

CONSOLIDATED FINANCIAL STATEMENTS OF
ADYA INC.
YEARS ENDED
DECEMBER 31, 2017 AND 2016

Independent Auditors' Report

To the Shareholders of Adya Inc.:

We have audited the accompanying consolidated financial statements of Adya Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Adya Inc. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter - Restated Comparative Information

Without modifying our opinion, we draw attention to Note 21 to the consolidated financial statements, which explains that the consolidated statements as at and for the year ended December 31, 2016 have been restated from those on which we originally reported on April 19, 2017.

The consolidated statement of financial position, as at January 1, 2016, has been derived from the consolidated statement of financial position as at December 31, 2015 (not presented herein). The consolidated financial statements of Adya Inc., for the year ended December 31, 2015, prior to the restatement described in Note 21, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 29, 2016.

As part of our audit of the consolidated financial statements of the Adya Inc. for the years ended December 31, 2017 and December 31, 2016, we also audited the adjustments described in Note 21 that were applied to derive the consolidated statement of financial position, as at January 1, 2016. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated statement of financial position of Adya Inc. as at January 1, 2016 other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the consolidated statement of financial position as at January 1, 2016, taken as a whole.

MNP LLP

Toronto, Ontario
April 30, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP

Adya Inc.

Consolidated Statements of Financial Position

(In Canadian Dollars)

As at December 31, 2017 and 2016

	Note	December 31, 2017	December 31, 2016 (Restated note 21)	January 1, 2016 (Restated note 21)
Assets				
Current assets:				
Cash and cash equivalents	4	\$1,144,736	\$1,374,380	\$ 712,410
Trade and other receivables, net of allowance for doubtful accounts	5	566,613	824,028	1,419,204
Inventory		45,641	61,416	-
Prepaid expenses and other		516,523	495,769	580,902
		2,273,513	2,755,593	2,712,516
Non-current assets:				
Property and equipment	6	509,537	655,530	818,805
Intangible assets	7	43,149	59,618	2,021,330
Goodwill		-	-	1,368,000
		552,686	715,148	4,208,135
		\$2,826,199	\$3,470,741	\$6,920,651
Liabilities and Shareholders' Equity (Deficiency)				
Current liabilities:				
Accounts payable and accrued liabilities	12	\$ 869,123	\$1,218,109	\$2,061,284
Income taxes payable		313,973	194,954	102,530
Deferred revenue		829,688	912,783	1,248,020
Obligations under finance lease - current	15	6,191	5,759	5,355
		2,018,975	2,331,605	3,417,189
Non-current liabilities:				
Obligations under finance lease	15	1,648	7,813	13,572
Notes payable - long term	8(a)	400,000	400,000	-
Deferred income tax liability		-	-	59,261
Debentures	8(b)	2,183,179	2,125,904	2,818,630
		2,584,827	2,533,717	2,891,463
		4,603,802	4,865,322	6,308,652
Shareholders' equity (deficiency):				
Share capital	9(a)	4,029,265	4,029,265	3,279,265
Warrants		-	-	185,625
Contributed surplus	9(d)	621,402	566,792	373,035
Deficit		(6,428,270)	(5,990,638)	(3,225,926)
		(1,777,603)	(1,394,581)	611,999
Commitments	14			
Contingencies	17			
		\$2,826,199	\$3,470,741	\$6,920,651

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:

"RAJAN ARORA"

DIRECTOR

"RAJIV JAGOTA"

DIRECTOR

Adya Inc.

Consolidated Statements of Operations and Comprehensive Loss

(In Canadian Dollars)

Years ended December 31, 2017 and 2016

	Notes	2017	2016 (Restated note 21)
Revenue		\$10,993,472	\$14,656,263
Telecommunications costs		6,368,173	9,006,599
Gross margin		4,625,299	5,649,664
Operating expenses			
General and administrative		3,167,777	3,811,018
Marketing and selling		572,471	1,066,177
Development and technical support		638,789	651,282
Depreciation and amortization	6,7	200,426	423,765
Impairment of goodwill and intangible assets	7	-	2,130,500
Stock-based compensation	9(d)	54,610	8,132
Gain on disposal of assets		-	(30,000)
		4,634,073	8,060,874
Operating loss before finance costs and other income		(8,774)	(2,411,210)
Finance costs, net		(327,379)	(350,329)
Other income		18,183	29,990
		(309,196)	(320,339)
Loss before income taxes		(317,970)	(2,731,549)
Income tax expense	3	119,662	33,163
Net loss and comprehensive loss		\$ (437,632)	\$ (2,764,712)
Loss per share:			
Basic and diluted	10	\$ (0.009)	\$ (0.084)

See accompanying notes to the consolidated financial statements

Adya Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(In Canadian Dollars)

Years ended December 31, 2017 and 2016

	Share capital	Contributed surplus	Warrants	Deficit (Restated note 21)	Total shareholders' equity (deficiency)
Balance, January 1, 2016	\$ 3,279,265	\$ 373,035	\$ 185,625	\$ (3,225,926)	\$ 611,999
Expiry of warrants (Note 9(d))	-	185,625	(185,625)	-	-
Settlement of debt (Note 8(b))	750,000	-	-	-	750,000
Stock-based compensation (Note 9(d))	-	8,132	-	-	8,132
Net loss	-	-	-	(2,764,712)	(2,764,712)
Balance, December 31, 2016	\$ 4,029,265	\$ 566,792	\$ -	\$ (5,990,638)	\$ (1,394,581)
Stock-based compensation (Note 9(d))	-	54,610	-	-	54,610
Net loss	-	-	-	(437,632)	(437,632)
Balance, December 31, 2017	\$ 4,029,265	\$ 621,402	\$ -	\$ (6,428,270)	\$ (1,777,603)

See accompanying notes to the consolidated financial statements

Adya Inc.

Consolidated Statements of Cash Flows

(In Canadian Dollars)

Years ended December 31, 2017 and 2016

	2017	2016 (Restated note 21)
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (437,632)	\$ (2,764,712)
Adjustment for non-cash items:		
Depreciation and amortization (Note 6,7)	200,426	423,765
Finance costs, net	327,379	350,329
Stock-based compensation (Note 9(d))	54,610	8,132
Impairment of goodwill and intangible assets (Note 7)	-	2,130,500
Deferred income tax recovery (Note 3)	-	(59,261)
Gain on disposal of intangible asset	-	(30,000)
	144,783	58,753
Change in non-cash operating working capital:		
Trade and other receivables	257,415	595,176
Inventory	15,775	4,884
Prepaid expenses and other	(20,754)	18,833
Accounts payable and accrued liabilities and provisions	(348,986)	(593,176)
Income taxes payable	119,019	92,424
Deferred revenue	(83,095)	(335,237)
	84,157	(158,343)
Financing activities:		
Receipts from note payable (Note 8(a))	-	400,000
Payments of obligations under finance lease	(6,596)	(6,597)
Finance costs paid	(269,241)	(291,812)
	(275,837)	101,591
Investing activities:		
Acquisition of property and equipment (Note 6)	(3,147)	(20,778)
Acquisition of intangible assets (Note 7)	(34,817)	(40,500)
Proceeds on disposal of intangible asset (Note 7)	-	780,000
	(37,964)	718,722
Increase (decrease) in cash and cash equivalents	(229,644)	661,970
Cash and cash equivalents, beginning of year	1,374,380	712,410
Cash and cash equivalents, end of year	\$ 1,144,736	\$ 1,374,380

See accompanying notes to the consolidated financial statements

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

1. Nature of business:

Adya Inc. (the "Company") was incorporated under the laws of the Province of Ontario. The Company's registered office and its head office is located at 1039 McNicoll Ave., Toronto, Ontario. The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries International Telehop Network Systems Inc., G3 Telecom USA Inc., 179766 Ontario Inc. Telehop Agencies Inc., iRoam Mobile Solutions Ltd., Telehop Global Israel Inc., Telehop Management Inc., Telehop Rebillers Limited, The Friend Network Inc., The Friend Network Services Inc., ALO Telecom Inc., Ellora Phillipines Telecom Inc., Communications Interlink Inc., Elite Communications Inc., Telehop Carrier Services Inc., Worldhop.Com Inc., and Ten-Ten-Six-Twenty Ltd. The Company is a full service telecommunication provider and is registered with the Canadian Radio-Television and Telecommunications Commission as a licensed Class "A" Telecom Carrier.

2. Significant accounting policies:

(a) Statement of compliance:

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

The consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 30, 2018.

(b) Basis of preparation:

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as described in the accounting policies. The consolidated financial statements are prepared in Canadian dollars, which is the Company's functional currency.

(c) Basis of consolidation:

(i) Subsidiaries:

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

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(c) Basis of consolidation (continued):

(ii) Transactions eliminated on consolidation:

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

(d) Revenue:

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

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

The Company's services are packaged in different forms that include casual calling, subscriptions (equal access service, Telehop Home Phone and Telehop Business Services), prepaid calling cards, wholesale, and wireless services as follows:

(i) Casual calling:

This service allows customers to access the Company's network without the need to subscribe to a service contract or pay any direct fees. Customers can complete a long-distance call by dialing one of the Company's carrier identification codes ("CIC") owned by the Company or dialling a local access code. Revenue is recognized when a customer dials a CIC code or local access code and completes a connected long-distance call.

(ii) Subscriptions:

This service allows a customer to directly dial their long distance number, by dialing "1+" or "011+". The customer subscribes to this long distance service and is required to transfer carriers upon entering into a contract with the Company. For monthly block plans, the customer is provided a fixed number of minutes per month for a flat monthly fee, and revenue is recognized during the month of service. For per-minute

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(d) Revenue (continued):

(ii) Subscriptions (continued):

plans, customers are charged a fixed rate per minute for each call, and revenue is recognized when a customer completes a long-distance call as access and usage of the Company's network has occurred.

(iii) Home Phone:

The Company markets a VoIP (voice-over-internet-protocol) service under its Home Phone brand. This service allows a customer to place local and long-distance calls through a high-speed Internet connection allowing the customers to replace their home phone line with the Company's network for a stated monthly fee. Revenue is recognized monthly over the term of the contract.

(iv) Telehop Business Services:

The Company offers hosted PBX (Private Branch Exchange) business services that target small businesses and provide the customer with business telephone services for a stated monthly fee per line. Revenue is recognized monthly over the term of the contract and as additional services are used.

(v) Prepaid calling cards:

The Company offers prepaid long distance calling cards, where the customers dial a toll free number to make their long distance call through the Company's network. Proceeds on the sale of cards are deferred and revenue is recognized when a customer completes a connected long-distance call or at the time allotment on the card has expired.

(vi) Wholesale:

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

(vii) Wireless services:

The Company provides global cellular phone communications services, SIM cards, roaming devices and worldwide Wi-Fi roaming solutions that are sold directly and through distributors for use around the world. Revenue is recognized monthly over the term of the contract and as usage is incurred.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(e) Share-based payment transactions:

Equity-settled share-based payments granted to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 11.

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

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

(f) Income taxes:

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

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

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

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

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(g) Foreign currency translation:

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

(h) Financial instruments:

Financial assets and financial liabilities are recognized in the statement of financial position when the Company has become party to the contractual provisions of the instruments.

The Company's financial instruments primarily consist of cash and cash equivalents (classified as fair value through profit or loss ("FVTPL")), trade and other receivables (classified as loans and receivables), accounts payable and accrued liabilities (classified as other financial liabilities), notes payable (classified as other financial liabilities), finance leases (classified as other financial liabilities) and debentures (classified as other financial liabilities). The fair values of these financial instruments approximate their carrying values. Initial and subsequent measurement and recognition of changes in the value of financial instruments depend on their initial classification:

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

Fair value through profit or loss ("FVTPL") financial instruments are measured at fair value. All gains and losses are included in profit and loss for the periods in which they arise.

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

The three levels of the fair value hierarchy are:

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

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(i) Provisions:

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

(j) Employee benefits:

(i) Short-term employee benefits:

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

(ii) Termination benefits:

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

(k) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

(ii) Cost of replacements:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company,

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(k) Property and equipment (continued):

(ii) Cost of replacements (continued):

and its cost can be measured reliably. The carrying amount of the replaced part is derecognized on replacement. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its estimated residual value.

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

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

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

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

(l) Intangible assets:

(i) Recognition and measurement:

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(I) Intangible assets (continued):

(ii) Amortization:

Amortization is calculated over the cost of the asset less its estimated residual value, if any.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of intangible assets for the current and comparative periods is as follows:

Software	5 years
Website development	3 years
Customer lists	3 years

Intangible assets that are deemed to have indefinite lives and intangible assets that are not yet ready for use are not amortized; they are reviewed annually for impairment.

The Company considers that intangible assets have indefinite lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the Company. Indefinite life intangible assets include wireless spectrum licenses, trademarks, and FCC licenses and registration. The factors considered in making this determination include the existence of contractual rights for unlimited terms; or evidence that renewal of the contractual rights without significant incremental cost can be expected for indefinite future periods in view of the Company's investment intentions. The life cycles of the products and processes that depend on the asset are also considered.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(m) Leased assets:

Leases whereby the Company assumes substantially all the risks and rewards of ownership of the underlying assets are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments over the lease term. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognized in the Company's consolidated statements of financial position.

(n) Impairment of assets:

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

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

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

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(o) Use of estimates and critical judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key areas requiring judgment and estimation uncertainty include:

- Allowance for doubtful accounts - In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the earnings for the period;
- Useful lives of intangible assets and property and equipment - Management's judgment involves determining the expected useful lives of depreciable assets, to determine depreciation and amortization methods, and the asset's residual value;
- Impairment of non-financial assets - The process to determine whether there are triggering events of impairment of non-financial assets as well as the calculation of value in use requires use of assumptions such as estimates of future cash flows, discount rates and terminal growth rates;
- Stock-based compensation - In valuing stock options granted, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock;
- Provisions - Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows and the probability of the occurrence of future events;
- Valuation of deferred income tax assets and liabilities - A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Detailed estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies; and

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(o) Use of estimates and critical judgments (continued):

- Going concern - These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated revenue and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

(p) Cash and cash equivalents:

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

(q) Loss per share:

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

(r) Segment reporting:

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's corporate office), head office expenses, personnel costs, depreciation and amortization, finance income and finance costs, net, other income and income tax expenses. As at December 31, 2017 and 2016, the Company had only one reportable segment.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

2. Significant accounting policies (continued):

(s) Recent accounting pronouncements:

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

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

In May 2014, the IASB issued this standard which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allow early adoption. The Company does not intend to adopt this standard early and is currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(ii) IFRS 9, Financial Instruments:

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

(iii) IFRS 16 Leases:

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

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

3. Income Taxes:

(a) Income taxes recognized in profit or loss:

	2017	2016
Current income tax expense	\$ 119,662	\$ 92,424
Deferred income tax recovery	-	(59,261)
Total income tax expense	\$ 119,662	\$ 33,163

(b) Unrecognized deferred income tax asset:

Deferred income tax assets have not been recognized in respect of the following:

	December 31, 2017	December 31, 2016
Tax loss carried forward	\$1,266,241	\$1,129,098
Property and equipment	38,923	32,613
Intangible assets	132,318	53,998
Goodwill	49,079	49,066
Other	29,961	96,209
	\$1,516,522	\$948,481

No deferred tax assets have been recognized in respect of the above noted items as the Company does not consider it probable that future profits will be available to utilize these assets.

As at December 31, 2017, the Company has income tax losses of a non-capital nature in the amount of \$4,672,700 (2016- \$4,260,747) available to reduce taxable income in future years expiring between 2029 and 2037.

(c) Reconciliation of income tax expense:

	2017	2016
Loss before income taxes	\$ (317,970)	\$ (2,731,549)
Income taxes at statutory tax rate 26.5% (2016 - 26.5%)	(84,262)	(723,860)
Difference in foreign tax rates	(16,950)	21,008
Prior year true-up and other adjustments	36,080	103,195
Non-deductible expenses	31,170	152,378
Current year tax losses not recognized	-	358,790
Change in other temporary differences not recognized	153,624	125,777
Utilization of previously unrecognized tax losses	-	(4,125)
Total effective taxes recognized in net loss	\$ 119,662	\$ 33,163

Adya Inc.

Notes to the Consolidated Financial Statements
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4. Cash and cash equivalents:

The Company's cash and cash equivalents comprise of cash in bank as at December 31, 2017 and 2016. The Company had \$nil (2016 - \$400,000) cash held in trust as at December 31, 2017, which was included in cash and cash equivalents balance on the statement of financial position.

The Company's exposure to interest rate risk for the year ended December 31, 2017 and 2016, in respect of cash balances, was not considered significant and is disclosed in Note 13.

5. Trade and other receivables:

	December 31, 2017	December 31, 2016 (Restated note 21)
Trade and other receivables	\$ 670,918	\$ 872,388
Allowance for doubtful accounts	(104,305)	(48,360)
	<u>\$ 566,613</u>	<u>\$ 824,028</u>

(a) Trade receivables:

The average credit period for receivables is 30 days. Interest and late payment charges are charged thereafter at 2% per month on the outstanding balance.

The Company has credit evaluation, approval and monitoring processes to assess new customers' credit quality that mitigate potential credit risks. Credit limits are imposed on each customer, which are reviewed annually.

(b) Allowance for doubtful accounts:

The Company has recognized an allowance for doubtful accounts of 100% against receivables over 90 days except for certain accounts that are deemed collectible or have been collected subsequent to year end. Allowance for doubtful accounts is also recognized against current and under 90 days receivables based on account status at the end of the reporting period. The concentration of credit risk is limited due to the large and unrelated customer base serviced by the Company. Refer to Note 13.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

6. Property and equipment:

	Switch equipment	Telecom equipment	Furniture and fixtures	Computer and customer equipment	Leasehold improvements	Total
Cost						
Balance, December 31, 2015	\$ 941,524	\$ 636,409	\$ 121,515	\$ 454,990	\$ 37,280	\$ 2,191,718
Additions	-	3,541	-	17,237	-	20,778
Balance, December 31, 2016	941,524	639,950	121,515	472,227	37,280	2,212,496
Additions	-	-	-	3,147	-	3,147
Balance, December 31, 2017	\$ 941,524	\$ 639,950	\$ 121,515	\$ 475,374	\$ 37,280	\$ 2,215,643
Accumulated Depreciation						
Balance, December 31, 2015	\$ 283,801	\$ 589,087	\$ 89,524	\$ 396,833	\$ 13,668	\$ 1,372,913
Depreciation	94,153	19,428	9,702	53,312	7,458	184,053
Balance, December 31, 2016	377,954	608,515	99,226	450,145	21,126	1,556,966
Depreciation	94,152	14,638	10,287	22,607	7,456	149,140
Balance, December 31, 2017	\$ 472,106	\$ 623,153	\$ 109,513	\$ 472,752	\$ 28,582	\$ 1,706,106
Carrying amount						
As at December 31, 2016	\$ 563,570	\$ 31,435	\$ 22,289	\$ 22,082	\$ 16,154	\$ 655,530
As at December 31, 2017	\$ 469,418	\$ 16,797	\$ 12,002	\$ 2,622	\$ 8,698	\$ 509,537

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

7. Intangible assets and goodwill:

	Goodwill	Spectrum	Trademarks	Licenses	Customer	Website	Software	Total
Cost								
Balance, December 31, 2015	\$1,368,000	\$1,000,000	\$ 712,500	\$ 50,000	\$ 1,034,000	\$ 30,101	\$ 390,499	\$ 4,585,100
Additions	-	-	-	-	40,500	-	-	40,500
Dispositions	-	(1,000,000)	-	-	-	-	-	(1,000,000)
Impairment	(1,368,000)	-	(712,500)	(50,000)	-	-	-	(2,130,500)
Balance, December 31, 2016	-	-	-	-	1,074,500	30,101	390,499	1,495,100
Additions	-	-	-	-	-	-	34,817	34,817
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ 1,074,500	\$ 30,101	\$ 425,316	\$ 1,529,917
Accumulated Amortization								
Balance, December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ 806,667	\$ 30,101	\$ 359,002	\$1,195,770
Amortization	-	-	-	-	217,111	-	22,601	239,712
Balance, December 31, 2016	-	-	-	-	1,023,778	30,101	381,603	1,435,482
Amortization	-	-	-	-	37,222	-	14,064	51,286
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ 1,061,000	\$ 30,101	\$ 395,667	\$1,486,768
Carrying amount								
As at December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ 50,722	\$ -	\$ 8,896	\$ 59,618
Balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ 13,500	\$ -	\$ 29,649	\$ 43,149

During the year ended December 31, 2016, the Company sold one of its spectrum licenses for \$780,000, with a carrying value of \$750,000, resulting in a gain of \$30,000.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

7. Intangible assets and goodwill (continued):

Impairment testing:

The Company tested goodwill and indefinite life intangible assets for impairment as at December 31, 2016. When assessing whether there is impairment, the recoverable amount is determined based on value-in-use calculation. Key estimates and assumptions include:

- (a) Discounting estimated future cash flows over a period of 5 years to their present value, along with a terminal value;
- (b) The future cash flows are based on estimates and expected future operating results of the Company after considering future business plans, economic conditions and a general outlook for the industry in which the Company operates;
- (c) The pre tax discount rate of 25.4% (17.4% - after tax), which is determined based on market rates of return, debt to equity ratios and certain risk premiums, among other things; and
- (d) The terminal growth rate of nil, which is the value attributed to the Company's operations used to determine recoverable amounts.

These assumptions are subjective judgments and estimates based on the Company's experience and knowledge of the economic environment in which it operates. The impairment loss was allocated to goodwill, trademarks and licenses.

Impairment charge:

At December 31, 2016, the recoverable amount of the Company was determined to be \$522,054 as compared to the carrying value of \$2,652,554. As a result, for the year ended December 31, 2016, the Company recorded an impairment charge of \$2,130,500 against the carrying value of the allocated goodwill and indefinite life intangible assets.

The impairment charge was determined due to the discontinuance of a major roaming wireless agreement and due to an industry decline in long distance services. In addition, the Company does not expect to invest further funds into the wireless business.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

8. Notes and debentures payable:

(a) Notes payable

On December 31, 2016, the Company issued two promissory notes in the aggregate principal amount of \$400,000. The promissory notes are unsecured, bearing interest of 7.5% per annum (calculated monthly) and are due on December 31, 2020 (see Note 20).

(b) Debentures:

On February 24, 2014, the Company completed a private placement of \$3,000,000 of unsecured, five-year debentures. The debentures had a maturity date of five years from the date of closing of the offering of February 28, 2014 and bore interest at a rate of 10% per annum, payable semi-annually in cash on June 30 and December 31 in each year, commencing on June 30, 2014, with the final payment due on the maturity date.

Each debenture was priced at a 2% discount, namely at \$980 per \$1,000 of the principal amount thereof. On and after June 30, 2016, and at any time prior to the maturity date, the debentures are redeemable at the option of the Company at a price equal to \$1,000 per debenture plus accrued and unpaid interest thereon up to but excluding the date of redemption. The Company engaged Jones, Gable & Company Ltd. ("Jones Gable") to act as finder in connection with the offering and paid Jones Gable a \$195,000 fee equal to 6.5% of the gross proceeds raised from the sale of the debentures.

Total transaction costs including the discount related to the debenture offering were \$286,375 and were recorded as an offset to the carrying value of the debentures. During the year ended December 31, 2017, the Company recorded \$57,275 (2016 - \$57,274) of amortization of these transaction costs in finance costs.

Effective December 19, 2016, the Company entered into an agreement with its debenture holders to restructure the debt as follows:

- (i) The interest rate on the debentures was reduced from 10% per annum to 7.5% per annum;
- (ii) That the Company be required to pay \$150,000 of principal on December 31, 2018, and a further \$300,000 principal on December 31, 2019, and the balance of the principal outstanding on December 31, 2020;
- (iii) That any prepayment of principal other than as set out in the above paragraph be accompanied by penalty payment of 2% of the amount of principal prepaid;

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

8. Notes and debentures payable (continued):

(b) Debentures (continued):

- (iv) That the repayment of the principal by the Company be secured by a general security agreement on all of its assets, subject to postponement in favour of any prior general security agreement that may hereafter be issued by the Company in favour of the Company's institutional banker up to \$500,000;
- (v) That 25% of the principal amount of \$3,000,000, excluding accrued interest, namely \$750,000 be converted pro rata among all debenture holders into common shares of the Company at a price of \$0.05 per share, resulting in the issuance of 15 million common shares of the Company; interest shall accrue on the converted portion of the debentures to the date of conversion and be paid at such time of conversion.
- (vi) The common shares were subject to a 4 month hold period that expired on May 1, 2017.

Under IAS 39, *Financial Instruments: Recognition and Measurement*, the change in the terms of the debt instrument resulted in a modification of the original debentures as the change in the fair value of the present value of the revised cash flows, plus any fees paid, did not differ by 10% or more from the present value of the remaining cash flows of the existing debt.

The Company accounted for the partial settlement of debentures with common shares in accordance with IFRIC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, and determined that the carrying value of the portion of debentures settled is equal to the fair value of the common shares issued and therefore, no gain or loss was recorded in the statement of operations and comprehensive loss.

The carrying value of the debentures as at December 31, 2017 is \$2,183,179 (December 31, 2016 - \$2,125,904).

9. Capital and other components of equity:

(a) Share capital:

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

	December 31, 2017		December 31, 2016	
	Number of Shares	Amount	Number of Shares	Amount
Shares issued and outstanding, beginning of year	47,272,083	\$ 4,029,265	32,272,083	\$ 3,279,265
Share issuance (b)	-	-	15,000,000	750,000
Shares issued and outstanding, end of year	47,272,083	\$ 4,029,265	47,272,083	\$ 4,029,265

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

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

(a) Share capital (continued):

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Issuance of common shares:

In accordance with the restructuring of the debenture (note 8(b)) the Company issued 15,000,000 common shares valued at \$0.05 per share for a total of \$750,000.

(c) Issuance of share options:

As at December 31, 2017, directors and senior employees held 1,850,000 (2016 – 1,487,875) options of the Company, with variable expiration dates from 2018 to 2022. Share options granted under the Company's Employee Share Option Plan carry no rights to dividends and no voting rights.

(d) Contributed surplus:

	December 31, 2017	December 31, 2016
Balance, beginning of year	\$ 566,792	\$ 373,035
Stock-based compensation expense	54,610	8,132
Expiry of warrants	-	185,625
Balance, end of year	\$ 621,402	\$ 566,792

The contributed surplus comprises the impact of stock option expense, net of the impact of any related exercises and expiry of warrants.

(e) Warrants:

The following is a summary of the activity of warrants:

	December 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	-	\$ -	3,750,000	\$ 0.15
Expired February 1, 2016	-	-	(3,750,000)	(0.15)
Balance, end of year	-	\$ -	-	\$ -
Warrants exercisable, end of year	-	\$ -	-	\$ -

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

10. Loss per share:

Year ending December 31,	2017	2016 (Restated note 21)
Loss for the year	\$ (437,632)	\$ (2,764,712)
Basic and diluted - loss per share	(0.009)	(0.084)

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

Year ending December 31,	2017	2016
Shares outstanding, beginning of year	47,272,083	32,272,083
Effect of shares issued on December 19, 2016	-	532,787
Weighted average number of shares, end of year	47,272,083	32,804,870

At December 31, 2017 and 2016, there is no effect of potentially dilutive securities. All warrants and outstanding stock options were excluded from the diluted weighted average number of common shares calculation, as their effect would have been anti-dilutive. If applicable, the average market value of the Company's shares for purposes of calculating the dilutive effect of share options would be based on quoted market prices for the period during which the options were outstanding.

11. Share-based payment transactions:

Employee Share Option Plan of the Company:

The Company has a share option plan (the "2005 Plan") for directors, officers, employees and consultants under written contract of the Company and its subsidiaries, as approved by the shareholders of the Company.

In 2011, the Company adopted a new 10% rolling Incentive Stock Option Plan (the "2011 Plan"), which replaced the fixed 2005 Plan where only a maximum of 1,800,000 options could be granted. Under the 2011 Plan, the Employee Share Option Plan of the Company aggregate number of optioned shares that may be issued will not exceed 10% of the number of issued and outstanding shares of the company at the time of the granting of options.

As at December 31, 2017, there are 2,979,000 options outstanding and the Company can issue 1,748,208 additional options under the 2011 Plan.

Each employee share option converts into one ordinary common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

11. Share-based payment transactions (continued):

The Board of Directors administers the granting of all options under the 2011 Plan and has the discretion to prescribe vesting restrictions for options granted.

The following share-based payment arrangements were outstanding at December 31, 2017:

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value at grant date	Weighted average remaining life
	#			\$	\$	# of years
1	160,000	4/4/2013	4/4/2018	0.10	0.07	0.01
2	200,000	2/27/2014	2/27/2019	0.12	0.10	0.08
3	79,000	9/30/2014	9/30/2019	0.15	0.11	0.05
4	50,000	11/25/2014	11/25/2019	0.15	0.11	0.03
5	50,000	5/29/2015	5/29/2020	0.10	0.06	0.04
6	1,750,000	1/31/2017	1/31/2022	0.05	0.02	2.48
7	600,000	1/31/2017	1/31/2022	0.08	0.02	0.85
	2,979,000					3.54

The weighted average remaining life of the options is 3.54 years.

Options granted vest over a period not to exceed five years and expire 90 days after a recipient ceases to qualify as a director, officer, employee or consultant under written contract.

The fair value of share options granted were priced using the Black Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past five years. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Option Series	1	2	3	4	5	6	7
Grant date share price	\$ 0.08	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.09	\$ 0.035	\$ 0.035
Exercise price	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.15	\$ 0.10	\$ 0.05	\$ 0.08
Expected volatility	151%	114%	110%	109%	82%	93%	93%
Expected life	5 years	5 years					
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	1.5%	1.6%	1.6%	1.5%	0.9%	1.1%	1.1%

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

11. Share-based payment transactions (continued):

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

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	1,487,875	\$ 0.11	2,252,875	\$ 0.12
Granted	2,440,000	0.05	-	-
Expired	1,038,875)	0.10	(765,000)	0.12
Options outstanding, end of year	2,979,000	\$ 0.07	1,487,875	\$ 0.11
Options exercisable, end of year	2,889,000	\$ 0.07	1,303,208	\$ 0.11

12. Accounts payable and accrued liabilities:

	December 31, 2017	December 31, 2016 (Restated note 21)
Trade payables and accruals	\$ 792,109	\$ 1,046,975
Personnel related accruals	77,014	137,494
Other	-	33,640
	\$ 869,123	\$ 1,218,109

13. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies. The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

13. Financial risk management (continued):

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

(a) Credit risk:

Trade and other receivables:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

A credit policy is established under which each new customer is analyzed individually or in groups for creditworthiness and given appropriate credit limits. The Company's review includes agent review, external ratings when available, and in some cases, bank references. Credit limits are established for each customer and these limits are reviewed on an ongoing basis. Customers that fail to meet the Company's creditworthiness benchmark may transact with the Company only on a prepayment basis. Trade and other receivables relate mainly to the Company's retail customers.

The Company establishes an allowance for doubtful accounts that represents its estimate of uncollectible accounts in respect of trade and other receivables. The allowance for doubtful accounts is used to record potential impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amounts are written off against the financial asset directly. The Company makes significant estimates pertaining to allowance for doubtful accounts.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date:

	December 31, 2017	December 31, 2016 (Restated note 21)
Cash and cash equivalents	\$1,144,736	\$1,374,380
Trade and other receivables, before allowance	670,918	872,388
	<u>\$1,815,654</u>	<u>\$2,246,768</u>

Credit risk associated with cash and cash equivalents are minimized significantly by ensuring that these financial instruments are placed with major financial institutions. Credit risk associated with trade and other receivables is mitigated by the Company's large and unrelated customer base and the application of its credit evaluation, control and monitoring processes.

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

13. Financial risk management (continued):

(a) Credit risk (continued):

Allowance for doubtful accounts:

The Company maintains an allowance for doubtful accounts that is assessed on an ongoing basis. The aging of accounts receivable and the related allowance at the reporting date is as follows:

	Trade and other receivables		Allowance for doubtful accounts	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Current	\$ 463,303	\$ 618,866	\$ -	\$ -
Past due greater than 30 days	79,870	101,049	-	-
Past due greater than 60 days	21,225	44,040	-	-
Past due greater than 90 days	115,520	108,433	104,305	48,360
	\$ 670,918	\$ 872,388	\$ 104,305	\$ 48,360

The movement in the allowance for doubtful accounts during the year in respect to trade receivables was as follows:

	2017	2016
Balance, beginning of year	\$ 48,360	\$ 92,611
Provision for new bad debts	122,833	23,757
Accounts written off	(66,888)	(68,008)
	\$ 104,305	\$ 48,360

(b) Liquidity risk:

The Company is exposed to liquidity risk. Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and to raise money through debt or equity financing. As at December 31, 2017, the Company had cash and cash equivalents of \$1,144,736 (December 31, 2016 - \$1,374,380), to settle current liabilities of \$2,018,975 (December 31, 2016 - \$2,331,605). The following are the contractual maturities of financial liabilities as at December 31, 2017:

	Carrying amount	Contractual cash flows	Less than 1 year	More than 1 year
Accounts payable and accrued liabilities	\$ 869,123	\$ 869,123	\$ 869,123	\$ -
Income taxes payable	313,973	313,973	313,973	-
Finance leases	7,839	7,839	6,191	1,648
Debentures and notes payable	2,583,179	2,650,000	150,000	2,500,000
	\$ 3,774,114	\$ 3,840,935	\$ 1,339,287	\$ 2,501,648

Adya Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

13. Financial risk management (continued):

(b) Liquidity risk (continued):

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. The Company does not currently believe it will encounter difficulty in meeting its obligations associated with its financial liabilities.

(c) Market risk:

(i) Currency risk:

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The value of financial instruments or cash flows associated with the instruments denominated in U.S. dollars will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

On occasion, the Company utilizes a hedging program to mitigate a portion of its currency risks. As at December 31, 2017 and 2016, the Company does not hold any derivative instrument or cash flow hedges.

A sensitivity analysis of the Canadian dollar against the U.S. dollar was performed as at December 31 of each year based on the Company's currency risk exposure. The results of the sensitivity analysis resulting in an increase or decrease on the Company's profit or loss and equity was not considered significant.

(ii) Interest rate risk:

The Company's primary interest rate risk consists of interest rate fluctuations, which may affect the Company's notes payable, debentures and lease obligations. The Company does not currently use derivative instruments to limit interest rate risks.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured from the prior year.

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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13. Financial risk management (continued):

(d) Operational risk (continued):

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a program of periodic reviews undertaken by senior management. The results are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee.

Fair value of financial instruments:

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 a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7, Financial Instruments - Disclosures.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - unobservable inputs for the asset or liability which are supported by little or no market activity.

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13. Financial risk management (continued):

(d) Operational risk (continued):

The fair values of short-term financial assets and liabilities, including trade and other receivables, and accounts payable and accrued liabilities as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of finance leases, debentures and notes payable approximates their carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security. There are no financial assets or liabilities measured using Level 3.

14. Commitments:

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

2018	\$	233,267
2019	\$	93,438

The Company leases its corporate office that expires in 2019. During the year ended December 31, 2017, the Company recognized \$189,000 (2016 - \$173,300) as an expense in profit or loss as part of general and administrative cost in respect to this operating lease.

In December 2011, the Company entered into an operating lease for its switch facility that includes hosting and connectivity service, which expired in October 2015. During the year ended December 31, 2017, the Company recognized rent expense in the amount of \$91,200 (2016 - \$91,200) as part of telecommunication costs in respect to the operating lease for the switch facility. The Company also assumed additional switch facility space as part of the acquisition of G3 Telecom. The term for this leased space is from March 2014 to February 2019. The Company recognized \$155,558 in expense for the year ended December 31, 2017 (2016 - \$152,545).

Carrier billing services agreement:

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

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14. Commitments (continued):

To the extent that the minimum Carrier Billing Processing Fees are not paid to the Telco by the second and fifth anniversary dates, the Telco may require the Company to remit the shortfall on demand. As of December 31, 2015, there was a shortfall of \$6,568,920 to the obligation for the initial two-year term, of which 35% totaling \$2,299,122 was owed by the Company to the Telco (the "Shortfall Charge"). The Company and the Telco commenced negotiations to amend the terms of the agreement and agreed to a settlement amount of \$980,000. The Telco released the Company from any Shortfall Charge in exchange for the transfer of certain wireless spectrum from the Company to the Telco. The transfer of the wireless spectrum took place on June 20, 2016.

The Company recorded a charge and related liability of \$250,000 at and for the year ended December 31, 2015 and an additional \$730,000 in the year ended December 31, 2016. The total, \$980,000, is the agreed settlement amount of the shortfall. The settlement of liability with exchange of spectrum license resulted in net impact of \$Nil on the statement of operations and comprehensive loss as the Company and Telco settled the liability on a net basis.

15. Obligations under finance lease:

	Interest rate	Expiration	Carrying amount December 31, 2017	December 31, 2016
Mailing machine	5.50%	2019	\$ 7,839	\$ 13,572
			2017	2016
Total minimum lease payments			\$8,248	\$ 14,846
Less amount representing imputed interest			409	1,274
Present value of obligations under finance lease			7,839	13,572
Less current portion			6,191	5,759
			\$ 1,648	\$ 7,813

16. Capital management:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' deficiency, which consists of issued share capital, warrants, contributed surplus and deficit.

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16. Capital management (continued):

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business that may include various acquisition proposals, as well as capital and operating budgets.

There were no changes in the Company's approach to capital management during the year.

17. Contingencies:

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

18. Operating segments:

Sales attributable to geographic location for years ended December 31, 2017 and 2016 are as follows:

	2017	2016 (Restated note 21)
Canada	\$ 8,441,998	\$ 10,917,968
United States	2,551,474	3,738,295
	\$ 10,993,472	\$ 14,656,263

All of the Company's assets as at December 31, 2017 and 2016 are located in Canada.

19. Acquisition costs:

During the year ending December 31, 2017, the Company incurred transaction costs of \$37,892 (2016 - \$nil) with regard to acquisition related activities which have been expensed in the consolidated statements of operations and comprehensive loss under general and administrative.

20. Related party transactions and balances:

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

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20. Related party transactions and balances (continued):

This director is entitled to 5% of gross wireless sales for thirty-six months after the closing date of February 28, 2014. The royalty is paid quarterly as it is earned. For the year ended December 31, 2017, the total royalty expense was \$ nil (2016 - \$57,198). As at December 31, 2017, \$nil (December 31, 2016 - \$13,715) was owed and included in accounts payable and accrued liabilities.

The Company rents its head office space from a company owned by a Director of the Company and the vendor of G3 Telecom, and paid rent in the year ended December 31, 2017 in the amount of \$189,000 (2016 - \$173,300).

Key management personnel compensation:

	2017	2016
Wages, salaries and other benefits	\$ 308,995	\$ 374,715
Canada Pension Plan, employment insurance and other remittances	851	10,587
Share-based compensation	19,328	6,751
	\$ 329,174	\$ 392,053

In addition to their salaries and allowances, key management personnel also participate in the Company's share option program and short-term health and dental benefits. Certain executive officers are subject to a mutual term of notice of six months. Upon resignation at the Company's request, they are entitled to certain termination benefits, either cash or a percentage of gross salary.

Directors received compensation for their services as directors of the Company. Additionally, the directors are able to participate in the Company's share option program. Outside of directors' fees, certain directors or companies affiliated with these directors also participated in transactions with the Company for legal services and received amounts totaling \$32,443 (2016 - \$21,680), which is the amount agreed to by the parties.

Effective December 31, 2016, companies owned by two directors of the Company, subscribed for notes payable in the amount of \$200,000 each for a total of \$400,000 as described in Note 8(a). The notes payable bear interest at 7.5% per annum (calculated monthly) and are due December 31, 2020.

21. Restatement of previously issued consolidated financial statements

- As at December 31, 2015, the Company incorrectly reversed accounts payable and accrued liabilities in the amount of \$305,488, which resulted in an understatement of opening retained earnings for 2016 and 2017, as well as understatement of accounts payable and accrued liabilities as at January 1, 2016 and December 31, 2016.
- As at December 31, 2016, the Company incorrectly recorded revenue and accounts receivable which was not earned in accordance with its revenue recognition accounting policies, which resulted in an overstatement of its accounts receivable and revenues for the year ended December 31, 2016 in the amount of \$151,810.

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Notes to the Consolidated Financial Statements
Years ended December 31, 2017 and 2016

21. Restatement of previously issued consolidated financial statements (continued):

The consolidated financial statements have been restated to reflect the adjustments discussed in (a) and (b) above:

The effect of the restatement on the consolidated statements of financial positions as at December 31, 2016 and January 1, 2016 is as follows:

	December 31, 2016		December 31, 2016		January 1, 2016		January 1, 2016	
	As previously reported	Correction	As restated	As previously reported	Correction	As restated	As previously reported	As restated
Assets								
Current assets:								
Trade and other receivables, net of								
allowance for doubtful accounts	\$ 975,838	\$(151,810)	\$ 824,028	\$ 1,419,204	\$ -	\$ 1,419,204		
Total current assets	\$ 2,907,403	\$(151,810)	\$ 2,755,593	\$ 2,712,516	\$ -	\$ 2,712,516		
Total assets	\$ 3,622,551	\$(151,810)	\$ 3,470,741	\$ 6,920,651	\$ -	\$ 6,920,651		
Liabilities and Shareholders' Equity (Deficiency)								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 912,621	\$ 305,488	\$ 1,218,109	\$ 1,755,796	\$ 305,488	\$ 2,061,284		
Total current liabilities	\$ 2,026,117	\$ 305,488	\$ 2,331,605	\$ 3,111,701	\$ 305,488	\$ 3,417,189		
Total liabilities	\$ 4,559,834	\$ 305,488	\$ 4,865,322	\$ 6,003,164	\$ 305,488	\$ 6,308,652		
Shareholders' equity (deficiency):								
Deficit	\$(5,533,340)	\$(457,298)	\$(5,990,638)	\$(2,920,438)	\$(305,488)	\$(3,225,926)		
Shareholders' equity (deficiency):	\$ (937,283)	\$(457,298)	\$(1,394,581)	\$ 917,487	\$(305,488)	\$ 611,999		
Total liabilities and shareholders' equity (deficiency)	\$ 3,622,551	\$(151,810)	\$ 3,470,741	\$ 6,920,651	\$ -	\$ 6,920,651		

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21. Restatement of previously issued consolidated financial statements (continued):

The effect of the restatement on the consolidated statement of operations and comprehensive loss for the year ended December 31, 2016 is as follows:

	2016 As previously reported	2016 Correction	2016 As restated
Revenue	\$ 14,808,073	\$(151,810)	\$ 14,656,263
Gross Margin	\$ 5,801,474	\$(151,810)	\$ 5,649,664
Operating expenses:			
General and administrative	\$ 3,811,018	\$ -	\$ 3,811,018
Operating loss before finance costs and other income	\$ (2,259,400)	\$(151,810)	\$ (2,411,210)
Loss before income taxes	\$ (2,579,739)	\$(151,810)	\$ (2,731,549)
Net loss and comprehensive loss	\$ (2,612,902)	\$(151,810)	\$ (2,764,712)

The effect of the restatement on the consolidated statement of changes in shareholders' equity (deficiency) for the year ended December 31, 2016 is as follows:

	Deficit As previously reported	Deficit Correction	Deficit As restated	Shareholders' equity (deficiency) As previously reported	Shareholders' equity (deficiency) Correction	Shareholders' equity (deficiency) As restated
Balance, January 1, 2016	\$(2,920,438)	\$(305,488)	\$(3,225,926)	\$ 917,487	\$ (305,488)	\$ 611,999
Settlement of debt	-	-	-	750,000	-	750,000
Stock-based compensation	-	-	-	8,132	-	8,132
Net loss	(2,612,902)	(151,810)	(2,764,712)	(2,612,902)	(151,810)	(2,764,712)
Balance, December 31, 2016	\$(5,533,340)	\$(457,298)	\$(5,990,638)	\$ (937,283)	\$ (457,298)	\$(1,394,581)

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21. Restatement of previously issued consolidated financial statements (continued):

The effect of the restatement on the consolidated statement of cash flows for the year ended December 31, 2016 is as follows:

	2016 As previously reported	2016 Correction	2016 As restated
Cash provided by (used in):			
Operating activities:			
Net loss	\$(2,612,902)	\$(151,810)	\$(2,764,712)
Trade and other receivables	\$ 443,366	\$ 151,810	\$ 595,176
Net change in cash flow from operations	\$ (158,343)	\$ -	\$ (158,343)

22. Comparative figures

Certain comparative figures have been reclassified for consistency with the current year presentation. The Company reclassified provisions in the amount of \$25,560 and \$7,000 as at December 31, 2016 and January 1, 2016, respectively, to accounts payable and accrued liabilities. The Company also reclassified stock-based compensation expense from general and administrative expenses in the amount of \$8,132 for the year ended December 31, 2016. These reclassifications had no effect on the statements of operations and comprehensive loss as well as statements of financial position.