

TELEHOP COMMUNICATIONS INC.
Consolidated Balance Sheets

Unaudited

	As at	
	March 31, 2003	Dec 31, 2002
ASSETS		
Cash	\$ 2,156,594	\$ 1,464,079
Accounts receivable	1,443,270	1,675,372
Income taxes recoverable	-	38,719
Prepaid expenses	66,192	37,170
Advances to shareholders (note 2)	26,101	26,101
Total current assets	3,692,157	3,241,441
Future income tax asset	25,271	25,271
Capital assets (note 3)	873,142	838,773
Total assets	\$ 4,590,571	\$ 4,105,485
LIABILITIES		
Accounts payable and accrued charges	\$ 3,016,846	\$ 2,820,328
Income taxes payable	73,205	-
Obligations under capital lease - current portion (Note 4)	23,750	17,247
Total current liabilities	3,113,801	2,837,575
Obligations under capital lease (note 4)	49,677	21,757
Total liabilities	\$ 3,163,478	\$ 2,859,332
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	\$ 1,094,164	\$ 1,094,164
Retained earnings	332,929	151,989
Total shareholders equity	1,427,093	1,246,153
Total liabilities and shareholders	\$ 4,590,571	\$ 4,105,485

See accompanying notes

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

	for the three months ended	
	March 31, 2003	March 31, 2002
Revenue	\$ 3,907,947	\$ 2,893,226
Expenses		
Telecommunication costs	2,397,292	1,910,874
General and administration	592,174	366,008
Marketing and selling	316,624	331,702
Development and technical support	220,224	164,582
Depreciation and amortization	74,471	61,195
Interest expense	(4,804)	4,174
	3,595,981	2,838,536
Earnings before income taxes	311,966	54,690
Income tax expense	131,026	25,139
Net earnings for the period	180,940	29,551
Retained earnings, beginning of period	151,989	56,196
Retained earnings, end of period	\$ 332,929	\$ 85,747
Basic & Diluted Earnings per Share (note 5)	\$ 0.01	\$ 0.00

See accompanying notes

TELEHOP COMMUNICATIONS INC.
Consolidated Statements of Cash Flows

Unaudited

	for the three months ended	
	March 31, 2003	March 31, 2002
CASH FLOW PROVIDED BY (USED FOR)		
Operating activities		
Net income for the period	\$ 180,940	\$ 29,551
Items not affecting cash		
Depreciation and amortization	74,471	61,195
	255,411	90,746
Changes in operating working capital		
Accounts receivable	232,102	398,241
Prepaid expenses	(29,024)	(1,000)
Accounts payable and accrued charges	196,219	(59,947)
Income taxes	111,925	25,139
Deferred revenue	300	13,300
	766,933	466,479
Investing activities		
Repayments of advances to shareholders	-	(512)
Additions to capital assets	(108,840)	(55,063)
	(108,840)	(55,575)
Financing activities		
Repayment of obligations under capital lease	34,423	(27,080)
	34,423	(27,080)
Increase in cash	\$ 692,516	\$ 383,824
Cash, beginning of period	1,464,079	450,205
Cash, end of period	\$ 2,156,594	\$ 834,028

See accompanying notes

TELEHOP COMMUNICATIONS INC.

Notes to Consolidated Financial Statements

March 31, 2003 and December 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany transactions and accounts have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the consolidated financial statements, cash is defined as cash and short-term deposits having a maturity of three months or less.

Capital assets and amortization

Capital assets are stated at cost. Amortization is based on the estimated useful lives of the assets and is provided as follows:

Telecom equipment	20% straight-line
Furniture and equipment	20% straight-line
Leasehold improvements	Lesser of estimated useful life and period of lease agreement
Telecom switch	14% straight-line
Computer software	20% straight-line
Telecom equipment under capital lease	10% - 20% on a straight-line basis

Income taxes

The Company uses the asset and liability method for accounting for income taxes which requires the establishment of future tax assets and liabilities, as measured by substantively enacted tax rates, for all temporary differences caused when tax bases of assets and liabilities differ from those reported in the financial statements. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

Revenue recognition

The Company records revenue from the sale of telecom services at the time of customer usage primarily based upon minutes of use. The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but not billed.

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2003 and December 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock option plan

The Company has an employee stock option plan, which is described in Note 6.

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants recommendations ("CICA") in Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" ("HB 3870"). These guidelines establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. HB 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions.

The new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital.

HB 3870, however, does require additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options. The adoption of HB 3870 did not have an effect on the Company's results of operations or financial condition.

Earnings per share

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share.

Recent Canadian Accounting Pronouncements

Impairment or Disposal of Long-Lived Assets

In December 2002, the CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets". This Section supersedes the write-down and disposal provisions of Section 3061, "Property, Plant and Equipment". Section 3063 amends existing guidance on long-lived asset impairment measurement and establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use by the Company. It requires that an impairment loss be recognized and measured as the amount by which the carrying amount of the asset exceeds its fair value. The new standards contained in Section 3063 are applicable for years beginning on or after April 1, 2003; however, early application is permitted. The Company has adopted this standard as of January 1, 2003. The Company expects the adoption of this standard will have no material impact on its current financial position, results of operations or cash flows.

Disclosure of Guarantees

In February 2003, the CICA issued Accounting Guideline 14, "Disclosure of Guarantees" ("AcG 14"). AcG 14 requires certain disclosures to be made by a guarantor in its interim and annual financial statements for periods beginning after January 1, 2003.

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2003 and December 31, 2002

2. ADVANCE TO SHAREHOLDER

The Board of Directors agreed during the year to amend the terms of an advance to a shareholder. The maturity date was extended to August 31, 2003. The advance bears no interest.

3. CAPITAL ASSETS

	March 31, 2003			December 31, 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telcom equipment	\$ 580,438	\$ 192,193	\$ 388,245	\$ 446,687	\$ 157,312	\$ 289,375
Furniture and equipment	60,276	34,088	26,188	48,001	30,820	17,181
Leasehold improvements	156,268	38,013	118,255	131,809	30,565	101,244
Telecom switch	455,752	344,088	111,664	455,752	327,811	127,941
Computer software	83,235	34,580	48,655	72,835	30,765	42,070
	<u>1,335,968</u>	<u>642,961</u>	<u>693,007</u>	<u>1,155,084</u>	<u>577,273</u>	<u>577,811</u>
Telecom equipment under capital lease	482,387	302,252	180,135	554,776	293,814	260,962
	<u>\$ 1,818,355</u>	<u>\$ 945,213</u>	<u>\$ 873,142</u>	<u>\$ 1,709,860</u>	<u>\$ 871,087</u>	<u>\$ 838,773</u>

Depreciation and amortization of assets under capital lease was \$17,228 in the quarter ended March 31, 2003 (for year ended December 31, 2002 - \$77,702).

4. COMMITMENTS

Details of obligations under capital lease as at March 31, 2003 are as follows:

2003	\$ 23,577
2004	28,057
2005	16,497
2006	15,466
Total minimum lease payments	<u>83,597</u>
Less amount representing imputed interest of approximately 6%	<u>10,170</u>
Present value of obligations under capital lease	73,427
Current portion - due within one year	<u>23,750</u>
Long-term obligations under capital lease	<u>\$ 49,677</u>

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2003 and December 31, 2002

4. COMMITMENTS (continued)

The future minimum payments under operating leases as at March 31, 2003 are as follows:

2003	\$ 109,239
2004	145,652
2005	145,652
2006	147,457
2007	177,984
Thereafter	690,276
	<hr/> \$1,416,260 <hr/>

5. CAPITAL STOCK

	<u>Mar 31, 2003</u>	<u>Dec 31, 2002</u>
Authorized		
An unlimited number of common shares		
Issued and outstanding		
12,067,500 common shares	\$ 1,094,164	\$ 1,094,164
	<hr/>	

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 \$180,940 (Dec 31, 2002 – \$95,792) and weighted average number of common shares of 12,067,500 (Dec 31, 2002 – 12,067,500). There was no adjustment arising from the effect of dilutive securities on the adjusted weighted average number of shares outstanding.

Stock option plan

The Company's employee stock option plan ("ESOP") 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 vest over a period not exceeding five years and the purchase price is payable in full at the time the options are exercised.

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2003 and December 31, 2002

5. CAPITAL STOCK (continued)

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

	<u>Mar 31, 2003</u>	<u>Weighted Average Exercise Price</u>	<u>Dec 31, 2002</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, beginning of period	1,153,000	\$ 0.40	1,355,500	\$ 0.40
Options granted	-	0.40	400,000	0.40
Options exercised	-	0.40	-	0.40
Options cancelled	-	0.40	(602,500)	0.40
Options outstanding, end of period	1,153,000	\$ 0.40	1,153,000	\$ 0.40
Options exercisable, end of period	813,000	\$ 0.40	648,400	\$ 0.40

The following table summarizes information about stock options outstanding at March 31, 2003:

Range of Exercise Price	Outstanding		Exercisable		
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.40	1,153,000	3.11	\$ 0.40	648,400	\$ 0.40

The Company's board of directors resolved to reprice all options outstanding as at December 31, 2002. The repricing of the options at an exercise price of \$0.20 is subject to final shareholder approval.

The Company accounts for its stock-based employee compensation other than all stock-based payments to non-employees, as capital transactions. Section 3870 requires the disclosure of pro forma net income as if the Company had accounted for its stock options issued subsequent to December 31, 2001 under the fair value method. The Company has evaluated the fair value of the options granted during the year using the Black-Scholes option pricing model to estimate the fair value of the options at the date of grant. The Company determined that the fair values are insignificant and do not have an effect on its results of operations, or earnings per share. The financial statements, therefore, do not include the pro forma disclosure.

TELEHOP COMMUNICATIONS INC.
Notes to Consolidated Financial Statements
March 31, 2003 and December 31, 2002

6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities approximate their fair value.

Credit risk

The Company is subject to credit risk through accounts receivables, which is limited by the large number of customers and their geographic dispersion across Ontario. The Company also mitigated the majority of its credit risk through an arrangement with the BCE group of companies.

7. SEGMENTED INFORMATION

The Company operates in one industry and one operating segment, being the telecom 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.