



TELEHOP COMMUNICATIONS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2007

(Unaudited)

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated interim balance sheets of Telehop Communications Inc. at June 30, 2007, and the consolidated interim statements of income and comprehensive income, retained earnings and cash flows for the six-month period then ended have been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP.

The consolidated interim balance sheets of Telehop Communications Inc. at June 30, 2006, and the consolidated interim statements of income and comprehensive income, retained earnings and cash flows for the six-month 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.

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TELEHOP COMMUNICATIONS INC.
Consolidated Interim Balance Sheets

	June 30, 2007	December 31, 2006
ASSETS	<i>(Unaudited)</i>	<i>(Audited)</i>
CURRENT		
Cash and cash equivalents	\$ 2,924,751	\$ 2,778,664
Accounts receivable (Note 12)	2,842,582	3,319,359
Income taxes recoverable	177,144	-
Prepaid expenses and deposits	78,915	236,881
	6,023,392	6,334,904
PROPERTY, PLANT AND EQUIPMENT (Note 7)	782,196	809,543
INTANGIBLES (Note 8)	323,143	358,328
	\$ 7,128,731	\$ 7,502,775
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,420,289	\$ 2,989,398
Income taxes payable	-	218,602
	2,420,289	3,208,000
FUTURE INCOME TAX LIABILITY	50,201	69,050
	2,470,490	3,277,050
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9(a))	1,304,953	1,277,968
CONTRIBUTED SURPLUS (Note 9(b))	127,978	174,261
RETAINED EARNINGS	3,225,310	2,773,496
	4,658,241	4,225,725
	\$ 7,128,731	\$ 7,502,775

See accompanying notes

TELEHOP COMMUNICATIONS INC.**Consolidated Interim Statements of Income and Comprehensive Income**

Unaudited

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
		(Not Reviewed)		(Not Reviewed)
Revenue	\$ 4,594,460	\$ 5,130,358	\$ 9,586,760	\$ 10,167,470
Expenses				
Telecommunication costs	2,686,740	2,894,013	5,615,462	5,696,667
General and administration	772,467	719,793	1,524,654	1,513,043
Marketing and selling	557,441	843,236	1,167,536	1,577,277
Development and technical support (note 6)	44,677	224,379	287,644	401,854
Depreciation and amortization	120,895	84,993	235,488	206,588
Interest expense	14,030	397	14,108	1,097
	4,196,250	4,766,811	8,844,892	9,396,526
Income before income taxes	398,210	363,547	741,868	770,944
Income tax expense	142,711	142,665	290,054	287,159
Net income for the period	\$ 255,499	\$ 220,882	\$ 451,814	\$ 483,785
Other Comprehensive Income	-	-	-	-
Comprehensive Income	\$ 255,499	\$ 220,882	\$ 451,814	\$ 483,785
Earnings per share (note 4)				
Basic	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04
Diluted	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.04

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Interim Statements of Retained Earnings
Unaudited

	For the Six months ended	
	June 30, 2007	June 30, 2006
		<i>(Not Reviewed)</i>
Balance at beginning of period	\$ 2,773,496	\$ 1,876,349
Income for the period	451,814	483,785
Balance end of period	\$ 3,225,310	\$ 2,360,134

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Interim Statements of Cash Flows

Unaudited

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	<i>(Not Reviewed)</i>		<i>(Not Reviewed)</i>	
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income for the period	\$ 255,499	\$ 220,882	\$ 451,814	\$ 483,785
Adjustments for non-cash items:				
Amortization expense	120,895	84,993	235,488	206,588
Future income taxes	(9,149)	7,242	(18,849)	(3,075)
Stock-based compensation	(48,815)	-	(39,298)	-
	318,430	313,117	629,155	687,298
Changes in working capital items:				
Accounts receivable	(677)	(155,298)	476,777	216,169
Prepaid expenses	98,158	(71,894)	157,966	(53,427)
Accounts payable and accrued liabilities	151,182	(719,980)	(569,109)	767,063
Income taxes	(213,651)	(220,898)	(395,746)	(66,088)
Cash provided by (used for) operating activities	353,442	(854,953)	299,043	1,551,015
Investing activities				
Acquisition of property, plant and equipment	(110,034)	(26,985)	(137,518)	(159,463)
Acquisitions of intangible assets	(13,199)	(44,698)	(35,438)	(44,698)
Cash used for investing activities	(123,233)	(71,683)	(172,956)	(204,161)
Financing activities				
Repayment of obligations under capital lease	-	(2,916)	-	(5,743)
Issuance of common shares	-	10,000	20,000	10,000
Cash provided by financing activities	-	7,084	20,000	4,257
Increase (decrease) in cash	230,209	(919,552)	146,087	1,351,111
Cash, beginning of period	2,694,542	3,103,398	2,778,664	832,735
Cash, end of period	\$ 2,924,751	\$ 2,183,846	\$ 2,924,751	\$ 2,183,846
Supplementary Information				
Interest received	30,899	22,053	65,750	39,241
Income taxes paid	178,768	372,725	542,896	372,725

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Condensed Notes to Interim Consolidated Financial Statements
June 30, 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 PRESENTATIONS

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.
Condensed Notes to Interim Consolidated Financial Statements
June 30, 2007 and 2006

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 designated its cash and cash equivalents 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. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as financial liabilities, which are measured at amortized cost.

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 are met, then any unrealized gains and losses will be reported in other comprehensive income.

Investment Tax Credits

Investment tax credits are recorded using the cost-reduction method whereby the credits are deducted from the cost of the related asset or expenditure when there is reasonable assurance that the investment tax credit will be realized.

TELEHOP COMMUNICATIONS INC.
Condensed Notes to Interim Consolidated Financial Statements
June 30, 2007 and 2006

Unaudited

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 June 30		Six months ended June 30	
	2007	2006	2007	2006
		<i>(Not reviewed)</i>		<i>(Not reviewed)</i>
Net Income	\$ 255,499	\$ 220,882	\$ 451,814	\$ 483,785
Weighted-average shares for earnings per share	12,743,566	12,487,000	12,743,566	12,487,000
Effect of dilutive securities-Employee stock options	358,224	242,887	358,224	242,887
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	13,101,790	12,729,887	13,101,790	12,729,887
Earnings per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.02
Diluted earnings per share	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.02

5. STOCK BASED COMPENSATION

For the quarter ended June 30, 2007, the Company recognized a compensation expense of \$Nil for previously granted stock option awards. No options were granted during the current quarter.

6. DEVELOPMENT AND TECHNICAL SUPPORT

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Development and technical support	\$ 223,181	\$ 224,379	\$ 466,148	\$ 401,854
Research and development tax credit	(178,504)	-	(178,504)	-
	\$ 44,677	\$ 224,379	\$ 287,644	\$ 401,854

During the period ended June 30, 2007, the Company applied for a scientific research and development tax credit and was granted an investment tax credit for its research and development activities pertaining to its switch system and voice-over-internet-protocol (VOIP) technologies for 2005 and 2006.

TELEHOP COMMUNICATIONS INC.
Condensed Notes to Interim Consolidated Financial Statements
June 30, 2007 and 2006

Unaudited

7. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2007			Dec 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,467,419	\$ 953,363	\$ 514,056	\$ 1,411,966	\$ 832,583	\$ 579,383
Telecom switch	938,139	938,139	-	938,139	938,139	-
Computer software	289,155	144,202	144,953	284,756	120,853	163,903
Computer equipment	18,524	1,492	17,032	1,544	386	1,158
Leasehold improvements	207,792	161,984	45,808	190,539	152,408	38,131
Furniture and equipment	144,099	83,752	60,347	100,694	76,948	23,746
Automobile	-	-	-	12,889	9,667	3,222
	\$ 3,065,128	\$ 2,282,932	\$ 782,196	\$ 2,940,527	\$ 2,130,984	\$ 809,543

Amortization expense for the six-month period ended June 30, 2007 is \$164,864 (2006: \$149,727)

8. INTANGIBLE ASSETS

	June 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally developed software	\$ 670,069	\$ 394,330	\$ 275,739	\$ 634,633	\$ 329,075	\$ 305,558
Software licenses	53,664	6,260	47,404	53,664	894	52,770
	\$ 723,733	\$ 400,590	\$ 323,143	\$ 688,297	\$ 329,969	\$ 358,328

Amortization expense for the six-month period ended June 30, 2007 is \$70,624 (2006: \$56,861)

TELEHOP COMMUNICATIONS INC.
Condensed Notes to Interim Consolidated Financial Statements
 June 30, 2007 and 2006

Unaudited

9. 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:

	Six months ended		Year Ended	
	June 30, 2007		December 31, 2006	
	No. of		No. of	
	Shares	Amount	Shares	Amount
Balance, beginning of period	12,803,500	\$ 1,304,953	12,437,000	\$ 1,200,419
Issued on exercise of employee stock options	-	-	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 six-month period ended June 30, 2007:

	2007	2006
Balance at beginning of period	\$ 174,261	\$ 154,819
Stock-based compensation expense during the period	9,517	43,692
Allocated to share capital on exercise of options during the period	(6,985)	(24,250)
Forfeiture of employee stock options during the period	(48,815)	-
Balance at end of period	\$ 127,978	\$ 174,261

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Unaudited

10. FINANCIAL INSTRUMENTS

The Company enters into foreign exchange option contracts (“Options”) to mitigate its foreign currency exposure on expenses incurred for its operations. The Options allow the Company to exercise the option 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 Options 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 June 30, 2007, the Company has entered into foreign exchange contracts for the option to purchase \$1 million US at the following rates and maturity dates:

<u>Contract Amount</u>	<u>Rate</u>	<u>Maturity</u>
500,000	1.08	3-Aug-07
500,000	1.08	3-Sep-07

11. 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. Currently, the outcome and settlement of this claim cannot be determinable.

12. RELATED PARTY TRANSACTIONS

The Company is recovering an overpayment of bonuses made to the Chairman in prior years. The total balance of the overpayment is \$106,295 and is to be repaid by the Chairman through 39 bi-weekly instalments in the amount of \$2,725 starting June 1, 2007. As of June 30, 2007, the outstanding balance receivable is \$100,845, which is included in accounts receivable.

13. COMPARATIVE FIGURES

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