

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

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at June 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	June 30, 2005	December 31, 2004
	<i>[unaudited]</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,482,114	\$ 1,262,491
Income taxes recoverable	121,391	155,240.00
Accounts receivable	2,571,677	2,541,509
Prepaid expenses and deposits	63,841	104,665
	4,239,023	4,063,905
FUTURE INCOME TAXES	6,465	11,082
PROPERTY, PLANT AND EQUIPMENT	811,573	696,124
INTANGIBLE ASSETS	408,224	435,226
	\$ 5,465,285	\$ 5,206,337
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,632,090	\$ 2,483,282
Obligations under capital lease - current portion	11,027	14,380
	2,643,117	2,497,662
FUTURE INCOME TAX LIABILITY	77,093	88,125
OBLIGATIONS UNDER CAPITAL LEASE	9,245	14,929
	2,729,455	2,600,716
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	1,200,419	1,200,419
CONTRIBUTED SURPLUS (Note 3a)	157,079	139,918
RETAINED EARNINGS	1,378,332	1,265,284
	2,735,830	2,605,621
	\$ 5,465,285	\$ 5,206,337

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income
Unaudited

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Revenue	\$ 5,062,135	\$ 3,624,090	\$ 9,781,642	\$ 7,267,091
Expenses				
Telecommunication costs	2,965,444	2,065,996	5,839,217	4,035,780
General and administration	810,854	714,005	1,414,769	1,283,299
Marketing and selling	1,006,275	726,153	1,860,845	1,325,947
Development and technical support	171,992	136,649	275,185	229,007
Depreciation and amortization	102,480	109,966	212,121	210,615
Interest (income) expense	808	1,337	1,754	6,709
	5,057,853	3,754,106	9,603,891	7,091,357
Income (loss) before income taxes	4,282	(130,016)	177,751	175,734
Income tax expense (recovery)	1,428	(40,450)	64,703	75,735
Net income (loss) for the period	\$ 2,854	(89,566)	\$ 113,048	\$ 99,999
Earnings (loss) per share (note 4)				
Basic	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.01
Diluted	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.01

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Interim Consolidated Statements of Retained Earnings

Unaudited

	Six months ended	
	June 30, 2005	June 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	113,048	99,999
Balance end of period	\$ 1,378,332	\$ 1,080,300

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income (loss) for the period	\$ 2,854	\$ (89,566)	\$ 113,048	\$ 99,999
Adjustments for non-cash items:				
Depreciation	75,479	82,850	151,378	158,406
Amortization	27,001	27,116	60,743	52,209
Future income taxes	(3,100)	43,431	(6,416)	53,551
Stock-based compensation	14,531	36,610	17,161	36,610
	116,765	100,441	335,914	400,775
Changes in working capital items:				
Accounts receivable	32,355	34,641	(30,167)	70,804
Prepaid expenses	207,473	(19,200)	40,824	(16,669)
Accounts payable and accrued charges	(548,440)	(273,223)	148,805	(31,392)
Income taxes	(32,741)	(572,948)	33,850	(466,883)
Cash provided by (used for) operating activities	(224,588)	(730,289)	529,226	(43,365)
Investing activities				
Acquisition of property, plant and equipment	(117,026)	(198,306)	(266,827)	(198,797)
Acquisitions of intangible assets	(27,001)	-	(33,741)	(101,403)
Cash used for investing activities	(144,027)	(198,306)	(300,568)	(300,200)
Financing activities				
Repayment of obligations under capital lease	(3,565)	(8,428)	(9,035)	(12,514)
Issuance of common shares	-	22,600	-	51,900
Cash provided by (used for) financing activities	(3,565)	14,172	(9,035)	39,386
Increase (decrease) in cash	(372,180)	(914,423)	219,623	(304,179)
Cash, beginning of period	1,854,295	2,241,831	1,262,491	1,631,587
Cash, end of period	\$ 1,482,115	\$ 1,327,408	\$ 1,482,114	\$ 1,327,408

See accompanying notes

**SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION**

Interest paid	\$ (10,088)	\$ 23,458	\$ (19,025)	\$ 29,181
Interest earned	\$ 12,680	\$ 10,372	\$ 25,063	\$ 21,479

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
June 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 six-month period ended June 30, 2005, totaled \$17,161.

(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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June 30, 2005 and 2004

Unaudited

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:

	June 30		June 30	
	2005	2004	2005	2004
Net Income	\$ 2,854	\$ (89,566)	\$ 113,048	\$ 99,999
Weighted-average shares for earnings per share	13,437,000	12,305,582	12,437,000	12,209,154
Effect of dilutive securities-Employee stock options	183,849	-	240,492	838,559
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	13,620,849	12,305,582	12,677,492	13,047,713
Earnings per share	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.01
Diluted earnings per share	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.01

5. STOCK BASED COMPENSATION

For the quarter ended June 30, 2005, the Company recognized a compensation expense of \$14,531 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 5.01 years; volatility of 102% and dividend yield of nil. No options were granted during the current quarter.

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

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:

	Six months ended June 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.