

TELEHOP COMMUNICATIONS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS
ENDING SEPTEMBER 30, 2010 and 2009
(UNAUDITED)

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated interim balance sheet of Telehop Communications Inc. at September 30, 2010 and the consolidated interim statements of income (loss), retained earnings (deficit), statements of comprehensive income (loss) and cash flows for the three and nine month periods then ended have not been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP. These financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee and Board of Directors.

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Balance Sheets

	(unaudited) Sept. 30, 2010	(unaudited) Sept. 30, 2009	(audited) Dec. 31, 2009
ASSETS			
CURRENT			
Cash and cash equivalents	\$ 457,662	\$ 572,434	\$ 827,412
Accounts receivable	1,828,694	2,689,190	2,424,306
Income taxes recoverable	140,821	77,625	150,682
Future income taxes	200,205	-	200,205
Prepaid expenses and deposits	122,670	217,079	107,137
	2,750,052	3,556,328	3,709,742
PROPERTY AND EQUIPMENT (Note 7)	311,126	389,777	476,974
INTANGIBLE ASSETS (Note 8)	84,483	125,821	118,746
	\$ 3,145,661	\$ 4,071,926	\$ 4,305,462
LIABILITIES			
CURRENT			
Accounts Payable and accrued liabilities	\$ 1,652,391	\$ 1,501,850	\$ 2,657,444
Obligations under capital lease (Note 11)	16,526	16,526	16,526
	1,668,917	1,518,376	2,673,970
FUTURE INCOME TAXES	-	19,814	10,717
OBLIGATIONS UNDER CAPITAL LEASE (Note 11)	-	16,526	12,395
	1,668,917	1,554,716	2,697,082
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 9)	1,553,456	1,553,456	1,553,456
CONTRIBUTED SURPLUS (Note 9(b))	110,312	67,226	85,816
ACCUMULATED COMPREHENSIVE INCOME	-	-	-
RETAINED EARNINGS (DEFICIT)	(187,024)	896,528	(30,892)
	1,476,744	2,517,210	1,608,380
	\$ 3,145,661	\$ 4,071,926	\$ 4,305,462

Contingent liabilities (Note 13)

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income and
Comprehensive Income
(Unaudited)

Three and nine month periods ended September 30th

	Three months ending Sept. 30th		Nine months ending Sept. 30th	
	2010	2009	2010	2009
OPERATING REVENUES	\$ 2,907,425	\$ 3,388,141	\$ 8,889,443	\$ 10,427,383
Telecommunications costs	1,624,974	1,638,208	5,114,323	5,911,693
GROSS MARGIN	1,282,451	1,749,933	3,775,120	4,515,690
OPERATING EXPENSES				
General and administration	602,276	729,905	1,899,613	2,196,842
Marketing and selling	371,816	492,894	1,192,983	1,898,826
Development and technical support	213,077	228,925	642,413	673,179
Amortization	68,557	88,613	216,561	269,978
Loss on disposal of equipment	-	-	3,758	-
Interest	770	964	3,976	3,084
	1,256,496	1,541,302	3,959,304	5,041,910
OPERATING INCOME (LOSS)	25,955	208,631	(184,184)	(526,220)
Other income	725	3,375	1,861	9,865
INCOME (LOSS) BEFORE INCOME TAXES	26,680	212,006	(182,323)	(516,355)
Income taxes (recovery)	13,111	85,292	(26,191)	(69,462)
NET INCOME (LOSS)	13,569	126,714	(156,132)	(446,893)
Other comprehensive income (loss)	-	(13,420)	-	-
COMPREHENSIVE INCOME (LOSS)	13,569	113,294	(156,132)	(446,893)
EARNINGS (LOSS) PER SHARE (Note 6)	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.03)
DILUTED EARNINGS (LOSS) PER SHARE (Note 6)	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.03)

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Retained Earnings
(Unaudited)

Three and nine month periods ended September 30

	Three months ending Sept. 30th		Nine months ending Sept. 30th	
	2010	2009	2010	2009
Retained earnings (deficit), beginning of period	\$ (200,593)	\$ 769,813	\$ (30,892)	\$ 1,343,421
Net income (loss)	13,569	126,715	(156,132)	(446,893)
Retained earnings (deficit), end of period	\$ (187,024)	\$ 896,528	\$ (187,024)	\$ 896,528

The accompanying notes are an integral part of these interim consolidated financial statements

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows
(Unaudited)

Three and Nine month periods ended September 30th

	Three months ending Sept. 30th		Nine months ending Sept. 30th	
	2010	2009	2010	2009
CASH FLOW PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ 13,569	\$ 126,714	\$ (156,132)	\$ (446,893)
Adjustments for non-cash items:				
Amortization expense	68,557	88,613	216,561	269,978
Loss on disposal of equipment	-	-	3,758	-
Fair valuation of foreign exchange hedge	-	(13,420)	-	-
Future income tax liability	-	(7,897)	(10,717)	(18,864)
Stock-based compensation	8,935	4,550	24,496	13,651
	<u>91,061</u>	<u>198,560</u>	<u>77,966</u>	<u>(182,127)</u>
Changes in working capital items:				
Accounts receivable	(22,833)	(446,331)	595,612	(315,690)
Prepaid expenses and deposits	3,873	9,372	(15,533)	(60,085)
Accounts payable and accrued liabilities	(149,497)	(312,327)	(1,005,053)	(822,340)
Income taxes recoverable/payable	13,111	102,544	9,861	743,784
Cash provided (used) by operating activities	<u>(64,285)</u>	<u>(448,182)</u>	<u>(337,147)</u>	<u>(636,458)</u>
INVESTING ACTIVITIES				
Acquisitions of property and equipment	(3,062)	(4,427)	(31,909)	(39,034)
Reclassification (Note 12)	360	-	11,701	-
Acquisition of intangible assets	-	-	-	(9,154)
Cash (used) by investing activities	<u>(2,702)</u>	<u>(4,427)</u>	<u>(20,208)</u>	<u>(48,188)</u>
FINANCING ACTIVITIES				
Obligations under capital lease	(4,132)	(4,132)	(12,395)	(12,395)
Issuance (Retirement) of common shares	-	-	-	(4,110)
Cash (used) by financing activities	<u>(4,132)</u>	<u>(4,132)</u>	<u>(12,395)</u>	<u>(16,505)</u>
NET (DECREASE) IN CASH POSITION	<u>(71,119)</u>	<u>(456,740)</u>	<u>(369,750)</u>	<u>(701,151)</u>
CASH POSITION, BEGINNING OF PERIOD	<u>528,781</u>	<u>1,029,174</u>	<u>827,412</u>	<u>1,273,585</u>
CASH POSITION, END OF PERIOD	<u>\$ 457,662</u>	<u>\$ 572,434</u>	<u>\$ 457,662</u>	<u>\$ 572,434</u>
Supplemental information				
Interest received	159	3,375	554	9,865

The accompanying notes are an integral part of these interim consolidated financial statements

1. NATURE OF BUSINESS

Telehop Communications Inc. (“the Company”) is a full-service long distance provider operating within the telecommunications industry and is registered with the Canadian Radio-television and Telecommunications Commission (“CRTC”) as a licensed Class “A” Telecom Carrier.

2. BASIS OF PRESENTATION

The notes presented in these interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company’s annual audited financial statements. These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2009 and should be read in conjunction with those statements.

The consolidated financial statements include the accounts of the Company and its operating subsidiaries: International Telehop Network Systems Inc., Telehop Long Distance Services Ltd., and Card Tel Corp., all of which are wholly owned, and of which the principal company is Telehop Communications Inc. All intercompany transactions and accounts have been eliminated on Consolidation.

3. ACCOUNTING POLICY DEVELOPMENTS

- (i) Convergence with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. The Company will monitor changes to IFRS and assess the impact that these new standards will have on the financial results and on the IFRS changeover project. The financial impacts on changeover to IFRS may be material to the financial statements, and it is expected that the impact will be similar nature to other companies in the same line of business.

Based on the work to date, The Company expects the carrying value of certain property, plant and equipment may decrease upon conversion to IFRS compared to the carrying value under Canadian GAAP. The decrease may result from increased amortization expense due to equipment componentization and the requirement to amortize property, plant and equipment when the equipment are available for use, rather than when they are put into use. Equipment componentization, which may result in increased amortization expense, involves breaking down an asset by identifying significant individual components and separately amortizing those individual components over their useful lives. Further information regarding the selection of IFRS compliant accounting policies and quantification of the impacts will be provided as the Company moves closer to the changeover date. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the required information.

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

(ii) Consolidated Financial Statements and Non-Controlling Interests

CICA HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for interim and annual financial statements beginning on or after January 1, 2011, which for this Company is January 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Financial Statements.

(iii) Business combinations

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011, which for this Company is January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with international financial reporting standards (IFRS). The Company does not anticipate that the adoption of this standard will impact its financial results.

(iv) Multiple deliverable revenue arrangements

In December 2009, CICA issued EIC-175, Multiple Deliverable Revenue Arrangements (“EIC-175”), EIC-175 which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for the Company’s interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standard on its consolidated financial statements.

4. 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’ equity, which consists of issued capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings.

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 of the ordinary course of business which may include various acquisition proposals, as well as capital and operating budgets.

The Company is not subject to externally imposed capital requirements.

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

5. STOCK-BASED COMPENSATION

The Company's employee stock option plan ("ESOP") originally reserved 1,800,000 common shares of the Company for issuance in accordance with the terms of the ESOP. The company can presently issue 98,500 additional options under this plan. Options granted vest over a period not exceeding five years and the purchase price is payable in full at the time the options are exercised. In the event of a reorganization, consolidation or change in control, the optionee has the right to exercise the share option.

The following table presents information concerning stock options granted under the Company's stock option plan:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at the beginning of the period	300,000	\$ 0.215	100,000	\$ 0.600
Options granted	525,000	0.190	400,000	0.215
Options cancelled	(100,000)	0.215	(200,000)	0.408
Options outstanding at the end of the period	725,000	0.197	300,000	0.215
Options exercisable at the end of the period	133,333	0.215	100,000	0.215

All stock options granted have an exercise price equal to the fair market value of the common shares at the grant date. On January 23rd, 2009 the company issued 400,000 options to its Directors, with a strike price of \$0.215. The options vest over 3 years and are valid until January 2014. In February 2010, the Company issued 225,000 options to Officers and Directors of the company. These options vest over 3 years and are valid until February 2015. In May 2010, the Company issued 300,000 options to the new Directors of the company who were appointed at the annual general meeting; these options also vest over 3 years and are valid until May 2015.

The Company has evaluated the fair value of all options granted using the Black-Scholes option pricing model with the noted assumptions:

	May 13, 2010	March 31, 2010 Weighted Average	December 31, 2009 Weighted average
Estimated fair value at the date of the grant(s)	\$0.152	\$0.193	\$0.215
Assumptions utilized:			
Risk-free interest rate	2.50%	2.50%	2.50%
Expected volatility	143.90%	145.50%	124.00%
Expected life of the options	5 years	5 years	5 years

For the three-month period ended September 30, 2010, the Company recognized a compensation expense of \$8,935 (\$4,550 in 2009). Year to date, the Company recognized a compensation expense of \$24,496 (\$13,651 in 2009). Stock-based compensation is reflected in the consolidated statements of income and comprehensive income, included in general and administration expenses.

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

6. EARNINGS PER SHARE

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended Sept. 30		Nine months ended Sept 30	
	2010	2009	2010	2009
Net income (loss)	\$ 13,569	\$ 126,714	\$ (156,132)	\$ (446,893)
Weighted-average shares for earnings per share	13,391,000	13,391,000	13,391,000	13,393,111
Effect of dilutive securities-Employee stock options	-	-	-	-
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	13,391,000	13,391,000	13,391,000	13,393,111
Earnings (loss) per share	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.03)
Diluted earnings (loss) per share	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.03)

7. PROPERTY AND EQUIPMENT

	Sept. 30, 2010			Dec. 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 895,820	\$ 805,626	\$ 90,194	\$ 933,113	\$ 779,283	\$ 153,830
Telecom equipment under capital lease	66,105	47,100	19,005	66,105	37,184	28,921
Computer software	240,143	215,504	24,639	240,143	179,482	60,661
Computer Equipment	113,157	84,562	28,595	104,317	57,221	47,096
Customer equipment	101,577	11,209	90,368	93,133	4,657	88,476
Unprovisioned equipment	14,545	-	14,545	34,691	-	34,691
Leasehold improvements	80,381	59,941	20,440	80,381	48,527	31,854
Furniture and equipment	67,650	44,310	23,340	65,856	34,411	31,445
	\$ 1,579,378	\$ 1,268,252	\$ 311,126	\$ 1,617,739	\$ 1,140,765	\$ 476,974

Amortization expense for the three and nine month periods ended September 30, 2010 were \$57,259 (2009: \$73,447) and \$182,297 (2009: \$225,411) respectively.

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

8. INTANGIBLE ASSETS

	Sept. 30, 2010			Dec. 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software licences and reporting system	\$ 311,245	\$ 226,762	\$ 84,483	\$ 311,245	\$ 192,499	\$ 118,746
	\$ 311,245	\$ 226,762	\$ 84,483	\$ 311,245	\$ 192,499	\$ 118,746

Amortization expense for the three and nine month periods ended June 30, 2010 were \$11,298 (2009: \$15,166) and \$57,259 (2009: \$44,567) respectively.

9. SHAREHOLDERS' EQUITY

(a) Share Capital

Authorized

An unlimited number of common shares

Issued and outstanding

Their were no changes in common shares for the nine month period ended September 30, 2010 are as follows:

	Number of Shares	Share Capital
Balance, throughout the period	13,391,000	\$ 1,553,456

(b) Contributed Surplus

The following is a continuity of the changes in contributed surplus for the nine month period ended September 30, 2010:

Balance, beginning of the period	\$ 85,816
Stock-based compensation expense during the period	24,496
Balance, end of period	<u>\$ 110,312</u>

10. FINANCIAL INSTRUMENTS

(i) Risks – Overview

The Company's financial instruments and the nature of risks which they may be subject to are summarized as follows:

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

Financial instrument	Risks		
	Credit	Liquidity	Currency Market risks
Measured at cost			
Cash and cash equivalent	x		x
Accounts receivable	x		x
Accounts payable		x	x
Obligations under capital lease		x	

(ii) Credit Risk

The following table summarizes the Company's exposure to credit risk.

	September 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 457,662	\$ 827,412
Accounts receivable	1,828,694	2,424,306
	\$ 2,286,356	\$ 3,251,718

Cash and cash equivalents: Credit risk associated with cash and cash equivalents, which are held in short-term deposits, are minimized significantly by ensuring that these financial instruments are placed with major financial institutions with investment grade ratings and the avoidance of asset-backed commercial papers.

Accounts receivable: Credit risk associated with accounts receivable is minimized by the Company's large customer base and its geographic dispersion across Canada. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

The following table presents an analysis of the age of accounts receivable not allowed for as at the dates of the Consolidated Balance Sheets.

	September 30, 2010	December 31, 2009
Customer accounts receivable net of allowance for doubtful accounts		
Current	\$ 1,758,943	\$ 2,107,633
30-60 days past billing date	25,081	186,215
60-90 days past billing date	22,123	112,211
Greater than 90 days past billing date	22,547	18,247
	\$ 1,828,694	\$ 2,424,306

The Company must make significant estimates pertaining to allowance for doubtful accounts. Historical information, current economic conditions, exceptional circumstances are all considered when determining the provision for allowance for doubtful accounts. The following table presents a

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2010 and 2009

(Unaudited)

summary of the activity related to the Company's allowance for doubtful accounts for the year to date periods:

	September 30, 2010	September 30, 2009
Balance, beginning of the period	\$ 309,381	\$ -
Additions (provisions for doubtful accounts)	136,533	189,914
Balance , end of the period	\$ 445,914	\$ 189,914

(ii) Liquidity Risk

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital changes. The Company does not currently believe it will encounter difficulty in meetings its obligations associated with financial liabilities. The Company's undiscounted financial liability that shows the remaining contractual maturities are as follows:

As at September 30, 2010	Capital lease
Balance of 2010	\$ 1,945
2011	14,581
Total	\$ 16,526

(iii) 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 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.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at September 30, 2010 the Company did possess foreign currency forward contracts. The contract entered into fixes the exchange rate at which the company will acquire U.S. dollars to the extent of its forecasted requirements until November 30, 2010. Subsequent to the period end this contract was extended until January 31, 2011.

We document all relationships between derivatives and the items they hedge and our risk management objective and strategy for using hedges. This process includes linking every derivative to:

- A specific asset or liability, or
- A specific firm commitment, or
- An anticipated transaction.

Notes to Interim Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009

(Unaudited)

We assess the effectiveness of a derivative in managing an identified risk when hedge accounting is initially applied, and on an ongoing basis thereafter. If a hedge becomes ineffective, we stop using hedge accounting. Any premiums paid for derivatives used in hedging relationships are deferred and expensed versus earnings over the life of the contract. Any forward premiums or discounts on forward foreign exchange contracts that are used to hedge debt denominated in foreign currencies are amortized expense as utilized.

Our cash flow hedges are used to mitigate the foreign currency risk on certain debt instruments and purchase commitments. We use foreign exchange forward contracts to manage the exposure to anticipated transactions denominated in foreign currencies. Changes in the fair value of these derivatives are recognized in our statement of comprehensive income, except for any ineffective portion, which is recognized immediately in income. Realized gains and losses in accumulated other comprehensive income are reclassified to the statement of operations in the same periods as the corresponding hedged items are recognized in income. Cash flow hedges that mature within one year are included in Prepaid and other expenses or Accounts payable and accrued liabilities,

11. CAPITAL LEASE OBLIGATIONS

The Company entered into a lease for telecommunications equipment that had been capitalized. The security value is \$77,771, and the maturity date of the lease is September, 2011.

	As at September 30, 2010	As at December 31, 2009
Total minimum lease payments	\$ 19,442	\$ 34,024
Less: amount representing imputed interest of 6.2%	2,916	5,103
Present value of the obligations under capital lease	16,526	28,921
Current portion – due within one year	16,526	16,526
Long term obligation under capital lease	\$ -	\$ 12,395

12. RECLASSIFICATION OF PLANT AND EQUIPMENT

The Company has certain assets in the custody of its Customers, which are intended to generate an on-going Revenue stream and are classified as Plant and Equipment for Balance sheet presentation purposes. Should this equipment be ultimately sold, the cost of the equipment is not reflected as a disposal of plant and equipment and is however reflected as a cost of goods sold to match the revenue generated in the period in which the sale occurred.

13. CONTINGENT LIABILITIES

- (i) In 2007, the Company received a notice of claim from a vendor for marketing services it believes the Company was committed to pay. The amount of the claim against the Company is approximately \$230,000. The Company is vigorously defending such claims as it strongly believes it is not subject to this commitment. The outcome is not currently determinable. No amount has been recorded in the Consolidated Financial Statements in relation to this claim.

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- (ii) 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 our 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 operation.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the current presentation.