



TELEHOP COMMUNICATIONS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

(Unaudited)

TO THE SHAREHOLDERS OF TELEHOP COMMUNICATIONS INC.

The consolidated interim balance sheet of Telehop Communications Inc. at September 30, 2007, and the consolidated interim statements of income, retained earnings, statements of comprehensive income and cash flows for the nine-month period then ended have not been reviewed by the Company's auditors, Schwartz Levitsky Feldman LLP.

The financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee.

TELEHOP COMMUNICATIONS INC.
Consolidated Interim Balance Sheets

	September 30, 2007	December 31, 2006
ASSETS	<i>(Unaudited)</i>	<i>(Audited)</i>
CURRENT		
Cash and cash equivalents	\$ 3,034,500	\$ 2,778,664
Accounts receivable (Note 13)	2,689,333	3,319,359
Income taxes recoverable	57,786	-
Prepaid expenses and deposits	118,825	236,881
	5,900,444	6,334,904
 PROPERTY, PLANT AND EQUIPMENT (Note 8)	 749,938	 809,543
INTANGIBLES (Note 9)	326,246	358,328
	\$ 6,976,628	\$ 7,502,775
 LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,254,958	\$ 2,989,398
Income taxes payable	-	218,602
	2,254,958	3,208,000
 FUTURE INCOME TAX LIABILITY	 43,217	 69,050
	2,298,175	3,277,050
 SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 10(a))	1,333,823	1,277,968
CONTRIBUTED SURPLUS (Note 10(b))	116,608	174,261
RETAINED EARNINGS	3,228,022	2,773,496
	4,678,453	4,225,725
	\$ 6,976,628	\$ 7,502,775

See accompanying notes

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

Unaudited

	Three months ended		Nine months ended	
	Sep 30, 2007	Sep 30, 2006	Sep 30, 2007	Sep 30, 2006
Revenue	\$ 4,309,819	\$ 5,451,582	\$ 13,896,579	\$ 15,619,052
Expenses				
Telecommunication costs	2,522,851	2,966,942	8,138,313	8,663,609
General and administration	707,342	825,946	2,231,996	2,338,989
Marketing and selling	669,547	904,819	1,837,083	2,482,096
Development and technical support (note 6)	261,735	197,506	549,379	599,360
Depreciation and amortization	111,150	105,495	346,638	312,083
Interest expense (note 7)	10,838	1,919	24,946	3,016
	4,283,463	5,002,627	13,128,355	14,399,153
Income before income taxes	26,356	448,955	768,224	1,219,899
Income tax expense (note 7)	23,644	162,320	313,698	449,479
Net income for the period	\$ 2,712	\$ 286,635	\$ 454,526	\$ 770,420
Other Comprehensive Income	-	-	-	-
Comprehensive Income	\$ 2,712	\$ 286,635	\$ 454,526	\$ 770,420
Earnings per share (note 4)				
Basic	\$ 0.00	\$ 0.02	\$ 0.04	\$ 0.06
Diluted	\$ 0.00	\$ 0.02	\$ 0.03	\$ 0.06

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Interim Statements of Retained Earnings
Unaudited

	For the Nine months ended	
	Sep 30, 2007	Sep 30, 2006
Balance at beginning of period	\$ 2,773,496	\$ 1,876,349
Income for the period	454,526	770,420
Balance end of period	\$ 3,228,022	\$ 2,646,769

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Interim Statements of Cash Flows

Unaudited

	Three months ended		Nine months ended	
	Sep 30, 2007	Sep 30, 2006	Sep 30, 2007	Sep 30, 2006
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income for the period	\$ 2,712	\$ 286,635	\$ 454,526	\$ 770,420
Adjustments for non-cash items:				
Amortization expense	111,150	105,495	346,638	312,083
Future income taxes	(6,984)	(8,282)	(25,833)	(11,357)
Stock-based compensation	-	38,219	(39,298)	38,219
	106,878	422,067	736,033	1,109,365
Changes in working capital items:				
Accounts receivable	153,249	(135,406)	630,026	80,763
Prepaid expenses	(39,910)	(72,110)	118,056	(125,537)
Accounts payable and accrued liabilities	(165,331)	78,545	(734,440)	845,608
Income taxes	119,358	148,484	(276,388)	82,396
Cash provided by operating activities	174,244	441,580	473,287	1,992,595
Investing activities				
Acquisition of property, plant and equipment	(42,669)	(43,277)	(180,187)	(202,738)
Acquisitions of intangible assets	(39,326)	(25,857)	(74,764)	(70,557)
Cash used for investing activities	(81,995)	(69,134)	(254,951)	(273,295)
Financing activities				
Repayment of obligations under capital lease	-	(3,007)	-	(8,750)
Issuance of common shares	17,500	10,000	37,500	20,000
Cash provided by financing activities	17,500	6,993	37,500	11,250
Increase in cash	109,749	379,439	255,836	1,730,550
Cash, beginning of period	2,924,751	2,183,846	2,778,664	832,735
Cash, end of period	\$ 3,034,500	\$ 2,563,285	\$ 3,034,500	\$ 2,563,285
Supplementary Information				
Interest received	33,719	32,027	99,469	84,404
Income taxes paid	98,783	94,612	641,617	283,837

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Condensed Notes to Interim Consolidated Financial Statements
September 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. These interim financial statements 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. The interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements and

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
September 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
September 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 Sept 30		Nine months ended Sept 30	
	2007	2006	2007	2006
Net Income	\$ 2,712	\$ 286,635	\$ 454,526	\$ 770,420
Weighted-average shares for earnings per share	12,775,210	12,460,014	12,743,566	12,460,014
Effect of dilutive securities-Employee stock options	431,817	317,267	431,817	354,054
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	13,207,027	12,777,281	13,175,383	12,814,068
Earnings per share	\$ 0.00	\$ 0.02	\$ 0.04	\$ 0.06
Diluted earnings per share	\$ 0.00	\$ 0.02	\$ 0.03	\$ 0.06

5. STOCK BASED COMPENSATION

For the quarter ended September 30, 2007, the Company recognized a compensation expense of \$Nil for previously granted stock option awards. For the nine months ended September 30, 2007, the Company recognized forfeiture of stock options totalling \$39,298. No options were granted during the current quarter.

6. DEVELOPMENT AND TECHNICAL SUPPORT

	Three months ended Sept 30		Nine months ended Sept 30	
	2007	2006	2007	2006
Development and technical support	\$ 261,735	\$ 197,506	\$ 727,883	\$ 599,360
Research and development tax credit	-	-	(178,504)	-
	\$ 261,735	\$ 197,506	\$ 549,379	\$ 599,360

During the three-month period ended September 30, 2007, a one-time severance payment of \$47,538 was made to a former employee.

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

Unaudited

DEVELOPMENT AND TECHNICAL SUPPORT (CONTINUED)

During the nine-month period ended September 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.

7. INCOME TAXES

	Three months ended Sept 30		Nine months ended Sept 30	
	2007	2006	2007	2006
Current	\$ 7,036	\$ 170,602	\$ 295,938	\$ 460,837
Future	\$ (6,984)	\$ (8,282)	\$ (25,832)	\$ (11,358)
	\$ 52	\$ 162,320	\$ 270,106	\$ 449,479
Prior years' income tax reassessment	23,592	-	43,592	-
	23,644	\$ 162,320	\$ 313,698	\$ 449,479
Reassessment interest	\$ 9,737	\$ -	\$ 21,958	\$ -

During the period, the Company was reassessed for income taxes payable for the years 2001 to 2003. Reassessment interest is included in interest expense.

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

Unaudited

8. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2007			Dec 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telecom equipment	\$ 1,188,655	\$ 715,969	\$ 472,686	\$ 1,411,966	\$ 832,583	\$ 579,383
Computer software	246,721	106,471	140,250	284,756	120,853	163,903
Computer equipment	19,928	3,114	16,814	1,544	386	1,158
Leasehold improvements	156,684	93,154	63,530	190,539	152,408	38,131
Furniture and equipment	114,499	57,841	56,658	100,694	76,948	23,746
Automobile	-	-	-	12,889	9,667	3,222
	\$ 1,726,487	\$ 976,549	\$ 749,938	\$ 2,002,388	\$ 1,192,845	\$ 809,543

Amortization expense for the nine-month period ended September 30, 2007 is \$239,691 (2006: \$226,636). During the period, fully amortized assets totalling \$1,381,311 were re-recorded to reflect nominal values.

9. INTANGIBLE ASSETS

	September 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Internally developed software	\$ 709,396	\$ 427,870	\$ 281,526	\$ 634,633	\$ 329,075	\$ 305,558
Software licenses	53,664	8,944	44,720	53,664	894	52,770
	\$ 763,060	\$ 436,814	\$ 326,246	\$ 688,297	\$ 329,969	\$ 358,328

Amortization expense for the nine-month period ended September 30, 2007 is \$106,846 (2006: \$85,447).

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

Unaudited

10. 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:

	Nine months ended September 30, 2007		Year Ended December 31, 2006	
	No. of Shares	Amount	No. of 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	50,000	28,870	266,500	77,549
Balance, end of period	12,853,500	\$ 1,333,823	12,703,500	\$ 1,277,968

(b) Contributed Surplus

The following is a continuity of the changes in contributed surplus for the Nine-month period ended September 30, 2007:

	2007	2006
Balance at beginning of period	\$ 174,261	\$ 154,819
Stock-based compensation expense during the period	9,517	38,219
Allocated to share capital on exercise of options during the period	(18,355)	(9,099)
Forfeiture of employee stock options during the period	(48,815)	-
Balance at end of period	\$ 116,608	\$ 183,939

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

Unaudited

11. 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 of September 30, 2007, the Company did not hold any Options.

12. 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.

13. RELATED PARTY TRANSACTIONS

The Company is recovering overpayments made to the Chairman primarily in prior years. The balance is being repaid through bi-weekly instalments starting June 1, 2007. As of September 30, 2007, the outstanding balance receivable is \$91,837, which is included in Accounts Receivable. This balance includes \$7,346, being net of source deductions on account of a \$12,000 voluntary salary reduction in the quarter.

14. SUBSEQUENT EVENTS

- (i) During October, 300,000 shares were issued from the exercise of stock options by a former director and two insiders. The issuance of shares raised total proceeds of \$75,000.
- (ii) During October, 100,000 stock options were granted to a director. The stock options have an exercise price of \$0.80 per share, a term of five years and have vesting restrictions.

15. COMPARATIVE FIGURES

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