



**TELEHOP COMMUNICATIONS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING MARCH 31, 2009
(UNAUDITED)**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated interim balance sheet of Telehop Communications Inc. at March 31, 2009 and the consolidated interim statements of income (loss), retained earnings, statements of comprehensive income (loss) and cash flows for the three-month period then ended have not been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP.

These financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee and Board of Directors.

**TELEHOP
COMMUNICATIONS INC.
Interim Consolidated Balance Sheets**

	(Unaudited) March 31, 2009	(Unaudited) March 31, 2008	(Audited) December 31, 2008
ASSETS			
CURRENT			
Cash and cash equivalents	\$ 1,031,069	\$ 2,239,984	\$ 1,273,585
Accounts receivable	2,024,661	2,807,401	2,373,500
Income taxes recoverable	778,717	510,130	821,409
Inventory	46,688	-	-
Prepaid expenses and deposits	69,366	103,482	156,994
	3,950,501	5,660,997	4,625,488
PROPERTY AND EQUIPMENT (Note 7)	531,044	739,689	576,154
INTANGIBLE ASSETS (Note 8)	146,702	204,129	161,234
	\$ 4,628,247	\$ 6,604,815	\$ 5,362,876
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	\$ 1,932,036	\$ 2,490,989	\$ 2,324,190
Obligations under capital lease (Note 11)	16,526	16,526	16,526
	1,948,562	2,507,515	2,340,716
FUTURE INCOME TAXES	29,082	2,828	38,678
OBLIGATIONS UNDER CAPITAL LEASE (Note 11)	24,789	41,316	28,921
	2,002,433	2,551,659	2,408,315
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 9)	1,553,456	1,527,177	1,555,644
CONTRIBUTED SURPLUS (Note 9(c))	59,642	51,545	55,497
RETAINED EARNINGS	1,012,716	2,474,434	1,343,420
	2,625,814	4,053,156	2,954,561
	\$ 4,628,247	\$ 6,604,815	\$ 5,362,876
Contingent liabilities (Note 12)			
Related party transactions (Note 13)			

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

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Income and Comprehensive Income

Three-month periods ended March 31

	(Unaudited) 2009	(Unaudited) 2008
OPERATING REVENUES	\$ 3,477,153	\$ 4,371,194
Telecommunications costs	2,174,042	2,707,205
GROSS MARGIN	1,303,111	1,663,989
OPERATING EXPENSES		
General and administration	838,540	1,066,607
Marketing and selling	631,951	586,128
Development and technical support	214,576	229,194
Amortization	89,977	106,006
Write down of intangible assets (Note 8)	-	39,354
Interest	1,221	1,532
	1,776,265	2,028,821
OPERATING INCOME (LOSS)	(473,154)	(364,832)
Other income	2,518	28,492
INCOME (LOSS) BEFORE INCOME TAXES	(470,636)	(336,340)
Income taxes (recovery)	(139,932)	(131,800)
NET INCOME (LOSS)	(330,704)	(204,540)
Other comprehensive income	-	-
COMPREHENSIVE INCOME (LOSS)	(330,704)	(204,540)
EARNINGS (LOSS) PER SHARE (Note 6)	\$ (0.02)	\$ (0.02)
DILUTED EARNINGS (LOSS) PER SHARE (Note 6)	\$ (0.02)	\$ (0.02)

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

TELEHOP COMMUNICATIONS INC.**Interim Consolidated Statements of Retained Earnings**

	(Unaudited) March 31, 2009	(Unaudited) March 31, 2008	(Audited) December 31, 2008
Retained earnings, beginning of period	\$ 1,343,420	\$ 2,678,974	\$ 2,678,974
Net income (loss)	(330,704)	(204,540)	(1,335,554)
Retained earnings, end of period	\$ 1,012,716	\$ 2,474,434	\$ 1,343,420

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

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Cash Flows

	(Unaudited) March 31, 2009	(Unaudited) March 31, 2008
CASH FLOW PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (330,704)	\$ (204,540)
Adjustments for non-cash items:		
Amortization expense	89,977	106,006
Writedown of intangible assets	-	39,354
Future income tax liability	(9,596)	(29,456)
Stock-based compensation	6,067	11,056
	(244,257)	(77,580)
Changes in working capital items:		
Accounts receivable	348,839	67,801
Inventory	(46,688)	-
Prepaid expenses and deposits	87,628	(15,236)
Accounts payable and accrued liabilities	(392,154)	(74,427)
Income taxes recoverable/payable	42,692	(218,635)
Cash provided (used) by operating activities	(203,939)	(318,077)
INVESTING ACTIVITIES		
Acquisitions of property and equipment	(30,334)	(39,053)
Acquisition of intangible assets	-	(13,325)
Cash used by investing activities	(30,334)	(52,378)
FINANCING ACTIVITIES		
Obligations under capital lease	(4,132)	(4,596)
Dividend paid	-	(267,270)
Retirement of common shares	(4,110)	-
Cash used by financing activities	(8,242)	(271,866)
NET DECREASE IN CASH POSITION	(242,515)	(642,321)
CASH POSITION, BEGINNING OF PERIOD	1,273,585	2,882,305
CASH POSITION, END OF PERIOD	\$ 1,031,069	\$ 2,239,984

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

TELEHOP COMMUNICATIONS INC.
Notes to Interim Consolidated Financial Statements
Three months ended March 31, 2009 and 2008

(Unaudited)

1. NATURE OF BUSINESS

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

2. BASIS OF PRESENTATION

The notes presented in these interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company’s annual audited financial statements. These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2008. These interim financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2008.

3. ACCOUNTING POLICY DEVELOPMENTS

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

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. The Company 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 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.

- (ii) Capital Disclosures

Effective January 1, 2008, CICA Handbook Section 1535 requires disclosure of the Company’s objectives, policies and procedures for managing capital, including disclosure of any externally imposed capital requirements and the consequences of non-compliance. The new recommendations are set out in Note 4.

- (iii) Financial instruments – disclosure and presentation

Effective January 1, 2008, the new CICA Handbook Sections 3862 and 3863 replace Section 3861. The new disclosure requirements expand on the 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 Company is exposed during the period and at the balance sheet date and how the Company manages those risks. The new recommendations are set out in Note 10.

4. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above-average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which consists of issued capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not of the ordinary course of business which may include various acquisition proposals, as well as capital and operating budgets.

The Company monitors debt to equity ratios as part of the management of liquidity and return to shareholders under the following basis:

	<u>2009</u>	<u>2008</u>
Obligations under capital lease	24,789	41,316
Total long-term debt	24,789	41,316
Less cash and cash equivalents	<u>(1,031,069)</u>	<u>(2,239,984)</u>
Net debt	(1,006,280)	(2,198,668)
Equity	2,625,814	4,053,156
Debt-to-equity ratio	(0.4)	(0.5)

The Company is not subject to externally imposed capital requirements.

5. STOCK OPTIONS

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

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

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at the beginning of the period	100,000	\$ 0.600	355,000	\$ 0.55
Options granted	400,000	0.215	-	-
Options exercised	-	-	(50,000)	0.35
Options cancelled	(100,000)	0.600	(205,000)	0.57
Options outstanding at the end of the period	400,000	0.215	100,000	0.60
Options exercisable at the end of the period	133,333	0.215	60,000	0.60

Options granted vest over a period not exceeding five years. All stock options granted have an exercise price equal to the fair market value at the grant date. On January 23rd, 2009 the company issued 400,000 options to its Directors, with a strike price of \$0.215. The options vest over 3 years and are valid until January 2014.

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

	March 31, 2009 Weighted Average	December 31, 2008 Weighted average
Estimated fair value at the date of the grant for options granted in the period	\$0.182	None granted
Assumptions utilized:		
Risk-free interest rate	2.50%	n/a
Expected volatility	124	n/a
Expected life of the options	5 years	n/a

For the three-month period ended March 31, 2009, the Company recognized a compensation expense of \$6,067 (\$11,056 in 2008). Stock-based compensation is reflected in the consolidated statements of income and comprehensive income, included in general and administration expenses.

6. EARNINGS PER SHARE

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

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

	March 31, 2009	March 31, 2008
Net Income (loss)	\$ (330,704)	\$ (204,540)
Weighted average shares for earnings per share	13,397,333	13,363,500
Effect of dilutive securities – Employee stock options	-	81,558
Adjusted weighted average share and assumed conversions for diluted earnings per share	<u>13,397,333</u>	<u>13,445,058</u>
Earnings (loss) per share	\$ (0.02)	\$ (0.02)
Diluted Earnings (loss) per share	\$ (0.02)	\$ (0.02)

7. PROPERTY AND EQUIPMENT

	March 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Telecom equipment	901,853	668,669	233,184	889,923	624,172	265,751
Telecom equipment under capital lease	66,105	24,789	41,316	66,105	20,658	45,447
Computer software	240,143	143,460	96,683	240,143	131,453	108,690
Computer equipment	101,645	31,740	69,905	87,601	24,440	63,161
Leasehold improvements	80,381	36,464	43,917	80,381	32,451	47,930
Furniture and equipment	69,907	24,726	45,181	66,572	21,397	45,175
New Product Development	858	-	858	-	-	-
	<u>1,460,892</u>	<u>929,848</u>	<u>531,044</u>	<u>1,430,725</u>	<u>854,571</u>	<u>576,154</u>

Amortization expense for the three-month period ended March 31, 2009 was \$75,277 (2008: \$68,710).

8. INTANGIBLE ASSETS

	March 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Internally developed	294,176	147,474	146,702	294,007	132,773	161,234
	<u>294,176</u>	<u>147,474</u>	<u>146,702</u>	<u>294,007</u>	<u>132,773</u>	<u>161,234</u>

Amortization expense for the quarter ended March 31, 2009 was \$14,701 (2008: \$37,296). Software licenses in the amount of \$39,354 were written down during the quarter ended March, 31, 2008.

9. SHAREHOLDERS' EQUITY

(a) Share Capital

Authorized

An unlimited number of common shares

Issued and outstanding

The changes in common shares for the three-month period ended March 31, 2009 are as follows:

	Three months ended March 31, 2009	
	Number of Shares	Share Capital
Balance, beginning of the period	13,410,000	\$ 1,555,644
Repurchase of stock (note 9b)	(19,000)	(2,188)
Balance, end of the period	13,391,000	\$ 1,553,456

(b) 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.

(c) Contributed Surplus

The following is a continuity of the changes in contributed surplus for the three-month period ended March 31, 2009:

Balance, beginning of the period	\$ 55,497
Allocation to contributed surplus for common share buy back	(1,922)
Stock-based compensation expense during the period	6,067
Balance, end of period	\$ 59,642

10. FINANCIAL INSTRUMENTS

(i) Risks – Overview

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

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

(ii) Credit Risk

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

	March 31, 2009	December 31, 2008
Cash and cash equivalents	\$ 1,031,069	\$ 1,273,585
Accounts receivable	2,024,661	2,373,500
	<u>\$ 3,055,730</u>	<u>\$ 3,647,085</u>

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

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

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

	March 31, 2009	December 31, 2008
Customer accounts receivable net of allowance for doubtful accounts		
Current	\$ 1,841,041	\$ 1,646,066
30-60 days past billing date	163,871	663,581
60-90 days past billing date	3,326	41,304
Greater than 90 days past billing date	26,423	22,549
	<u>\$ 2,024,661</u>	<u>\$ 2,373,500</u>

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

	March 31, 2009	March 31, 2008
Balance, beginning of the period	\$ -	\$ 59,648
Additions (provisions for doubtful accounts)	17,958	39,352
Balance , end of the period	\$ 17,958	\$ 99,000

(ii) Liquidity Risk

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

As at March 31, 2009	Capital lease
Balance of 2009	\$ 14,582
2010	19,442
2011	14,581
	48,605

(iii) Currency Risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars for a portion of its business activities. The assets, liabilities, revenues and expenses denominated in U.S. dollars will be affected by changes in the exchange rate fluctuations in the market between the Canadian and U.S. dollar.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at March 31, 2009 the Company did not possess foreign currency forward contracts and options contracts. However, the Company may make use of such contracts in the future.

11. CAPITAL LEASE OBLIGATIONS

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

	March 31, 2009	December 31, 2008
Total minimum lease payments	\$ 52,982	\$ 57,114
Less: amount representing imputed interest of 6.2%	11,667	11,667
Present value of the obligations under capital lease	41,315	45,447
Current portion – due within one year	16,526	16,526
Long term obligation under capital lease	\$ 24,789	\$ 28,921

12. CONTINGENT LIABILITY

- (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.

13. RELATED PARTY TRANSACTIONS

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.

14. COMPARATIVE FIGURES

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