



**TELEHOP COMMUNICATIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING MARCH 31, 2006**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at March 31, 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

	March 31, 2006	December 31, 2005
	<i>[unaudited]</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,103,398	\$ 832,735
Accounts receivable	2,785,025	3,156,492
Prepaid expenses and deposits	43,384	61,851
	5,931,807	4,051,078
PROPERTY, PLANT AND EQUIPMENT (note 5)	892,314	854,430
INTANGIBLE ASSETS (note 6)	300,244	327,245
	\$ 7,124,365	\$ 5,232,753
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 3,371,765	\$ 1,884,722
Income taxes payable	187,684	32,874
Obligations under capital lease - current portion	11,536	14,363
	3,570,985	1,931,959
FUTURE INCOME TAX LIABILITY	58,890	69,207
	3,629,875	2,001,166
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	1,200,419	1,200,419
CONTRIBUTED SURPLUS	154,819	154,819
RETAINED EARNINGS	2,139,252	1,876,349
	3,494,490	3,231,587
	\$ 7,124,365	\$ 5,232,753

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income

Unaudited

	Three months ended	
	Mar 31, 2006	Mar 31, 2005
REVENUE	\$ 5,037,112	\$ 4,719,506
EXPENSES		
Telecommunication costs	2,802,654	2,873,772
General and administration	793,250	603,915
Marketing and selling	734,041	854,570
Development and technical support	177,475	103,193
Amortization	121,595	109,640
Interest expense	700	944
	4,629,715	4,546,034
INCOME BEFORE INCOME TAXES	407,397	173,472
INCOME TAX EXPENSE	144,494	63,275
NET INCOME FOR THE PERIOD	\$ 262,903	\$ 110,197
Earnings per share (Note 3)		
Basic	\$ 0.02	\$ 0.01
Diluted	\$ 0.02	\$ 0.01

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Retained Earnings

Unaudited

	Three months ended	
	Mar 31, 2006	Mar 31, 2005
Balance at beginning of period as previously reported	\$ 1,876,349	\$ 1,265,284
Net Income for the period	262,903	189,565
Balance end of period	\$ 2,139,252	\$ 1,454,849

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended	
	Mar 31, 2006	Mar 31, 2005
CASH FLOW PROVIDED BY (USED FOR)		
Operating activities		
Net income (loss) for the period	\$ 262,903	\$ 110,197
Adjustments for non-cash items:		
Amortization expense	121,595	109,640
Future income tax liability	(10,317)	(3,316)
Stock-based compensation	-	2,630
	374,181	219,151
Changes in working capital items:		
Accounts receivable	371,467	(62,522)
Prepaid expenses	18,467	(166,649)
Accounts payable and accrued charges	1,487,043	697,245
Income taxes	154,810	66,591
Cash provided by operating activities	2,405,968	753,816
Investing activities		
Acquisition of property, plant and equipment	(132,478)	(149,801)
Acquisitions of intangible assets	-	(6,740)
Cash used for investing activities	(132,478)	(156,541)
Financing activities		
Repayment of obligations under capital lease	(2,827)	(5,741)
Cash used for financing activities	(2,827)	(5,741)
Increase (decrease) in cash	2,270,663	591,534
Cash, beginning of period	832,735	1,327,409
Cash, end of period	\$ 3,103,398	\$ 1,918,943

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
 March 31, 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 March 31	
	2006	2005
Net Income	\$ 262,903	\$ 110,197
Weighted-average shares for earnings per share	12,437,000	12,304,767
Effect of dilutive securities-Employee stock options	242,887	262,484
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	12,679,887	12,567,251
Earnings per share	\$ 0.02	\$ 0.01
Diluted earnings per share	\$ 0.02	\$ 0.01

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
 March 31, 2006 and 2005

Unaudited

4. STOCK BASED COMPENSATION

For the quarter ended March 31, 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.

5. PROPERTY, PLANT AND EQUIPMENT

	Mar 31, 2006			Dec 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,315,960	\$ 696,795	\$ 619,165	\$ 1,222,463	\$ 619,192	\$ 603,271
Telecom switch	938,139	938,139	-	938,139	938,139	-
Computer software	282,338	78,137	204,201	253,892	72,947	180,945
Leasehold improvemen	173,207	132,779	40,428	162,698	124,936	37,762
Furniture and equipmer	91,969	68,603	23,366	91,969	65,317	26,652
Automobile	12,889	7,735	5,154	12,889	7,089	5,800
	\$ 2,814,502	\$ 1,922,188	\$ 892,314	\$ 2,682,050	\$ 1,827,620	\$ 854,430

Amortization expense for the period ended March 31, 2006 is \$94,594 (2004: \$75,899)

6. INTANGIBLE ASSETS

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally Developed Software	\$ 540,029	\$ 239,785	\$ 300,244	\$ 540,029	\$ 212,784	\$ 327,245

Amortization expense for the period ended March 31, 2006 is \$27,001 (2004: \$33,741)

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March 31, 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 March 31, 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	-	-	-	-
Balance, end of period	12,437,000	\$ 1,200,419	12,437,000	\$ 1,200,419

8. COMPARATIVE FIGURES

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