



**TELEHOP COMMUNICATIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2006**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at June 30, 2006, 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, Schwartz Levitsky Feldman 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	June 30, 2006	December 31, 2005
	<i>[unaudited]</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,183,846	\$ 832,735
Accounts receivable	2,940,323	3,156,492
Income taxes recoverable	33,214	-
Prepaid expenses and deposits	115,278	61,851
	5,272,661	4,051,078
PROPERTY, PLANT AND EQUIPMENT (note 5)	864,165	854,430
INTANGIBLE ASSETS (note 6)	315,083	327,245
	\$ 6,451,909	\$ 5,232,753
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,651,785	\$ 1,884,722
Income taxes payable	-	32,874
Obligations under capital lease - current portion	8,620	14,363
	2,660,405	1,931,959
FUTURE INCOME TAX LIABILITY	66,132	69,207
	2,726,537	2,001,166
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	1,210,419	1,200,419
CONTRIBUTED SURPLUS	154,819	154,819
RETAINED EARNINGS	2,360,134	1,876,349
	3,725,372	3,231,587
	\$ 6,451,909	\$ 5,232,753

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income
Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue	\$ 5,130,358	\$ 5,072,329	\$ 10,167,470	\$ 9,781,642
Expenses				
Telecommunication costs	2,894,013	2,965,444	5,696,667	5,839,217
General and administration	719,793	821,048	1,513,043	1,414,769
Marketing and selling	843,236	1,006,275	1,577,277	1,860,845
Development and technical support	224,379	171,992	401,854	275,185
Depreciation and amortization	84,993	102,480	206,588	212,121
Interest expense	397	808	1,097	1,754
	4,766,811	5,057,853	9,396,526	9,603,891
Income (loss) before income taxes	363,547	4,282	770,944	177,751
Income tax expense	142,665	1,428	287,159	64,703
Net income (loss) for the period	\$ 220,882	\$ 2,854	\$ 483,785	\$ 113,048
Earnings (loss) per share (note 3)				
Basic	\$ 0.02	\$ -	\$ 0.04	\$ 0.01
Diluted	\$ 0.02	\$ -	\$ 0.04	\$ 0.01

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Retained Earnings

Unaudited

	Six months ended	
	June 30, 2006	June 30, 2005
Balance at beginning of period as previously reported	\$ 1,876,349	\$ 1,265,284
Income for the period	483,785	113,048
Balance end of period	\$ 2,360,134	\$ 1,378,332

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income (loss) for the period	\$ 220,882	\$ 2,854	\$ 483,785	\$ 113,048
Adjustments for non-cash items:				
Amortization expense	84,993	102,480	206,588	212,121
Future income taxes	7,242	(3,100)	(3,075)	(6,416)
Stock-based compensation	-	14,531	-	17,161
	313,117	116,765	687,298	335,914
Changes in working capital items:				
Accounts receivable	(155,298)	32,355	216,169	(30,167)
Prepaid expenses	(71,894)	207,473	(53,427)	40,824
Accounts payable and accrued charges	(719,980)	(548,440)	767,063	148,805
Income taxes	(220,898)	(32,741)	(66,088)	33,850
Cash provided by (used for) operating activities	(854,953)	(224,588)	1,551,015	529,226
Investing activities				
Acquisition of property, plant and equipment	(71,683)	(117,026)	(204,161)	(266,827)
Acquisitions of intangible assets	-	(27,001)	-	(33,741)
Cash used for investing activities	(71,683)	(144,027)	(204,161)	(300,568)
Financing activities				
Repayment of obligations under capital lease	(2,916)	(3,565)	(5,743)	(9,035)
Issuance of common shares	10,000	-	10,000	-
Cash provided by (used for) financing activities	7,084	(3,565)	4,257	(9,035)
Increase (decrease) in cash	(919,552)	(372,180)	1,351,111	219,623
Cash, beginning of period	3,103,398	1,854,295	832,735	1,262,491
Cash, end of period	\$ 2,183,846	\$ 1,482,115	\$ 2,183,846	\$ 1,482,114

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

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, 2005. 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, 2005.

3. 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	
	2006	2005	2006	2005
Net Income	\$ 220,882	\$ 2,854	\$ 483,785	\$ 113,048
Weighted-average shares for earnings per share	12,487,000	12,437,000	12,487,000	12,437,000
Effect of dilutive securities-Employee stock options	242,887	183,849	242,887	183,849
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	12,679,887	12,620,849	12,679,887	12,620,849
Earnings per share	\$ 0.02	\$ -	\$ 0.04	\$ 0.01
Diluted earnings per share	\$ 0.02	\$ -	\$ 0.04	\$ 0.01

4. STOCK BASED COMPENSATION

For the quarter ended June 30, 2006, the Company recognized a compensation expense of \$Nil 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 3.29%; expected life of 5 years; volatility of 75% and dividend yield of nil. No options were granted during the current quarter.

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

Unaudited

5. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2006			Dec 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,339,813	\$ 724,133	\$ 615,680	\$ 1,222,463	\$ 619,192	\$ 603,271
Telecom switch	938,139	938,139	-	938,139	938,139	-
Computer software	273,306	95,268	178,039	253,892	72,947	180,945
Leasehold improvements	185,369	139,992	45,377	162,698	124,936	37,762
Furniture and equipment	91,969	71,410	20,559	91,969	65,317	26,652
Automobile	12,889	8,379	4,510	12,889	7,089	5,800
	\$ 2,841,485	\$ 1,977,321	\$ 864,165	\$ 2,682,050	\$ 1,827,620	\$ 854,430

Amortization expense for the period ended June 30, 2006 is \$55,134 (2005: \$75,479)

6. INTANGIBLE ASSETS

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally Developed Software	\$ 584,727	\$ 269,644	\$ 315,083	\$ 540,029	\$ 212,784	\$ 327,245

Amortization expense for the period ended June 30, 2006 is \$29,859 (2005: \$27,001)

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

Unaudited

7. SHARE CAPITAL

Authorized

An unlimited number of common shares

Issued and outstanding

The changes in common shares for 2006 and 2005 are as follows:

	Three months ended June 30, 2006		Year Ended December 31, 2005	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	\$ 12,437,000	\$ 1,200,419	12,437,000	\$ 1,200,419
Issued on exercise of employee stock options	50,000	10,000	-	-
Balance, end of period	\$ 12,487,000	\$ 1,210,419	12,437,000	\$ 1,200,419

8. FINANCIAL INSTRUMENTS

The Company enters into forward foreign exchange contracts ("Forwards") to hedge its foreign currency exposure on expenses incurred for its operations. The forwards obligate the Company to buy US dollars with Canadian dollars in the future at predetermined exchange rates and are matched with anticipated future operating expenses that are transacted in US dollars. The Forwards do not subject the Company to risk from exchange rate movements because gains and losses on such contracts offset gains and losses on exposure being hedged.

As at June 30, 2006, the Company had \$425,000 US dollars outstanding in Forwards that mature in the next six months at an average rate of 1.13.

9. COMPARATIVE FIGURES

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