



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2008

Dated: April 14, 2009

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 year ended December 31, 2008, compared with the operating results for year ended December 31, 2007. The MD&A should be read in conjunction with the Audited Consolidated Financial Statements for the year-ended December 31, 2008.

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.



Management's Discussion and Analysis Index

	Section	Page
1	Overview	3
2	The Year in Review	4
3	Key Strategic Initiatives	6
4	Material Contract	7
5	Key Performance Indicators (KPI's) and Non-GAAP Measures	7
6	Key Performance Indicators	8
7	Results of Operations	9
8	Liquidity & Capital Resources	13
9	Fourth Quarter Results	15
10	Off-Balance Sheet Arrangements and Related Party Transactions	19
11	Critical Accounting Estimates, Change in Accounting Policies, Accounting Policy Developments, Capitalization, Normal Course Issuer Bid and Pension Plan	20
12	Risks and Risk Management	27
13	Contingent Liabilities	29
14	Summary of Quarterly Results for the eight most recent quarters	31

1. COMPANY OVERVIEW

Telehop 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. Revenues are earned from the access to, and the use of, our telecommunications network and infrastructure. One type of long distance service is sold, packaged in different forms, which includes casual calling, subscriptions, wholesale and VoIP – Telehop HomePhone.

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 all the 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.

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.

VoIP - Telehop HomePhone

Telehop successfully completed its final testing and development phase for its voice-over-Internet protocol (VoIP) home phone service called “Telehop HomePhone”. The product was first made available in the second quarter of fiscal 2008 on a trial basis with limited marketing. It was then introduced across Canada during the fourth quarter with a more extensive marketing campaign.

2. THE YEAR IN REVIEW

Financial Review

Revenue for fiscal 2008 was \$16,384,290 with a net loss of \$1,335,554 or \$(0.10) per common share compared to revenue of \$17,983,269 and net income of \$172,748 or \$0.01 per common share for 2007. Our revenue was \$1,598,979 or 9% less in 2008 from 2007 which is attributable to a reduction in our retail long-distance business of \$522,910 and a reduction in our wholesale long-distance business of \$1,076,069.

Our gross margin as a percentage of revenue for 2008 was 37.4% compared to 41.3% for 2007. The 3.9% reduction is a result of the competitive nature of our industry. We reduced rates in certain markets and lines of business to remain competitive while at the same time our costs increased.

Operating expenses increased from \$7,245,221 in 2007 by \$1,004,817 or 14% to \$8,250,038 in 2008. The majority of the increase occurred in general and administration expenses and is a result of increased costs associated with a number of corporate matters which included termination costs associated with a change in executive management and an increase in bad debts expense.

The end result, of a reduction in revenue with lower gross margins and an increase in operating expenses, is that we recorded a net loss for 2008 of \$1,335,554 compared to net income of \$172,748 for 2007.

We completed the year with \$1,273,585 of cash and working capital of \$2,284,772 with no bank debt. We have reduced our expenses on an ongoing basis and have implemented a strategic initiative which we believe will help us increase the value of our Company.

Operational Review

During fiscal 2008 we dealt with the potential sale of our Company and an unsolicited take over bid, which contributed to the increase in expenses and had a negative impact on operations for the year.

1. Jaguar Financial Inc. (“Jaguar”) made the unsolicited offer, pursuant to a take over bid circular dated May 28, 2008 (filed on Sedar), to acquire a minimum of 50% of the outstanding shares of the Company. At that time the Board encouraged all shareholders to review Jaguar’s offer in detail and seek independent advice as necessary. The directors of the Company provided feedback on the proposal in a Directors’ Circular dated June 11, 2008 (filed on Sedar). It was the Company’s opinion that the Jaguar offer was simply an attempt to pre-empt the strategic review process, which was commenced for the benefit of all shareholders, presumably to maximize their own position at a cost to all shareholders. The Jaguar offer expired on July 31, 2008.
2. An offer was received by the Company from Globalive Communications Corp. (“Globalive”)

Page 4 of 30

to purchase 100% of the outstanding shares of Telehop. The offer was signed on July 23, 2008 whereby the Company entered into a binding offer letter (the "Offer") with Globalive in respect of Globalive acquiring 100% of the Company's outstanding shares, subject to the terms and conditions of an Amalgamation Agreement. The Board of Directors unanimously endorsed the Globalive Offer, and worked with Globalive to complete the Amalgamation Agreement. The Company and Globalive could not come to acceptable terms to complete the Amalgamation Agreement.

Looking forward to 2009 we will continue to implement our key strategic initiatives:

- We are targeting high growth niche markets.
- We are continuing with Telehop HomePhone (VoIP). We completed the development of the Telehop HomePhone and released it to the market late in the fourth quarter. We believe this will represent strong revenue growth for us.
- We are committed to growing our long distance customer base. We have implemented a number of marketing programs and remained focused on growing our casual calling customer base and converting them to paying subscribers.
- We have strengthened our management team and our Board of Directors.
- We continue to search for and evaluate opportunities for strategic partnerships.

We believe the current market price of our common shares may not reflect the underlying value and as such, on November 6, 2008 we announced a normal course issuer bid for up to 650,000 common shares, which is approximately 5% of the issued and outstanding common shares. Our cash may be used for this purpose. Purchases under the bid can be made from time to time over a twelve-month period, as appropriate opportunities arise.

Management and the Board wish to thank all shareholders for their continued support as we continue to execute on our key strategic initiatives with a goal to increase the value of our Company.

3. KEY STRATEGIC INITIATIVES

We are focusing our business on our more profitable business lines.

Targeting High Growth Niche Markets

We are focusing our core lines of business on communities where we have a loyal customer base and where trends indicate growing consumer demand for the type of services we offer. In particular, we are concentrating on the ethnic, student and snowbird segments of the market where high quality,

Page 5 of 30



convenience and attractive pricing are key decision making factors. As we move into 2009 to effectively target these markets:

- We have bolstered our marketing capability and implemented new marketing campaigns.
- We are broadening our product offering to include more bundled services.

Continuing with Telehop HomePhone (VoIP)

With industry trends pointing to the migration of customers to VoIP services, we have enhanced our flagship product, the Telehop HomePhone, and late in the fourth quarter we commenced a comprehensive multi-media marketing campaign. To support the anticipated growth we added staff to our help desks and expanded our product management and marketing teams.

Growing Long Distance Customer Base

Through a more innovative marketing program, including direct marketing and telemarketing, we are focused on converting customers from casual calling to paid subscriptions. To better respond to the demand for affordable long distance services among our customers in ethnic communities, we are forming alliances in international markets, such as India and the Philippines, with the goal of further reducing our rates.

Strengthening the Management Team

Over the past year, we have broadened and deepened the capabilities of our senior management team and our Board of Directors, an undertaking which we felt essential to move forward in a new strategic direction.

4. MATERIAL CONTRACT

The Company executed a definitive employment agreement with the Company's President and Chief Executive Officer (CEO), the principal terms of which confirm the following:

- Base salary: \$300,000 per annum until June 9, 2010.
- 19.5 months upon termination without cause
- 24 months upon a change of control

The Directors considered it in the best interests of all shareholders to confirm the definitive value of the President & CEO rights upon termination.

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

Page 6 of 30



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.

6. KEY PERFORMANCE INDICATORS

Key Performance Indicators	2008	2007
Minutes (thousands)	318,284	378,688
Calls (thousands)	70,410	92,996
Average revenue per minute (ARPM)	\$0.0510	\$0.0476
Average monthly users	126,293	132,768

During the year, as part of our strategic initiatives, we concentrated on our retail business which has a higher gross margin than our wholesale business. In many instances we found that, due to competitive forces, our gross margin was too low in the wholesale business and when rates were increased revenue was affected.

The number of minutes decreased year over year by 16%. The decrease was a result of lower minutes generated by the wholesale business line.

The number of calls decreased year over year by 24%. The decrease was a result of the reduction in emphasis on our wholesale business resulting in lower revenue and a lower number of calls.

ARPM increased marginally by 7% from \$0.0476 in 2007 to \$0.0510 in 2008. This is due to a change in product mix where the retail business, which has a higher revenue per minute, accounts for more of the consolidated revenue in 2008 than it did in 2007.

7. RESULTS OF OPERATIONS

Revenue for 2008 was \$16,384,290 compared to revenue of \$17,983,269 for 2007. The net loss for the year was \$1,335,554 or \$0.10 per common share, compared to net earnings of \$172,748 or \$0.01 per common share on revenue of \$17,983,269 for 2007.

Significant progress was made during the year in executing our strategic initiatives. With the Jaguar affair and the Globalive transaction behind us, we were able to make changes in our management team and our Board of Directors. We are confident the team in place today will be able to lead us back to profitability and hence increase shareholder value.

Consolidated Selected Information	For the year ending		
	December 31, 2008	December 31, 2007	December 31, 2006
Consolidated Income Statement			
Operating revenues	\$ 16,384,290	\$ 17,983,269	\$ 21,055,434
Gross margin	6,127,044	7,428,676	9,305,951
Gross margin %	37.4%	41.3%	44.2%
Selected operating costs			
General and administration	4,260,064	3,220,896	3,110,327
Marketing and selling	2,493,450	2,580,811	3,478,640
Development and technical	1,034,913	952,495	844,844
Amortization	419,609	461,798	420,548
Write-down of intangible assets	39,354	---	---
Operating income (loss)	(2,122,994)	183,455	1,439,865
EBITDA	(1,661,383)	674,474	1,872,140
Net income (loss)	(1,335,554)	172,748	1,024,182
Earnings (loss) per share – basic	\$ (0.10)	\$ 0.01	\$ 0.08
Earnings (loss) per share – diluted	\$ (0.10)	\$ 0.01	\$ 0.08
Consolidated Statements of Cash Flows			
Cash (used) provided by operations	(843,450)	548,717	1,488,265
Cash provided (used) by operating activities	(1,181,636)	334,465	2,313,737
Cash used by investing activities	(159,550)	(264,622)	(406,745)
Cash provided (used) by financing activities	(267,534)	33,798	38,937
Cash, end of period	\$ 1,273,585	\$ 2,882,305	\$ 2,778,664

Operating Revenues

Consolidated operating revenues of \$16,384,290 for 2008 declined by 8.9% or \$1,598,979 from revenues of \$17,983,269 for 2007. Our Casual Calling, Subscription business and VoIP, which collectively is referred to as our retail revenue, is our core business and we strive to grow these three lines of business as a whole. Our retail revenue declined by \$522,910 or 3.5% due for the most part to rate adjustments made as a result of competitive pressures in the market, which included aggressive marketing campaigns from larger carriers that have offered free long distance minutes to attract new customers. Our wholesale business is lower margin business and sold on a bulk

Page 9 of 30



basis. Wholesale revenue declined by \$1,076,069 or 33.8%. This is due to our decision to maintain and in some instances increase our rates, which resulted in lower revenue.

Comparison of revenue by Core Business Product Line

	For the years ending December 31,	
	2008	2007
Retail revenue	\$ 14,272,814	\$ 14,795,724
Wholesale	2,111,476	3,187,545
Total revenues	<u>\$ 16,384,290</u>	<u>\$ 17,983,269</u>

Retail Revenue

There has been a concerted effort to convert customers from Casual Calling to a paid Subscription basis. This effort is paying off and combined with Telehop's engaging of Call Centers for outbound tele-sales has resulted in an increase in the number of subscribers for our Subscription business. Our plan is to market our newest product, Telehop HomePhone (VoIP), to these subscribers. We believe the HomePhone has the potential to generate significant revenue.

Wholesale revenue

Wholesale revenue has a significantly lower gross margin than the other lines of business. Wholesale customers buy "bulk minutes" from Telehop at discounted prices. This line of business is very competitive and margins for the overall Canadian market in this segment have declined. In the past Telehop required the extra volume of minutes used by the Wholesale business to negotiate better rates from the long distance carriers. Telehop's other business lines have sufficient minutes so that this is no longer a requirement. Telehop has maintained its unit pricing in Wholesale and in some instances increased unit pricing, which resulted in revenue declining.

Gross Margin

	For the years ending December 31,	
	2008	2007
Revenue	\$ 16,384,290	\$ 17,983,269
Gross margin	6,127,044	7,428,676
As a % of revenue	<u>37.4%</u>	<u>41.3%</u>

Gross margin as a % of revenue has declined by 3.9% for the year from 41.3% in 2007 to 37.4% in 2008. The market for long distance services in Canada is an increasingly competitive market and includes aggressive marketing campaigns from larger carriers that offer free long distance minutes to attract new customers. As a result we have not been able to increase our rates to compensate for the increased costs we incur from the telecommunications companies whose networks we use to provide long distance services to our customers.

Operating Expenses

For the years ending December 31,

	<u>2008</u>	<u>2007</u>
General & administration	\$ 4,260,064	\$ 3,220,896
Marketing & selling	2,493,450	2,580,811
Development & technical support	1,034,913	952,495
Amortization	419,609	461,798
Write-down of intangible assets	39,354	---
Interest	2,648	29,221
Operating expenses	<u>\$ 8,250,038</u>	<u>\$ 7,245,221</u>

Overall operating expenses of \$8,250,038 are \$1,004,817 or 13.8% more than the \$7,245,221 recorded in 2007. We measure expenses on a total basis, monitoring them very closely and adjusting them where it is felt they are required. The changes in operating expenses by line item are discussed below.

General & administration expenses of \$4,260,064 is an increase of \$1,039,168 or 32.3% from the \$3,220,896 incurred for 2007. There were factors which contributed to the vast majority of the increase:

- (1) There was an increase in bad debts expense of approximately \$300,000 for accounts relating to our long distance subscriber services. We saw an increase in non-payment of accounts at the outset of the fourth quarter as the Canadian economy deteriorated. To compensate we tightened our credit policy and, in addition, for new subscribers only those who would agree to our pre-authorized payment plans would be extended credit. While there was an increase in

bad debts for the year there was also an increase of approximately \$1,030,000 in revenue from this line of business which more than offset the increased costs associated with bad debts and provides us with the opportunity to market additional services to those subscribers who possess a good credit history.

- (2) Throughout the year there were several issues that arose, which we consider being of a non-recurring nature. These included executive severance, the Globalive transaction and the Jaguar affair as well as the settling of an outstanding lawsuit. We estimate the total costs associated with these issues to be approximately \$656,000.

Marketing and selling expenses of \$2,493,450 is a reduction of \$87,361 which is in line with the \$2,580,811 incurred in 2007. Our marketing activities were reduced during our third quarter as the Globalive transaction was pending. For the fourth quarter we invested in marketing programs aimed at increasing our long distance services and to introduce our HomePhone offering supporting our strategic initiatives. We will continue to invest in marketing programs supporting our strategic initiatives.

Development and technical support expenses increased by \$82,418 in 2008 to \$1,034,913 from \$952,495 incurred for 2007 and is in line with our expectations of costs to support our network and develop new products. During 2008 we released our new flagship product - Telehop HomePhone.

8. LIQUIDITY & CAPITAL RESOURCES

Liquidity risk arises from general funding needs and in the management of the Company's assets and liabilities. The Company maintains sufficient liquid financial resources to fund the balance sheet and meet commitments and obligations in the most cost-effective manner possible.

The following information outlines contractual obligations and other commitments to provide an understanding of the short and long term liquidity and capital resource requirements.

(i) Operating Leases

The Company has operating leases for its switch facility and corporate office both of which expire on July 31, 2011. The future minimum payments under operating leases as at December 31, 2008 are as follows:

2009	197,997
2010	197,997
2011	165,673
	<hr/>
	\$ 561,667

(ii) *Capital Leases*

The future minimum payments under capital leases as at December 31, 2008 are as follows:

2009	19,443
2010	19,443
2011	14,581
	<u>\$ 53,467</u>

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:

	For the years ending 2008	December 31 2007
Cash flow provided by (used for):	\$	\$
- operating activities before a change in working capital items		
- change in working capital items	(843,450)	548,717
- operating activities	(338,186)	(214,252)
- investing activities	(1,181,636)	334,465
- financing activities	(159,550)	(264,622)
Increase (decrease) in cash position	(267,534)	33,798
Cash, end of period	(1,608,720)	103,641
	1,273,585	2,882,305

The Company's liquidity needs are met through cash generated from operations and existing cash. At the end of the year, cash and cash equivalents were \$1,273,585 and working capital was \$2,284,772 with no bank debt.

Working capital was \$2,284,772 at December 31, 2008 a reduction of \$1,004,537 from the \$3,289,309 at December 31, 2007. Working capital was used primarily to fund the net

Page 13 of 30

operating loss for the year, (after adding back future income tax provision of \$6,394, stock-based compensation of 26,747, amortization and write-down of intangible assets of \$419,609 and \$39,354 respectively,) of \$843,450.

Cash and cash equivalents decreased by \$1,608,720 for the year. Cash was used to

- (1) Fund the operating loss, after adding back non-cash items, of \$843,450.
- (2) Fund a change in working capital items of \$338,186 which is a result primarily of:
 - a. A source of cash from our accounts receivable declining by \$501,702 which is related primarily to a reduction in revenue.
 - b. A use of cash from our accounts payable declining by \$241,226 which is related primarily to a reduction in the dollar amount of expenditures especially with our tel co suppliers for use of their networks. Our payment terms have remained the same from year to year.
 - c. A use of cash is the increase in income taxes recoverable of \$529,914 which is related to taxes that are recoverable by carrying back our loss for 2008 and recouping previous years' losses. The amount that is recoverable from previous years, which includes installments made at the beginning of 2008, is approximately \$800,000.
 - d. A use of cash is the increase in prepaid expenses and deposits of \$68,748 which is due primarily to marketing programs that have been prepaid.
- (3) Acquire fixed assets totaling \$159,550. Property and equipment was acquired for \$90,680. Intangible assets of \$68,870 were acquired which was primarily internally developed software designed for our VoIP initiative, the Telehop HomePhone.
- (4) Fund financing activities of \$267,534 of which the primary use of funds was the payment of dividends of \$267,270 which were declared in December 2007 and paid in January 2008.

With working capital of \$2,284,772 which includes cash and cash equivalents of \$1,273,585 the Company believes it has sufficient working capital and cash resources to continue with its strategic initiatives as we move into 2009.

9. FOURTH QUARTER RESULTS

Consolidated Selected Information	For the 3 months ending		
	December 31, 2008	September 30, 2008	December 31, 2007
Consolidated Statements of Operations			
Operating revenues	\$ 3,776,759	\$ 3,985,669	\$ 4,215,981
Gross margin	1,372,829	1,628,391	1,799,700
Gross margin %	36.3%	40.8%	42.7%
Selected operating costs			
General and administration	1,218,366	893,518	988,900

Page 14 of 30



Marketing and selling	670,361	510,218	743,728
Development and technical	345,632	258,583	403,116
Amortization & write-down of intangible assets	100,613	111,134	115,160
Income (loss) before tax	(953,041)	(146,161)	(419,690)
EBITDA	(862,434)	33,928	(300,256)
Net income (loss)	(573,928)	(102,676)	(281,777)
Earnings (loss) per share – basic	\$ (0.04)	\$ (0.01)	\$ (0.01)
Earnings (loss) per share – diluted	\$ (0.04)	\$ (0.01)	\$ (0.01)
Consolidated Statements of Cash Flows			
Cash (used) provided by operations	(445,602)	30,116	(187,316)
Changes in working capital items	162,234	(307,317)	48,494
Cash provided (used) by operating activities	(283,368)	(277,201)	(138,822)
Cash provided (used) by investing activities	17,391	(24,847)	(9,671)
Cash provided (used) by financing activities	(4,904)	13,368	(3,702)
Decreases in cash	(270,900)	(288,680)	(152,195)
Cash, end of period	\$ 1,273,585	\$ 1,544,485	\$ 2,882,305

Sources and Uses of Cash for the fourth quarter

Cash and cash equivalents at the beginning of the fourth quarter 2008 was \$1,544,485. We completed the quarter with cash and cash equivalents of \$1,273,585 a reduction or cash utilization of \$270,900.

The primary use of the \$270,900 reduction in cash was to fund operations, which was offset by a positive change in working capital, as explained below.

- (1) Cash was used to fund operations, after adding back amortization, future income tax liabilities, and stock-based compensation, of \$445,602.
- (2) There was a positive change in working capital items of \$162,234 which is made up of:
 - a. Source of cash being a reduction in accounts receivable of \$333,934 due for the most part to a reduction in revenue for the quarter.

- b. Use of cash being an increase in income taxes recoverable of \$427,437. The amount that is recoverable from previous years, which includes installments made at the beginning of 2008, is approximately \$800,000.
- c. Use of cash is the increase in prepaid expenses and deposits of \$49,008 which is due primarily to marketing programs that has been prepaid.
- d. Source of cash from our accounts payable increasing by \$305,113 which is related primarily to timing of payments to our large tel co suppliers.

Operations

Revenue

Revenue for the fourth quarter 2008 was \$3,776,760 which is a 5% reduction from the third quarter 2008 revenue of \$3,985,669 and a 10% reduction from the fourth quarter 2007 revenue of \$4,215,981. A comparison of revenue by product category is as follows:

	For the three month periods ending:		December 31,
	December 31, 2008	September 30, 2008	2007
Retail revenue	\$ 3,244,191	\$ 3,553,940	\$ 3,699,754
Wholesale	532,569	431,729	516,227
Total revenues	\$ 3,776,760	\$ 3,985,669	\$ 4,215,981

During the fourth quarter of 2008 our revenue decreased across all lines of business within our retail product category. We continue in our effort to increase the number of casual calling customers and then convert them to a paid subscription basis. This effort is paying off and combined with Telehop's engaging of Call Centers for outbound tele-sales has resulted in an increase in the number of subscribers for our Subscription business over the course of the past year. At the outset of the fourth quarter as the Canadian economy deteriorated we tightened our credit policy and, in addition, for new subscribers only those who would agree to our pre-authorized payment plans were extended credit. This tightening of credit was one factor contributing to a reduction in revenue. We view our subscribers as a valuable asset and we are actively marketing new services, as well as our long distance subscription services, to those with an established credit history. Our plan is to market our newest product, Telehop HomePhone (VoIP), to these subscribers. We believe the HomePhone has the potential to generate significant revenue.

Wholesale revenue increased during the fourth quarter from the third quarter 2008 and the fourth quarter 2007 and at the same time we were able to maintain our rates.

Gross Margin

	For the three month periods ending:		
	December 31, 2008	September 30, 2008	December 31, 2007
Revenue	\$ 3,776,760	\$ 3,985,669	\$ 4,215,981
Gross margin	1,372,829	1,628,391	1,799,700
As a % of revenue	36.3%	40.9%	42.7%

Gross margin as a % of revenue has declined by 4.6% from the third quarter 2008 and 6.4% from the fourth quarter 2007. The market for long distance services in Canada is an increasingly competitive market. As a result we have not been able to increase our rates to compensate for the increased costs we incur from the telecommunications companies whose networks we use to provide long distance services to our customers. Wholesale revenue is a lower margin business. During the fourth quarter our wholesale revenue represented a larger percentage of our total revenue than in the third quarter 2008 and fourth quarter 2007, and this change in product mix contributed to our overall reduction in gross margin.

Operating Expenses

	For the three months ending		
	December 31, 2008	September 30, 2008	December 31, 2007
General & administration	\$ 1,218,366	\$ 893,518	\$ 988,900
Marketing & selling	670,361	510,218	743,728
Development & technical support	345,632	258,583	403,116
Amortization & write-down of intangible assets	100,613	111,134	115,160
Interest	825	1,099	4,274
Operating expenses	\$ 2,335,797	\$ 1,774,552	\$ 2,255,178

Overall operating expenses of \$2,335,797 are \$561,245 or 31.6% more than the \$1,774,552 recorded in the third quarter 2008 and \$80,619 or 3.6% higher than the fourth quarter 2007. The changes in operating expenses by line item are discussed below.

Year over year and from our third quarter 2008 our general administrative expenses increased by \$229,466 and \$324,848 respectively. During the fourth quarter 2008 we incurred additional expenses pertaining to our annual meeting in December 2008 and due to the deteriorating credit position in our subscriber services we increased our bad debt expense. We believe our new policy of not extending credit without pre-authorized payment for the account will reduce our level of bad debts.

We increased the level of our marketing and selling expenditures during the quarter over our third quarter concentrating on programs that would support our strategic initiatives to increase our casual calling customers and convert them to paid subscribers as well as we increased our marketing efforts to support the roll out of our HomePhone. Our plan is to continue with this marketing strategy throughout the first quarter 2009.

Our development and technical support expenses are lower than the fourth quarter 2007 as during the fourth quarter 2007 we were working heavily on development our new product, Telehop HomePhone. During the fourth quarter 2008 we incurred an additional expense over the third quarter 2008 as we engaged consultants to help us complete the support systems required for the HomePhone. Now that the HomePhone has been launched and development is complete our expenditures have been reduced to a level commensurate with providing maintenance for the system and upgrades as required.

10. 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 December 31, 2008, the Company did not enter into any Forwards or Options.

Related Party Transactions

- (i) The Company recovered overpayment's made to the Chairman from prior years, and a one-time \$12,000 salary adjustment in 2007. The balance was repaid through bi-weekly installments which commenced June 1, 2007 for the overpayment's, and December 1, 2007 for the salary adjustment. As of December 31, 2007, the outstanding balance receivable was \$76,489, which was included in Accounts Receivable. The full amount was repaid in fiscal 2008.
- (ii) **Development costs totaling \$114,345 were expensed during 2007 to a company owned by an employee of the Company. The amount was recorded based on the exchange value and was included in development and technical expenses**

11. CRITICAL ACCOUNTING ESTIMATES, CHANGES IN ACCOUNTING POLICIES, ACCOUNTING POLICY DEVELOPMENTS, CAPITALIZATION, NORMAL COURSE ISSUER BID & PENSION PLAN.

Critical Accounting Estimates

The significant accounting policies are contained in note 2 to the consolidated financial statements. Certain of these 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.

The following critical accounting estimates and assumptions made by management are discussed to provide an understanding of how they affect the amounts reported in the consolidated financial statements.

Allowance for Doubtful Accounts

The valuation of allowance for doubtful accounts is managed on a monthly basis where provisions are applied at various percentages for accounts receivable categorized by risk. These percentages may change in the future when new conditions or trends arise.

Depreciation and Amortization

We depreciate and amortize our tangible and intangible assets based on management's best estimate of the useful lives of various assets using the straight-line method.

Stock-based Compensation

We account for stock-based compensation in accordance with the fair value recognition provisions of GAAP. Such provisions require stock-based compensation expense to be measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of stock-based awards requires judgment which includes estimating the expected life of the options, the expected volatility of our shares and the expected dividend yield. To estimate the fair value of stock-based awards, we use the Black-Scholes model.

Revenue Recognition

The Company earns its revenues from access to, and usage of, its telecommunications network. It recognizes revenues on an accrual basis and includes an estimate of revenues earned but not billed (due to timing in our billing cycle). The estimate is based on data obtained from our switch system.

Employee Future Benefits

The cost of providing benefits through our defined benefit pension plan is actuarially determined and recognized in earnings using the projected benefits method pro-rated on service. Differences arising from plan amendments, changes in assumptions and experience gains and losses are recognized in earnings over the expected average remaining service life of the employees. These assumptions require a complex degree of judgment and are independently determined by an external actuary.

Income taxes

The Company uses the asset and liability method for accounting for income taxes which requires the establishment of future tax assets and liabilities, as measured by substantively enacted tax rates, for all temporary differences caused when tax bases of assets and liabilities differ from those reported in the consolidated financial statements. Management must exercise judgment in determining whether future tax assets are recognized only to the extent that it is more likely than not that the future tax assets will be realized.

Changes in accounting policies

Effective January 1, 2007, the Company adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): *Comprehensive Income* (“Section 1530”), *Hedges* (“Section 3865”), *Financial Instruments – Recognition and Measurement* (“Section 3855”), *Equity* (“Section 3251”), and *Financial Instruments – Disclosure and Presentation* (“Section 3861”). These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

(i) Comprehensive Income

Section 1530 requires the presentation of comprehensive income, which consists of net income and other comprehensive income (“OCI”). Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. OCI refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

(ii) Financial Instruments – Recognition and Measurement and Disclosure and Presentation

Page 20 of 30

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets and financial liabilities, including derivatives, are measured in the balance sheet at fair value, except for loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Measurement in subsequent periods depends on whether the financial instrument had been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met in accordance with Section 3865 which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

<u>Asset/Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

As a result of the adoption of these standards, the company designated its cash and cash equivalents as held-for-trading. Held-for-trading financial assets are measured at fair value with unrealized gains and losses recognized in the consolidated statement of operations and comprehensive loss. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as financial liabilities, which are measured at amortized cost.

The company classifies derivative instruments, such as foreign exchange forward contracts and foreign exchange options contracts, as held-for-trading unless the instruments meet all the criteria of a hedge. If the criteria are met, then any unrealized gains and losses will be reported in other comprehensive income.

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Company adopted new accounting standards that were issued by the CICA for Capital Disclosures (“Section 1535”) and Financial Instruments (“Sections 3862 and 3863”).

(i) Under Section 1535, the Company discloses its objectives, policies and procedures for managing capital, whether the Company has complied with any externally imposed capital requirements and, if the Company has not complied with them, any consequences of non-compliance with these capital requirements. The new recommendations are set out in Note 14 – Capital Management.

(ii) The new Sections 3862 and 3863 replace Section 3861 (“*Financial Instruments – Disclosure and Presentation*”). Disclosure requirements are revised and enhanced, while presentation requirements remain essentially unchanged. The new disclosure requirements expand discussion around the significance of financial instruments for the Company’s financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks. The new recommendations are set out in Note 13 – Financial Instruments and Risk Management.

Accounting policy developments

(i) Goodwill and Intangible Assets

In January, 2008, the CICA issued Handbook Section 3064 (“*Goodwill and Intangible Assets*”), replacing Section 3062 (“*Goodwill and Other Intangible Assets*”), and Section 3450 (“*Research and Development Costs*”). The new Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition of an asset.

The Section also issued amendments to Section 1000 (“*Financial Statement Concepts*”). These changes are effective for fiscal years on or after October 1, 2008, specifically January 1, 2009 for the Company. The Company does not expect the adoption of this standard to have a significant impact.

(ii) Assessing Going Concern

Effective January 1, 2008 the Company adopted the new recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. The Company has assessed the impact of adopting Section 1400 and has determined that it does not impact the Company’s financial statements.

(iii) Convergence with International Financial Reporting Standards

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 is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a

Page 22 of 30

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.

(iv) 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.

(v) 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.

(vi) Inventories

Effective January 1, 2008, the company adopted the new recommendations of the CICA Handbook Section 3031, Inventories, that replaces Section 3030 and establishes new standards for the measurement and disclosure of inventories. The main features of the new Section are as follows:

1. Measurement of inventories at the lower of cost and net realizable value
2. Consistent use of either first-in, first-out or a weighted average cost formula to measure cost
3. Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The adoption of this standard had no impact on the Company.

Capitalization

As at December 31, 2008 the Company had 13,410,000 common shares outstanding and 100,000 share options, which are exercisable at \$.60 per share at varying times before December, 2012.

Normal course issuer bid

The Company has authorized a normal course issuer bid for up to 650,000 common shares, which is approximately 5% of the 13,410,000 issued and outstanding common shares. Telehop's normal course issuer bid will be made in accordance with the by-laws, rules and policies of the Toronto Stock Exchange. The Company has plans to re-purchase common shares at prevailing market prices over a twelve-month period which commenced November 10, 2008. Purchases under the bid can be made from time to time over this twelve-month period, as appropriate opportunities arise.

Pension Plan

The changes in the benefit obligations and in the fair value of assets and the funded status of the defined benefit plans are as follows:

	Registered Pension Plans	
	2008	2007
Change in benefit obligations		
Projected benefit obligation, beginning of year	\$ 448,363	\$ 353,900
Current service cost	27,206	55,800
Interest cost	37,052	20,163
Actuarial (gains) losses	(40,095)	18,500
Projected benefit obligation, end of year	472,526	448,363
Change in fair value of plan assets		
Fair value of plan assets, beginning of year	336,975	237,168
Return on plan assets (deficiency)	(66,994)	2,108
Employer contributions	38,317	58,673
Employee contributions	-	39,026
Fair value of plan assets, end of year	308,298	336,975
Funded status (plan deficit)	(164,228)	(111,388)
Unamortized net actuarial (gain) loss	108,501	17,267
Unamortized past service costs	73,500	138,075
Unamortized transitional (asset) obligation	-	(25,638)
Valuation allowance	(17,773)	(18,316)
Accrued benefit asset (liability)	-	-

The table below shows the net benefit plan cost before and after recognizing its long-term nature. The recognized net benefit plan cost reflects the amount reported in the Company's statement of income and is calculated according to the Company's accounting policy.

	Registered Pension Plans	
	2008	2007
Current service cost	\$ 27,206	\$ 55,800
Interest cost	37,052	20,163
Actual return on assets	(26,710)	(2,108)
Actuarial loss on accrued benefit obligation	-	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	37,548	73,855
Actuarial loss	-	-
Difference between the actual return and estimated return on plan assets	-	-
Amortization of transitional asset (obligation)	(25,638)	(1,972)
Amortization of past service cost	14,700	12,553
Amortization of net actuarial loss	12,250	1,233
Others	-	-
Adjustment to recognize long-term nature of employee future benefit plans credit	1,312	11,814
Increase (decrease) in valuation allowance	(543)	12,030
Net benefit plans cost recognized	\$ 38,317	\$ 97,699

The net benefit cost is recorded as an operating expense in general and administration.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2008	2007
Discount rate	7.4%	5.6%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of compensation increase	3.0%	3.0%

During the year the Company maintained two defined benefit pension plans that provide pension benefits for two key executives. The amounts reported in the financial statements relating to these benefits are determined using actuarial calculations that are based on several assumptions. One of the plans has been terminated and a wind up report as at March 31, 2008 has been filed and approved by the Financial Services Commission of Ontario. Thus there is a curtailment of this plan, since there is no further accrual of service, but not a settlement, as the funds have not yet been transferred out of the trust.

The Company's actuary performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase and expected average remaining years of service of employees. The last valuation was dated January 1, 2007.

While the Company believes that these assumptions are reasonable, differences in actual results or changes in assumptions could affect employee benefit obligations and future net benefit plans costs.

The Company accounts for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans. The two most significant assumptions used to calculate the net employee benefit plans cost are the discount rate and the expected long-term rate of return on plan assets.

Discount Rate

The discount rate is the interest rate used to determine the present value of the future cash flows that the Company expects will be needed to settle employee benefit obligations. It is based on the yield on long-term high-quality corporate fixed income investments, with maturities matching the estimated cash flows from the plan.

The Company determines the appropriate discount rate at the end of every year. The discount rate was 7.38% at December 31, 2008. A higher discount rate results in a lower accrued benefit obligation and unfunded liability.

Expected Long-Term Rate of Return

The expected long-term rate of return is a weighted average rate of our forward-looking view of long-term returns on each of the major plan asset categories in the pension funds.

The Company determines the appropriate expected long-term rate of return at the end of every year. An expected long-term rate of return on plan assets of 7.5% in 2008 was assumed, which is the same as it was in 2007. Although there is no immediate impact on the Company's balance sheet, poor fund performance results in a lower fair value of plan assets and a higher unfunded liability. This means that the Company may have to increase cash contributions to the plan in the future.

12. RISKS AND RISK MANAGEMENT

The following areas summarize the principal risks and uncertainties that could affect Telehop'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. 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 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. Telehop has invested into various VOIP technologies, which have been put on hold, as part of its strategy to be at the forefront of 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 unfavorable impact on the Company's financial results. To mitigate these risks, the Company monitors industry developments very closely through industry advisors.

Management Team

Telehop 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 replacement of any management team member 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, 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 which 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.

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. The Company does not believe it 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

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 makes 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 December 31, 2008 the Company did not possess foreign currency forward contracts and options contracts. However, the Company may make use of such contracts in the future.

Credit

The Company is subject to credit risk through accounts receivables, which consists of amounts represented by the large number of subscription services customers which are invoiced directly, and amounts owed from various Local Exchange Carriers ("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 behalf of the Company through billing and collections agreements. Credit risks are mitigated from this group of LECs by purchasing long-distance services from them, which offsets at least 50% of the accounts receivables.

13. CONTINGENT LIABILITIES

- (i) 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 had never made such commitments. The outcome is not currently determinable. No amount has been recorded in the Consolidated Financial Statements in relation to this claim.
- (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.

- (iii) The Company is in negotiations with a former executive involving a dispute that pertains to the terms of a settlement with the company dating back to 2004. The Company is pursuing to bring closure to this settlement with the former executive and has agreed to terms which are yet to be concluded by a written agreement. The Company has included in its financial statement the amount that has been agreed to between the parties.

14. SUMMARY OF QUARTERLY RESULTS FOR EIGHT MOST RECENT QUARTERS

The following table sets forth certain unaudited consolidated statements of operation for the eight most recent quarters of operations ending December 31, 2008. The operating results for any quarter are not necessarily indicative of results for any future period.

Summary of results - \$ (000's)	2008				2007			
	Q.4	Q.3	Q.2	Q.1	Q.4	Q.3	Q.2	Q.1
Revenue	3,776	3,986	4,248	4,371	4,216	4,27	4,563	4,93
Telecom costs	2,404	2,357	2,786	2,707	2,416	2,523	2,686	2,929
Gross margin	1,372	1,629	1,462	1,664	1,800	1,752	1,876	2,001
Gross margin as a %	36%	41%	34%	38%	43%	41%	34%	41%
Operating expenses								
General & administrative	1,218	893	1,096	1,066	989	707	772	752
Marketing & selling	670	510	727	586	744	669	557	610
Development & technical support	345	258	201	229	403	262	44	243
	2,233	1,661	2,024	1,881	2,136	1,638	1,373	1,605
EBITDA	-861	-32	-562	-217	-336	114	503	396
Amortization	100	111	105	106	111	111	120	114
Write-down of intangible assets	-	-	-	39	-	-	-	-
Interest expense	-	1	-	1	11	11	14	0
Other income	-8	-15	-19	-28	-35	-35	-30	-62
Income (loss) before tax	-953	-129	-647	-335	-423	27	399	344
Income tax (recovery)	-379	-28	-193	-132	-135	24	143	147
Net income (loss)	-574	-101	-454	-203	-288	3	256	197
Earnings (loss) per share	(0.04)	(0.01)	(0.03)	(0.02)	(0.01)	-	0.02	0.01
Diluted earnings (loss) per share	(0.04)	(0.01)	(0.03)	(0.02)	(0.01)	-	0.02	0.01