



**TELEHOP COMMUNICATIONS INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDING MARCH 31, 2007**

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at March 31, 2007, and the consolidated statements of income, retained earnings, statements of comprehensive income 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

Unaudited

	March 31, 2007	December 31, 2006
ASSETS		(Audited)
CURRENT		
Cash and cash equivalents	\$ 2,694,542	\$ 2,778,664
Accounts receivable	2,841,905	3,319,359
Prepaid expenses and deposits	177,073	236,881
	5,713,520	6,334,904
PROPERTY, PLANT AND EQUIPMENT (Note 6)	757,270	809,543
INTANGIBLES (Note 7)	345,731	358,328
	\$ 6,816,521	\$ 7,502,775
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,269,107	\$ 2,989,398
Income taxes payable	36,507	218,602
	2,305,614	3,208,000
FUTURE INCOME TAX LIABILITY	59,350	69,050
	2,364,964	3,277,050
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8(a))	1,304,953	1,277,968
CONTRIBUTED SURPLUS (Note 8(b))	176,793	174,261
RETAINED EARNINGS	2,969,811	2,773,496
	4,451,557	4,225,725
	\$ 6,816,521	\$ 7,502,775

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income
Unaudited

	Three months ended	
	March 31, 2007	March 31, 2006
Revenue	\$ 4,992,300	\$ 5,037,112
Expenses		
Telecommunication costs	2,928,722	2,802,654
General and administration	752,187	793,250
Marketing and selling	610,095	734,041
Development and technical support	242,967	177,475
Depreciation and amortization	114,593	121,595
Interest expense	78	700
	4,648,642	4,629,715
Income (loss) before income taxes	343,658	407,397
Income tax expense	147,343	144,494
Net income (loss) for the period	\$ 196,315	\$ 262,903
Earnings (loss) per share (note 4)		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.02

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statement of Comprehensive Income

Unaudited

	Three months ended	
	March 31, 2007	March 31, 2006
Net Income	\$ 196,315	\$ 262,903
Other Comprehensive Income	-	-
Comprehensive Income	\$ 196,315	\$ 262,903

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Retained Earnings
Unaudited

	For the Three months ended	
	Mar 31, 2007	Mar 31, 2006
Balance at beginning of period	\$ 2,773,496	\$ 1,876,349
Income for the period	196,315	262,903
Balance end of period	\$ 2,969,811	\$ 2,139,252

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended	
	March 31, 2007	March 31, 2006
CASH FLOW PROVIDED BY (USED FOR)		
Operating activities		
Net income (loss) for the period	\$ 196,315	\$ 262,903
Adjustments for non-cash items:		
Amortization expense	114,593	121,595
Future income taxes	(9,700)	(10,317)
Stock-based compensation	9,517	-
	310,725	374,181
Changes in working capital items:		
Accounts receivable	477,454	371,467
Prepaid expenses	59,808	18,467
Accounts payable and accrued charges	(720,291)	1,487,043
Income taxes	(182,095)	154,810
Cash provided by (used for) operating activities	(54,399)	2,405,968
Investing activities		
Acquisition of property, plant and equipment	(49,723)	(132,478)
Cash (used for) investing activities	(49,723)	(132,478)
Financing activities		
Repayment of obligations under capital lease	-	(2,827)
Issuance of common shares	20,000	-
Cash provided by (used for) financing activities	20,000	(2,827)
Increase (decrease) in cash	(84,122)	2,270,663
Cash, beginning of period	2,778,664	832,735
Cash, end of period	\$ 2,694,542	\$ 3,103,398

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2007 and 2006

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, 2006. 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, 2006.

3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): *Comprehensive Income* (“Section 1530”), *Hedges* (“Section 3865”), *Financial Instruments – Recognition and Measurement* (“Section 3855”), *Equity* (“Section 3251”), and *Financial Instruments – Disclosure and Presentation* (“Section 3861”). These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

Comprehensive Income

Section 1530 requires the presentation of comprehensive income, which consists of net income and other comprehensive income (“OCI”). Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. OCI refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

Financial Instruments – Recognition and Measurement and Disclosure and Presentation

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets and financial liabilities, including derivatives, are measured in the balance sheet at fair value, except for loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Measurement in subsequent periods depends on whether the financial instrument had been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

TELEHOP COMMUNICATIONS INC.
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Unaudited

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met in accordance with Section 3865 which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the company classifies cash, cash equivalents and as held-for-trading. Held-for-trading financial assets are measured at fair value with unrealized gains and losses recognized in the consolidated statement of Income.

The company classifies derivative instruments, such as foreign exchange forward contracts, as held-for-trading unless the instruments meet all the criteria of a hedge. If the criteria is met, then any unrealized gains and losses will be reported in other comprehensive income.

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 March 31	
	2007	2006
Net Income	\$ 196,315	\$ 262,903
Weighted-average shares for earnings per share	12,589,690	12,437,000
Effect of dilutive securities-Employee stock options	403,085	242,887
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	12,992,775	12,679,887
Earnings per share	\$ 0.02	\$ 0.02
Diluted earnings per share	\$ 0.01	\$ 0.02

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5. STOCK BASED COMPENSATION

For the quarter ended March 31, 2007, the Company recognized a compensation expense of \$9,517 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 3.90%; expected life of 5 years; volatility of 72% and dividend yield of nil. No options were granted during the current quarter.

6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2007			Dec 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,428,605	\$ 888,569	\$ 540,036	\$ 1,411,966	\$ 832,583	\$ 579,383
Telecom switch	938,139	938,139	-	938,139	938,139	-
Computer software	286,579	133,069	153,510	284,756	120,853	163,903
Computer equipment	3,795	464	3,331	1,544	386	1,158
Leasehold improvements	190,539	157,518	33,021	190,539	152,408	38,131
Furniture and equipment	107,466	80,094	27,372	100,694	76,948	23,746
Automobile	12,889	12,889	-	12,889	9,667	3,222
	\$ 2,968,012	\$ 2,210,742	\$ 757,270	\$ 2,940,527	\$ 2,130,984	\$ 809,543

Amortization expense for the period ended March 31, 2007 is \$79,758 (2006: \$94,594)

7. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally developed software	\$ 656,871	\$ 361,227	\$ 295,644	\$ 634,633	\$ 329,075	\$ 305,558
Software licenses	\$ 53,664	\$ 3,577	\$ 50,087	53,664	894	52,770
	\$ 710,535	\$ 364,804	\$ 345,731	\$ 688,297	\$ 329,969	\$ 358,328

Amortization expense for the period ended March 31, 2007 is \$34,835 (2006: \$27,001)

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Unaudited

8. SHAREHOLDERS' EQUITY

(a) Share Capital

Authorized

An unlimited number of common shares

Issued and outstanding

The changes in common shares for 2007 and 2006 are as follows:

	Three months ended		Year Ended	
	March 31, 2007		December 31, 2006	
	No. of		No. of	
	Shares	Amount	Shares	Amount
Balance, beginning of period	12,703,500	\$ 1,277,968	12,437,000	\$ 1,200,419
Issued on exercise of employee stock options	100,000	26,985	266,500	77,549
Balance, end of period	12,803,500	\$ 1,304,953	12,703,500	1,277,968

(b) Contributed Surplus

The following is a continuity of the changes in contributed surplus for the period ended March 31, 2007:

	2007	2006
Balance at beginning of period	\$ 174,261	154,819
Stock-based compensation expense during the period	9,517	-
Allocated to share capital on exercise of options during the period	(6,985)	-
Balance at end of year	\$ 176,793	\$ 154,819

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March 31, 2007 and 2006

Unaudited

9. FINANCIAL INSTRUMENTS

The Company enters into forward foreign exchange contracts (“Forwards”) to mitigate 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 mitigated.

As at March 31, 2007, the Company had \$842,500 US dollars outstanding in Forwards, with no maturity date, at an average rate of 1.145. A foreign exchange gain of \$7,726 was recognized during the period.

10. CONTINGENT LIABILITY

The Company is in negotiations with a former executive involving a dispute that pertains to the terms of a settlement with the company dating back to 2004. One of the terms of the settlement is being disputed as to whether it has been fully satisfied by the Company. The Company is pursuing to bring closure to this settlement with the former executive. The outcome cannot be determined at this time and no provision has been recorded.

11. COMPARATIVE FIGURES

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