

Consolidated Financial Statements
[Expressed in U.S. Dollars]

Tellza Communications Inc.
March 31, 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of Tellza Communications Inc. were prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. The most significant of these accounting principles have been disclosed in the notes to the unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements. The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders. These unaudited interim consolidated financial statements were authorized for issuance by the Board on April 25, 2016. Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

Under National Instrument 51-102 "Continuous Disclosure Requirements", Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements for the period ended March 31, 2016, in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[amounts in thousands of U.S. dollars]

As at	March 31, 2016 \$	December 31, 2015 \$
ASSETS		
Current		
Cash and cash equivalents	1,358	1,425
Accounts receivable, net	36,274	36,792
Prepaid expenses and deposits	2,255	2,239
Total current assets	39,887	40,456
Deferred tax assets	403	403
Non Controlling Investment	650	—
Property and equipment, net	1,787	1,856
Intangible assets, net	3,033	3,232
Goodwill	10,569	10,569
Discontinued operations	795	905
	57,124	57,421
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	11,657	12,854
Accrued liabilities	25,033	24,457
Customer deposits	445	368
Income taxes payable	752	755
Discontinued operations	785	830
Total current liabilities	38,672	39,264
Deferred tax liabilities	706	616
Total liabilities	39,378	39,880
Commitments and contingencies		
Shareholders' equity		
Common shares	15,393	15,393
Contributed surplus	2,690	2,690
Deficit	(579)	(736)
Equity attributable to shareholders	17,504	17,347
Non-controlling interest	242	194
Total shareholders' equity	17,746	17,541
	57,124	57,421

See accompanying notes

On behalf of the Board:

Gary Clifford, CPA, CA
Executive Chairman

Salil Munjal
Director and Audit Committee Chair

Tellza Communications Inc.

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

[amounts in thousands of U.S. dollars]

For the three months ended March 31,	2016	2015
	\$	\$
Revenue	92,101	58,762
Cost of revenue	89,460	57,036
Gross margin	2,641	1,726
Operating expenses	1,922	1,328
Income before undernoted:	719	398
Depreciation of property and equipment	124	123
Amortization of intangible assets	200	296
Interest and debt costs	27	17
	351	436
Income before income taxes	368	(38)
Provision for income taxes		
Current	—	—
Deferred	90	(30)
	90	(30)
Net income and comprehensive income from continuing operations	278	(8)
Discontinued operations	(73)	(33)
Net income and comprehensive income	205	(41)
Net income and comprehensive income attributable to		
Shareholders	157	(69)
Non-controlling interests	48	28
	205	(41)
Earnings per share attributable to shareholders		
- basic and diluted continuing and discontinued operations	-	-
Weighted average number of common shares outstanding		
- basic and diluted	168,610,600	177,414,614

See accompanying notes

Tellza Communications Inc.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

[amounts in thousands of U.S. dollars]

For the three months ended, March 31,

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Net and comprehensive income for the year	205	(41)
Add items not affecting cash		
Depreciation of property and equipment	124	123
Amortization of intangible assets	200	296
Minority interest	48	28
Deferred income taxes	90	(30)
Discontinued operations	109	109
	776	485
Changes in non-cash working capital balances related to operations		
Accounts receivable, net	517	(1,708)
Prepaid expenses and deposits	(16)	(50)
Accounts payable and accrued liabilities	(669)	(4,517)
Income taxes payable	(3)	(7)
Customer deposit	77	(14)
Discontinued operations	(45)	(20)
	(139)	(6,316)
Cash (used in) provided by operating activities	637	(5,831)
INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets	(54)	(566)
Cash (used) in acquisition	(650)	—
Cash used in investing activities	(704)	(566)
FINANCING ACTIVITIES		
Share issuance cost	—	—
Payment to minority partner	—	—
Share redemption	—	—
Borrowing/(Repayment) of bank indebtedness	—	1,304
Cash provided by (used on) financing activities	—	1,304
Net (use of) increase in cash during the period	(67)	(5,093)
Cash and cash equivalents, beginning of period	1,425	6,486
Cash and cash equivalents, end of period	1,358	1,393

See accompanying notes

Tellza Communications Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[amounts in thousands of U.S. dollars, except share information]

	Common shares #	Common shares \$	Contributed surplus \$	Deficit \$	Non- Controlling interest \$	Total \$
Balance, as at December 31, 2014	177,414,614	16,197	2,547	(1,019)	151	17,876
Net and comprehensive loss for the period	—	—	—	(59)	28	(31)
Balance, as at March 31, 2015	177,414,614	16,197	2,547	(1,078)	179	17,845
Net and comprehensive income for the period	—	—	—	196	22	218
Distribution to minority shareholder	—	—	—	—	(18)	(18)
Balance, as at June 30, 2015	177,414,614	16,197	2,547	(882)	183	18,045
Net and comprehensive income for the period	—	—	—	(157)	(7)	(164)
Balance, as at September 30, 2015	177,414,614	16,197	2,547	(1,039)	176	17,881
Repurchase and cancellation of common shares	(8,804,014)	(804)	143	—	—	(661)
Net and comprehensive income for the period	—	—	—	303	18	321
Balance, as at December 31, 2015	168,610,600	15,393	2,690	(736)	194	17,541
Net and comprehensive income for the period	—	—	—	157	48	205
Balance, as at March 31, 2016	168,610,600	15,393	2,690	(579)	242	17,746

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

1. REPORTING ENTITY

Tellza Communications Inc. [“Tellza” or the “Company”] is focused on telecommunications, technology and investments. Tellza is a public company listed on the Toronto Stock Exchange. The Company is incorporated under the *Ontario Business Corporations Act* and its common shares are listed on the Toronto Stock Exchange under the symbol TEL. The Company’s registered office is located at 1250 E. Hallandale Blvd, Ste. PH1, Hallandale, Florida, United States, 33009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by International Accounting Standards Board [“IASB”]. The Company has consistently applied the same accounting policies throughout the periods presented.

These unaudited consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 26, 2016.

Significant accounting policies

Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Key areas of estimation include the allowance for doubtful accounts and vendor and customer disputes, estimated useful lives of property and equipment and intangible assets, amount and composition of deferred tax assets, fair value of intangible assets and goodwill, fair value of stock-based compensation and provisions.

On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company’s business and new information as it becomes available.

The following are areas of estimate and judgments that have the most significant effect on amounts reported in these consolidated financial statements:

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

[i] Allowance for doubtful accounts and vendor and customer disputes

In estimating the provisions for allowance for doubtful accounts and vendor and customer disputes, the Company considers general and industry economic and market conditions. In addition, with respect to allowance for doubtful accounts, the Company also takes into consideration available customer credit information and the aging of the account. With respect to vendor and customer disputes, the Company primarily takes into consideration historical experience.

[ii] Estimated useful lives of property and equipment and intangible assets

The determination as to the estimated useful lives of depreciable assets, method of depreciation, the asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.

[iii] Deferred tax assets

The recognition of deferred tax assets to the extent it is probable that they will be realized requires significant judgment and assumption as to management's expectation of the Company's future income and the ability to implement certain tax planning opportunities in order to realize the benefit of deferred tax assets. Management expects the Company to realize its deferred tax assets through future income.

[iv] Fair value of intangible assets and goodwill

The determination as to the existence and measurement of any impairment requires management to make significant estimates and assumptions, which include future cash flows, discount rates and estimated useful life. These significant estimates and judgments could impact the Company's future results if the current estimates of future performance and fair values change, affect the amount of amortization expense and any impairment charges on intangible assets in future periods.

[v] Stock-based compensation

In estimating the fair value of stock-based compensation, the Company uses the Black-Scholes option pricing model. Significant assumptions used in the underlying measurement of fair value using the Black-Scholes option pricing model include the expected life of the option, expected volatility of the underlying share, risk-free interest rate and expected forfeiture rate.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

[vi] Provisions

Considerable judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations, that may require a liability to be recognized. Significant judgments include assessing future cash flows, selection of discount rates and the probability of the occurrence of future events.

Basis of consolidation

The unaudited consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at March 31, 2016.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Control is achieved when the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee, if and only, if the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions have been eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The Company's subsidiaries are as follows:

Tellza Inc. (100% owned)
Phonetime US Inc. (100% owned)
Matchcom Telecommunications Inc. (90% owned)
Tellza Investments Inc. (100% owned)

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, either in profit or loss. If the contingent consideration is classified as equity, it is not re-measured until it is finally settled within equity.

Non-Control Investments

Non-Control Investments, where the Company does not exercise significant influence, are accounted for at historical cost. Where significant influence is present in a Non-Control Investment, such investment will be accounted for using the Equity method of accounting, wherein the Company adjusts the carrying value of the asset to include its portion of the profits and losses from the date of acquisition.

At March 31, 2016, the Company owned 9.9% of Merkez Faktoring A.S., the Company accounts for this investment at cost.

Foreign currency translation

The U.S. dollar is the functional currency of the Company. Each of the Company's subsidiaries determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date and revenue and expenses at average rates during the year. Gains or losses on translation are included as a component of shareholders' equity. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

Foreign currency denominated monetary assets and liabilities of the Company and its subsidiaries are translated using the closing rate and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenue and expenses are translated at the average rates during the year. Gains or losses on translation of these items are included in income. Gains or losses on transactions that hedge these items are also included in income. Foreign currency denominated non-monetary assets and liabilities, measured at historical cost, are translated at the rate of exchange at the date of the transaction.

Revenue recognition

Revenue from customers is recognized as minutes are consumed and collection is reasonably assured. Billings to customers occurs based upon contracted intervals. Unbilled and billed accounts receivable are recorded at their estimated collectible amounts. The Company recognizes revenue from the unused balance of prepaid services once expired in accordance with the terms and conditions of the sale with the customer.

Revenue is recognized from the licensing of platform software and related support services in accordance with the licensing agreement with the customer.

Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

Deferred income taxes are provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates [and tax laws] that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are netted, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Share-based payment transactions

Employees [including senior executives] of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments [“equity-settled transactions”].

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received [or to be received] are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This amount is then capitalized or expensed as appropriate.

Equity-settled transactions

The cost of equity-settled transactions with employees for awards is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The statement of operations expense or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which is treated

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified or if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a pricing model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with original maturities of less than three months at the date of purchase.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term projects if the recognition criteria are met. Repair and maintenance costs are recognized in the statement of operations as incurred.

Depreciation is provided using the straight-line method over their estimated useful lives as follows:

Furniture and fixtures	2 – 4 years
Computer and telecommunications equipment	4 – 7 years
Leasehold improvements	Term of the lease

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset] is included in the statement of operations when the asset is derecognized.

The residual values, useful lives and methods of depreciation for each asset are reviewed at each reporting period, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is recorded at its estimated fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are reflected in the income statement in the period in which the expenditure is incurred.

Intangible assets consist of customer relationships acquired in acquisitions and computer software and technology assets. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Customer relationships	3 – 7 years
Brand	7 years
Computer software and technology assets	3 – 10 years

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the cash generating unit level [“CGU”], as appropriate, and when circumstances indicate that the carrying value may be impaired.

Software development costs

The Company is engaged in software development activities. Expenditures on development activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in profit or loss as incurred. Development costs are recognized in profit or loss as incurred, unless the costs can be measured reliably, the product or process is technically feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development and to use or sell the intangible asset. The Company believes its current expenditures do not meet the requirements for deferral.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use and is determined for an

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Management has determined that the Company has one CGU.

Impairment losses from continuing operations are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations.

Goodwill

Goodwill represents the excess purchase price paid on acquisitions over the fair value assigned to identifiable net assets, including identifiable intangible assets. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The group of CGUs is not larger than the level at which management monitors goodwill.

Goodwill is tested for impairment annually December 31, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed the

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

New standards, amendments and interpretations adopted by the Company

The Company adopted for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Although these new standards applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Company. The nature and the impact of each new standard is described below:

i. IFRS 3, Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Company's current accounting policy and, thus, this amendment did not impact the Company's accounting policy.

ii. IFRS 8, Operating Segments

The amendments are applied retrospectively and clarify that:

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Company has not applied the aggregation criteria in IFRS 8.12 as management has determined that the Company has one operating segment within the long distance telecommunication services to other telecommunications providers. Revenues by geographical region are presented in the note disclosures.

iii. IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Company during the current period.

iv. IAS 24, Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

i. IFRS 3, Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

The Company is not a joint arrangement, and thus this amendment is not relevant for the Company and its subsidiaries.

ii. IFRS 13, Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

3. NON-CONTROLLING INVESTMENT

On March 18, 2016 the Company exchanged amounts owed valued at \$650 for a 9.9% ownership of Merkez Faktoring A.G. (“Merkez”). The Company also signed an option agreement allowing Tellza to increase its ownership by 30% which expires on or before December 31, 2016. The Company does not exercise significant influence over Merkez, as such the investment has been accounted for at cost.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

4. PROPERTY AND EQUIPMENT

	Furniture and fixtures \$	2016 Computer and telecommunications equipment \$	Total \$
Cost			
Balance, beginning of year	54	5,354	5,408
Additions	-	54	54
Balance, end of period	54	5,408	5,462
Accumulated depreciation			
Balance, beginning of year	33	3,519	3,552
Depreciation	2	122	124
Balance, end of period	35	3,641	3,676
Net book value	19	1,767	1,786

	Furniture and fixtures \$	2015 Computer and telecommunications equipment \$	Total \$
Cost			
Balance, beginning of year	48	4,554	4,602
Additions	6	800	806
Balance, end of period	54	5,354	5,408
Accumulated depreciation			
Balance, beginning of year	21	3,126	3,147
Depreciation	12	393	405
Balance, end of period	33	3,519	3,552
Net book value	21	1,835	1,856

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

5. INTANGIBLE ASSETS

	2016			
	Customer relationships	Computer software and technology assets	Brand	Total
	\$	\$	\$	\$
Cost				
Balance, beginning of year	3,129	3,639	147	6,915
Additions	—	—	—	—
Balance, end of period	3,129	3,639	147	6,915
Accumulated amortization				
Balance, beginning of year	2,276	1,376	30	3,682
Amortization	56	123	21	200
Balance, end of period	2,332	1,499	51	3,882
Net book value	797	2,140	96	3,033

	2015			
	Customer relationships	Computer software and technology assets	Brand	Total
	\$	\$	\$	\$
Cost				
Balance, beginning of year	3,129	3,635	147	6,911
Additions	—	4	—	4
Balance, end of period	3,129	3,639	147	6,915
Accumulated amortization				
Balance, beginning of year	2,248	951	9	3,208
Amortization	28	425	21	474
Balance, end of period	2,276	1,376	30	3,682
Net book value	853	2,263	117	3,233

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

6. GOODWILL

	\$
Balance, as at December 31, 2014	11,485
2015 Impairment	(916)
Balance, as at December 31, 2015 and March 31, 2016	10,569

The Company performed its annual impairment test as at December 31. The recoverable amount of the CGU unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering five years. Cash flows beyond the budgeted period have been extrapolated.

Key assumptions used in estimating the value in use were the growth rates attributed to revenue, gross margin percentage, expense growth rates and the discount rate.

Growth rates – Given the nature of the industry, the Company did not attribute any growth in revenue and maintained gross margin percentage at levels experienced in recent years. Expense projections reflect a moderate costs savings that the Company expects to realize based on past restructuring activities.

Discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying asset that have not been incorporated in the cash flow estimates. The pre-tax discount rate applied to the cash flow projection was 22%. As a result of the analysis performed, management recognized \$916 of impairment in 2015.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

7. DISCONTINUED OPERATIONS

The Company has made the decision to dispose of Tel3 asset. As such the asset has been classified as a discontinued operations in the Company's financial statements as at March 31, 2016.

Tel3 Financial results

Three months ended March 31,

	<u>2016</u>	<u>2015</u>
Revenue	\$ 642	\$ 875
Cost of sales	\$ 463	\$ 537
Gross Margin	\$ 179	\$ 338
Operation Expenses	\$ 143	\$ 262
Operating Income	\$ 36	\$ 76
Amortization of intangibles	\$ 109	\$ 109
Loss attributable to discontinued operations	\$ (73)	\$ (33)

8. LINE OF CREDIT

The Company has a revolving demand facility with a major Canadian financial institution. This facility has a first priority position over all of the assets of the Company. Borrowings under this facility may not exceed the lesser of CDN\$6,500 and 75% of billed U.S. and Canadian accounts receivable, 65% of non-U.S. and non-Canadian accounts and 90% of billed receivables that have been insured by the Export Development Corporation. Interest is set at the bank's prime plus 2.75%. The demand facility has no fixed maturity date. The Company has drawn nil under this facility at March 31, 2016 (December 2015 – nil).

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

9. SHAREHOLDERS' EQUITY

[a] Share capital

The Company's authorized share capital consists of an unlimited number of common shares, an unlimited number of special shares and 500,000 redeemable, voting, Series A special shares. The Company's common shares, special shares and redeemable, voting, Series A special shares have no par value.

A continuity of the Company's share capital, comprised of common shares, is as follows:

	#	\$
Balance, as at December 31, 2014	177,414,614	16,197
Redemption of common shares [i]	(8,804,014)	(804)
Balance, as at December 31, 2015 and March 31, 2016	168,610,600	15,393

[i] During 2015, the Company redeemed 8,804,014 common shares for \$661. Share capital was reduced by \$804 reflecting the average cost of the common stock pool and the difference between the purchase price and the average cost of the common stock pool was added to contributed surplus \$143.

[b] Stock option plan

The Company has a stock option plan under which the maximum aggregate number of shares which may be granted shall not exceed 18,600,000 subject to adjustment pursuant to changes in the share capital of the Company. Options granted vest over a period not to exceed three years. There are no stock options outstanding as at March 31, 2016.

[c] Net earnings per share

In the first quarter of 2016, the Company reported a net income of \$205 [2015 – (\$41)]. Basic earnings per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. No dilutive instruments are outstanding as at March 31, 2016.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

[d] Weighted-average number of shares outstanding

As at March 31, 2016, the Company had 168,610,600 [December 2014 – 177,414,614] shares outstanding. The weighted-average number of shares outstanding is greater than the amount of outstanding shares due to the purchase and cancellation of 8,804,014 common shares.

10. RELATED PARTY TRANSACTIONS

The Company has two customers/vendors with respect to which certain shareholders of Tellza are considered to be related parties. In addition, the Company retains consulting services of a shareholder for annual consideration of \$150 [2015 – \$150]. During the first quarter of 2016, sales to these related parties totaled \$4 [2015 – \$nil] and purchases totaled \$nil [2015 – \$nil]. As at March 31, 2016, the receivables from these related parties totaled \$880 [2015 – 190] and payables were \$nil [2015 – nil].

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to future minimum annual operating lease payments as follows:

	\$
2016	360
2017	450
2018	362
2019	95
2020 and thereafter	—
	<u>1,267</u>

Contingencies

During the ordinary course of business activities, the Company may be contingently liable for litigation and a party to claims. Management believes that adequate provisions have been made in the accounts where required.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for directors and officers of the Company and its subsidiaries.

Tellza Communications Inc.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[amounts in thousands of U.S. dollars, except per share amounts and as otherwise noted]

March 31, 2016

12. SEGMENT DISCLOSURES

Management has determined that the Company has one operating segment within the long distance telecommunication services to other telecommunications providers.

The following table presents the Company's revenue, on a geographical basis:

	2016	2015
	%	%
Canada	14	14
United States	45	45
Rest of world	41	41
	100	100

The following table presents the Company's long-lived assets on a geographical basis:

	2016	2015
	\$	\$
United States		14,733
Rest of the World		1,835
		16,568

13. SUBSEQUENT EVENTS

On April 11, 2016 the Company acquired 33% of Rightway Holdings LLC ("Rightway") for \$5.5 Million. \$2.0 Million of the purchase price is a direct investment into Rightway to expand its working capital. The balance of the purchase price of \$3.5 Million is pursuant to a five year debt note, inclusive of interest of 1.8%. The debt note has a first security interest over Tellza's investment in Rightway and has no further recourse. The debt note is repayable from Tellza's 33% portion of profits of Rightway till fully paid. Tellza's ownership shall be reduced to 10%, if Tellza fails to deliver the full \$2.0 Million due within 120 days of closing. Tellza's ownership will expand to 43%, if for any reason, Rightway fails to earn a cumulative \$15.2 Million in profit between 2016 to 2018. This transaction does not have an impact on the current period's financial statements.

14. COMPARATIVE FIGURES

Certain comparative figures have been conformed to the current period presentation.