

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2008

Dated May 28, 2008

Management's Discussion and Analysis ("MD&A") is intended to help shareholders, analysts and other readers understand the dynamics of Telehop Communications Inc.'s ("Telehop") business and the key factors underlying its financial results. It explains trends in Telehop's financial condition and operating results for the three months ended March 31, 2008, compared with the operating results for the three months ended March 31, 2007. The MD&A should be read in conjunction with the Unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2008 and the annual Management's Discussion and Analysis for 2007.

Forward-Looking Statements

The consolidated financial statements and information and analysis in the management's discussion and analysis necessarily 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 requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information.

Certain statements in the MD&A also constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the results, performance or achievements of Telehop to be materially different from those expressed or implied by such statements. Such factors include, amongst others, the following: general economic and business conditions, demographic changes, regulation, major technology changes, and timing of product introductions, competition, and the ability of Telehop to attract and retain key employees. Readers are cautioned not to place undue reliance on forward-looking statements as various factors could cause actual future results, conditions or events to differ materially from expectations or estimates expressed in the forward-looking statements.



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1. CORE BUSINESS, VISION AND STRATEGY

Core Business

Telehop (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. Telehop’s core network resides in Toronto, Ontario, with virtual points-of-presence in major cities across Canada. We earn our revenues from the access to, and the use of, our telecommunications network and infrastructure. We sell one type of service which is packaged in different forms which includes casual calling, subscriptions and wholesale.

Casual Calling

Telehop’s Casual Calling services allow any user to access Telehop's long distance Equal Access network from most telephones across Canada, without having to subscribe to the service, or pay any monthly fees. The dial-around service or casual calling service allows a user to bypass or ‘dial around’ their existing long-distance provider on any call by entering the digits “10-10-620” or “10-10-100” before making a call, without having to switch carriers. Any calls made using Telehop’s “10-10-620” and “10-10-100” Casual Calling services appear on the customers’ regular, monthly telephone bills at Telehop’s discounted rates. Telehop has entered into Billing & Collection Agreements with a number of major Local Exchange Carriers (“LECs”) across Canada.

Subscriptions

Equal Access – The Company is a provider of “Equal Access” long distance services worldwide to its residential and business customers. The term “Equal Access” refers to a long distance service that offers equal ease of access to all customers. This allows Telehop customers to directly dial long distance calls on Telehop's network using the normal ‘1+’ or ‘011+’ dialing pattern.

BroadTalk – The Company is a reseller of Voice over Internet Protocol service, branded as BroadTalk. This service allows any customer that has access to a high-speed Internet connection to place calls to anywhere in the world from anywhere in the world using the BroadTalk gateway and a regular phone.

Virtual Card – The Company offers a virtual calling card such that a customer does not need to acquire or purchase a physical card from a vendor or a convenience store. The user pre-pays the virtual card for a maximum dollar amount of long distance calling, and then the pre-paid Virtual Card can be easily replenished on the telephone or on the Internet.

High-speed Internet – The Company is a reseller of high-speed internet service that can match the quality and speed of any of the larger incumbent high-speed internet providers in Canada, while offered at a much lower price.

Wholesale

Telehop’s wholesale service is based on trading bulk minutes worldwide with high volume users who wish to carry their calls through our network. These high volume users often repackage the minutes purchased from us at discounted rates with their own unique services which are then sold to their customers.

Vision and Strategy

Our vision is to become one of Canada's leading alternative telecommunications service providers that offer the greatest value proposition to all Canadians for all their telecommunications needs. Our strategy for growth is to increase its customer base by developing new services and product mixes that meet the evolving needs of Canadian consumers.

Telehop has thrived from its traditional long-distance services by focusing on providing the best value to its customers. However, the Company acknowledges that competing technologies have entered into the telecommunications space and it is addressing this changing trend by embracing new technologies that will offer even more value and convenience to its customers. In addition, market pressures continue to drive long-distance rates lower as the Company must adopt same to ensure customer retention. This trend is consistent with any mature market and we acknowledge the need to become more innovative and even more efficient in order to preserve its competitive position.

One major direction the Company is committing to is its voice-over-internet-protocol (VOIP) strategy. The Company will be devoting a significant amount of resources in the near future in developing an attractive VOIP solution that will help diversify its existing portfolio of services and protect its competitive position as industry trends have indicated an upward migration of customers over to VOIP services. VOIP technology has many useful applications as voice and data can be transmitted through an IP network that can support high volumes of traffic at a substantially lower cost compared to traditional circuit switched connections.

Globalization has become a necessity for every Canadian company to stay competitive and the Company has taken advantage of this trend through various outsourcing initiatives that they have recently started to contribute to cost efficiencies.

To realize full value for its shareholders, Telehop is striving to complete its strategic review process, which began in the fourth quarter of last year, and are reviewing all options which include a sale or merger of the Company.

Activities that supported the Company's strategy in the first quarter of 2008 include the following:

Telehop Home Phone

The Company successfully completed its final testing and development phases for its voice-over-internet-protocol (VOIP) home phone service, "Telehop Home Phone", through extensive internal beta testing which focused on call quality, functionalities and stress tests. Initial discussions with various agents show a huge interest from them in re-selling this service. A marketing strategy has also been developed and will be rolled out in the second quarter.

Call-back Service

During the quarter, the Company successfully developed its call-back service which allows wireless serviced customers to access its network through a call-back application such that an out-bound call can be reverted to an in-bound call. This service enables a customer to save substantial airtime charges where the customer is subscribed to a plan where in-bound calls are free of charge.

Call Centres

The Company has engaged in discussions with various call centres in Europe and Asia and is close to signing an agreement with multiple call centres for outsourcing of sales and support services. These agreements will allow Telehop to access an alternative and low-cost call centre support and sales force, adopting the Telehop

approach. This will enhance sales and support operations, lower the Company's cost structure and improve cost per customer acquisition.

Strategic Review Update

The Company commenced a strategic review process in 2007, which remains underway at this time. The directors and management of the Company are working hard to create sustainable shareholder value for all shareholders.

In this process, the directors and management have reviewed the operations and business strategy of Telehop, implementing change aimed at improving the value of Telehop both from a short and long term perspective. Additionally, we have and continue to assess various merger opportunities available to the Company and how each of these opportunities may improve the value of shareholder's investment in Telehop.

Recently, Jaguar Financial Inc. ("Jaguar") has made an unsolicited offer to acquire a minimum of 50% of the outstanding shares of the Company at \$0.50 per share, subject to a number of conditions. We encourage all shareholders to review this offer in detail, seeking independent advice as necessary. The directors of the Company plan to provide feedback on this proposal in the coming days to assist shareholders in understanding the offer put forth by this group. Jaguar has not explained how they determined value, nor have they articulated an operating business strategy should they be success in acquiring the business.

Jaguar has been invited to participate in the Company's strategic process on several occasions, each time declining to participate. Jaguar offer is simply an attempt to pre-empt an ongoing strategic review process, which was commenced for the benefit of all shareholders, presumably to maximize their own position at a cost to all shareholders.

We wish to thank all shareholders for their continued support as management and the board continues to work hard to maximize value for all shareholders through an orderly process where Jaguar and other interested party may express their interest in the business on a level playing field.

2. KEY PERFORMANCE INDICATORS (KPI's) AND NON-GAAP MEASURES

We measure the success our strategy through a number of key performance indicators, which are outlined below. The following key performance indicators are not measurements in accordance with GAAP and should not be used as an alternative to net income or any other measure of performance under GAAP.

Gross Margin

Gross margin is determined by deducting all telecommunications-related expenses from operating revenues. 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.

Calls and Minutes

Calls and minutes are determined by the number of calls and minutes that have been completed by customers through the Company's network, which are tracked through call detail records. This indicator is a measure of how well the Company has increased overall volume in customer usage of its network.

Average Revenue per Minute (ARPM)

Average revenue per minute is determined by dividing total operating revenues by total number of minutes completed. This indicator serves to measure how well the company has maintained or increased its long-distance rates per minute.

Average unique users

Total average unique users is determined by dividing the total number of unique customers who have used the Company's services during a period by the number of months for the same period. The Company measures its ability to grow its customer base by tracking its average number of unique users.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a standard 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. EBITDA is not defined by GAAP and should be used as a supplement and not a substitute for the Company's results of operations.

Only interest expense pertaining to capital leases has been excluded in calculating EBITDA for our purposes since they are related to debt servicing.

3. CAPABILITY TO DELIVER

The Company's capabilities to deliver results were described in the 2007 Management's Discussion and Analysis. The key activities in the first quarter that reflected the Company's ability to carry out its VOIP strategy are as follows:

Operating Capabilities

The Company's technical team successfully completed the development of the Telehop Home Phone after extensive programming and testing time to ensure that the VOIP service surpassed all stress tests, call quality and functionality performance tests. The team has further improved the infrastructure to support this service and is prepared to meet the anticipated volume of calls.

4. RESULTS OF OPERATIONS

Consolidated Highlights (\$Thousands except for KPI's)	Quarters ended March 31		
	2008	2007	% Change
Consolidated Income Statement			
Operating revenues	4,371	4,930	-11.3%
Gross margin	1,664	2,001	-16.8%
Gross margin %	38.1%	40.6%	-6.2%
Operating costs	2,029	1,720	18.0%
General and administration	1,067	752	41.9%
Marketing and selling	586	610	-3.9%
Development and technical	229	243	-5.8%
Amortization	106	115	-7.8%
Writedown of intangible assets	39	-	100.0%
Interest	2	-	100.0%
Operating income (loss)	(305)	1,440	-121.2%
EBITDA	(198)	396	-150.0%
Other income	28	62	-54.8%
Net income (loss)	(205)	196	-204.6%
Earnings (loss) per share - basic	(0.02)	0.02	-200.0%
Earnings (loss) per share - diluted	(0.02)	0.01	-300.0%
Consolidated Statement of Cash Flows			
Cash provided (used) by operating activities	(318)	73	-535.6%
Cash used by investing activities	(52)	(50)	-4.0%
Cash provided (used) by financing activities	(272)	39	-797.4%
Key Performance Indicators			
Minutes (thousands)	94,484	97,250	-2.8%
Calls (thousands)	17,516	25,226	-30.6%
Average revenue per minute (ARPM)	0.046	0.050	-8.0%
Average unique users (thousands)	131	140	-6.2%

Overall Performance

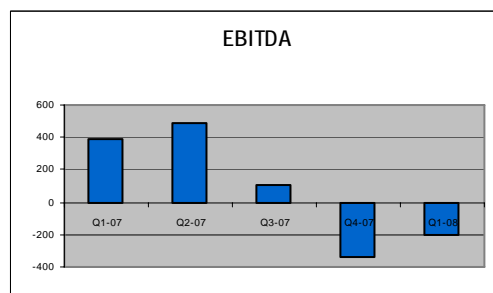
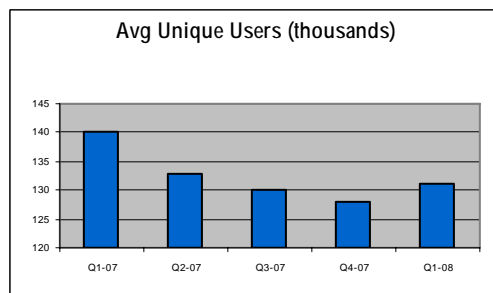
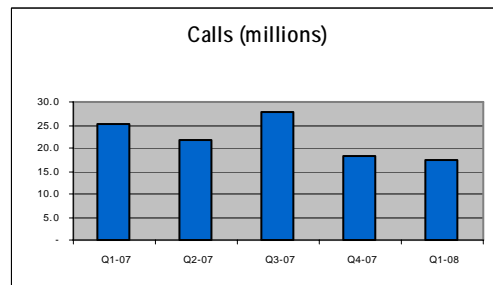
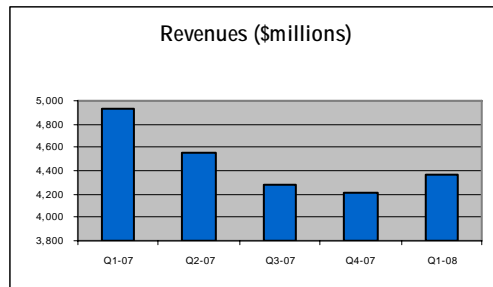
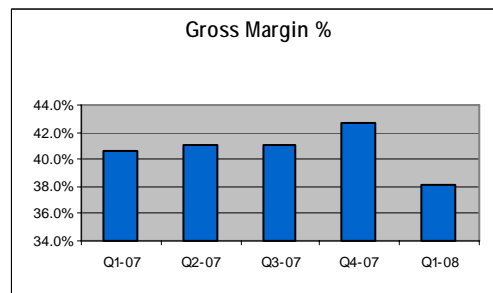
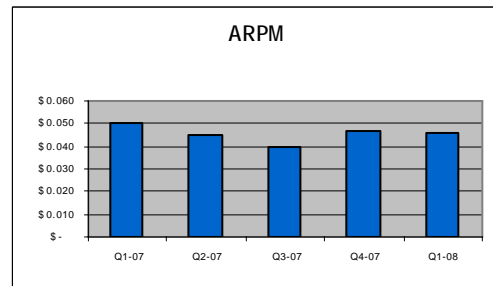
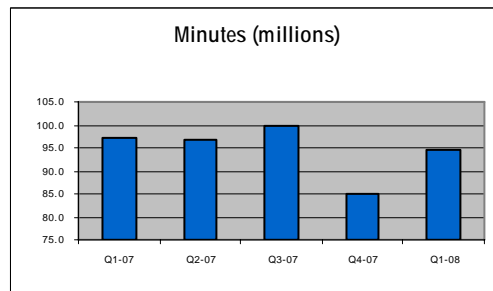
The Company continues to be challenged by a decline in ARPM and increased competition in the market place which has resulted in an overall decline in revenues by 11.3% and gross margin by 16.8% year-over-year. In addition, some of our long-distance plans have lost interest from our customers - the Company has migrated them to more competitive plans; however, some attrition was experienced. The introduction of our Home Phone in the second quarter is expected to reverse this trend and increase retention as we begin to offer even more attractive and competitive options to our customers.

ARPM declined by 6.2% compared to the first quarter of 2007. This was pre-empted by market competition and the general trend of the direction of ARPM in the industry.

Total calls made declined by 30.6% which was mainly driven by the decline in calls from wholesale services, which declined by 7.6 million or 40.3%.

Average unique users declined by 6.2% compared to the same period last year. The decline was largely due to increased competition in the market which included aggressive marketing campaigns from larger carriers that have offered free long distance minutes to attract new customers.

Gross margin declined to 38.1% compared to 40.6% in the same period last year. This was attributed to the overall decline in ARPM which was largely contributed by the increase in minutes called by customers under block or unlimited plans, which allow customers to call blocks of minutes or unlimited calling to certain destinations.



Operating Revenues

Consolidated operating revenues declined by \$558,837 million or 11.3%. This was attributed to the 8.0% decline in ARPM and 6.2% decline in average unique users, both of which were driven by market pressures.

Gross Margin

Gross margin declined by 6.2% as a percentage of operating revenues to 38.1% compared to 40.6% a year ago. The decline was due to the 8.0% decline in ARPM.

Operating Expenses

General & administration expenses increased by \$314,420 or 41.8% compared to the same period last year. The increase was mainly attributed to the settlement of the severance arrangement provision of \$160,000 for the period with the former President, as a result of the management change made during the quarter. The increase was also attributed to \$70,150 in corporate consulting fees associated with the strategic review and corporate advisory services during the quarter.

Marketing and selling expenses decreased nominally by \$23,967 or 3.9%. As a percentage of operating revenues, marketing and selling expenses represented 13.4% compared to 12.4% in the same period last year. The Company has reached an acceptable range in rate of return in marketing and selling expenditures and will be focusing its marketing efforts in launching the Home Phone in the second quarter.

Development and technical support expenses decreased slightly by \$13,773 or 5.7%. The Company did not make any headcount changes in the development and technical departments.

Amortization expenses decreased by \$8,587 or 7.5% compared to the same period last year. The decrease was mainly driven by certain assets that became fully amortized in 2007.

A writedown of softphone licences was recorded during the quarter for \$39,354. Management came to the decision that it has no foreseeable plans to market the softphone as part of the VOIP Home Phone launch.

EBITDA and Operating Income

EBITDA decreased to (\$218,013) from \$395,982 and operating income decreased to (\$364,832) from \$281,389 compared to the same period last year. The decline was mainly attributed to the overall decline in gross margin by \$337,320 and the increase in general administration expenses by \$314,420, which was primarily driven by the severance arrangement and corporate consulting fees.

Quarterly Results Summary

(\$ thousands except per share)	06 Q2	06 Q3	06 Q4	07 Q1	07 Q2	07 Q3	07 Q4	08 Q1
Operating revenues	5,108	5,430	5,497	4,930	4,562	4,275	4,216	4,371
EBITDA	426	532	390	396	487	102	(340)	(218)
Operating income (loss)	341	427	281	281	365	(8)	(455)	(365)
Net income (loss)	221	287	253	196	256	3	(282)	(205)
Earnings (loss) per share								
Basic	0.02	0.02	0.02	0.02	0.02	-	(0.03)	(0.02)
Diluted	0.02	0.02	0.02	0.02	0.02	-	(0.03)	(0.02)

5. FINANCIAL CONDITION

The following table presents the changes in Consolidated balance sheets in the three months ended March 31, 2008.

(\$Thousands)	Mar. 31 2008	Dec. 31 2007	Changes		Explanation of Changes
Current Assets					
Cash and cash equivalents	2,240	2,882	(642)	-22.3%	See Section 7- Liquidity and Capital Resources
Accounts receivable	2,807	2,875	(68)	-2.4%	Seasonal changes and consistency in revenues from fourth quarter of 2007
Income taxes recoverable	510	-	510	100.0%	Due to instalments recoverable from 2007
Prepaid expenses and deposits	103	88	15	17.0%	Increase in prepayment of postage and legal retainer
Current Liabilities					
Accounts payable and accrued liabilities	2,491	2,565	(74)	-2.9%	Seasonal changes
Dividend payable	-	267	(267)	-100.0%	Dividend distributed in January, 2008
Obligations under capital lease	17	15	2	13.3%	change in amortization schedule
Non-Current Liabilities					
Future income taxes	20	32	(12)	-37.5%	Decrease in temporary differences in capital assets
Obligations under capital lease	41	47	(6)	-12.8%	Payments made in first quarter as part of repayment schedule
Capital assets, net	944	1,037	(93)	-9.0%	Due to amortization and lower additions
Total shareholders' equity	4,053	4,246	(193)	-4.5%	Net loss incurred in the first quarter

7. LIQUIDITY & CAPITAL RESOURCES

Liquidity risk arises from our general funding needs and in the management of our assets and liabilities. We manage 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 following aggregated information outlines our contractual obligations and other commitments to provide an understanding of our short- and long-term liquidity and capital resource requirements.

	Contractual Obligations and Other Commitments			
	Total	Within 1 year	1-3 years	3-5 years
Long-term debt	-	-	-	-
Operating lease obligations	710,165	197,997	512,168	-
Capital lease obligations	68,048	16,526	51,522	-
Purchase obligations	-	-	-	-
Other long-term obligations	-	-	-	-
Total	778,213	214,523	563,690	-

Operating Leases

We have long-term operating lease agreements for our corporate office and switch facility, both of which expire in 2011.

Capital Leases

We have a capital lease agreement for a voice recognition system purchased to support and increase productivity at our call centre. The capital lease includes a purchase option and expires in 2011.

Sources and Uses of Cash

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:

(thousands except ratios)	Three months ended			
	2008	2007	\$Change	% Change
Cash provided (used) by operating activities	(318)	73	(391)	-536%
Cash used in investing activities	(52)	(50)	(2)	4%
Cash used by financing activities	(272)	(107)	(165)	154%
Decrease in cash	(642)	(84)	(558)	664%
Cash and cash equivalents	2,240	2,694	(454)	-17%
Current assets	5,661	5,713	(52)	-1%
Current liabilities	2,508	2,306	202	9%
Working capital	3,153	3,407	(254)	-7%
Current ratio	2.3	2.5	n/a	-9%

Our liquidity needs continue to be met through cash generated from operations and from existing cash. The Company's strong working capital position has enabled us to overcome current challenges with a cash position of \$2,239,984 and no bank debts as at March 31.

Cash used by operating activities increased by \$390,712 to \$318,077, which was largely attributed to the \$211,935 reduction in income tax payable and the net loss of \$204,540 in the first quarter. With the launch of the Home Phone which is scheduled for the second quarter, the Company expects to incur up to \$1.0 million in operating costs, the majority of it in marketing and selling activities, by the end of 2008. This is expected to reduce cash reserves.

Cash used in investing activities were consistent with the same period last year at \$52,378 compared to \$49,723. The capital outlays were for normal operating needs.

Cash used by financing activities increased by \$164,832 which was a direct result of the \$267,270 dividend paid during the quarter compared to \$127,035 paid in the same period last year.

We believe that the Company's existing cash of \$2,239,984 and cash generated from operations will be sufficient to meet all capital and other cash requirements in the remaining quarters in 2008.

8. OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS

Off-Balance Sheet Arrangements

The Company uses foreign exchange forward contracts (*Forwards*) and options contracts (*Options*) to mitigate its foreign exchange exposure from a portion of its business which transacts in U.S. dollars. Forwards obligate the Company to buy U.S. dollars at a pre-determined rate while Options, with the purchase of a premium, allow the Company to exercise the right to purchase U.S. dollars at a pre-determined rate for a pre-determined future period. As at March 31, 2008, the Company did not enter into any Forwards or Options.

Related Party Transactions

- (i) The Company is recovering overpayments from prior years and a one-time salary adjustment of \$12,000 from the Chairman in 2007. The balance is being repaid through bi-weekly instalments which began in June, 2007 for the overpayments, and December 1, 2007 for the salary adjustment. As at March 31, 2008, the outstanding balance receivable is \$54,180, which is included in accounts receivable.

9. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

Critical Accounting Estimates

The Interim Consolidated Financial Statements follow the same accounting policies as the Consolidated Financial Statements for the year ended December 31, 2007. The interim financial statements should be read in conjunction to the 2007 financial statements. Certain accounting policies require management to make critical accounting estimates because of their subjective or complex nature and materially different amounts could be reported under different conditions or using different assumptions. We have discussed the development, selection and application of our key accounting policies, and critical accounting estimates and assumptions, with our audit committee, and it has reviewed the disclosures described in this section. These estimates have not changed from the summary outlined in the 2007 Management's Discussion and Analysis.

Accounting Policy Developments

Effective January 1, 2008, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): *Financial Instruments-Disclosure* ("Section 3862"), *Financial Instruments-Presentation* ("Section 3863"), *Capital Disclosures* ("Section 1535").

Financial Instruments

Sections 3862 and 3863 replace Section 3861 (Financial Instruments – Disclosure and Presentation). The new sections have expanded the disclosure requirements to include the identification of various risks associated with financial instruments, such as liquidity and market risks, and how the Company manages those risks.

Capital Disclosures

Section 1535 requires the Company to disclose its objectives, policies and procedures in managing capital. It also requires the Company to disclose any externally imposed capital requirements and the consequences of non-compliance.

These new accounting policies were adopted on a prospective basis with no restatement of prior period financial statements. Please refer to note 4 and 10 of the Interim Consolidated Financial Statements for a detailed discussion of each of these changes.

Capitalization

As at May 27, 2008 the Company had 13,363,500 common shares outstanding and 355,000 share options, which are exercisable at prices ranging between \$0.32 and \$0.80 per share at varying times before December, 2012.

10. BUSINESS OUTLOOK

Core Business

The Company anticipated the results in the first quarter but we have began making significant efforts to improve on our customer acquisition efforts through the access of external call centres and aligning with new agents. We have identified products and plans that are no longer profitable and have started streamlining them to increase overall gross margins. We believe that we can swiftly make these operational changes to bring us back to profitability in the coming quarters.

VOIP Strategy

We are satisfied with the completion of the Telehop Home Phone after extensive testing in the first quarter. We will be launching the service in the second quarter and are very excited with the interest we have received already from our agents and call centres who want to become a distributor of the Home Phone. An aggressive marketing campaign will be rolled out in the second quarter as part of our strategy, which includes an operating budget of up to \$1.0 million.

Advanced Wireless Services (AWS) Spectrum Auction

The AWS auction commences on May 27, 2008. After extensive review and analysis of the Company's strategic options, a decision was made to withdraw from the auction as the overall financial commitments outweigh the strategic benefits of a successful bid.

11. RISKS AND RISK MANAGEMENT

The following areas summarize the principal risks and uncertainties that could affect Telehop's future business 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. Telehop intends on mitigating these risks through offering more innovative solutions that will remove itself from the price sensitive market, and further reduce its cost structure in anticipation of future price declines.

Technology

The market for our 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 our business and operating results. We have derived, and we expect to continue to derive, a substantial portion of our revenues from providing telecommunications services that are based upon today's leading technologies and that are capable of adapting to future technologies. Telehop is investing into various VOIP technologies and plans on releasing them in the market as part of its strategy to be at the forefront of new technological changes in the telecommunications industry.

Regulatory

Regulatory changes issued by the Canadian Radio and Telecommunications Commission (CRTC) could have a material adverse impact on Telehop's procedures, costs and revenues. The company is federally regulated by the CRTC and Industry Canada. The CRTC regulates certain tariff charges in which

Telehop pays to certain local carrier exchanges and may issue changes which may have a material unfavourable impact on the Company's financial results. To mitigate these risks, we monitor industry developments very closely through industry advisors and prepare

Management Team

Telehop operates with a small 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 replacement of our management team members may have an adverse impact on operating results as their experience and skills may be difficult to find and match in the event of a management change. However, we encourage all team members 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, we do not at this time have the full diversification in services compared to other larger telecommunications companies. Therefore, we are exposed to unforeseen changes in the long-distance market which could adversely affect the Company's future financial results. We mitigate these risks by taking steps toward being a more diversified company by offering not only long-distance services but as a provider of all telecommunications services. Our VOIP strategy is our initial step towards that goal.

VOIP Patents

There have been legal disputes over the impropriety of the use of VOIP technology by some prominent marketers of VOIP products and services. The original patent holder(s) of VOIP technology may in the future take legal action against any distributor or marketer of VOIP products and services without legal consent by the patent holder(s). Telehop is a distributor of VOIP technology, and not a developer. We do not believe we will be committing any patent violation acts as licensing fees would be incurred to use such technology. However, legal risks exist as the extent in which we are using VOIP technology may be challenged in the future.

Foreign Exchange

We transact in U.S. currencies with various carriers when incurring telecommunications expenses. Volatility in the currency markets can have an adverse impact on the Company's financial results. These risks are mitigated by two measures. We collect revenues from wholesale services in U.S. currencies and, therefore, there is a natural hedge against related telecommunications expenses that are transacted in U.S. currency. We also utilize a hedging strategy through foreign exchange options and forward contracts in an effort to control volatility in the currency markets.

Credit

The Company is subject to credit risk through accounts receivables, which consists of amounts represented by the large number of subscription services customers in which we bill directly, and amounts owed from various LEC's from casual calling revenues.

More than 50% of the Company's accounts receivables are owed by a few LECs across Canada. The LEC's provide billing and collection services on our behalf through billing and collections agreements. We mitigate our credit risks from this group of LECs by purchasing from them long-distance services which offset at least 50% of the accounts receivables.