

**Adya Inc.**

**Management's Discussion and Analysis**

**For the years ended December 31, 2017 and 2016**

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**Dated April 30, 2018**

This document provides management's discussion and analysis ("MD&A") of our financial condition as at, and results of operations for, the year ended December 31, 2017 compared to 2016. This MD&A is intended to help the readers, including shareholders and stakeholders, understand the dynamics of Adya's business and the key factors underlying its financial results, and should be read together with our audited annual consolidated financial statements and accompanying notes ("Annual Financial Statements") for the year ended December 31, 2017.

The Annual Financial Statements, along with the comparative periods presented in them, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in this document are in Canadian dollars. Throughout this document, unless otherwise specified or the context otherwise indicates, the "Company", "Adya", "we", "us" and "our" refer to Adya Inc. and its subsidiaries.

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

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

## **FORWARD-LOOKING STATEMENTS**

This MD&A is dated April 30, 2018 and may contain forward-looking information related to our future financial condition and results of operations and anticipated future events and circumstances. This information is based on our estimates about the conditions in which we operate and our beliefs and assumptions regarding these conditions. Unless otherwise indicated, the forward-looking information in this MD&A describes our expectations on the date of this MD&A. In some cases, forward-looking information may be identified by words such as “anticipate”, “believe”, “could”, “expect”, “plan”, “seek”, “may”, “intend”, “will”, “forecast” and similar expressions.

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

See the section titled “Definitions – Additional GAAP Measures and Non-GAAP Measures” for descriptions of Operating Income (loss), EBITDA, Adjusted EBITDA and the reconciliation of EBITDA and Adjusted EBITDA to net income (loss) for the periods presented. These items do not have a standardized meaning under IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. EBITDA and Adjusted EBITDA are non-GAAP measures which should not be considered as a substitute or alternative for GAAP measures.

## COMPANY OVERVIEW

Adya Inc. (“Adya” or the “Company”) is a publicly traded holding company and is currently a strategic shareholder in telecommunications and technology companies. With offices located in Toronto, Canada, the Company is focused on diversifying its portfolio through the acquisition of accretive businesses, with recurring revenue, high shareholder value, and annuity revenue streams. Adya has been publicly traded on the TSX Venture Exchange (TSX.V: ADYA) since 1997.

### Telecom Investments

Adya’s telecommunication investments services include full-service long distance, internet, business services and re-sale wireless services. It is one of the largest alternative telecommunications providers to both residential and business customers. Adya’s wholly owned subsidiaries are registered with the Canadian Radio-Television and Telecommunications Commission (“CRTC”) as a licensed Class “A” Telecom Carrier and with the American Federal Communications Commission (“FCC”).

### Restatement of previously issued consolidated financial statements

- (a) 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.
- (b) 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.

This management discussion and analysis reflects the restated figures from prior year.

## SELECTED ANNUAL INFORMATION

The following is selected financial data derived from the audited consolidated financial statements of the Company as at December 31, 2017, December 31, 2016 and December 31, 2015 and for the years then ended.

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Total revenues	\$ 10,993,472	\$ 14,656,263	\$ 17,885,503
Total loss	\$ (437,632)	\$ (2,764,712)	\$ (1,264,633)
Net loss per share – basic	\$ (0.009)	\$ (0.084)	\$ (0.039)
Net loss per share – diluted	\$ (0.009)	\$ (0.084)	\$ (0.039)
	<b>As at December 31, 2017</b>	<b>As at December 31, 2016</b>	<b>As at December 31, 2015</b>
Total assets	\$ 2,826,199	\$ 3,470,741	\$ 6,920,651
Total non-current financial liabilities	\$ 2,584,827	\$ 2,533,717	\$ 2,891,463
Distribution or cash dividends	\$nil	\$nil	\$nil

## FINANCIAL REVIEW

The following discussion of the Company's financial performance is based on the consolidated financial statements for the years ended December 31, 2017 and 2016.

As at December 31, 2017, the Company had a cash and cash equivalents balance of \$1,144,736 (December 31, 2016 - \$1,374,380) and total current assets of \$2,273,513 (December 31, 2016 - \$2,755,593).

Long term assets consist of equipment and intangible assets. As at December 31, 2017, long term assets totalled \$552,686 down from \$715,148 at December 31, 2016 due to depreciation/amortization on the assets.

Current liabilities decreased to \$2,018,975 at December 31, 2017 from \$2,331,605 at December 31, 2016. The decrease was primarily attributed to the decrease in accounts payable of \$312,630.

As at December 31, 2017, long term liabilities totaled \$2,584,827 (December 31, 2016 - 2,533,717) and consisted of \$2,183,179 of debentures (December 31, 2016 - \$2,125,904), \$400,000 of notes payable to directors of the Company (December 31, 2016 - \$400,000) and obligations under a capital lease of \$1,648 (December 31, 2016 - \$7,813).

Revenue for 2017 was \$10,993,472 compared to \$14,656,263 for 2016. Net loss and comprehensive loss for 2017 was 437,632 compared to \$2,764,712 for 2016.

### Revenue

Revenues are earned from the access to, and the use of, Adya's telecommunications network and infrastructure. Numerous types of telecommunications services are sold and packaged in different forms, which includes casual calling, subscriptions, wireless solutions, wholesale, Business Services, VoIP Home Phone, and prepaid calling cards.

Year ended December 31,	2017	2016	% change
Revenue	\$10,993,472	\$14,656,263	(25%)

Wireless revenues began to decline in Q2 2016, when there was a disruption in a service agreement with a wireless service provider for roaming services. The service provider ceased offering the roaming solution in 2016. The Company also sold two wireless spectrum licenses in 2016, and is no longer investing in wireless.

In addition, the casual calling and long-distance markets have continued to be highly competitive, which also attributed to the decline in revenue. Customers are receiving strong offers from their existing providers to stay with low long-distance rate calling offers and there has been a transition to other technologies for long distance communication. The Company offset some of the revenue decline by increasing bundled subscription plans, and offering additional business services. The decrease is in line with market trends.

The Company is working to add to its product lines and services to offer more opportunities for additional sales and gross margin in 2018.

The Company will also focus on expanding beyond telecommunications into other accretive businesses.

## Gross Margin

Year ended December 31,	2017	2016	% change
Gross margin	\$ 4,625,299	\$ 5,649,664	(18%)
Gross margin percentage	42%	39%	3%

For 2017, the increase in gross margin percentage is reflective of the decrease in wireless revenue (note above) which yielded lower margins.

## Operating expenses

	2017	2016	%
General and administrative	\$ 3,167,777	\$ 3,811,018	(17%)
Marketing and selling	572,471	1,066,177	(46%)
Development and technical support	638,789	651,282	(2%)
Depreciation and amortization	200,426	423,765	(53%)
Share based payments	54,610	8,132	572%
Impairment of goodwill and intangible assets	-	2,130,500	(100%)
Gain on disposal of assets	-	(30,000)	(100%)
	\$ 4,634,073	\$ 8,060,874	(43%)

General & administration expenses (consisting of corporate costs, management and administrative personnel, legal, audit, rent, and office expenses) decreased as the Company reduced personnel and other expenses in cost saving measures.

The decrease in Marketing & selling expenses (consisting of advertising, marketing and sales commissions) was the result of lower commissions on wireless sales and a reduction of online advertising initiatives.

Development & technical support (consisting of IT wages and technical support) changes are due to number of customer service representatives required to support the business.

Share based payments represent the portion of stock options that vested during the period. The stock option expense does not affect the cash resources of the Company. The timing of this expense is subject to the date of issue and vesting terms of the options. The values of the options are derived using the Black Scholes option pricing model in which subjective assumptions are used.

Depreciation and amortization, a non-cash expense, decreased compared to prior periods due to the reduction of intangible assets compared to 2016.

Impairment charge in 2016, a non-cash item, of \$2,130,500 was the result of the impairment of goodwill and intangible assets (trademarks, licenses and customer lists) determined due to the discontinuance of a major roaming wireless agreement and due to an industry decline in long distance services.

In 2016, the Company also sold a spectrum license, with a carrying value of \$750,000, for cash proceeds of \$780,000, resulting in a gain of \$30,000 on disposal of the asset.

### Other items

Finance charges primarily consists of interest and accretion expense on the debentures and notes payable.

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

### DEFINITIONS - ADDITIONAL GAAP MEASURES AND NON-GAAP MEASURES

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

#### *EBITDA and Adjusted EBITDA*

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

Below is a reconciliation of “EBITDA” and “Adjusted EBITDA” to net loss for the years presented:

	2017	2016	% change
Net loss	\$ (437,632)	\$ (2,764,712)	(84%)
Finance costs, net	327,379	350,329	(7%)
Income tax expense	119,662	33,163	261%
Depreciation and amortization	200,426	423,765	(53%)
EBITDA	\$ 209,835	\$ (1,957,455)	(111%)

	2017		2016		% change
Net loss	\$	(437,632)	\$	(2,764,712)	-88%
Finance costs, net		327,379		350,329	-7%
Income tax expense		119,662		33,163	-97%
Depreciation and amortization		200,426		423,765	-53%
Share based payments		54,610		8,132	572%
Gain on disposal of assets		-		(30,000)	n/a
Transaction costs		37,892		-	n/a
Impairment of goodwill and intangible assets		-		2,130,500	-100%
ADJUSTED EBITDA	\$	302,337	\$	151,177	75%

### QUARTERLY RESULTS SUMMARY

The following table sets forth certain information for the quarter ended December 31, 2016, as well as historical periods. The operating results for any quarter are not necessarily indicative of results for any future period:

Summary of results (\$000's)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	2,541	2,610	2,859	2,983	3,269	3,601	3,765	4,021
Telecommunication costs	1,461	1,540	1,643	1,724	2,098	2,075	2,303	2,531
Gross profit	1,080	1,070	1,216	1,259	1,171	1,526	1,462	1,490
Gross margin	43%	41%	43%	42%	36%	42%	39%	37%
Operating expenses								
General and administration	716	757	847	902	983	954	934	948
Marketing and selling	127	134	136	176	256	285	256	269
Development and technical support	153	151	159	176	169	171	164	147
Depreciation and amortization	37	39	43	81	93	94	108	129
Acquisition costs	-	-	-	-	-	-	-	-
Impairment of goodwill and other intangible assets	-	-	-	-	2,131	-	-	-
Settlement charge	-	-	-	-	-	-	-	-
Gain on disposal of assets	-	-	-	-	-	-	(30)	-
	1,033	1,081	1,185	1,335	3,632	1,504	1,432	1,493
Operating income (loss)	47	(11)	31	(76)	(2,461)	22	30	(3)
Finance costs, net	134	67	62	64	89	88	84	89
Other income	(4)	(12)	(1)	(1)	(30)	-	-	-
Loss before income taxes	(83)	(66)	(30)	(139)	(2,520)	(66)	(54)	(92)
Income tax (recovery)	120	-	-	-	33	-	-	-
Net loss	(203)	(66)	(30)	(139)	(2,553)	(66)	(54)	(92)
Loss per share	(0.002)	(0.002)	(0.002)	(0.003)	(0.054)	(0.002)	(0.002)	(0.003)
EBITDA	88	40	75	6	(2,338)	116	138	126
Adjusted EBITDA	70	40	75	117	(207)	116	138	126

## LIQUIDITY AND CAPITAL RESOURCES

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

	<b>2017</b>	<b>2016</b>	<b>+/-</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>		
Cash provided (used) by operating activities	84,157	(158,343)	242,500	(153%)
Cash provided (used) by investing activities	(37,964)	718,722	(756,686)	(105%)
Cash provided (used) by financing activities	(275,837)	101,591	(377,428)	(372%)
Increase (decrease) in cash	(229,644)	661,970	(891,614)	(135%)
	<b>As at</b>	<b>As at</b>		
	<b>December</b>	<b>December</b>		
	<b>31, 2017</b>	<b>31, 2016</b>	<b>+/-</b>	
Cash and cash equivalents	1,144,736	1,374,380	(229,644)	(17%)
Current assets	2,273,513	2,755,593	(482,080)	(17%)
Current liabilities	2,018,975	2,331,605	(312,630)	(13%)
Working capital	254,538	423,988	(169,450)	(40%)
Current ratio	1.1	1.2		

*\*Working capital is defined as current assets less current liabilities, and current ratio is calculated as current assets as compared to current liabilities.*

Cash flows from operating activities increased mainly due to the positive impact of changes in non-cash working capital items.

Cash used investing activities in 2017 consisted primarily of purchases of software and equipment. In 2016, it consisted of purchase of intangible assets of \$40,500, purchase of equipment in the amount of \$20,778, and the proceeds from the disposal of assets in the amount of \$780,000.

Cash used in financing activities relates to interest on debentures and notes payable in the amount of \$269,241 (2016 - \$291,812) and lease payments of \$6,596 (2016 - \$6,597). In 2016, it also includes the cash proceeds from the issuance of a notes payable in the amount of \$400,000.

The Company has the following financial commitments:

- (i) Unsecured promissory notes in the amount of \$400,000, that bear interest of 7.5% per annum (calculated monthly) and are due on December 31, 2020.
- (ii) Unsecured debentures in the amount of \$2,250,000, bearing interest at 7.5%. \$150,000 of principal is due on December 31, 2018, \$300,000 principal on December 31, 2019, and the balance of the principal outstanding on December 31, 2020.

The Company manages liquidity risk to maintain sufficient liquid financial resources to fund our balance sheet and meet our commitments and obligations in the most cost-effective manner possible. The Company does not currently foresee any working capital restrictions for 2018.

#### **RELATED PARTY TRANSACTIONS**

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) to the consolidated financial statements. The notes payable bear interest at 7.5% per annum (calculated monthly) and are due December 31, 2020.

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any off balance sheet arrangements.

## ACCOUNTING ESTIMATES

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;
- Share based payments - 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
- Going concern – the preparation of the consolidated financial statements in accordance with IFRS on a going concern basis 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.

## **CHANGES IN ACCOUNTING POLICIES**

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-base five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2018 and allow early adoption. The Company does not intend to adopt this standard early and are currently evaluating the anticipated impact of adopting this standard on the consolidated financial statements.

(ii) IFRS 9, Financial Instruments:

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

(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.

## **CAPITALIZATION**

As at the date of this MD&A, the Company had 47,272,083 common shares outstanding and 2,979,000 share options, which are exercisable at an average strike price of \$0.07 per share at various dates prior to January 2022.

## **BUSINESS RISKS AND UNCERTAINTIES**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

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

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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

#### Competition

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

#### Technology

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

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

#### Reliance on systems and system failures

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

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

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

occur, these events could significantly damage our customer relationships and business and have a material adverse effect on our operating results.

#### Regulatory

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

#### Management team and dependence on key personnel

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

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

#### Niche Company

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

#### Integration risk

On February 28, 2014 and May 1, 2014, the Company closed the acquisition of the G3 Telecom business and iRoam assets respectively. Integration of these acquisitions and any future acquisitions involves a number of special risks, including the following: failure to integrate successfully the personnel, information systems, technology, and operations of the acquired business; failure to maximize the potential financial and strategic benefits of the transaction; failure to realize the expected synergies from acquired businesses; possible impairment of relationships with employees and customers as a result of any integration of new businesses and management personnel; possible losses from liabilities assumed in customer contracts; impairment of goodwill and intangible assets; and reductions in future operating results from amortization of intangible assets.

## Currency

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The Company purchases wholesale long distance minutes in U.S. dollars but a majority of the sales are in Canadian dollars, therefore gross margins are negatively impacted by a weaker Canadian dollar. The assets, liabilities, revenues and expenses denominated in U.S. dollars will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

## Credit

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

## Liquidity

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

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

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

## General economic conditions

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

## Dependence on service providers

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

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

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

### **Gross Margin**

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

### **EBITDA**

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

### **Adjusted EBITDA**

The term "Adjusted EBITDA" refers to the net income (loss) before adjusting for depreciation and amortization, impairment charge on non-financial assets, settlement charges, acquisition costs, finance income, finance costs, and income taxes. "Adjusted EBITDA margin" refers to the percentage that Adjusted EBITDA for any period represents as portion of total revenues for that period.

We believe EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin are useful supplemental information as they provide an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration expenses related to impairment charge on non-financial assets, acquisition costs and other items listed above. Accordingly, we believe that these measures may also be useful to investors in enhancing their understanding of the Company's operating performance.

See "Results of Operations – Adjusted EBITDA".

EBITDA, Adjusted EVITA, and Adjusted EBITDA margin are not measures recognized by IFRS and do not have standardized meaning prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA, Adjusted EBIDTA margin and may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA, Adjusted EBITDA and Adjusted EBITDA margin should not be construed as an alternative to the net income (loss) as determined in accordance with IFRS

## **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.

**ADDITIONAL INFORMATION**

Additional information about Adya is available:

- At the [www.adya.ca](http://www.adya.ca) website
- At the [www.sedar.com](http://www.sedar.com) website
- Via email to [investorrelations@adya.ca](mailto:investorrelations@adya.ca), or
- Via phone at 416-499-5463