

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Balance Sheets

Unaudited

	As at	
	Sep 30, 2002	Dec 31, 2001
ASSETS		
Cash	\$ 533,198	\$ 450,205
Accounts receivable	2,207,184	2,785,969
Income taxes recoverable	66,428	87,478
Prepaid expenses	28,789	30,643
Advances to shareholders (note 2)	29,030	31,067
Total current assets	2,864,628	3,385,362
Future income tax asset	17,021	22,741
Capital assets (note 3)	807,852	767,930
Total assets	\$ 3,689,501	\$ 4,176,033
LIABILITIES		
Accounts payable and accrued charges	\$ 2,425,116	\$ 2,918,862
Obligations under capital lease - current portion (Note 4)	25,494	93,351
Total current liabilities	2,450,610	3,012,213
Obligations under capital lease (note 4)	27,363	13,459
Total liabilities	2,477,973	3,025,672
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	1,094,164	1,094,164
Retained earnings	117,364	56,197
Total shareholders' equity	1,211,528	1,150,361
Total liabilities and shareholders equity	\$ 3,689,501	\$ 4,176,033

See accompanying notes

TELEHOP COMMUNICATIONS INC.**Interim Consolidated Statements of Earnings and Retained Earnings**

Unaudited

	Three months ended		Nine months ended	
	Sep 30, 2002	Sep 30, 2001	Sep 30, 2002	Sep 30, 2001
Revenue	\$ 2,876,186	\$ 2,363,902	\$ 8,743,459	\$ 8,174,372
Expenses				
Telecommunication costs	1,378,596	1,530,255	5,059,272	5,519,891
General and administration	785,470	397,921	1,616,111	1,128,109
Marketing and selling	346,967	240,351	1,075,219	869,318
Development and technical support	291,503	111,988	669,756	298,824
Depreciation and amortization	66,420	76,284	188,463	223,094
Interest expense	3,900	6,538	10,283	(31,106)
	2,872,857	2,363,337	8,619,104	8,008,130
Earnings before income taxes	3,329	565	124,355	166,242
Income tax expense	1,248	210	51,399	62,686
Net income for the period	2,081	355	72,956	103,556
Retained earnings, beginning of period	115,283	149,365	44,408	46,164
Retained earnings, end of period	\$ 117,364	\$ 149,720	\$ 117,364	\$ 149,720
Earnings per share (note 5)	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Interim Consolidated Statements of Cash Flows

Unaudited

	Three months ended		Nine months ended	
	Sep 30, 2002	Sep 30, 2001	Sep 30, 2002	Sep 30, 2001
CASH FLOW PROVIDED BY (USED FOR)				
Operating activities				
Net income for the period	\$ 2,081	\$ 355	\$ 72,956	\$ 103,556
Items not affecting cash				
Depreciation and amortization	66,420	76,284	188,463	223,094
	68,502	76,639	261,419	326,650
Changes in operating working capital				
Accounts receivable	233,742	589,764	568,782	128,048
Prepaid expenses	13,154	9,316	11,854	(4,676)
Accounts payable and accrued charges	(308,959)	(600,628)	(506,544)	(664,300)
Income taxes	(35,169)	210	9,262	62,686
Deferred revenue	(600)	(1,500)	12,800	3,800
	(29,330)	73,801	357,574	(147,792)
Investing activities				
Repayment of advances to shareholders	-	976	2,037	(546)
Future income tax asset	-	-	5,720	-
Additions to capital assets	(44,154)	(20,642)	(228,385)	(205,710)
Deferred charges	-	142	-	426
	(44,154)	(19,524)	(220,628)	(205,830)
Financing activities				
Repayment of obligations under capital lease	(29,652)	(5,533)	(53,953)	(52,774)
	(29,652)	(5,533)	(53,953)	(52,774)
Increase (decrease) in cash	\$ (103,136)	\$ 48,744	\$ 82,993	\$ (406,396)
Cash, beginning of period	636,333	316,845	450,205	771,985
Cash, end of period	\$ 533,198	\$ 365,589	\$ 533,198	\$ 365,589

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements

Unaudited

1. SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information, including all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the financial position, statement of operations and cash flows for the interim period. The financial information included herein is unaudited; however, there have been no changes to the accounting policies as detailed in its audited financial statements as at December 31, 2001, during the interim period presented.

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.

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. This section sets out a fair value based method of accounting and is required for certain stock-based transactions, effective January 1, 2002 and applied to awards granted on or after that date.

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. Terms and conditions to be renegotiated August 31, 2003.

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements

Unaudited

3. CAPITAL ASSETS

	September 30, 2002			December 31, 2001		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer & telecom equipment	\$ 444,862	\$ 141,947	\$ 302,915	\$ 290,209	\$ 87,529	\$ 202,680
Furniture & equipment	46,501	28,867	17,634	38,478	22,159	16,319
Leasehold improvements	123,303	26,944	96,359	73,701	8,449	65,253
Telecom switch	455,752	311,534	144,218	455,752	262,704	193,048
Computer software	59,639	27,504	32,135	43,876	19,522	24,355
	<u>1,130,057</u>	<u>536,797</u>	<u>593,261</u>	<u>902,017</u>	<u>400,362</u>	<u>501,655</u>
Assets under capital lease						
Computer & telecom equipment	482,387	267,796	214,591	482,387	216,112	266,276
	<u>\$ 1,612,445</u>	<u>\$ 804,593</u>	<u>\$ 807,852</u>	<u>\$ 1,384,404</u>	<u>\$ 616,474</u>	<u>\$ 767,930</u>

Depreciation and amortization of assets under capital lease was \$51,684 and \$65,196 in the nine months ended September 30, 2002 and September 30, 2001 respectively.

4. COMMITMENTS

A. Details of obligations under capital lease as at September 30, 2002 are as follows:

2002	\$ 15,093
2003	20,646
2004 and after	19,751
<u>Total minimum lease payments</u>	<u>55,490</u>
Less amount representing imputed interest at 8%	2,633
<u>Present value of obligations under capital lease</u>	<u>52,857</u>
Current portion - due within one year	25,494
<u>Long-term obligations under capital lease</u>	<u>\$ 27,364</u>

B. The future minimum payments under operating lease as at September 30, 2002 are as follows:

2002	\$ 11,183
2003	44,731
2004	44,731
2005	44,731
Thereafter	<u>270,083</u>
	<u>\$ 415,459</u>

5. CAPITAL STOCK

TELEHOP COMMUNICATIONS INC.

Notes to Interim Consolidated Financial Statements

Unaudited

September 30, 2002 December 31, 2001

Authorized:

An unlimited number of common shares

Issued and outstanding:

12,067,500 common shares **\$ 1,094,164** **\$ 1,094,164**

Earnings per share is the amount of earnings for the period available to each common share outstanding during the reporting period. Earnings per share was calculated using earnings of \$2,081 for the three months to September 30, 2002 and \$72,956 for the nine months to September 30, 2002 (three months to September 30, 2001 - \$355 and nine months to September 30, 2001 - \$103,556) and weighted average common shares of 12,067,500 (September 30, 2001 - 12,067,500).

Stock option plan

In May 1997 the shareholders of the Company approved an employee stock option plan ("ESOP") and authorized the Company to reserve 1,500,000 common shares of the Company for issuance in accordance with the terms of the ESOP. Options granted may be exercised over a period not exceeding five years with the purchase price payable in full at the time the options are exercised.

Summarized information relative to the Company's stock option plan as follows:

	<u>Sep 30, 2002</u>	<u>Weighted Average Exercise Price</u>	<u>Dec 31, 2001</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, beginning of period	\$ 753,000	\$ 0.40	1,058,500	\$ 0.40
Options granted	400,000	0.40	523,000	0.40
Options exercised	-	0.40	-	0.40
Options expired/cancelled	-	0.40	(226,000)	0.40
Options outstanding, end of period	1,153,000	\$ 0.40	1,355,500	\$ 0.40
Options exercisable, end of period	276,600	\$ 0.40	528,000	\$ 0.40

TELEHOP COMMUNICATIONS INC.
Notes to Interim Consolidated Financial Statements

Unaudited

5. CAPITAL STOCK (Continued)

The following table summarizes information about stock options outstanding at September 30, 2002:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.40	1,153,000	3.64	\$ 0.40	273,600	\$ 0.40

6. SEGMENTED INFORMATION

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

7. COMPARATIVE FIGURES

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