



**TELEHOP COMMUNICATIONS INC.  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTH PERIODS ENDING JUNE 30, 2009 and  
2008  
(UNAUDITED)**

**TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.**

The consolidated interim balance sheet of Telehop Communications Inc. at June 30, 2009 and the consolidated interim statements of income (loss), retained earnings, statements of comprehensive income (loss) and cash flows for the three and six month periods then ended have not been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP.

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

# TELEHOP COMMUNICATIONS INC.

## Interim Consolidated Balance Sheets

	(Unaudited) June 30, 2009	(Unaudited) June 30, 2008	(Audited) December 31, 2008
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 1,029,174	\$ 1,833,165	\$ 1,273,585
Accounts receivable	2,242,859	2,915,562	2,373,500
Income taxes recoverable	180,169	584,303	821,409
Inventory	86,727	-	-
Prepaid expenses and deposits	139,724	69,312	156,994
	<b>3,678,653</b>	<b>5,402,342</b>	<b>4,625,488</b>
PROPERTY AND EQUIPMENT (Note 7)	458,797	713,298	576,154
INTANGIBLE ASSETS (Note 8)	140,987	225,449	161,234
	<b>\$ 4,278,437</b>	<b>\$ 6,341,089</b>	<b>\$ 5,362,876</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	\$ 1,814,177	\$ 2,686,567	\$ 2,324,190
Obligations under capital lease (Note 11)	16,526	16,526	16,526
	<b>1,830,703</b>	<b>2,703,093</b>	<b>2,340,716</b>
FUTURE INCOME TAXES	27,711	2,046	38,678
OBLIGATIONS UNDER CAPITAL LEASE (Note 11)	20,658	37,184	28,921
	<b>1,879,072</b>	<b>2,742,323</b>	<b>2,408,315</b>
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL (Note 9)	1,553,456	1,527,177	1,555,644
CONTRIBUTED SURPLUS (Note 9(b))	62,676	51,545	55,497
ACCUMULATED COMPREHENSIVE INCOME	13,420	-	-
RETAINED EARNINGS	769,813	2,020,044	1,343,420
	<b>2,399,365</b>	<b>3,598,766</b>	<b>2,954,561</b>
	<b>\$ 4,278,437</b>	<b>\$ 6,341,089</b>	<b>\$ 5,362,876</b>

Contingent liabilities (Note 12)

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

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

Three and Six month periods ended June 30th

	Three months ending June 30th		Six months ending June 30th	
	2009	2008	2009	2008
OPERATING REVENUES	\$ 3,562,090	\$ 4,250,667	\$ 7,039,243	\$ 8,621,861
Telecommunication costs	2,099,443	2,788,833	4,273,485	5,496,038
GROSS MARGIN	1,462,647	1,461,834	2,765,757	3,125,823
OPERATING EXPENSES				
General and administration	628,397	1,096,573	1,466,937	2,148,179
Marketing and selling	773,981	726,745	1,405,932	1,312,872
Development and technical support	229,678	201,504	444,254	430,698
Amortization	91,388	104,788	181,365	210,794
Write down of intangible assets	-	-	-	39,354
Interest	346	(808)	(877)	724
	1,723,791	2,128,802	3,497,611	4,142,621
OPERATING INCOME (LOSS)	(261,144)	(666,968)	(731,853)	(1,016,798)
Other income	3,418	19,138	3,492	47,629
INCOME (LOSS) BEFORE INCOME TAXES	(257,726)	(647,830)	(728,361)	(969,169)
Income taxes (recovery)	(14,823)	(193,440)	(154,755)	(310,239)
NET INCOME (LOSS)	(242,903)	(454,390)	(573,607)	(658,930)
Other comprehensive income	13,420	-	13,420	-
COMPREHENSIVE INCOME (LOSS)	(229,483)	(454,390)	(560,187)	(658,930)
EARNINGS (LOSS) PER SHARE (Note 6)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)
DILUTED EARNINGS (LOSS) PER SHARE (Note 6)	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)

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

Three and Six month periods ended June 30

	Three months ending June 30th		Six months ending June 30th	
	2009	2008	2009	2008
Retained earnings, beginning of period	\$ 1,012,716	\$ 2,474,434	\$ 1,343,420	\$ 2,678,974
Net income (loss)	(242,903)	(454,390)	(573,607)	(658,930)
Retained earnings, end of period	\$ 769,813	\$ 2,020,044	\$ 769,813	\$ 2,020,044

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

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

Three and Six month periods ended June 30

	Three months ending June 30th		Six months ending June 30th	
	2009	2008	2009	2008
<b>CASH FLOW PROVIDED BY (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (242,903)	\$ (454,390)	\$ (573,607)	\$ (658,930)
Adjustments for non-cash items:				
Amortization expense	91,388	104,788	181,365	250,148
Fair valuation of foreign exchange hedge	13,420	-	13,420	-
Future income tax liability	(1,371)	(782)	(10,967)	(30,238)
Stock-based compensation	3,034	-	9,101	11,056
	<u>(136,432)</u>	<u>(350,384)</u>	<u>(380,688)</u>	<u>(427,964)</u>
Changes in working capital items:				
Accounts receivable	(218,198)	(108,161)	130,641	(40,360)
Inventory	(40,039)	-	(86,727)	-
Prepaid expenses and deposits	(70,358)	34,170	17,270	18,934
Accounts payable and accrued liabilities	(117,859)	195,578	(510,013)	121,151
Income taxes recoverable/payable	598,548	(74,173)	641,240	(292,808)
	<u>15,662</u>	<u>(302,970)</u>	<u>(188,276)</u>	<u>(621,047)</u>
<b>INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	(4,441)	(44,173)	(34,607)	(83,225)
Acquisition of intangible assets	(8,985)	(55,544)	(9,154)	(68,870)
	<u>(13,426)</u>	<u>(99,717)</u>	<u>(43,761)</u>	<u>(152,095)</u>
<b>FINANCING ACTIVITIES</b>				
Obligations under capital lease	(4,131)	(4,132)	(8,263)	(8,728)
Dividend paid	-	-	-	(267,270)
Retirement of common shares	-	-	(4,110)	-
	<u>(4,131)</u>	<u>(4,132)</u>	<u>(12,373)</u>	<u>(275,998)</u>
<b>NET DECREASE IN CASH POSITION</b>	<b>(1,895)</b>	<b>(406,819)</b>	<b>(244,410)</b>	<b>(1,049,140)</b>
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<b>1,031,069</b>	<b>2,239,984</b>	<b>1,273,585</b>	<b>2,882,305</b>
<b>CASH POSITION, END OF PERIOD</b>	<b>\$ 1,029,174</b>	<b>\$ 1,833,165</b>	<b>\$ 1,029,174</b>	<b>\$ 1,833,165</b>
Supplemental information				
Interest received	3,418	19,138	3,492	47,629

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

# Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 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.

## Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

(Unaudited)

### 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>June 30, 2009</u>	<u>June 30, 2008</u>
Obligations under capital lease	37,184	53,710
Total long-term debt	37,184	53,710
Less cash and cash equivalents	<u>(1,029,174)</u>	<u>(1,833,165)</u>
Net debt	(991,990)	(1,779,455)
Equity	2,399,365	3,598,766
Debt-to-equity ratio	(0.4)	(0.5)

The Company is not subject to externally imposed capital requirements.

### 5. STOCK-BASED COMPENSATION

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.

## Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

(Unaudited)

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	(200,000)	0.408	(205,000)	0.57
Options outstanding at the end of the period	300,000	0.215	100,000	0.60
Options exercisable at the end of the period	100,000	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 23<sup>rd</sup>, 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:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	<b>Weighted Average</b>	<b>Weighted average</b>
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 six-month period ended June 30, 2009, the Company recognized a compensation expense of \$9,101 (\$11,056 in 2008). Stock-based compensation is reflected in the consolidated statements of income and comprehensive income, included in general and administration expenses.

**Notes to Interim Consolidated Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**(Unaudited)**

**6. EARNINGS PER SHARE**

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

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Net income (loss)	\$ (261,144)	\$ (454,390)	\$ (573,607)	\$ (658,930)
Weighted-average shares for earnings per share	13,391,000	13,363,500	13,394,167	13,363,500
Effect of dilutive securities-Employee stock options	-	266,667	-	283,333
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	13,391,000	13,630,167	13,394,167	13,445,058
Earnings (loss) per share	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)

**7. PROPERTY AND EQUIPMENT**

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Telecom equipment	889,933	714,052	176,172	889,923	624,172	265,751
Telecom equipment under capital lease	66,105	28,094	38,011	66,105	20,658	45,447
Computer software	240,143	155,468	84,675	240,143	131,453	108,690
Computer equipment	102,064	40,211	61,853	87,601	24,440	63,161
Leasehold improvements	80,381	40,489	39,892	80,381	32,451	47,930
Furniture and equipment	70,867	28,221	42,646	66,572	21,397	45,175
New Product Development	15,839	-	15,839	-	-	-
	1,465,332	1,006,535	458,797	1,430,725	854,571	576,154

Amortization expense for the three and six month periods ended June 30, 2009 were \$76,688 (2008: \$70,563) and \$151,964 (2008: \$139,273) respectively.

**Notes to Interim Consolidated Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**(Unaudited)**

**8, INTANGIBLE ASSETS**

	June 30, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Internally developed	303,161	162,174	140,987	294,007	132,773	161,234
	<u>303,161</u>	<u>162,174</u>	<u>140,987</u>	<u>294,007</u>	<u>132,773</u>	<u>161,234</u>

Amortization expense for the three and six month periods ended June 30, 2009 were \$14,700 (2007: \$34,224) and \$29,401 (2007: \$110,875) respectively. 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 six-month period ended June 30, 2009 are as follows:

	Three months ended June 30, 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	<u>13,391,000</u>	<u>\$ 1,553,456</u>

*(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.

**Notes to Interim Consolidated Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**(Unaudited)**

*(c) Contributed Surplus*

The following is a continuity of the changes in contributed surplus for the six-month period ended June 30, 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	9,101
Balance, end of period	<u>\$ 62,676</u>

**10. FINANCIAL INSTRUMENTS**

*(i) Risks – Overview*

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

Financial instrument	Risks		
	Credit	Liquidity	Market risks Currency
<b>Measured at cost</b>			
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.

	June 30, 2009	December 31, 2008
Cash and cash equivalents	\$ 1,029,174	\$ 1,273,585
Accounts receivable	2,242,859	2,373,500
	<u>\$ 3,272,033</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.

## Notes to Interim Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

(Unaudited)

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.

	June 30, 2009	December 31, 2008
Customer accounts receivable net of allowance for doubtful accounts		
Current	\$ 2,002,390	\$ 1,646,066
30-60 days past billing date	185,595	663,581
60-90 days past billing date	38,043	41,304
Greater than 90 days past billing date	16,831	22,549
	<hr/>	<hr/>
	\$ 2,242,859	\$ 2,373,500

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.

	June 30, 2009	June 30, 2008
Balance, beginning of the period	\$ 17,958	\$ 99,000
Additions (provisions for doubtful accounts)	122,289	33,736
	<hr/>	<hr/>
Balance, end of the period	\$ 140,247	\$ 132,736

### (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 June 30, 2009	Capital lease
Balance of 2009	\$ 9,720
2010	19,442
2011	14,581
	<hr/>
Total	37,184

(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 June 30, 2009 the Company did possess foreign currency forward contracts. The contract entered into fixes the exchange rate at which the company will acquire U.S. dollars to the extent of its forecasted requirements until September 30, 2009.

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

- a specific asset or liability, or
- a specific firm commitment, or
- an anticipated transaction.

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

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

## **11. CAPITAL LEASE OBLIGATIONS**

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

**Notes to Interim Consolidated Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**(Unaudited)**

	June 30, 2009	December 31, 2008
Total minimum lease payments	\$ 48,851	\$ 57,114
Less: amount representing imputed interest of 6.2%	11,667	11,667
Present value of the obligations under capital lease	37,184	45,447
Current portion – due within one year	16,526	16,526
Long term obligation under capital lease	\$ 20,658	\$ 28,921

**12. CONTINGENT LIABILITIES**

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.

**13. COMPARATIVE FIGURES**

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