



TELEHOP COMMUNICATIONS INC.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS
ENDING SEPTEMBER 30, 2009 and 2008
(UNAUDITED)**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

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

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

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Balance Sheets

| | (unaudited) Sept. 30, 2009 | (unaudited) Sept. 30, 2008 | (audited) Dec. 31, 2008 |
|---|-------------------------------|-------------------------------|----------------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | \$ 572,434 | \$ 1,544,485 | \$ 1,273,585 |
| Accounts receivable | 2,689,190 | 2,707,434 | 2,373,500 |
| Income taxes recoverable | 77,625 | 393,972 | 821,409 |
| Inventory | 128,915 | - | - |
| Prepaid expenses and deposits | 88,164 | 107,986 | 156,994 |
| | 3,556,328 | 4,753,877 | 4,625,488 |
| PROPERTY AND EQUIPMENT (Note 7) | 389,777 | 638,850 | 576,154 |
| INTANGIBLE ASSETS (Note 8) | 125,821 | 213,610 | 161,234 |
| | \$ 4,071,926 | \$ 5,606,337 | \$ 5,362,876 |
| LIABILITIES | | | |
| CURRENT | | | |
| Accounts Payable and accrued liabilities | \$ 1,501,850 | \$ 2,019,465 | \$ 2,324,190 |
| Obligations under capital lease (Note 11) | 16,526 | 16,526 | 16,526 |
| | 1,518,376 | 2,035,990 | 2,340,716 |
| FUTURE INCOME TAXES | 19,814 | 1,592 | 38,678 |
| OBLIGATIONS UNDER CAPITAL LEASE (Note 11) | 16,526 | 33,052 | 28,921 |
| | 1,554,716 | 2,070,635 | 2,408,315 |
| SHAREHOLDERS' EQUITY | | | |
| SHARE CAPITAL (Note 9) | 1,553,456 | 1,544,677 | 1,555,644 |
| CONTRIBUTED SURPLUS (Note 9(b)) | 67,226 | 73,657 | 55,497 |
| ACCUMULATED COMPREHENSIVE INCOME | - | - | - |
| RETAINED EARNINGS | 896,528 | 1,917,368 | 1,343,420 |
| | 2,517,210 | 3,535,702 | 2,954,561 |
| | \$ 4,071,926 | \$ 5,606,337 | \$ 5,362,876 |

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 nine month periods ended September 30th

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|--|-----------------------------|--------------|----------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| OPERATING REVENUES | \$ 3,388,141 | \$ 3,985,669 | \$ 10,427,383 | \$ 12,607,530 |
| Telecommunications costs | 1,638,208 | 2,357,278 | 5,911,693 | 7,853,316 |
| GROSS MARGIN | 1,749,933 | 1,628,391 | 4,515,690 | 4,754,214 |
| OPERATING EXPENSES | | | | |
| General and administration | 729,905 | 893,518 | 2,196,842 | 3,041,697 |
| Marketing and selling | 492,894 | 510,218 | 1,898,826 | 1,823,090 |
| Development and technical support | 228,925 | 258,583 | 673,179 | 689,281 |
| Amortization | 88,613 | 111,134 | 269,978 | 361,282 |
| Interest | 964 | 1,099 | 3,084 | 1,823 |
| | 1,541,302 | 1,774,552 | 5,041,910 | 5,917,173 |
| OPERATING INCOME (LOSS) | 208,631 | (146,161) | (526,220) | (1,162,959) |
| Other income | 3,375 | 15,031 | 9,865 | 62,660 |
| INCOME (LOSS) BEFORE INCOME TAXES | 212,006 | (131,130) | (516,355) | (1,100,299) |
| Income taxes (recovery) | 85,292 | (28,454) | (69,462) | (338,693) |
| NET INCOME (LOSS) | 126,714 | (102,676) | (446,893) | (761,606) |
| Other comprehensive income (loss) | (13,420) | - | - | - |
| COMPREHENSIVE INCOME (LOSS) | 113,294 | (102,676) | (446,893) | (761,606) |
| EARNINGS (LOSS) PER SHARE (Note 6) | \$ 0.01 | \$ (0.01) | \$ (0.03) | \$ (0.06) |
| DILUTED EARNINGS (LOSS) PER SHARE (Note 6) | \$ 0.01 | \$ (0.03) | \$ (0.03) | \$ (0.05) |

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

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Income and Comprehensive Income

(Unaudited)

Three and nine month periods ended September 30

| | Three months ending Sept. 30th | | Nine months ending Sept. 30th | |
|--|--------------------------------|--------------|-------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Retained earnings, beginning of period | \$ 769,813 | \$ 2,020,044 | \$ 1,343,421 | \$ 2,678,974 |
| Net income (loss) | 126,715 | (102,676) | (446,893) | (761,606) |
| Retained earnings, end of period | \$ 896,528 | \$ 1,917,368 | \$ 896,528 | \$ 1,917,368 |

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

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Cash Flows (Unaudited)

| | Three months ending Sept. 30th | | Nine months ending Sept. 30th | |
|--|--------------------------------|---------------------|-------------------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| CASH FLOW PROVIDED BY (USED FOR) | | | | |
| OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ 126,714 | \$ (102,676) | \$ (446,893) | \$ (761,606) |
| Adjustments for non-cash items: | | | | |
| Amortization expense | 88,613 | 111,134 | 269,978 | 361,282 |
| Fair valuation of foreign exchange hedge | (13,420) | - | - | - |
| Future income tax liability | (7,897) | (454) | (18,864) | (30,692) |
| Stock-based compensation | 4,550 | 22,112 | 13,651 | 33,168 |
| | <u>198,560</u> | <u>30,116</u> | <u>(182,127)</u> | <u>(397,848)</u> |
| Changes in working capital items: | | | | |
| Accounts receivable | (446,331) | 208,128 | (315,690) | 167,768 |
| Inventory | (42,188) | - | (128,915) | - |
| Prepaid expenses and deposits | 51,560 | (38,674) | 68,830 | (19,740) |
| Accounts payable and accrued liabilities | (312,327) | (667,102) | (822,340) | (545,951) |
| Income taxes recoverable/payable | 102,544 | 190,331 | 743,784 | (102,477) |
| Cash provided (used) by operating activities | <u>(448,182)</u> | <u>(277,201)</u> | <u>(636,458)</u> | <u>(898,248)</u> |
| INVESTING ACTIVITIES | | | | |
| Acquisitions of property and equipment | (4,427) | (347) | (39,034) | (83,572) |
| Acquisition of intangible assets | - | (24,500) | (9,154) | (93,370) |
| Cash used by investing activities | <u>(4,427)</u> | <u>(24,847)</u> | <u>(48,188)</u> | <u>(176,942)</u> |
| FINANCING ACTIVITIES | | | | |
| Obligations under capital lease | (4,132) | (4,132) | (12,395) | (12,860) |
| Dividend paid | - | - | - | (267,270) |
| Issuance (Retirement) of common shares | - | - | (4110) | 17,500 |
| Cash used by financing activities | <u>(4,132)</u> | <u>(4,132)</u> | <u>(16,505)</u> | <u>(262,630)</u> |
| NET DECREASE IN CASH POSITION | (456,740) | (288,680) | (701,151) | (1,337,820) |
| CASH POSITION, BEGINNING OF PERIOD | 1,029,174 | 1,833,165 | 1,273,585 | 2,882,305 |
| CASH POSITION, END OF PERIOD | \$ 572,434 | \$ 1,544,485 | \$ 572,434 | \$ 1,544,485 |
| Supplemental information | | | | |
| Interest received | 3,375 | 19,138 | 9,865 | 47,629 |

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 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 nine months ended September 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>September 30, 2009</u> | <u>September 30, 2008</u> |
|---------------------------------|---------------------------|---------------------------|
| Obligations under capital lease | 33,052 | 49,578 |
| Total long-term debt | 33,052 | 49,578 |
| Less cash and cash equivalents | <u>(572,434)</u> | <u>(1,544,485)</u> |
| Net debt | (539,382) | (1,494,900) |
| Equity | 2,517,210 | 3,535,702 |
| Debt-to-equity ratio | (0.21) | (0.42) |

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 nine months ended September 30, 2009 and 2008

(Unaudited)

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

| | <u>September 30, 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 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 | December 31, 2008 |
|---|-------------------------|--------------------------|
| | Weighted Average | 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 nine-month period ended September 30, 2009, the Company recognized a compensation expense of \$13,651 (\$22,112 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

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2009 and 2008

(Unaudited)

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

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

| | Three months ended Sept. 30 | | Nine months ended Sept 30 | |
|---|-----------------------------|--------------|---------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income (loss) | \$ 126,714 | \$ (102,676) | \$ (446,893) | \$ (761,606) |
| Weighted-average shares for earnings per share | 13,391,000 | 13,385,240 | 13,393,111 | 13,388,020 |
| Effect of dilutive securities-Employee stock options | - | - | - | - |
| Adjusted weighted-average shares and assumed conversions for diluted earnings per share | 13,391,000 | 13,385,240 | 13,393,111 | 13,388,020 |
| Earnings (loss) per share | \$ 0.01 | \$ (0.01) | \$ (0.03) | \$ (0.06) |
| Diluted earnings (loss) per share | \$ 0.01 | \$ (0.01) | \$ (0.03) | \$ (0.06) |

7. PROPERTY AND EQUIPMENT

| | September 30, 2009 | | | December 31, 2008 | | |
|---------------------------------------|--------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net book value | Cost | Accumulated Amortization | Net book value |
| Telecom equipment | 893,915 | 754,467 | 139,448 | 889,923 | 624,172 | 265,751 |
| Telecom equipment under capital lease | 66,105 | 33,052 | 33,053 | 66,105 | 20,658 | 45,447 |
| Computer software | 240,143 | 167,465 | 72,678 | 240,143 | 131,453 | 108,690 |
| Computer equipment | 102,064 | 48,716 | 53,348 | 87,601 | 24,440 | 63,161 |
| Leasehold improvements | 80,381 | 44,508 | 35,873 | 80,381 | 32,451 | 47,930 |
| Furniture and equipment | 71,312 | 31,765 | 39,547 | 66,572 | 21,397 | 45,175 |
| New Product Development | 15,838 | - | 15,838 | - | - | - |
| | 1,469,758 | 1,079,983 | 389,776 | 1,430,725 | 854,571 | 576,154 |

Amortization expense for the three and nine month periods ended September 30, 2009 were \$73,447 (2008: \$74,795) and \$225,411 (2008: \$214,068) respectively.

8. INTANGIBLE ASSETS

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2009 and 2008

(Unaudited)

| | September 30, 2009 | | | December 31, 2008 | | |
|----------------------|--------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net book value | Cost | Accumulated Amortization | Net book value |
| Internally developed | 303,161 | 177,340 | 125,821 | 294,007 | 132,773 | 161,234 |
| | <u>303,161</u> | <u>177,340</u> | <u>125,821</u> | <u>294,007</u> | <u>132,773</u> | <u>161,234</u> |

Amortization expense for the three and six month periods ended September 30, 2009 were \$15,166 (2008: \$36,339) and \$44,567 (2008: \$147,214) 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 nine month period ended September 30, 2009 are as follows:

| | nine months ended September 30, 2009 | |
|----------------------------------|---|---------------------|
| | Number of Shares | Share Capital |
| Balance, beginning of the period | 13,410,000 | \$ 1,555,644 |
| Repurchase of stock | (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 nine months ended September 30, 2009 and 2008

(Unaudited)

(c) Contributed Surplus

The following is a continuity of the changes in contributed surplus for the nine month period ended September 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 | 13,651 |
| Balance, end of period | <u>\$ 67,226</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 | Currency Market risks |
| Measured at cost | | | |
| Cash and cash equivalent | x | | x |
| Accounts receivable | x | | x |
| Accounts payable | | x | x |
| Obligations under capital lease | | x | |

(ii) Credit Risk

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

| | September 30, 2009 | December 31, 2008 |
|---------------------------|-----------------------|----------------------|
| Cash and cash equivalents | \$ 572,434 | \$ 1,273,585 |
| Accounts receivable | 2,689,190 | 2,373,500 |
| | <u>\$ 3,261,624</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

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2009 and 2008

(Unaudited)

credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

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

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Customer accounts receivable net of allowance for doubtful accounts | | |
| Current | \$ 2,411,753 | \$ 1,646,066 |
| 30-60 days past billing date | 235,577 | 663,581 |
| 60-90 days past billing date | 27,730 | 41,304 |
| Greater than 90 days past billing date | 14,130 | 22,549 |
| | \$ 2,689,190 | \$ 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 for the year to date periods:

| | September 30, 2009 | September 30, 2008 |
|--|-----------------------|-----------------------|
| Balance, beginning of the period | \$ - | \$ 74,648 |
| Additions (provisions for doubtful accounts) | 189,914 | 125,352 |
| Balance , end of the period | \$ 189,914 | \$ 200,000 |

(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 September 30, 2009 | Capital lease |
|--------------------------|---------------|
| Balance of 2009 | \$ 4,861 |
| 2010 | 19,442 |
| 2011 | 14,581 |
| Total | 38,884 |

Notes to Interim Consolidated Financial Statements
Three and nine months ended September 30, 2009 and 2008

(Unaudited)

(iii) Currency Risk

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

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and options contracts to fix the exchange rates on the U.S. dollar to mitigate its foreign exchange exposure on expenses. As at September 30, 2009 the Company did not possess foreign currency forward contracts and options contracts and all effects of the previous contract have been reflected through comprehensive income adjustments and ultimately to the appropriate accounts. However, the Company may again make use of such contracts or options 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.

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------|----------------------|
| Total minimum lease payments | \$ 38,884 | \$ 57,114 |
| Less: amount representing imputed interest of 6.2% | 5,832 | 11,667 |
| Present value of the obligations under capital lease | 33,052 | 45,447 |
| Current portion – due within one year | 16,526 | 16,526 |
| Long term obligation under capital lease | \$ 16,526 | \$ 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.

14. SUBSEQUENT EVENTS

Our founder Mr. Hersh Spiegelman, Chairman and CEO of Telehop became ill after back surgery. As a result, on October 9th, 2009 the Board made management changes with a new temporary Chairman and a new temporary CEO.

Unfortunately, on October 29, 2009, Mr. Spiegelman passed away as a result of complications from that surgery. In the fourth quarter the company will have a significant liability relating to Mr. Spiegelman's employment contract.

He will be greatly missed by friends, family and colleagues.