

**Adya Inc.**

**Management's Discussion and Analysis**

**For the years December 31, 2018 and 2017**

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**For the years ended December 31, 2018 and 2017**  
**Dated April 25, 2019**

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, 2018 compared to 2017. 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, 2018.

The Interim 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.

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 25, 2019 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”).

## SELECTED ANNUAL INFORMATION

The following is selected financial data derived from the audited consolidated financial statements of the Company as at December 31, 2018, December 31, 2017 and December 31, 2016 and for the years then ended.

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Total revenues	\$ 8,507,837	\$ 10,993,472	\$ 14,656,263
Total loss	\$ (60,600)	\$ (437,632)	\$ (2,764,712)
Net loss per share – basic	\$ (0.001)	\$ (0.009)	\$ (0.084)
Net loss per share – diluted	\$ (0.001)	\$ (0.009)	\$ (0.084)
	As at December 31, 2018	As at December 31, 2017	As at December 31, 2016
Total assets	\$ 2,117,983	\$ 2,826,199	\$ 3,470,741
Total non-current financial liabilities	\$ 2,190,454	\$ 2,584,827	\$ 2,533,717
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, 2018 and 2017.

As at December 31, 2018, the Company had a cash and cash equivalents balance of \$624,027 (December 31, 2017 - \$1,144,736) and total current assets of \$1,705,781 (December 31, 2017 - \$2,273,513).

Long term assets consist of equipment and intangible assets. As at December 31, 2018, long term assets totalled \$412,202 down from \$552,686 at December 31, 2017 due to depreciation/amortization on the assets.

Current liabilities decreased to \$1,765,732 at December 31, 2018 from \$2,018,975 at December 31, 2017. During 2018, there was a reversal of income taxes payable in the amount of \$313,973.

As at December 31, 2018, long term liabilities totaled \$2,190,454 (December 31, 2017 – 2,584,827) and consisted of \$1,790,454 of debentures (December 31, 2017 - \$2,183,179), \$400,000 of notes payable to directors of the Company (December 31, 2017 - \$400,000) and obligations under a capital lease of \$nil (December 31, 2017 - \$1,648). \$450,000 of the debentures became a current liability at December 31, 2018.

Revenue for 2018 was \$8,507,837 compared to \$10,993,472 for 2017. Net loss and comprehensive loss for 2018 was \$60,600 compared to \$437,632 for 2017.

## 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.

	2018	2017	% change
Revenue	\$8,507,837	\$10,993,472	-23%

During Q2 2018, one of our wireless service providers ceased providing this service to us, resulting in a decrease in wireless revenue for 2018. 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 decrease is in line with market trends. Although not enough to offset the decline in long distance services, there was an increase in revenue generated from business services where we continue to look for other complementary services such as residential ISP and re-launching home phone.

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

## Outlook

On the product and marketing side, the Company will focus on growing the business services unit by targeting niche and underserved customers while utilizing the Company’s Metaswitch that offers carrier-grade quality services. The Company will also, establish distribution partners outside Ontario and Quebec with an engagement program for agents and wholesalers.

Additionally, to offset the declines in LD, the Company has recently (in 2019) interconnected with both Bell and Rogers to offer Internet services. Residential product focus for 2019 will be offering improved Internet (DSL & Cable), along with HomePhone/Internet/IPTV bundle packages. The bundle offerings allow us cross-sell to our large embedded customer base in Ontario & Quebec, and attract a different type of customer demographics than our current base.

By leveraging the Company's Philippines call centre in 2019, the Company will be increasing focus on providing onshore and offshore outsourcing for inbound and outbound call center services. This includes customer service, telemarketing, customer retention, billing collection, and technical support.

The Company continues to focus on expanding beyond telecommunications into other accretive businesses and other M&A opportunities.

## Gross Margin

	2018	2017	Change
Gross margin	3,710,535	4,625,299	-19%
Gross margin percentage	43.6%	42.1%	

The decrease in gross margin is reflective of the decrease in revenue (note above). In 2018 there was an increase in gross margin percentage resulting from more higher margin sales and a positive effect of foreign exchange compared to the prior year.

## Operating expenses

	2018	2017	%
General and administrative	\$ 2,799,067	\$ 3,167,777	(12%)
Marketing and selling	411,881	572,471	(28%)
Development and technical support	468,994	638,789	(27%)
Depreciation and amortization	149,851	200,426	(25%)
Share based payments	-	54,610	(100%)
	\$ 3,829,793	\$ 4,634,073	(17%)

General & administration expenses (consisting of corporate costs, management and administrative personnel, legal, audit, rent, and office expenses) decreased as the Company reduced personnel, office space and other expenses compared to 2017 in cost saving measures. Included in this category are also additional legal costs incurred during the current period for work related to due diligence on acquisitions as well as recruitment fees that are not typical of a quarter.

The decrease in Marketing & selling expenses (consisting of advertising, marketing and sales commissions) was the result of reduction in marketing personnel 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 2017.

### 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:

	2018	2017
Net loss	\$ (60,600)	\$ (437,632)
Finance costs, net	268,567	327,379
Income tax expense (recovery)	(313,973)	119,662
Depreciation and amortization	149,851	200,426
<b>EBITDA</b>	<b>\$ 43,845</b>	<b>\$ 209,835</b>

	2018	2017
Net loss	\$ (60,600)	\$ (437,632)
Finance costs, net	268,567	327,379
Income tax expense (recovery)	(313,973)	119,662
Depreciation and amortization	149,851	200,426
Share based payments	-	54,610
Transaction costs	-	37,892
<b>ADJUSTED EBITDA</b>	<b>\$ 43,845</b>	<b>\$ 302,337</b>

### QUARTERLY RESULTS SUMMARY

The following table sets forth certain information for 2018, 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)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	2,066	2,021	2,158	2,263	2,541	2,610	2,859	2,983
Telecommunication costs	1,081	1,135	1,246	1,335	1,461	1,540	1,643	1,724
Gross profit	985	886	912	928	1,080	1,070	1,216	1,259
Gross margin	48%	44%	42%	41%	43%	41%	43%	42%
Operating expenses								
General and administration	698	689	734	678	716	757	847	902
Marketing and selling	97	100	102	113	127	134	136	176
Development and technical support	114	92	123	140	153	151	159	176
Depreciation and amortization	39	37	37	37	37	39	43	81
Impairment of goodwill and other intangible assets	-	-	-	-	-	-	-	-
	948	918	996	968	1,033	1,081	1,185	1,335
Operating income (loss)	37	(32)	(84)	(40)	47	(11)	31	(76)
Finance costs, net	74	57	68	69	134	67	62	64
Other income	(4)	(3)	(3)	(3)	(4)	(12)	(1)	(1)
Loss before income taxes	(33)	(86)	(149)	(106)	(83)	(66)	(30)	(139)
Income tax (recovery)	(177)	-	-	(137)	120	-	-	-
Net loss	144	(86)	(149)	31	(203)	(66)	(30)	(139)
Loss per share	0.003	(0.002)	(0.003)	0.001	(0.002)	(0.002)	(0.002)	(0.003)
EBITDA	78	8	(44)	1	88	40	75	6
Adjusted EBITDA	78	8	(44)	1	70	40	75	117

## 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:

	2018	2017	+/-	% Change
	\$	\$		
Cash provided (used) by operating activities	(293,883)	84,157	(378,040)	(449%)
Cash provided (used) by investing activities	(9,369)	(37,964)	28,595	(75%)
Cash provided (used) by financing activities	(217,458)	(275,837)	58,379	(21%)
Increase (decrease) in cash	(520,710)	(229,644)	(291,066)	127%

	As at December 31, 2018	As at December 31, 2017		
Cash and cash equivalents	624,026	1,144,736	(520,710)	(45%)
Current assets	1,705,781	2,273,513	(567,732)	(25%)
Current liabilities	1,765,732	2,018,975	(253,243)	(13%)
Working capital	390,049	254,538	135,511	53%
Current ratio	0.97	1.1		

*\*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 decreased mainly due to the negative impact of changes in non-cash working capital items.

Cash used investing activities consisted primarily of purchases of software and equipment.

Cash used in financing activities relates to interest on debentures and notes payable in the amount of \$211,290 (2017 - \$269,241) and lease payments of \$6,166 (2017 - \$6,596).

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%. \$450,000 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

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, 2018 in the amount of \$174,000 (2017 - \$189,000).

The Company defines key management personnel as its CEO, CFO and directors. Key management personnel compensation is as follows:

	2018	2017
Wages, salaries and other benefits	\$ 302,919	\$ 308,995
Share-based compensation	-	19,328
	<b>\$ 302,919</b>	<b>\$ 328,323</b>

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 \$19,065 (2017 - \$32,443), 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. Total interest accrued and paid on the loans during the year ended December 31, 2018 was \$30,000 (2017 - \$30,000).

## 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**

### Changes in accounting policies for 2018

On January 1, 2018, the Corporation adopted, on a modified retrospective basis, the new rules under IFRS 15, Revenue from Contracts with Customers, which specify how and when an entity should recognize revenue, and which also require the entity to provide users of financial statements with more informative disclosures. The modified retrospective approach, which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 - Revenue (IAS 18).

The standard provides a single, principles-based, five-step model to apply to each contract with a customer. The adoption of IFRS 15 had no material impacts on the consolidated financial statements therefore, the Company has not recorded a transition adjustment for the cumulative effect of applying IFRS at January 1, 2018 as the adjustment to the opening retained earnings is not material..

Under IFRS 15, the total consideration from a contract with multiple deliverables is now allocated to all performance obligations in the contract, based on the stand-alone selling price of each obligation, without being limited to a non-contingent amount. The Telecommunications segment provides services under contracts with multiple deliverables and for a fixed period of time. While the adoption of IFRS 15 the timing of the recognition of these revenues therefore changes under IFRS 15, however, the total revenue recognized over a contract term relating to all performance obligations within the contract remains the same as under the previous rules. The adoption of IFRS 15 had no impact on cash flows from operating, investing and financing activities.

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 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 2,019,000 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