM"), 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, 2016 and 2015
(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) 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, 2018 and allow early adoption. The Company does not intend to adopt this standard early and are currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(ii) IFRS 9, Financial Instruments:

In July 2014, the IASB issued this standard which replaces IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, and allows earlier adoption. The standard introduces a new model for the classification and measurement of financial assets, a single expected credit loss model for the measurement of the impairment of financial assets, and a new model for hedge accounting that is aligned with a company's risk management activities. The Company does not intend to adopt this standard early and is 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, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(iii) IFRS 16 Leases:

In January 2016, the IASB issued this standard, which brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases and requires all leases, including operating and financing to be reported on a company's balance sheet. IFRS 16 supersedes IAS 17, Leases, and related interpretations and is effective for periods beginning on or after January 1, 2019, which earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers, has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the anticipated impact on 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 was 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.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

3. Business Acquisition (continued):

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 provided for the cancellation of 5,000,000 common shares issued to the vendors in the event that the FCC failed 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. The FCC licences were successfully transferred to the Company and the shares held in trust were released from escrow.

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
	<u>4,924,855</u>
Liabilities assumed:	
Accounts payable	930,914
Deferred revenue	967,941
Deferred income taxes	355,000
	<u>2,253,855</u>
Goodwill	1,440,000
Total Consideration	<u>\$4,111,000</u>

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

3. Business Acquisition (continued):

As of November 19, 2015 the Company had entered into a purchase agreement to sell a non-strategically essential wireless spectrum license to a third party wireless carrier. The transaction is pending Industry Canada regulatory approval.

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.

(a) Pro-forma disclosure:

The G3 Telecom acquisition contributed revenue and net loss of \$9,214,014 and \$683,861, respectively, during the year ended December 31, 2014. If the acquisition had occurred on January 1, 2014, management estimates that consolidated revenue would have been \$18,966,000 and consolidated net loss for the year ended December 31, 2014 would have been \$646,000 as compared to the amounts reported in the consolidated statement of operations and comprehensive income for the same period. In determine these amounts, management has assumed that the fair values of the net assets acquired that were the acquisitions had occurred on January 1, 2014. The net loss from acquisition includes the associated amortization of acquired intangible assets recognized as if the acquisition had occurred on January 1, 2014.

(b) Tax-deductible goodwill:

Goodwill in the amount of \$746,000 is expected to be deductible for income tax purposes.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)

Three and six months ended June 30, 2016 and 2015

(Unaudited)

4. Property and equipment:

	Switch equipment	Telecom equipment	Furniture and fixtures	Computer and customer equipment	Leasehold improvements	Total
Cost						
Balance, December 31, 2014	\$ 941,524	\$ 1,074,677	\$ 161,789	\$ 433,831	\$ 117,662	\$ 2,729,483
Additions	-	1,875	-	21,159	-	23,034
Dispositions	-	(440,143)	(40,274)	-	(80,382)	(560,799)
Balance, December 31, 2015	941,524	636,409	121,515	454,990	37,280	2,191,718
Additions	-	-	-	1,527	-	1,527
Dispositions	-	-	-	-	-	-
Balance, June 30, 2016	\$ 941,524	\$ 636,409	\$ 121,515	\$ 456,517	\$ 37,280	\$ 2,193,245
Accumulated Amortization						
Balance, December 31, 2014	\$ 193,620	\$ 995,168	\$ 114,256	\$ 302,890	\$ 86,594	\$ 1,692,528
Depreciation	90,181	34,061	15,542	93,943	7,456	241,183
Dispositions	-	(440,142)	(40,274)	-	(80,382)	(560,798)
Balance, December 31, 2015	283,801	589,087	89,524	396,833	13,668	1,372,913
Depreciation	47,076	12,184	5,144	33,454	3,728	101,586
Dispositions	-	-	-	-	-	-
Balance, June 30, 2016	\$ 330,877	\$ 601,271	\$ 94,668	\$ 430,287	\$ 17,396	\$ 1,474,499
Carrying amount						
As at December 31, 2014	\$ 747,904	\$ 79,509	\$ 47,533	\$ 130,941	\$ 31,068	\$ 1,036,955
As at December 31, 2015	657,723	47,322	31,991	58,157	23,612	818,805
As at June 30, 2016	610,647	35,138	26,847	26,230	19,884	718,746

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)

Three and six months ended June 30, 2016 and 2015

(Unaudited)

5. Intangible assets and goodwill:

		Intangible Assets						
	Goodwill	Wireless spectrum licenses	Trademarks	FCC licenses and registration	Customer lists	Website development	Software	Total
Cost								
Balance, December 31, 2014	\$ 1,440,000	\$ 1,000,000	\$ 750,000	\$ 50,000	\$ 1,265,000	\$ 30,101	\$ 390,780	\$ 4,925,881
Additions	-	-	-	-	-	-	4,719	4,719
Adjustment due to earnout	-	-	-	-	(100,000)	-	-	(100,000)
Balance, December 31, 2015	1,440,000	1,000,000	750,000	50,000	1,165,000	30,101	395,499	4,830,600
Additions	-	-	-	-	40,500	-	281	40,781
Dispositions	-	(750,000)	-	-	-	-	-	(750,000)
Balance, June 30, 2016	\$ 1,440,000	\$ 250,000	\$ 750,000	\$ 50,000	\$ 1,205,500	\$ 30,101	\$ 395,780	\$ 4,121,381
Accumulated Amortization								
Balance, December 31, 2014	\$ -	\$ -	\$ -	\$ -	\$ 385,000	\$ 28,817	\$ 334,516	\$ 748,333
Amortization	-	-	-	-	421,667	1,284	24,486	447,437
Impairment charge	72,000	-	37,500	-	131,000	-	5,000	245,500
Balance, December 31, 2015	72,000	-	37,500	-	937,667	30,101	364,002	1,441,270
Amortization	-	-	-	-	117,194	-	17,860	135,054
Balance, June 30, 2016	\$ 72,000	\$ -	\$ 37,500	\$ -	\$ 1,054,861	\$ 30,101	\$ 381,862	\$ 1,576,324

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

6. Debentures payable:

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 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.

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, 2016, the Company recorded \$28,637 (2015 - \$28,637) of amortization of these transaction costs in finance costs.

7. 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:

	30-Jun-16		31-Dec-15	
	Number of Shares	Amount	Number of Shares	Amount
Shares issued and outstanding, beginning of year	32,272,083	\$ 3,279,265	32,272,083	\$ 3,279,265
Share issuance	-	-	-	-
Shares issued and outstanding, end of period	32,272,083	3,279,265	32,272,083	3,279,265

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

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

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.

(b) Issuance of common shares:

On February 28, 2014 the Company completed the acquisition of G3 Telecom (note 3) and as part of the acquisition issued 8,000,000 common shares of the Company at a value of \$0.12 per common share, for a total of \$960,000.

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 11 (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, 2016, directors and senior employees held 1,810,375 (2015 - 2,252,875) options of the Company, with variable expiration dates from 2015 to 2020. 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-16	31-Dec-15
Balance, beginning of year	\$ 373,035	\$ 343,886
Stock-based compensation expense	5,519	29,149
Balance, end of period	\$ 378,554	\$ 373,035

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, 2016 and 2015
(Unaudited)

7. 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. These warrants expired unexercised on February 1, 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 ten 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	-
Risk-free interest rate	1.10%

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
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8. Loss per share:

Three months ending June 30	2016	2015
Loss for the period	\$ (53,704)	\$ (135,201)
Basic and diluted - loss per share	(0.002)	(0.004)

Six months ending June 30	2016	2015
Loss for the period	\$ (145,388)	\$ (270,448)
Basic and diluted - loss per share	(0.005)	(0.008)

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	2016	2015
Shares outstanding, beginning of year	32,272,083	32,272,083
Share issuance	-	-
Weighted average number of shares, end of period	32,272,083	32,272,083

At June 30, 2016 and 2015, 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.

9. 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.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

9. Share-based payment transactions (continued):

As at June 30, 2016, there are 1,810,375 options outstanding and the Company can issue 1,416,833 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, 2016:

Option series	Number of options	Grant date	Expiry date	Exercise price	Per option fair value at grant date
1	500,000	January 1, 2012	January 1, 2017	0.10	0.07
2	223,875	March 21, 2012	March 21, 2017	0.10	0.07
3	125,000	August 27, 2012	August 27, 2017	0.12	0.11
4	160,000	April 4, 2013	April 4, 2018	0.10	0.10
5	300,000	February 27, 2014	February 27, 2019	0.12	0.10
6	151,500	September 30, 2014	September 30, 2019	0.15	0.11
7	150,000	November 25, 2014	November 25, 2019	0.15	0.11
8	150,000	April 24, 2015	April 15, 2020	0.15	0.07
9	50,000	May 29, 2015	May 29, 2020	0.10	0.05
Total	1,810,375				

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.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)

Three and six months ended June 30, 2016 and 2015

(Unaudited)

9. Share-based payment transactions (continued):

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:

Option Series	1	2	3	4	5	6	7	8	9
Grant date share price	\$ 0.08	\$ 0.08	\$ 0.12	\$ 0.08	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.10	\$ 0.09
Exercise price	\$ 0.10	\$ 0.10	\$ 0.12	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.10
Expected volatility	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
Dividend yield	-	-	-	-	-	-	-	-	-
Risk-free interest rate	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:

	30-Jun-16		31-Dec-15	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,252,875	\$ 0.119	2,352,875	\$ 0.123
Granted	-	0.138	200,000	0.138
Canceled	(442,500)	0.170	(300,000)	0.170
Options outstanding, end of period	1,810,375	0.119	2,252,875	0.119
Options exercisable, end of period	1,643,208	\$ 0.116	1,870,208	\$ 0.116

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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(Unaudited)

9. Share-based payment transactions (continued):

The following table summarizes information regarding stock options outstanding as at June 30, 2016:

Exercise price	Options outstanding		Options exercisable	
	Number of options	Weighted average life in years	Number of options	Weighted average exercise price
\$0.10	933,875	1.99	1,102,042	\$ 0.10
\$0.12	425,000	2.47	425,000	0.12
\$0.15	451,500	3.73	251,000	0.15
	1,810,375	2.37	1,778,042	\$ 0.12

10. 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:

2016	\$ 147,061
2017	253,082
2018	260,055
2019	113,088

The Company leases its corporate office that expires in June 2019. During the six month period ended June 30, 2016, the Company recognized \$80,300 as an expense in profit or loss as part of general and administrative cost in respect to this operating lease (2015 - \$74,400).

In December 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which expired in October 2015. During the six month period ended June 30, 2016, 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 (2015 - \$45,600). The Company also assumed additional switch facility space as part of the acquisition of G3 Telecom (note 3). The term for this leased space is from March 2014 to February 2019. The Company recognized \$72,700 in expense for the six month period ended June 30, 2016 (2015 - \$69,800).

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

10. Commitments (continued):

Carrier billing services agreement

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. As of December 31, 2015, there is a shortfall of \$6,568,920 to the obligation for the initial two year term, of which 35% totaling \$2,299,122 is owed by the Company to the Telco (the "Shortfall Charge"). The Company and the Telco commenced negotiations to amend the terms of the agreement and subsequent to year end have agreed to a settlement. The Telco has agreed to release the Company from any Shortfall Charge in exchange for the transfer of certain wireless spectrum from the Company to the Telco. The transfer of the wireless spectrum is subject to regulatory approval. In the event that the wireless spectrum transfer is not approved by the regulatory authorities, the Shortfall Charge would continue to be an outstanding obligation of the Company.

The Company has recorded a charge and related liability of \$250,000 at and for the year ended December 31, 2015, which is equal to the carrying value of the wireless spectrum to be transferred to the Telco. This amount represents the consideration the Company will transfer to the Telco in exchange for the release from the Shortfall Charge related to the carrier billing service agreement.

11. Contingencies:

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

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

12. Operating segments:

The Company has two reportable segments based on the customers it serves, retail and wireless sales. 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, internet services and prepaid calling cards services, including bulk minutes to resellers.
- Wireless - includes sales to customers for long distance roaming Subscriber Identification Modules (SIMs), machine-to-machine, data services, and third party solutions

Segments were amended in 2015 as the previously disclosed Wholesale segment has been aggregated with the Retail segment due to a change in how the CODM assesses performance and allocates resources. The prior period has been adjusted to reflect this change

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

	Segment revenue		Segment profit	
	2016	2015	2016	2015
Retail	\$ 3,444,732	\$ 3,728,925	\$ 1,333,750	\$ 1,361,850
Wireless	320,262	1,029,777	128,105	411,911
	<u>\$ 3,764,994</u>	<u>\$ 4,758,702</u>	1,461,855	1,773,761
Operating expenses			(1,328,889)	(1,636,878)
Other expenses, net			(161,670)	(272,083)
Loss before income taxes			\$ (28,704)	\$ (135,201)

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

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

	Segment revenue		Segment profit	
	2016	2015	2016	2015
Retail	\$ 7,011,741	\$ 7,415,786	\$ 2,641,764	\$ 2,812,317
Wireless	774,174	2,099,985	309,670	839,994
	<u>\$ 7,785,915</u>	<u>\$ 9,515,772</u>	2,951,433	3,652,311
Operating expenses			(2,657,778)	(3,384,819)
Other expenses, net			(414,043)	(537,940)
Loss before income taxes			\$ (120,388)	\$ (270,448)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2015 - nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. Segment profit represents the profit earned by each segment after telecommunication costs, both fixed and variable, without allocation of operating expenses, depreciation and amortization, acquisition transaction costs, impairment charges, 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 2016 and 2015.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
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(Unaudited)

12. Operating segments (continued):

(c) Segment assets and liabilities:

	30-Jun-16	31-Dec-15
Segment assets:		
Retail	\$ 5,261,006	\$ 5,058,834
Wireless	928,413	1,861,817
Total segment assets	\$ 6,189,419	\$ 6,920,651
Segment liabilities:		
Retail	\$ 4,600,031	\$ 5,312,218
Wireless	811,770	690,946
Total segment liabilities	\$ 5,411,801	\$ 6,003,164

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.

13. 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 G3 Telecom is entitled to 5% of gross wireless sales for thirty-six months after the closing date of February 28, 2014. For the six month period ending June 30, 2016, the total royalty expense was \$29,710 (2015 - \$86,663). Approximately \$154,000 of the outstanding royalty balance was paid as at June 30, 2016. The outstanding royalty balance owed to the Director as at June 30, 2016 is \$3,453 (2015 – \$33,701).

The Company rents its head office space from a company owned by a Director of the Company and the vendor of G3 Telecom, the rental expense paid in the six month period ending June 30, 2016 was \$80,300 (2015 - \$74,400).

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements (continued)
Three and six months ended June 30, 2016 and 2015
(Unaudited)

13. Related party transactions and balances (continued):

Key management personnel compensation:

	30-Jun-16	31-Dec-15
Wages, salaries and other benefits	\$ 204,231	\$ 373,046
Canada Pension Plan, employment insurance and other remittances	6,999	7,154
Share-based compensation	4,074	21,462
	<u>\$ 215,303</u>	<u>\$ 401,662</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 six months. Upon resignation at the Company's request, they are entitled to certain termination benefits, either cash or a percentage of gross salary.

Directors received compensation for their services as directors of the Company. Additionally, the directors are able to participate in the Company's share option program. Outside of directors' fees, certain directors or companies affiliated with these directors also participated in transactions with the Company for consulting and related services and received amounts totaling \$8,117 (2015 - \$2,152), which is the amount agreed to by the parties.