

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

Tellza Communications Inc.

June 30, 2017

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 July 21, 2017. 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 June 30, 2017, 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	June 30, 2,017 \$	December 31, 2016 \$
ASSETS		
Current		
Cash and cash equivalents	1,443	1,240
Marketable Securities	680	390
Accounts receivable, net	72,123	68,860
Prepaid expenses and deposits	2,889	3,885
Total current assets	77,135	74,375
Deferred tax assets	558	558
Property and equipment, net	1,616	1,797
Investment in Portfolio Companies	4,520	4,665
Intangible assets, net	2,224	2,517
Goodwill	9,501	9,501
	95,554	93,413
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Line of credit	2,209	2,300
Accounts payable	28,461	15,434
Accrued liabilities	43,019	53,582
Customer deposits	394	1,307
Income taxes payable	988	1,206
Total current liabilities	75,071	73,829
Deferred tax liabilities	855	558
Non-recourse debt of subsidiary	1,956	2,152
Total liabilities	77,882	76,539
Commitments and contingencies		
Shareholders' equity		
Common shares	14,624	14,624
Contributed surplus	2,731	2,731
Deficit	93	(754)
Equity attributable to shareholders	17,448	16,601
Non-controlling interest	224	273
Total shareholders' equity	17,672	16,874
	95,554	93,413

See accompanying notes

On behalf of the Board:
Huseyin Kizanlikli
Chairman

Jonathan Martin
Director, Audit Committee Chair

Tellza Communications Inc.

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

[amounts in thousands of U.S. dollars]

	Three Months		Six Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
For the three and six months ended June 30,				
Revenue	168,162	109,752	385,252	202,495
Cost of revenue	166,182	107,886	381,056	198,774
Gross margin	1,980	1,866	4,196	3,721
Operating expenses	1,371	1,350	2,596	2,700
Income before undernoted:	609	516	1,600	1,021
Depreciation of property and equipment	125	127	255	251
Amortization of intangible assets	156	130	312	330
Share of profit of associate	- 215	- 37	432	- 37
Amortization of intangible assets - Associate	73	90	145	90
Imputed interest on non recourse debt of subsidiary	116	43	237	43
Interest and debt costs	38	42	65	69
Gain on the sale of Tel 3 and Accounts Receivables	- -	1,093	- -	1,093
Unrealized (Gain)/Loss on mark to market of Securities	-	1,000	170	1,000
	293	302	412	653
Income before income taxes	316	214	1,188	368
Provision for income taxes				
Current				
Deferred	-	50	250	150
	-	50	250	150
Net income and comprehensive income	316	164	938	218
Net income and comprehensive income attributable to:				
Shareholders	288	116	847	145
Non-controlling interests	28	48	91	73
	316	164	938	218
Earnings per share attributable to shareholders				
- basic and diluted	0.03	0.01	0.08	0.01
Weighted average number of common shares outstanding				
- basic and diluted	10,678,387	11,240,707	10,678,387	11,240,707

See accompanying notes

Tellza Communications Inc.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

[amounts in thousands of U.S. dollars]

For the Three and Six months ended June 30,

	2017	2016	2017	2016
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net and comprehensive income attributable to shareholders for the period	288	116	847	145
Add items not affecting cash				
Depreciation of property and equipment	125	127	255	251
Amortization of intangible assets	156	130	312	330
Amortization of Associate	73	90	145	90
Imputed interest on non-recourse debt of subsidiary	116	43	237	43
Gain on sale of assets	—	(1,093)	—	(1,093)
Unrealized revaluation (Gain)Loss on marketable securities	—	1,000	(170)	1,000
Deferred income taxes	—	50	250	150
	<u>758</u>	<u>463</u>	<u>1,876</u>	<u>916</u>
Changes in non-cash working capital balances				
related to operations				
Accounts receivable, net	20,568	(6,055)	(3,264)	(5,536)
Prepaid expenses and deposits	(99)	160	1,095	146
Accounts payable and accrued liabilities	(23,817)	7,405	1,951	7,088
Income taxes payable	(218)	(38)	(218)	(41)
Customer deposit	166	(657)	(913)	(658)
	<u>(3,400)</u>	<u>815</u>	<u>(1,349)</u>	<u>999</u>
Cash (used in) provided by operating activities	<u>(2,643)</u>	<u>1,278</u>	<u>527</u>	<u>1,915</u>
INVESTING ACTIVITIES				
Purchase of property and equipment and intangible assets	(56)	(7)	(93)	(61)
Acquisition of non-current financial asset	—	—	—	(650)
Investment in associate, net of non-recourse note payable	—	(2,000)	—	(2,000)
Distribution from associate	215	140	413	140
Cash used in investing activities	<u>159</u>	<u>(1,867)</u>	<u>320</u>	<u>(2,571)</u>
FINANCING ACTIVITIES				
Payment of non-recourse debt of subsidiary	(215)	(140)	(413)	(140)
Payment to minority partner	(140)	(61)	(140)	(61)
Borrowing/(Repayment) of bank indebtedness	2,209	1,045	(91)	1,045
Cash provided by (used on) financing activities	<u>1,855</u>	<u>844</u>	<u>(644)</u>	<u>844</u>
Net (use of) increase in cash during the period	(630)	255	203	188
Cash and cash equivalents, beginning of period	2,072	1,358	1,240	1,425
Cash and cash equivalents, end of period	<u>1,443</u>	<u>1,613</u>	<u>1,443</u>	<u>1,613</u>

See accompanying notes

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UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common shares #	Common shares \$	Contributed surplus \$	Retained Earnings \$	Non- Controlling interest \$	Total \$
Balance, as at December 31, 2016	10,678,387	14,624	2,731	(754)	273	16,874
Net and comprehensive income for the period	—	—	—	559	63	622
Balance, as at March 31, 2017	10,678,387	14,624	2,731	(195)	336	17,496
Payment to minority partners	—	—	—	—	(140)	(140)
Repurchase and cancellation of common shares	—	—	—	—	—	—
Net and comprehensive income for the period	—	—	—	288	28	316
Balance, as at June 30, 2017	10,678,387	14,624	2,731	93	224	17,672
Balance, as at December 31, 2015	11,240,387	15,393	2,690	(736)	194	17,541
Net and comprehensive income for the period	—	—	—	29	25	54
Balance, as at March 31, 2016	11,240,387	15,393	2,690	(707)	219	17,595
Payment to minority partners	—	—	—	—	(63)	(63)
Repurchase and cancellation of common shares	—	—	—	—	—	—
Net and comprehensive income for the period	—	—	—	116	48	164
Balance, as at June 30, 2016	11,240,387	15,393	2,690	(591)	204	17,696

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NOTES TO UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

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

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1. REPORTING ENTITY

Tellza Communications Inc. [“Tellza” or the “Company”] is focused on telecommunications, technology and support services for financial institutions. 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 Beach, Florida, United States, 33009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These 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 year presented. These consolidated financial statements are presented in U.S. dollars and have been prepared on a historical cost basis unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on July 21, 2017.

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, associate investments, intangible assets, fair value of investments, embedded derivatives, valuation of deferred tax assets, intangible assets and goodwill, fair value of stock-based compensation and the recognition and valuation of 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.

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

[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 requires significant judgment.

[iii] Fair value of investments and embedded derivatives

Available for sale investments are marked to market, reflecting management's best estimate of fair value each reporting date. Changes in value are accounted for profit or loss.

In estimating the fair value of embedded derivatives, 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.

[iv] Deferred tax assets

The recognition and valuation of deferred tax assets requires significant judgment 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.

[v] 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 of operations if the current estimates of future

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performance and recoverable amount change, affecting thereby the amount of amortization expense and any impairment charges in future periods.

[vi] 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.

[vii] Investment in associate

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company accounts for investments in associates and joint ventures using the equity method.

[viii] 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 consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2017.

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

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- 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 Inc. (100% owned)
Phonetime US Inc. (100% owned)
Matchcom Telecommunications Inc. (90% owned)
Matchcom Communications LLC (90% owned)
Tellza Investments Inc. (100% owned)
Tellza Holdings LLC (100% owned)

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.

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Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Company's share of the results of operations of the associate. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate is prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as 'Share of profit of an associate' in the statement of profit or loss.

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.

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

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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

Telecom revenue

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. Revenue represents gross revenue net of service credits and service adjustments. Bad debts are recorded as a portion of operating expenses.

Licensing revenue

Revenue is recognized from the licensing of platform software and related support services on a monthly basis in accordance with the licensing agreement term, when a reasonable expectation of recovery is assured.

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.

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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 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.

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.

Marketable securities

Marketable securities include shares of a public company and is held as an available for sale investment with changes in fair value recognized through profit or loss.

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:

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

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 software 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:

Relationships	7 years
Brand	7 years
Computer software and technology assets	3 – 10 years

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

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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 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 companies 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 an operating segment and 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.

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Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 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.

Financial instruments

Financial assets within the scope of IAS 39 - Financial Instruments: recognition and measurement are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or available-for-sale ("AFS"), as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial instruments classified at fair value through profit or loss and financial assets classified as AFS are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

Financial assets at fair value through profit and loss are measured at fair value as at the consolidated statements of financial position dates with all realized and unrealized gains and losses resulting from the change in fair value included in the consolidated statements of income. These include marketable securities and cash and cash equivalents.

Accounts receivable and other assets have been classified as loans and receivables, which are initially recognized at fair value plus transaction costs. They are subsequently measured at

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amortized cost using the effective interest rate method less any impairment. Receivables are reduced by provisions for estimated bad debts which are determined by reference to past experience and expectations. Accounts payable and accrued liabilities, line of credit and other interest-bearing debt including non-recourse debt of investee are accounted for on an amortized cost basis using the effective interest rate method.

Derivatives are initially presented at their fair value on the date the derivative contract is entered into and are carried at fair value with changes arising from the revaluation included in profit or loss unless the Company has elected to apply hedge accounting by designating the derivative as a hedging instrument in an eligible cash flow hedging relationship.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 - Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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 recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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Pending accounting changes

IFRS 9 – Financial Instruments: Classification and Measurement

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, which reflects all phases of the financial instrument project and replaces IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which replaces IAS 18 — Revenue and covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 16 – Leases

On January 13, 2016, the IASB published a new standard, IFRS 16 – Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases onto the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019 and is to be applied retrospectively. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

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3. MARKETABLE SECURITIES

On May 26, 2016, the Company disposed of certain assets of the Company in exchange for 13,000,000 shares of a US publicly traded company, Next Group Holdings Inc. (US OTC: NXGH) and a call option to acquire an additional 4,000,000 shares for a nominal consideration, subject to certain stock prices following closing. The shares were subject to a six-month holding period together with other restrictions following closing. The estimated fair value of the consideration received on the date of disposal was \$2,210 based on the observable trading price of the shares which has been designated as a Level 1 input, which resulted in the Company recording in 2016 a Gain on sale of \$1,093. Following closing, the value of the restricted securities held declined and the Company recorded a mark to market revaluation adjustment of \$1,782 in its 2016 statement of operations. In January 2017, the Company exercised its call option rights and acquired an additional 4,000,000 shares bringing its ownership to 17,000,000 shares. In addition, the value of the securities increased in 2017 and the Company recorded a Q1 – 2017 \$180 mark to market revaluation adjustment.

4. INVESTMENTS IN ASSOCIATE

[a] Investment in Merkez Faktoring A.S. (“Merkez”)

On March 18, 2016, the Company converted a \$650 convertible note to acquire 9.9% of Merkez. The investment is recognized as a financial asset measured at cost, which approximates fair value on date of conversion. There have been no substantial changes in the underlying business of Merkez from the date of conversion to December 31, 2016 that would indicate an impairment. Merkez is based in Turkey and acquires receivables from business enterprises at a discount and sells the acquired receivables to other financial institutions at a different discount rate creating an income stream. The Company also holds an additional convertible note in the amount of \$650 issued by a party associated with Merkez.

[b] Investment in Rightway Funding LLC (“Rightway”)

On April 13, 2016, the Company acquired 33% of Rightway for \$5,500. The Company’s investment in Rightway is accounted for in the consolidated financial statements using the equity method. Rightway is a Florida based private entity that is involved in structured settlement payments.

The purchase price was \$2,000 in cash within 120 days of closing and the issuance of a non-recourse note in favour of the existing owners for \$3,500. The Company has recorded the notes payable at a 22% discount rate reflecting the credit risk of the counter party. Over the term of the notes, the Company will accrete interest in its statement of operations in respect of the discounted notes. The notes will be settled by Tellza’s portion of distributions from Rightway,

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which Tellza has assigned for the benefit of the note holders. For the year ended December 31, 2016, Rightway made distributions of \$1,464 of which \$484 (33%) has been for the benefit of Tellza which under assignment has reduced the amount owed to the note holders. In 2017, Rightway made distributions of \$1,250 of which \$400 (33%) has been for the benefit of Tellza which under assignment has reduced the amount owed to the note holders. Since its investment in Rightway, Rightway has made total distributions of \$2.7 million to all shareholders, of which \$848 is in favour of Tellza.

Through the purchase agreement, the Company also acquired an embedded derivative instrument with the note holders. Pursuant to the purchase agreement, the note holders have agreed to provide Tellza with an additional 10% ownership in Rightway should Rightway fail to achieve \$15,250 in profits between calendar 2016 and 2018. The embedded derivative is a financial asset measured at fair value. Upon initial recognition of the investment, the fair value of the embedded derivative was estimated at \$1,280. The financial asset is marked to market in each financial reporting period, and as at December 31, 2016 and June 30, 2017 the fair value of the financial asset has not changed given the lack of change in the underlying conditions, so no mark to market adjustment has been made by the Company in its statement of operations.

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5. PROPERTY AND EQUIPMENT

	Furniture and fixtures \$	2017 Computer and telecommunications equipment \$	Total \$
Cost			
Balance, beginning of year	40	5,788	5,828
Additions	-	74	74
Balance, end of period 2017	<u>40</u>	<u>5,862</u>	<u>5,902</u>
Accumulated depreciation			
Balance, beginning of year	35	3,996	4,031
Depreciation	5	250	250
Balance, end of period 2017	<u>40</u>	<u>4,246</u>	<u>4,296</u>
Net book value	<u>-</u>	<u>1,616</u>	<u>1,616</u>

	Furniture and fixtures \$	2016 Computer and telecommunications equipment \$	Total \$
Cost			
Balance, beginning of year	54	5,354	5,408
Additions	2	469	471
Disposals	(16)	(35)	(51)
Balance, end of period 2016	<u>40</u>	<u>5,788</u>	<u>5,828</u>
Accumulated depreciation			
Balance, beginning of year	33	3,519	3,552
Disposals	(11)	(23)	(34)
Depreciation	13	500	513
Balance, end of period 2016	<u>35</u>	<u>3,996</u>	<u>4,031</u>
Net book value	<u>5</u>	<u>1,792</u>	<u>1,797</u>

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6. INTANGIBLE ASSETS

	2017			
	Relationships	Computer software and technology assets	Brand	Total
	\$	\$	\$	\$
Cost				
Balance, beginning of year	3,129	3,642	147	6,918
Additions	—	20	—	19
Balance, end of period 2016	<u>3,129</u>	<u>3,662</u>	<u>147</u>	<u>6,938</u>
Accumulated amortization				
Balance, beginning of year	2,703	1,659	39	4,401
Amortization	77	203	33	313
Balance, end of period 2016	<u>2,780</u>	<u>1,862</u>	<u>72</u>	<u>4,714</u>
Net book value	<u>349</u>	<u>1,800</u>	<u>75</u>	<u>2,224</u>
	2016			
	Relationships	Computer software and technology assets	Brand	Total
	\$	\$	\$	\$
Cost				
Balance, beginning of year	4,629	3,639	613	8,881
Additions	—	3	—	3
Disposals	(1,500)	—	(466)	(1,966)
Balance, end of period 2016	<u>3,129</u>	<u>3,642</u>	<u>147</u>	<u>6,918</u>
Accumulated amortization				
Balance, beginning of year	3,169	1,376	199	4,744
Disposals	(1,209)	—	(190)	(1,399)
Amortization	743	283	30	1,056
Balance, end of period 2016	<u>2,703</u>	<u>1,659</u>	<u>39</u>	<u>4,401</u>
Net book value	<u>426</u>	<u>1,983</u>	<u>108</u>	<u>2,517</u>

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7. GOODWILL

	\$
Balance, as at December 31, 2014	11,485
2015 Impairment	(916)
Balance, as at December 31, 2015	10,569
Allocation of goodwill to disposal unit <i>[note 3]</i>	(1,068)
Balance, as at December 31, 2016 and June 30, 2017	9,501

The Company performed its annual impairment test as at December 31. The Company has determined that the goodwill impairment test should be performed at the overall company level. The Company applied a fair value less costs to sell approach using the market capitalization of the Company and considering a reasonable control premium and compared this to the carrying value of the Company. As a result of the analysis performed, the Company determined there is no goodwill impairment as at December 31, 2016.

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\$7,500 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 an approved credit insurance company. Interest is set at the bank's prime plus 2.75%. The demand facility has no fixed maturity date. The Company has drawn \$2,209 under this facility at June 30, 2017. (December 2016 - \$2,300).

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.

During 2016, the Company consolidated its outstanding common shares on a 1:15 basis thereby reducing its outstanding number of shares from 168,610,600 to 11,240,387. All share information has been presented as if the consolidation of shares had occurred on the earliest reporting date.

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

	#	\$
Balance, as at December 31, 2014	11,827,321	16,197
Redemption of common shares [i]	(586,934)	(804)
Balance, as at December 31, 2015	11,240,387	15,393
Redemption of common shares [ii]	(562,000)	(769)
Balance, as at December 31, 2016 and June 30, 2017	10,678,387	14,624

[i] During 2015, the Company redeemed 586,934 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.

[ii] During 2016, the Company redeemed 562,000 common shares for \$728. Share capital was reduced by \$769 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 \$41.

[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 1,240,000 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 June 30, 2017 [December 2016 – nil].

[c] Net earnings per share

In Q2-YTD 2017, the Company reported a net income of \$938 [2016 – \$218]. 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 were outstanding as at June 30, 2017.

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[d] Weighted-average number of shares outstanding

As at June 30, 2017, the Company had 10,678,387 [December 2015 – 11,240,387] shares outstanding. The weighted-average number of shares outstanding is greater than the amount of outstanding shares due to the purchase and cancellation of 562,000 common shares during 2016. The weighted-average number of shares outstanding in 2016 is greater than the amount of outstanding shares due to purchase and cancellation of 586,934 common shares during 2015.

10. RELATED PARTY TRANSACTIONS

The Company has two customers/vendors with respect to which certain shareholders of Tellza are considered to be related parties by way of common share ownership. In addition, the Company retains consulting services of a shareholder for annual consideration of \$150 [2016 – \$150]. During 2017, sales to these related parties totaled \$600 [2016 – \$50] and purchases totaled \$nil [2016 – nil]. As at June 30, 2017, the receivables from these related parties totaled \$152 [2016 – \$30] and payables were nil [2016 – nil]. The Company also has a deposit with an organization associated with the Company of \$400.

11. COMMITMENTS AND CONTINGENCIES

Commitments

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

	\$
2017	180
2018	362
2019	95
2020 and thereafter	—
	<u>637</u>

Q2 YTD 2017, the Company has expensed \$106 (2016 - \$120) related to the operating leases.

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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.

12. FINANCIAL INSTRUMENTS – RISKS AND UNCERTAINTIES

The Company has designated the following classifications for its financial assets and financial liabilities:

Financial assets:

- Cash and cash equivalents are classified as held-for-trading. Interest income is earned on cash balances. The Company's cash and cash equivalents consist of bank balances at major financial institutions in Canada and the United States.
- Marketable securities are classified as fair value through profit and loss.
- Accounts receivable are classified as loans and receivables, which are measured at amortized cost, using the effective interest rate method.
- Included in associate investments, the embedded derivative is not designated as a hedging instrument and is measured at fair value.
- Included in prepaids and other assets is a call option as further discussed in note 3.

Financial liabilities:

- Accounts payables and accrued liabilities and other financial liabilities, including bank indebtedness and other interest bearing debt including non-recourse debt of investee and capital leases, if any, are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method.

Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within the following fair

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value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7, *Financial Instruments — Disclosures*. The fair value hierarchy also requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value of cash and cash equivalents is based on quoted market values. The fair value of accounts receivable, accounts payable and accrued liabilities and customer deposits, as presented in the consolidated statement of financial position, approximates their carrying amounts due to their short-term maturities. The fair value of the Company's non-current investments in Merkez is not readily determinable as the company is an early stage private company, accordingly the investment is carried at cost and will be adjusted for any impairments. For the year ended December 31, 2016, no indicators of impairments were identified. The Company's equity interest in the OTC shares are carried at fair value based on quoted market price. The Company's option to acquire additional Rightway shares is fair valued by assessing the Company's ability to realize on this option relative the underlying operating results of Rightway.

Line of credit and other interest bearing debt, including non-recourse debt of investee are carried at amortized cost using the effective interest rate method. The fair values of these financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments as at the consolidated statement of financial position dates.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchanges rates, long distance rates and interest rates, will affect the Company's income or the value of financial instruments. The Company's exposure to changes in foreign exchange rates is mitigated as the Company primarily transacts in U.S. dollars, which is the Company's functional and reporting currency. The Company's market risk management objective is to control market risk exposures within acceptable limits while maximizing returns.

Risk management related to financial instruments

The primary financial risks that the Company is exposed to and the main actions taken to manage them are as follows:

[a] Credit risk

The Company's exposure to credit risk primarily arises from the possibility that its customers may fail to meet their obligations. The Company has credit evaluation, approval and monitoring processes, which mitigates these potential credit risks. The Company continually evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will

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be collected. A specific allowance is recorded against customer receivables that are considered to be impaired based upon the Company's knowledge of the financial condition of its customers. The failure of a significant customer could have a material adverse effect on the Company.

In estimating the provisions for vendor and customer disputes, the Company considers facts and circumstances in conjunction with market conditions and historical experience with each vendor and customer.

[b] Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk related to its credit facility agreement, which is tied to the lending bank's prime lending rate. The Company has not hedged its exposure to fluctuations in the interest rates which could have an effect on the Company's cash flows.

[c] Currency risk

The Company is primarily exposed to the Euro and Canadian dollar. The Company currently does not use financial instruments to hedge these positions. The Company acquires foreign currency in the spot market to meet obligations as they become due.

[d] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's ability to meet its obligation is contingent upon its ability to generate operating income, obtain vendor and bank financing and the collection of its receivables on a timely basis. The Company manages its liquidity risk by the management of cash flows from the termination of long distance minutes.

[e] Economic dependence

The Company has approximately 400 customers. In 2016, the Company's top 40 customers accounted for approximately 81% [2015 — 84%] of total revenue. Accordingly, a loss of any single customer could have a disproportionate effect on our revenue and results of operation. In 2016, one customer accounted for approximately 12% of the revenue [2015 — 11%].

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13. SEGMENT DISCLOSURES

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

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

	2017 %	2016 %
Canada	14	14
United States	45	45
Rest of world	41	41
	<u>100</u>	<u>100</u>

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

	2016 \$	2016 \$
Canada	1,200	1,392
United States	16,010	16,438
Rest of world	650	650
	<u>17,860</u>	<u>18,480</u>

14. COMPARATIVE FIGURES

Comparative figures have been modified to conform to the current presentation.