

TELEHOP COMMUNICATIONS INC.

**ANNUAL INFORMATION FORM
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

DATED SEPTEMBER 10, 2003

CORPORATE STRUCTURE

Telehop Communications Inc. (“Telehop” or the “Company”) was incorporated under the Ontario Business Corporations Act on May 11, 1993.

Telehop’s principal and head office is located at 200 Consumers Road, Suite 220, Toronto, Ontario M2J 4R4.

Telehop is a reporting issuer in Alberta, British Columbia and Ontario. Telehop’s common shares are listed on the TSX Venture Exchange and trade under the symbol “YTO”. Telehop has 12,067,500 common shares outstanding.

Telehop is a holding company and has two material wholly-owned subsidiaries, each incorporated in Ontario, Telehop Long Distance Service Limited, incorporated in February 1994, and International Telehop Network Systems Inc., incorporated in November 1994. These subsidiaries hold telecommunication licenses (described below). The operations of the Company are run by Telehop and are not segmented by subsidiary.

GENERAL DEVELOPMENT OF THE BUSINESS

History

Over the past three completed financial years, Telehop has seen a dramatic increase in its long distance business, through its casual calling carrier identification code, 10·10·620. Casual Calling permits the public to access long distance service without a fixed term contract, the fees for which are collected from the consumer by the incumbent local carrier under contract. Casual Calling has become an increasingly popular method of calling long distance, by providing immediate, reliable and cost competitive access comparable to that provided by major carriers. The increased revenues resulting from Telehop’s growing customer base and increased usage are attributable to a number of factors including an improvement in Telehop’s system quality through the acquisition of a significantly improved switching capability (which has led to more reliable and better quality access and service), marketing in the mainstream media, and a consolidation and reduction in the number of available service providers.

Telehop’s monthly “Flat-Rate” or “hop” business has generally increased as the greater Toronto local calling area has expanded. The Flat-Rate service allows unlimited long distance calls for a flat monthly fee for all points of service within Telehop’s network. Regulatory changes have permitted the scope of Telehop’s local calling area to expand from Newmarket, Burlington and Oshawa to Kitchener-Waterloo, Hamilton, Peterborough, Muskoka, and points in between. Because the area of local calling to which the flat-rate hop network is available has grown, its customer base has expanded and represents a potential customer base for other services.

NARRATIVE DESCRIPTION OF THE BUSINESS

Description of business

Telehop's two material subsidiaries are licensed by the CRTC as Class A licensed telecommunications carriers providing a wide range of long distance services. Telehop has made a significant leased investment in switching equipment and proprietary software. Its business involves offering a number of long distance services: monthly Flat-Rate or Hop long distance, Wholesale, Equal Access, Casual Calling, Virtual Calling Card and Toll Free (1-800) services.

The services provided by Telehop are described below:

Direct-Dial Long Distance (Equal Access) Service & Casual Calling

Equal Access permits non-incumbent long distance service providers such as Telehop with the ability to offer direct-dial long distance to customers using a dialing pattern of 1+ or 011+. Telehop has provided Equal Access long distance services worldwide to its customers since 1994 and remains one of Canada's few Equal Access providers.

The Casual Calling service allows any user to access Telehop's Equal Access network without having to subscribe to the service simply by fast-dialing 10.10.620. Calls made using this service appear on the customers' regular local telephone bill at Telehop's rates. Telehop has entered into Billing and Collection agreements with major Competitive Local Exchange Carriers (CLECs) across Canada, to support the service, in accordance with CRTC regulations.

Telehop's direct-dial and Casual Calling services are offered in British Columbia, Alberta, Ontario and Quebec.

Flat Rate/Hop Service

Telehop provides unlimited long distance telephone calls for a flat monthly fee for all points of service within its network. Telehop's hop service is unique in the technology it uses, which enables Telehop to provide unlimited two-way calling for one low monthly fee. A customer calls locally using an access telephone number that acts as a two-way gateway to the Company's system and then enters the number called. The call would otherwise have been a long distance call. This system is designed to reduce a customer's variable long distance charges with a lower fixed monthly fee.

Wholesale Service

Telehop offers a range of wholesale services to dedicated and switchless resellers including online access to CDRs (call detail records), the ability to resell Telehop's Equal Access service and selective stripping of traffic.

Virtual Calling Card Services

A Telehop Calling Card can be used from anywhere in North America to call anywhere in the world with charges billed to a designated account. The service is targeted to the corporate and residential sectors, using highly sophisticated tools allowing online access to call detail, and may also be distributed as a value-added service to customers already on Telehop's network.

Toll Free Services

Telehop is a reseller of Toll Free inbound (1-800) services. Telehop enables customers to receive this service at any destination point designated by the customer.

Franchise Relationship

Telehop provides non-exclusive territories to approximately 25 franchises (based on area and telephone exchange numbers) that market Telehop's services. As Telehop's marketing network has grown, Telehop has relied less on franchises for growth. Telehop continues to evaluate the ongoing role of franchises in promoting the business.

Employees

The Company currently has 35 employees operating out of its offices in Toronto, Ontario.

Premises Leased

The Company leases approximately 7,000 square feet of office space at its head office premises and an additional 7,000 square feet of office space in downtown Toronto, of which 3,000 square feet are subleased. The leases expire in 2011 and 2012, respectively. The yearly financial commitment of the Company under said leases is set out in Note 5 to the audited consolidated financial statements for the year ended December 31, 2002. The Company also leases premises for each of its hop gateway switching devices.

The Telecom Communications Market

The Canadian telecommunications industry, and in particular its long distance services segment, is a rapidly growing market. The synergies created by the converging technologies of voice, data and video have accelerated this growth.

In Canada, the margins earned by incumbent telecommunications companies on long distance services have traditionally been high. These high long distance rates have been viewed as a market opportunity by many small entrepreneurial companies such as Telehop to compete with lower rates by employing sophisticated switching and software capabilities to offer highly tailored services to its target market.

Accelerated market growth is expected to continue as a result of competitors seeking out new markets through aggressive marketing, which enhances the profile of this industry and increases product awareness. Increased long distance usage results from reduced rates, along with the

introduction of new products and trends such as global calling, roaming, telecommuting and home office.

Competition

With respect to the traditional direct-dial and Casual Calling long distance services that Telehop offers, its competitors include Bell Canada, Allstream (formerly AT&T), Sprint Canada and Primus. Telehop believes that because of its low overhead and operating efficiencies, it is able to offer high quality services at significantly discounted rates to a segment of the market not targeted by mainstream competitors. Telehop's effective rates may be as much as 60% less than those of its competitors. Telehop operates profitably while passing on substantial savings to its customers.

There are many barriers to entry into the traditional long distance "Equal Access" field. These include obtaining an "Equal Access" carrier code from the Canadian Numbering Plan Administrator, obtaining access to carrier grade switches (which allows the relay of long distance calls between the telephone cable or fiber optic networks or facilities-based long distance carriers) or the lease of space on an existing switch, developing a billing system to cost-effectively process and invoice calls by detail, and obtaining the technical expertise to compete in the field.

The quality of service needed to remain competitive requires the dedication of significant resources to acquire and maintain state of the art technology including world-class carrier grade switching equipment.

An increasing number of competitors have expanded into the Casual Calling space which Telehop believes has broadened the market and increased the visibility of its products. The potential for expansion increases with growing product awareness and competition is viewed as an opportunity to raise Telehop's Casual Calling service's (10-10-620) profile in the marketplace.

Telehop's revenues and gross margins have increased notwithstanding the rise in the number of long distance service providers. The Company has increased its profile through various media including radio, television, direct mail and newspaper ads. Telehop believes that its operating experience and years of refining its on-board technology have distinguished it from other competitors in the quality of service offered.

Regulatory Environment

The telecommunications industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC"). Until 1979, telephone companies which provided local services (the "Local Service Companies") in Canada also had a monopoly on long-distance services. In that year, the CRTC ruled that CNCP (later renamed Unitel Communications Inc. and now Allstream) could connect data and private line voice services to the Public Switched Telephone Network (PSTN). After a relatively slow start, the resale industry took off as a result of a series of CRTC rulings. In 1989, CRTC ruling 89-2 permitted "flat-rate" businesses to compete. The CRTC rulings culminated in 1992 with CRTC ruling 92-12 which opened the door

wide to greater long-distance competition. This latter ruling allowed “Equal Access” competition.

Prior to 1995, all long-distance providers were required to obtain approval from the CRTC for rate charges in their long-distance services. The CRTC received numerous tariff filings from the Local Service Companies and the alternative long-distance carriers sought to alter their long-distance rates to compete with each other. As a consequence, the CRTC ruled on September 8, 1995 that all long-distance competitors (except the Local Service Companies) would no longer be required to file tariffs for their services. In Decision 97-19, issued in December 1997, the CRTC concluded that the long distance and toll-free markets were sufficiently competitive to protect the interests of customers, and that it would be appropriate to forebear from these services. This is known as “forbearance” in the industry. As a result, major carriers are no longer required to file and obtain CRTC approval of tariffs specifying rates for such services. However, large incumbent telecommunications service providers are required to provide to the CRTC, and to make publicly available, rate schedules setting out rates for basic long distance service subject to a price cap regulation regime to which non-incumbent companies are not subject.

Telehop believes that notwithstanding forbearance in the long distance market, given its relatively low operating overhead and competitive service, it is able to compete with the rates offered by incumbent telecommunications service providers.

Trademarks

Telehop has a number of registered trademarks that are central to the marketing of its products. Those trademarks include “10-10-620”, “Call the world for \$1”, “Talk more, pay less”, “Talk is cheap”, “Telehop” and the Telehop rabbit.

There are presently no disputes that Management is aware of with respect to any of its trademarks.

Risk Factors

The following factors should be considered carefully in evaluating the Company and its business.

- **Competition.** The long distance telecommunications industry is highly competitive. The Company competes in all aspects of its business with established telephone companies (including wireless and cellular telephone providers) who are attempting to reduce the erosion of their market share. Some of these companies have significantly greater resources than Telehop. Telehop uses a number of different technologies to remain competitive including voice-over internet. There can be no assurance that one or more of the technologies currently utilized by the Company in its business will not become obsolete at some time in the future. The telecommunications industry is subject to rapid and significant changes including a trend towards potential convergence or integration of the telecommunications and cable industries. There can be no assurance that convergence within the industry will not otherwise adversely affect the operations and financial condition of the Company.

- **Regulatory Environment.** The telecommunications industry is regulated by the CRTC that sets policy and allows for degrees of competition that can change at any time. Since 1992, the stated policy of the CRTC has been to recognize the value and importance of competition in the long distance industry. However, there can be no assurance that the underlying policies of the CRTC towards fostering the development of competition in long distance services will not change in the future.
- **Dependence on Other Carriers.** All of the long distance telephone calls made by Telehop's customers are connected through transmission facilities that Telehop leases under a variety of arrangements from facilities-based long distance carriers, most of which are competitors of Telehop. Telehop is dependent on other carriers and vulnerable to changes in its lease arrangements, rate increases and service interruptions.
- **Changing Technology.** The telecommunications field is characterised by rapidly advancing technology that could render the products of Telehop obsolete over time. Telehop continuously strives to keep in the forefront of new technology.

Business Strategy

Telehop strives to be a cost effective, customer service driven provider of long distance services. To achieve this goal, Telehop's business strategy is based on the following key elements:

1. Efficient use of technology to provide cost-effective long distance services to its customers. Telehop continues to implement new computer-based technologies designed to improve efficiency and customer services. These technologies are expected to contribute to increased profit margins for current services and new product lines to be offered in the future;
2. Telehop seeks to be a low cost provider of services by centralizing all administrative functions and minimizing overhead, while expanding sales efforts in niche markets;
3. Telehop is committed to providing superior service to its customers. Telehop works closely with its customers to identify particular needs, and design and implement customized program solutions, developing new long distance products in expanding geographic areas;
4. Telehop continues to focus on expanding its base of larger customers while at the same time profitably maintaining its current customer base. While Telehop's traditional customers have provided a stable revenue base, it believes that larger clients offer significantly better cross-selling opportunities. As a result, Telehop is accelerating efforts to acquire additional key accounts;
5. Telehop intends to target value added acquisitions that possess synergies both in efficiencies and product lines. This acquisition strategy is, of course, subject to Telehop's financial abilities from time to time. No particular acquisitions are currently proposed and there are currently no agreements in respect of any specific acquisitions.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year ended Dec. 31, 2002 (\$)	Year ended Dec. 31, 2001 (\$)	Year ended Dec. 31, 2000 (\$)
Revenue	12,334,438	10,877,445	8,163,262
Earnings (loss) before income taxes	178,654	21,877	(167,209)
Net earnings (loss)	95,792	10,010	(120,862)
Basic earnings (loss) per common share	0.01	0	(0.01)
Total Assets	4,105,485	4,176,033	3,838,131
Long Term Liabilities:			
Current portion (due within one year)	17,247	93,351	96,478
Long-term obligations under capital lease (imputed interest p.a. 6%)	21,757	13,459	89,296
Shareholders' equity	1,246,153	1,150,361	1,140,351
Equity per common share	0.10	0.10	0.10

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2002.

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. The forward-looking statements are based on the estimates and opinions of management on the dates they are made and are expressly qualified in their entirety by this notice. They are not guarantees of the future performance and involve risks and uncertainties that could cause actual results to differ materially from those anticipated in these forward-looking statements. Among the key factors that could cause such differences are: the overall growth in the telecommunications industry; lower-than-expected customer demand;

supplier constraints; our variability of operating results among periods; our dependence on limited geographical exposure; and our ability to manage expansion, consolidation and the integration of our various products and services. These and other factors are discussed in the Company's filings on SEDAR.

Overview

Telehop has identified a number of trends associated with the growth of its business over the past three years. It has realized productivity gains by maintaining fixed operating costs per employee while increasing revenues per employee. By maintaining fixed costs, the Company has been able to target its variable costs for reduction through volume discounts from carriers. These operating efficiencies have yielded increased gross margins. In addition, because outstanding receivables are a cost to the Company, the Company has focused on, and successfully reduced the conversion time of accounts receivable to cash. With increased cash and revenues, the Company has successfully managed cash flow from operations that have proved sufficient without requiring the company to resort to bank debt to finance its operations and expansion. The Company has grown revenues organically through better product quality and has broadened its customer base through the explosive growth of the industry itself. Telehop's business is generally not cyclical or seasonal, and in the upcoming fiscal year does not expect its business to be materially affected by renegotiation or termination of contracts or sub-contracts.

Material Contracts

In the normal course of business Telehop continues to have Interconnection and Billing/Collection Services Agreements with major incumbent Competitive Local Exchange Carriers and other facilities-based providers.

Future Prospects

The Company's network software has been upgraded making the service more efficient and providing management with real-time statistics, product information and the tools to query all aspects of products sold. The new billing system ensures increased efficiency of cash management. The management structure has been expanded so that all critical areas of the business are managed by professionals in their respective fields of expertise. This strong management team ensures good control of the business and establishes the Company securely for future growth. During the year the Company increased its telecommunications capacity enabling it to explore new markets. Since year end, the Company has expanded its equal access services to the provinces of British Columbia and Alberta, enabling it to offer direct-dial, Casual Calling and wholesale services to its customers. At present Telehop's Western Canadian operations represent approximately 5% of its operating revenue after only a short period of limited market presence. The Company believes Western Canada represents a strong growth opportunity for future revenue. The Company expects to maintain its growth pattern with respect to revenue and cash flow from operations.

LIQUIDITY AND CAPITAL RESOURCES

In 2002, operating activities provided Telehop with \$1,402,170 in cash principally from earnings, favourable terms from suppliers and improved cash management. Cash increased in part due to a decrease in the number of days accounts receivable were outstanding.

The capital expenditure outlay for the year was approximately \$250,000 and was used to purchase capital assets necessary to improve capacity and network quality, and to accelerate payments to suppliers.

The Company does not envisage any material capital expenditure for the coming year. With cash resources of \$1,464,079, the Company expects to be entirely self-funded for the 2003 financial year. The Company does not foresee the need to borrow any funds in the normal course.

RESULTS OF OPERATIONS

Revenues have increased significantly year-over-year (from 2000 to 2002) at an average rate of approximately 33%. The primary contributor to this increase has been retail long distance services. The Company has focused on growing this market, and is maintaining its marketing expenditures at a rate of approximately 12% of revenue.

The Company has developed sound internal controls to monitor and manage its telecommunication costs and gross margins. These controls are a consequence of computer software developed by the Company, which automates the management of call routing, provides real-time statistical call information and automates the Company's billing process. These systems have enabled the Company to effectively reduce the cost of delivering a call from 71% of revenue in the year 2000 down to 59% in 2002. As a percentage of revenue, technical costs have increased by 3% from the year 2000 to 2002.

The long-term benefit of the Company's focus is highlighted by general and administration costs as a percentage of revenue that have only increased by 2% over the past three years whilst considerably increasing the Company's profit performance. Net Profit (loss) after tax has increased from a loss of \$549,000 in 1999 to a current profit of \$96,000 for the year 2002. This emphasizes how the Company has improved its overall efficiency and its approach to cash management and operating efficiency.

The Company has come through its three-year growth phase well positioned for the future. It has developed a strong and competent management team, each with a team of their own dedicated and committed staff.

Productivity as measured by revenue per employee has increased from \$233,000 in the year 2000 to \$352,000 in 2002.

MARKET FOR SECURITIES

Telehop's common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "YTO".

DIRECTORS AND OFFICERS

Names, Addresses, Occupations and Security Holdings

Particulars of the directors and executive officers of Telehop and their respective principal occupations are as follows:

<i>Name/ Municipality of Residence</i>	<i>Position with Company/Present & Principal Occupation</i>	<i>Date Appointed Director</i>	<i>Common Shares beneficially owned, directly or indirectly, controlled or directed, as at Sept. 10, 03</i>	<i>No. of Options Held as at Sept. 10, 03</i>
Hersh Spiegelman Toronto, Ontario	Director, President, CEO	May 11, 1993	4,015,000	100,000
Ruth Bartholomeusz Toronto, Ontario	Director, COO	Jun. 22, 2000	Nil	130,000
Celia Denov (1)(2) Toronto, Ontario	Director, Consultant C. Denov & Associates	Feb. 28, 1997	399,000	100,000
Bryan Ceresne (1)(2) Toronto, Ontario	Insurance broker, Health Source Plus Ltd.	Jun. 14, 2003	Nil	100,000
Daniel H. Kayfetz(1)(2) Toronto, Ontario	Barrister and Solicitor, sole practitioner	Jun. 14, 2003	Nil	100,000

- (1) Member of Audit Committee
- (2) Member of Compensation Committee

New Directors

Bryan Ceresne has an MBA from York University and is a CA licensed in Ontario. For the past three years he has been an insurance broker associated with Health Source Plus, a corporate benefits administration company. Previously, for two years, he was a partner and the operations manager for Water and Energy Solutions Inc., a private water purification company. He has experience with the financing of small business start-ups in Toronto.

Daniel H. Kayfetz, B.A., LL.B., has been a member of the Law Society of Upper Canada since 1970 and practices law as a sole practitioner.

CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

No director or officer of Telehop, or a shareholder holding a sufficient number of securities of Telehop to affect materially the control of Telehop, is, or within the 10 years before the date of this Annual Information Form has been, a director or officer of any other issuer that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

PENALTIES OR SANCTIONS

No director or officer of Telehop, or a shareholder holding a sufficient number of securities of Telehop to affect materially the control of Telehop, has

- (a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

PERSONAL BANKRUPTCIES

No director or officer of Telehop, or a shareholder holding a sufficient number of securities of Telehop to affect materially the control of Telehop, or a personal holding company of any such persons has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

CONFLICTS OF INTEREST

There are no existing or known potential material conflicts of interest between Telehop or a subsidiary of Telehop and a director or officer of Telehop or a subsidiary of Telehop.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Telehop's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in Telehop's information circular for its most recent annual general meeting of shareholders that involved the election of directors. Additional financial information is contained in Telehop's comparative financial statements for its most recently completed financial year.

Telehop, upon request to the Secretary of Telehop, will provide to any person or company

- (a) when the securities of Telehop are in the course of a distribution under a preliminary short form prospectus or a short form prospectus,
 - (i) one copy of the AIF of Telehop, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF,
 - (ii) one copy of the comparative financial statements of Telehop for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of Telehop that have been filed, if any, for any period after the end of its most recently completed financial year,
 - (iii) one copy of the information circular of Telehop in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate, and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under clauses (i), (ii) or (iii); or
- (b) at any other time, one copy of any documents referred to in clauses (a)(i), (ii) and (iii), provided that Telehop may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of Telehop.