



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

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated balance sheet of Telehop Communications Inc. at September 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	September 30, 2006	December 31, 2005
	<i>[unaudited]</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,563,285	\$ 832,735
Accounts receivable	3,075,729	3,156,492
Prepaid expenses and deposits	187,387	61,851
	5,826,401	4,051,078
PROPERTY, PLANT AND EQUIPMENT (note 5)	830,534	854,430
INTANGIBLE ASSETS (note 6)	312,356	327,245
	\$ 6,969,291	\$ 5,232,753
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,730,330	\$ 1,884,722
Income taxes payable	115,270	32,874
Obligations under capital lease - current portion	5,613	14,363
	2,851,213	1,931,959
FUTURE INCOME TAX LIABILITY	57,852	69,207
	2,909,065	2,001,166
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	1,229,518	1,200,419
CONTRIBUTED SURPLUS	183,939	154,819
RETAINED EARNINGS	2,646,769	1,876,349
	4,060,226	3,231,587
	\$ 6,969,291	\$ 5,232,753

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Income

Unaudited

	Three months ended		Nine months ended	
	Sept 30, 2006	Sept 30, 2005	Sept 30, 2006	Sept 30, 2005
Revenue	\$ 5,451,582	\$ 5,580,966	\$ 15,619,052	\$ 15,381,863
Expenses				
Telecommunication costs	2,966,942	3,389,526	8,663,609	9,228,742
General and administration	825,946	919,091	2,338,989	2,353,116
Marketing and selling	904,819	854,450	2,482,096	2,715,295
Development and technical support	197,506	160,907	599,360	436,092
Depreciation and amortization	105,495	106,804	312,083	318,924
Interest expense	1,919	720	3,016	2,474
	5,002,627	5,421,233	14,399,153	15,054,643
Income (loss) before income taxes	448,955	149,468	1,219,899	327,220
Income tax expense	162,320	53,562	449,479	118,265
Net income (loss) for the period	\$ 286,635	\$ 95,906	\$ 770,420	\$ 208,955
Earnings (loss) per share (note 3)				
Basic	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.02
Diluted	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.02

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Retained Earnings
Unaudited

	Nine months ended	
	Sept 30, 2006	Sept 30, 2005
Balance at beginning of period as previously reported	\$ 1,876,349	\$ 1,265,284
Income for the period	770,420	208,955
Balance end of period	\$ 2,646,769	\$ 1,474,239

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended		Nine months ended	
	Sept 30, 2006	Sept 30, 2005	Sept 30, 2006	Sept 30, 2005
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income (loss) for the period	\$ 286,635	\$ 95,906	\$ 770,420	\$ 208,955
Adjustments for non-cash items:				
Amortization expense	105,495	106,803	312,083	318,924
Future income taxes	(8,282)	(3,000)	(11,357)	(9,416)
Stock-based compensation	38,219	18,851	38,219	36,012
	422,067	218,560	1,109,365	554,475
Changes in working capital items:				
Accounts receivable	(135,406)	(238,624)	80,763	(268,791)
Prepaid expenses	(74,269)	(10,688)	(127,696)	27,336
Inventory	2,159	2,700	2,159	5,500
Accounts payable and accrued charges	78,545	368,264	845,608	517,069
Income taxes	148,484	(92,974)	82,396	(59,124)
Cash provided by (used for) operating activities	441,580	247,238	1,992,595	776,465
Investing activities				
Acquisition of property, plant and equipment	(43,277)	(82,293)	(202,738)	(349,120)
Acquisitions of intangible assets	(25,857)	7,593	(70,557)	(26,148)
Cash used for investing activities	(69,134)	(74,700)	(273,295)	(375,268)
Financing activities				
Repayment of obligations under capital lease	(3,007)	(2,629)	(8,750)	(11,665)
Issuance of common shares	10,000	-	20,000	-
Cash provided by (used for) financing activities	6,993	(2,629)	11,250	(11,665)
Increase (decrease) in cash	379,439	169,909	1,730,550	389,532
Cash, beginning of period	2,183,846	1,482,114	832,735	1,262,491
Cash, end of period	\$ 2,563,285	\$ 1,652,023	\$ 2,563,285	\$ 1,652,023

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
September 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 September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net Income	\$ 286,635	\$ 95,906	\$ 770,420	\$ 208,955
Weighted-average shares for earnings per share	12,460,014	12,437,000	12,460,014	12,437,000
Effect of dilutive securities-Employee stock options	317,267	-	354,054	287,985
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	12,777,281	12,620,849	12,814,068	12,620,849
Earnings per share	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.01
Diluted earnings per share	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.01

4. STOCK BASED COMPENSATION

For the quarter ended September 30, 2006, the Company recognized a compensation expense of \$38,219 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 75% and dividend yield of nil. No options were granted during the current quarter.

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

Unaudited

5. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2006			Dec 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,369,972	\$ 779,496	\$ 590,476	\$ 1,222,463	\$ 619,192	\$ 603,271
Telecom switch	938,139	938,139	-	938,139	938,139	-
Computer software	276,716	107,076	169,640	253,892	72,947	180,945
Leasehold improvements	186,354	146,287	40,067	162,698	124,936	37,762
Furniture and equipment	100,694	74,208	26,486	91,969	65,317	26,652
Automobile	12,889	9,024	3,865	12,889	7,089	5,800
	\$ 2,884,764	\$ 2,054,230	\$ 830,534	\$ 2,682,050	\$ 1,827,620	\$ 854,430

Amortization expense for the period ended September 30, 2006 is \$76,909 (2005: \$79,803)

6. INTANGIBLE ASSETS

	September 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally Developed Software	\$ 610,584	\$ 298,228	\$ 312,356	\$ 540,029	\$ 212,784	\$ 327,245

Amortization expense for the period ended September 30, 2006 is \$28,586 (2005: \$27,001)

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
September 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 September 30, 2006		Year Ended December 31, 2005	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	\$ 12,487,000	\$ 1,210,419	12,437,000	\$ 1,200,419
Issued on exercise of employee stock options	50,000	19,099	-	-
Balance, end of period	\$ 12,537,000	\$ 1,229,518	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 September 30, 2006, the Company had \$975,000 US dollars outstanding in Forwards that mature in the next six months at an average rate of 1.128.

9. COMPARATIVE FIGURES

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