

TELEHOP COMMUNICATIONS INC.

Consolidated Balance Sheets

Unaudited

	Sep 30, 2001	As at Dec 31, 2000
ASSETS		
Cash	\$ 365,589	\$ 771,990
Accounts receivable	1,709,087	1,837,135
Income taxes recoverable	55,039	117,725
Prepaid expenses	64,402	59,727
Total current assets	2,194,117	2,786,577
Advances to shareholders (Note 2)	52,060	51,514
Future income tax asset	4,358	4,358
Capital Assets (Note 3)	976,641	994,025
Deferred charges	1,231	1,657
Total Assets	3,228,407	3,838,131
LIABILITIES		
Accounts payable and accrued charges	1,835,796	2,500,082
Deferred revenue	15,725	11,924
Obligations under capital lease - current portion (Note 4)	107,914	96,478
Total current liabilities	1,959,435	2,608,484
Obligations under capital lease (note 4)	25,088	89,296
Total liabilities	1,984,523	2,697,780
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	1,094,164	1,094,164
Retained earnings	149,720	46,187
Total shareholders' equity	1,243,884	1,140,351
Total Liabilities and Shareholders' Equity	\$ 3,228,407	\$ 3,838,131

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Statements of Earnings and Retained Earnings

Unaudited

	Three months ended		Nine months ended	
	Sep 30, 2001	Sep 30, 2000	Sep 30, 2001	Sep 30, 2000
Revenue	\$ 2,363,902	\$ 2,150,077	\$ 8,174,372	\$ 5,532,738
Expenses				
Telecommunication costs	1,530,255	1,377,992	5,519,891	3,963,762
General and administration	397,921	260,304	1,128,109	770,890
Marketing and selling	240,351	234,448	869,318	434,889
Development and technical support	111,988	58,968	298,824	162,872
	2,280,515	1,931,712	7,816,142	5,332,413
Earnings (loss) before interest, taxes and amortization	83,387	218,365	358,230	200,325
Depreciation and amortization	76,284	122,045	223,094	259,768
Earnings (loss) before interest and taxes	7,103	96,320	135,136	(59,443)
Interest expense	6,538	45,037	(31,106)	112,535
Earnings (loss) before income taxes	565	51,283	166,242	(171,978)
Income tax expense (recovery)	210	31,128	62,686	(68,375)
Net Income (loss) for the period	355	20,155	103,556	(103,603)
Retained earnings, beginning of period	149,365	43,291	46,164	167,050
Retained earnings, end of period	\$ 149,720	\$ 63,446	\$ 149,720	\$ 63,447
Earnings (loss) per share (note 5)	0.00	0.00	0.01	(0.01)

TELEHOP COMMUNICATIONS INC.**Consolidated Statements of Cash Flows****Unaudited**

	Current Quarter		Year to date	
	Sep 30,	Sep 30,	Sep 30,	Sep 30,
	2001	2000	2001	2000
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net Income (loss) for the period	\$ 355	\$ 20,155	\$ 103,556	\$ (103,603)
Items not affecting cash				
Depreciation and amortization	76,284	122,045	223,094	259,768
	76,639	142,200	326,650	156,165
Changes in operating working capital:				
Accounts receivable	589,764	(352,082)	128,048	(714,883)
Prepaid expenses	9,316	(6,635)	(4,676)	1,810
Accounts payable and accrued charges	(600,628)	585,152	(664,300)	1,072,831
Income taxes	210	63,531	62,686	(13,382)
Deferred revenue	(1,500)	(807)	3,800	3,379
	73,801	431,359	(147,792)	505,920
Investing activities				
Repayments of advances to shareholders	976	912	(546)	2,691
Additions to capital assets	(20,642)	(103,698)	(205,710)	(143,046)
Deferred charges	142	94	426	390
	(19,524)	(102,692)	(205,830)	(139,965)
Financing activities				
Repayment of obligations under capital lease	(5,533)	(22,286)	(52,774)	(64,417)
	(5,533)	(22,286)	(52,774)	(64,417)
Increase (decrease) in cash	48,744	306,381	(406,396)	301,538
Cash, beginning of period	316,845	288,915	771,985	293,758
Cash, end of period	\$ 365,589	\$ 595,296	\$ 365,589	\$ 595,296

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
For the nine months ended September 30, 2001

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Stock option plan

The Company has an employee stock option plan, which is described in Note 5. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

2. ADVANCES TO SHAREHOLDERS

Advances to shareholders bear interest at 7% per annum and are repayable in monthly instalments aggregating \$1,000 with the balance due on June 30, 2002.

3. CAPITAL ASSETS

	September 30, 2001			December 31, 2000		
	Cost	Accum Amort	Net Book Value	Cost	Accum Amort	Net Book Value
Computer and telecommunications equipment	\$ 1,420,412	\$ 779,696	\$ 640,716	\$ 1,308,677	\$ 649,669	\$ 659,008
Office furniture and equipment	236,213	109,303	126,910	154,443	86,557	67,886
Computer software	61,363	43,586	17,777	49,385	38,688	10,697
	1,717,988	932,585	785,403	1,512,505	774,914	737,591
Assets under capital lease						
Computer and telecommunications equipment	434,653	243,415	191,238	434,653	178,219	256,434
	\$ 2,152,641	\$ 1,176,000	\$ 976,641	\$ 1,947,158	\$ 953,133	\$ 994,025

Depreciation and amortization of assets under capital lease was \$65,196 in the nine months ended September 30, 2001 (for year ended December 31, 2000 - \$63,229).

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
For the nine months ended September 30, 2001

(Unaudited)

5. CAPITAL STOCK (continued)

Stock option plan (continued)

The following stock options have been granted and remain outstanding at September 30, 2001:

<u>Granted</u>	<u>Shares</u>	<u>Exercise Price</u>	<u>Exercisable</u>	<u>Expiry Date</u>
1997	720,500	\$ 0.40	720,500	June 2, 2002
1999	38,000	0.40	12,660	May 13, 2003
2000	30,000	0.40	-	March 16, 2004
2000	270,000	0.40	-	September 19, 2004
	<u>1,058,500</u>	<u>\$ 0.40</u>	<u>733,160</u>	

During the period ended September 30, 2001, NIL options were cancelled or expired. (For the year ended December 31, 2000 – 571,000).

Earnings per share

Earnings per share results were calculated based on the weighted average number of shares outstanding for the period ended September 30, 2001, which was 12,067,500 (Year ended December 31, 2000 – 12,067,500).

6. CONTINGENT LIABILITY

The Company is currently disputing a Provincial Sales Tax assessment received during October 2000. The liability per the assessment amounts to \$124,617, of which the Company acknowledges \$45,040 and is disputing \$79,577. Management is of the opinion that the disputed amount is without merit and is defending its position vigorously. The resolution of the matter is still pending.

7. SEGMENTED INFORMATION

The Company operates in one industry and one operating segment, being the telecommunications industry. All of the Company's assets are located in Canada and substantially all of the Company's revenues are derived in Canada.

8. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current presentation.