

**TELEHOP COMMUNICATIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING SEPTEMBER 30, 2005**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at September 30, 2005, and the consolidated statements of income, retained earnings, and cash flows for the period then ended have not been reviewed by the Company's auditors, Deloitte & Touche LLP. These financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee.

TELEHOP COMMUNICATIONS INC.

Consolidated Balance Sheets

as at	September 30, 2005	December 31, 2004
	<i>[unaudited]</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,652,023	\$ 1,262,491
Accounts receivable	2,810,301	2,541,509
Income taxes recoverable	214,365	155,240
Prepaid expenses and deposits	71,829	104,665
	4,748,518	4,063,905
FUTURE INCOME TAXES	4,265	11,082
PROPERTY, PLANT AND EQUIPMENT	814,064	696,124
INTANGIBLE ASSETS	373,630	435,226
	\$ 5,940,477	\$ 5,206,337
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 3,000,350	\$ 2,483,282
Obligations under capital lease - current portion	11,374	14,380
	3,011,724	2,497,662
FUTURE INCOME TAX LIABILITY	71,896	88,125
OBLIGATIONS UNDER CAPITAL LEASE	6,269	14,929
	3,089,889	2,600,716
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	1,200,419	1,200,419
CONTRIBUTED SURPLUS (Note 3a)	175,930	139,918
RETAINED EARNINGS	1,474,239	1,265,284
	2,850,588	2,605,621
	\$ 5,940,477	\$ 5,206,337

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income

Unaudited

	Three months ended		Nine months ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Revenue	\$ 5,570,701	\$ 3,920,625	\$ 15,352,342	\$ 11,187,716
Expenses				
Telecommunication costs	3,389,526	2,285,833	9,228,742	6,321,613
General and administration	852,708	634,596	2,281,630	1,951,826
Marketing and selling	854,450	572,499	2,715,295	1,898,446
Development and technical support	160,907	111,260	436,092	340,267
Depreciation and amortization	106,804	118,420	318,924	329,035
	5,364,395	3,722,608	14,980,683	10,841,187
Income from operations	206,306	198,017	371,659	346,529
Interest expense	720	1,352	2,474	8,061
Foreign exchange loss (gain)	56,118	(46,965)	41,965	(80,896)
Income before income taxes	149,468	243,630	327,220	419,364
Income tax expense	53,562	98,498	118,265	174,233
Net income for the period	\$ 95,906	\$ 145,132	\$ 208,955	\$ 245,131
Earnings per share (Note 4)				
Basic	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Retained Earnings

Unaudited

	Nine months ended	
	Sept 30, 2005	Sept 30, 2004
Balance at beginning of period as previously reported	\$ 1,265,284	\$ 1,082,661
Adjustments on adoption of new accounting standards (Note 3a)	-	(102,360)
Balance at beginning of period as restated	1,265,284	980,301
Income for the period	208,955	245,131
Balance end of period	\$ 1,474,239	\$ 1,225,432

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended		Nine months ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income (loss) for the period	\$ 95,906	\$ 145,132	\$ 208,955	\$ 245,131
Adjustments for non-cash items:				
Depreciation	79,802	89,480	231,180	247,886
Amortization	27,001	28,940	87,744	81,149
Future income taxes	(3,000)	24,013	(9,416)	77,564
Stock-based compensation	18,851	7,111	36,012	43,721
	218,560	294,676	554,475	695,451
Changes in working capital items:				
Accounts receivable	(238,624)	(259,968)	(268,791)	(189,164)
Prepaid expenses	(10,688)	(20,534)	27,336	(37,203)
Inventory	2,700	(7,799)	5,500	(7,799)
Accounts payable and accrued charges	368,264	82,416	517,069	51,024
Income taxes	(92,974)	(26,493)	(59,124)	(493,376)
Cash provided by (used for) operating activities	247,238	62,298	776,465	18,933
Investing activities				
Acquisition of property, plant and equipment	(82,293)	(47,264)	(349,120)	(246,061)
Acquisitions of intangible assets	7,593	(33,925)	(26,148)	(135,328)
Cash used for investing activities	(74,700)	(81,189)	(375,268)	(381,389)
Financing activities				
Repayment of obligations under capital lease	(2,629)	(5,191)	(11,665)	(17,705)
Issuance of common shares	-	20,000	-	71,900
Cash provided by (used for) financing activities	(2,629)	14,809	(11,665)	54,195
Increase (decrease) in cash	169,909	(4,082)	389,532	(308,261)
Cash, beginning of period	1,482,114	1,327,409	1,262,491	1,631,587
Cash, end of period	\$ 1,652,023	\$ 1,323,327	\$ 1,652,023	\$ 1,323,326

See accompanying notes

**SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION**

Interest paid	\$ 4,972	\$ 3,395	\$ 11,454	\$ 32,576
Interest earned	\$ 10,265	\$ 6,232	\$ 29,521	\$ 27,711
Income tax paid	\$ 206,518	\$ 100,978	\$ 243,787	\$ 590,045

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
September 30, 2005 and 2004

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

These unaudited interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2004, except where noted below. The interim financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report for the year ended December 31, 2004.

3. CHANGES IN ACCOUNTING POLICIES

(a) Stock-based compensation

The Company accounts for stock-based compensation in accordance with the CICA Handbook Section 3870, “Stock-based Compensation & Other Stock-based Payments”. Section 3870 requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method, such as the Black-Scholes option pricing model. Previously the standard encouraged the use of a fair value based method for all awards granted to employees but only required the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. The impact of the change in accounting policy for the nine-month period ended September 30, 2005, totaled \$36,011.

(b) Impairment of Long-Lived Assets

The Canadian Institute of Chartered Accountants issued a new Handbook Section “Impairment of Long-Lived Assets” which establishes new standards for the recognition, measurement and disclosure of the impairment of long-lived assets and establishes new write-down provisions. This section became effective for the Company as of January 1, 2004 and its application did not have a significant impact on the Company’s consolidated financial statements.

(c) Pension Plan

The Company offers defined benefit pension plans to its executive employees. The pension plan expense for defined benefits plans is determined using the projected method pro-rated on years of service. The pension plan expense includes:

- Cost of pension plan benefits provided in exchange for employees’ service rendered during the period;
- Amortization of prior service costs and amendments on a straight line basis over the expected average remaining service life of the employees covered by the plan; and

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3. CHANGES IN ACCOUNTING POLICIES (continued)

- Interest cost of pension plan obligations, the expected return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation of fair value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The Company values pension plan assets at fair value, which is determined using current market value rates.

4. 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		Nine months ended	
	September 30		September 30	
	2005	2004	2005	2004
Net Income	\$ 95,906	\$ 145,132	\$ 208,955	\$ 245,131
Weighted-average shares for earnings per share	12,437,000	12,359,826	12,437,000	12,259,745
Effect of dilutive securities-Employee stock options	-	616,689	287,985	724,992
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	12,437,000	12,976,515	12,724,985	12,984,737
Earnings per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Diluted earnings per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02

5. STOCK BASED COMPENSATION

For the quarter ended September 30, 2005, the Company recognized a compensation expense of \$18,851 for previously granted stock option awards. The fair value of the options was estimated using the Black-Scholes valuation model with the following assumptions: risk-free rate of 3.82%; expected life of 4.71 years; volatility of 97% and dividend yield of nil. No options were granted during the current quarter.

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Unaudited

6. SHARE CAPITAL

Authorized

An unlimited number of common shares

Issued and outstanding

The changes in common shares for 2005 and 2004 are as follows:

	Nine months ended September 30, 2005		Year Ended December 31, 2004	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	12,437,000	\$ 1,200,419	12,077,500	\$ 1,096,164
Issued on exercise of employee stock options	-	-	359,500	104,255
Balance, end of period	12,437,000	\$ 1,200,419	12,437,000	\$ 1,200,419

7. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current presentation.