
PHONETIME INC.
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(unaudited)

PHONETIME INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009

NOTICE TO READER

The unaudited interim financial information of Phonetime Inc. consisting of the interim consolidated balance sheet as at March 31, 2009 and the interim consolidated statements of income (loss) and comprehensive income (loss), deficit and cash flows for the three months ending March 31, 2009 are the responsibility of the Company's management. They have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

These consolidated financial statements have not been reviewed by the independent external auditors of the Company, Klasner & Solomon, Chartered Accountants.

PHONETIME INC.
Consolidated Balance Sheets

	March 31, 2009	December 31, 2008
	<i>(Unaudited)</i>	<i>(Audited)</i>
ASSETS		
Current assets		
Short-term investment	\$ 29,219	\$ 29,219
Accounts receivable	13,601,597	13,881,509
Inventories	68,411	61,707
Prepaid expenses and deposits	402,454	376,398
Future income tax assets (note 15)	67,000	67,000
	14,168,681	14,415,833
Future income tax assets (note 15)	785,766	905,423
Property and equipment (note 3)	1,908,867	1,990,611
Goodwill and other intangible assets (note 4)	15,499,586	15,525,255
	\$ 32,362,900	\$ 32,837,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 6)	\$ 2,521,011	\$ 2,713,974
Accounts payable and accrued liabilities	9,584,211	10,062,890
Customer deposits	430,271	75,791
Income taxes payable	1,501,914	1,100,983
Current portion of long-term debt (note 8)	1,275,283	1,530,453
Current portion of loan payable (note 9)	279,334	262,949
Current portion of capital lease obligations (note 10)	419,686	454,605
Current portion of convertible debentures (note 11)	2,467,459	2,322,723
Deferred items (note 7)	411,623	515,109
	18,890,791	19,039,477
Long-term portion of deferred items (note 7)	38,802	44,345
Loan payable (note 9)	74,403	141,888
Capital lease obligations (note 10)	193,866	268,412
Convertible debentures (note 11)	660,056	1,253,345
	19,857,919	20,747,345
Commitments and contingencies (notes 13 and 19)		
Shareholders' equity		
Share capital (note 14)	14,761,752	14,761,752
Contributed surplus (note 14f)	2,368,830	2,189,805
Deficit	(4,625,601)	(4,861,902)
	12,504,981	12,089,655
	\$ 32,362,900	\$ 32,837,122

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board:

(signed) Wayne Silver _____ Director (signed) Rodney Franklin _____ Director

PHONETIME INC.**Consolidated Statements of Income and Comprehensive Income and Deficit****For the three months ended March 31****(Unaudited – Prepared by Management)**

	2009	2008
Sales	\$ 42,576,802	\$ 36,495,657
Cost of sales	36,741,085	31,578,939
	5,835,717	4,916,718
Operating expenses	4,798,107	3,182,450
Loss (gain) on foreign exchange	(176,791)	(98,923)
Stock based compensation (note 14e)	179,025	210,189
Amortization of property and equipment	228,760	203,931
Amortization of intangible assets	25,669	25,670
Financing costs (note 5)	160,481	281,452
	5,215,251	3,804,769
Income before the under noted and income taxes	620,466	1,111,949
Loss due to misappropriation of funds	-	142,948
Income before income taxes	620,466	969,001
Income tax expense (note 15)		
Current	264,508	131,718
Future expense	119,657	218,455
	384,165	350,173
Net income and comprehensive income	236,301	618,828
Deficit, beginning of year	(4,861,902)	(5,278,212)
Deficit, end of year	\$ (4,625,601)	\$ (4,659,384)
Earnings per share (note 14d)		
Basic earnings per share	\$ 0.002	\$ 0.006
Diluted earnings per share	\$ 0.002	\$ 0.005

The accompanying notes form an integral part of these consolidated financial statements.

PHONETIME INC.**Consolidated Statements of Cash Flows****For the three months ended March 31****(Unaudited – Prepared by Management)**

	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating Activities		
Net income	\$ 236,301	\$ 618,828
Non-cash items		
Amortization	254,429	229,601
Stock based compensation	179,025	210,187
Future income taxes	119,657	218,454
Unrealized foreign exchange gains	16,765	-
	806,177	1,277,070
Changes in non-cash working capital items		
Accounts receivable	279,911	511,839
Inventories	(6,704)	(2,500)
Prepaid expenses and deposits	(26,056)	155,443
Accounts payable and accrued liabilities	(478,558)	415,689
Dealer deposits	354,480	(6,833)
Income taxes payable	400,931	121,164
Deferred revenue	(103,486)	(226,879)
	420,518	967,926
Cash flows from operating activities	1,226,695	2,244,996
Investing activities		
Acquisition of property and equipment	(152,682)	(59,926)
Cash flows used in investing activities	(152,682)	(59,926)
Financing activities		
Issuance of share capital	-	15,000
Long-term debt	(256,250)	(256,938)
Loan payable	(51,100)	(1,379,373)
Capital lease obligations, net	(114,215)	(125,220)
Convertible debentures	(459,485)	(415,749)
Other debts	-	(8,538)
Cash flows used in financing activities	(881,050)	(2,170,818)
Net decrease in cash and cash equivalents during the period	192,963	14,252
(Bank indebtedness) cash and cash equivalents, beginning of period	(2,713,974)	(1,924,068)
(Bank indebtedness) cash and cash equivalents, end of period	\$ (2,521,011)	\$ (1,909,816)

Supplementary disclosure of cash flow information (note 16)

The accompanying notes form an integral part of these consolidated financial statements.

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

1) INTERIM FINANCIAL STATEMENTS

Phonetime Inc. (the “Company” or “Phonetime”) provides wholesale long distance telephone services to North American and other international long distance carriers and also sells and markets long distance telephone services and calling cards to ethnic residential and small and medium business enterprise markets across Canada.

The notes presented in these interim consolidated financial statements do not contain all disclosures normally provided in Phonetime Inc.’s annual audited financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended December 31, 2008. Management has prepared these unaudited interim consolidated financial statements following the same accounting policies and methods of their application as set out in the Phonetime Inc. consolidated financial statements for the year ended December 31, 2008, other than as set out in note 2.

2) ACCOUNTING POLICY DEVELOPMENTS

a) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets,” replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs.” Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new Section has not had a material impact on its consolidated financial statements.

b) Convergence with International Financial Reporting Standards

The CICA Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises will be effective January 1, 2011. The Company’s changeover date for both interim and annual financial statements is January 1, 2011. The Company is in the process of assessing the impacts on itself of the Canadian convergence initiative. There are several stages in this process that Phonetime will have to complete in order to implement IFRS standards. The first phase is to perform an initial assessment of the impact of IFRS on the Company by identifying the significant differences between existing Canadian GAAP and IFRS that is relevant and material to the Company. The second stage is the identification, evaluation and selection of the appropriate IFRS accounting policies necessary for the Company to make the changeover. This stage includes other operational considerations such as information technology requirements, internal controls over financial reporting and training. The final stage will involve integrating the new policies into the Company’s financial systems and processes.

Because the Company will be required to report prior period’s comparative financial information using IFRS upon the adoption of IFRS on January 1, 2011, Phonetime will effectively need to maintain two parallel books of account for its 2010 fiscal year.

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

The Company has undertaken some preliminary review of the various differences between Canadian GAAP and IFRS that may have a material impact on its financial reporting and will continue to do so. In respect of stage two, the Company has identified that its financial reporting technology infrastructure is not sufficient to support the accounting requirements and have begun to assess various enterprise reporting technologies that are available to it.

c) Business combinations and non-controlling interests

In January 2009, the CICA replaced existing recommendations for business combinations and non-controlling interests with Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests". These new sections are consistent with Canadian GAAP convergence with IFRS. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Whether the Company will be materially affected by the new recommendations will depend upon the specific facts of business combinations, if any, occurring subsequent to January 1, 2011.

d) Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee issued EIC-173, "Credit risk and the fair value of financial assets and financial liabilities". This new EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities. This abstract is to apply to all financial asset and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company has incorporated this information into the valuation models it uses to determine the fair value of its financial instruments.

PHONETIME INC.**Condensed Notes to Interim Consolidated Financial Statements****March 31, 2009****3) PROPERTY AND EQUIPMENT****March 31, 2009**

	Cost	Accumulated Amortization	Net book value
Furniture and fixtures	\$ 153,024	\$ 140,654	\$ 12,370
Computer and telecommunication equipment	3,110,289	2,061,670	1,048,619
Computer and telecommunication equipment under capital leases	2,622,161	1,924,275	697,886
Computer software	746,360	651,390	94,970
Leasehold improvements	227,545	172,523	55,022
	\$ 6,859,379	\$ 4,950,512	\$ 1,908,867

December 31, 2008

	Cost	Accumulated Amortization	Net book value
Furniture and fixtures	\$ 153,024	\$ 139,200	\$ 13,824
Computer and telecommunication equipment	2,961,485	1,935,951	1,025,534
Computer and telecommunication equipment under capital leases	2,622,161	1,844,133	778,028
Computer software	742,481	635,260	107,221
Leasehold improvements	227,546	161,542	66,004
	\$ 6,706,697	\$ 4,716,086	\$ 1,990,611

4) GOODWILL AND OTHER INTANGIBLE ASSETS**Goodwill**

	March 31, 2009	December 31, 2008
Goodwill - Symphony	\$ 14,361,424	\$ 14,361,424
Goodwill - 20% Call Select Inc.	905,468	905,468
	\$ 15,266,892	\$ 15,266,892

Other intangible assets

	Cost	March 31, 2009 Accumulated Amortization	Net Book Value	December 31, 2008 Net Book Value
Customer lists	\$ 513,392	\$ 280,698	\$ 232,694	\$ 258,363

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

5) FINANCING COSTS

	March 31, 2009	March 31, 2008
Interest on credit facility (note 6)	\$ 42,325	\$ 71,269
Interest on long-term debt (note 8)	25,457	58,987
Interest on loans payable (note 9)	10,203	13,114
Interest on capital lease obligations (note 10)	69,213	22,952
Interest on convertible debentures (note 11)	13,283	115,130
	\$ 160,481	\$ 281,452

6) BANK INDEBTEDNESS

The Company's credit facility agreement is comprised of the following:

- a) A revolving demand facility of \$5,000,000 on which it had drawn \$2,510,000 at March 31, 2009 (December 31, 2008 – \$3,471,800). The amount of the draw on the line of credit is limited to 75% of accounts receivable aged less than 90 days plus 90% of receivables that have been insured by the Export Development Corporation (“EDC”). Interest under the operating line facility is based on the bank's prime lending rate plus 1 ¾%, which at March 31 amounted to 4.25%

The Company also has the ability to issue up to \$500,000 of either standby letters of credit or letters of guarantee under the operating line facility. At March 31, 2009, the Company had no standby letters of credit or guarantee outstanding.

- b) The Company arranged a \$2,500,000 non-revolving term facility to finance the purchase of Symphony. The facility bears interest at the Bank's prime lending rate plus 4%. Principal repayments of \$83,333 per month plus interest began in January 2008 (see note 8 for future principal repayments) and run for a period of 30 months.
- c) The lease line of credit which is part of the credit facility agreement amounts to \$1,300,000. The Company may borrow, repay and reborrow up to the amount of this facility. The term of a lease will not exceed three years and any borrowings under any lease will be in a minimum amount of \$100,000 and be governed also by a separate agreement setting out interest rate and repayment terms.

Subsequent to March 31, 2009, the Company utilized an additional US\$597,000 to purchase telecommunications equipment.

Under this credit facility agreement, the Company has pledged as collateral a General Security Agreement constituting a first ranking security interest in all personal property of the Company and its subsidiaries. In addition, the Company is required to meet three financial tests on a quarterly basis related to the Company's ability to service all of its loan repayment requirements from operating cash flows as well as its ability to meet its obligations if called upon from net working capital (see also, Capital structure financial policies, note 18).

PHONETIME INC.
Condensed Notes to Interim Consolidated Financial Statements
March 31, 2009

The Company continues to be in breach of bank financial covenants as at March 31, 2009. The Company did not meet the Fixed Charge coverage ratio and the Current ratio requirements as detailed in note 18. The bank has acknowledged the breach and is working with the Company to review its financial results and financial position with a view to remedying the situation.

7) DEFERRED ITEMS

Deferred items consist of deferred revenue from the Company's phone card division and the deferred gain on a sale-leaseback arrangement of some telecommunications equipment in 2007.

	March 31, 2009	December 31, 2008
Deferred revenue	\$ 389,451	\$ 492,936
Deferred gain on a sale-leaseback arrangement	60,974	66,518
	450,425	559,454
Less: current portion	(411,623)	(515,109)
	\$ 38,802	\$ 44,345

The deferred gain is amortized on a straight-line basis over four years. Included in amortization of property equipment is an amount of \$5,543 for 2009 (March 31, 2008 – \$5,543).

8) LONG-TERM DEBT

	March 31, 2008	December 31, 2008
Bank loan bearing interest at the bank's prime rate plus 4% per annum with monthly repayments of \$83,333 plus interest to maturity in June 2010. Refer to note 6 for details of security.	\$ 1,250,000	\$ 1,500,000
Export Development Corporation unsecured term loan bearing interest at 8.03% per annum with quarterly repayments of US\$6,250 plus interest to maturity in December 2009	25,283	30,453
	1,275,283	1,530,453
Less: current portion	(1,025,283)	(1,030,453)
	250,000	500,000
Less: long-term debt reclassified to current due to breach of bank covenants, see note 6	(250,000)	(500,000)
	\$ -	\$ -

Principal repayments due in subsequent years are as follows:

2009	\$ 775,283
2010	500,000
	\$ 1,275,283

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

9) LOAN PAYABLE

Loans payable relate to the acquisition of Symphony and are as follows.

	March 31, 2008	December 31, 2008
\$600,000 USD payable to vendors with monthly repayments of \$20,000 to maturity in June 2010 at 0% interest	\$ 353,737	\$ 404,837
	353,737	404,837
Less: current portion	(279,334)	(262,949)
	\$ 74,403	\$ 141,888

Principal repayments due in subsequent years are as follows:

2009	206,805
2010	146,932
	\$ 353,737

10) CAPITAL LEASE OBLIGATIONS

The Company has entered into leases for certain equipment that have been capitalized. The minimum future lease payments under capital leases are as follows:

2009	\$ 369,744
2010	264,472
2011	14,611
	648,827
Less: interest portion at an average rate of 7.49%	(35,275)
	613,552
Less: current portion	(419,686)
	\$ 193,866

Subsequent to the quarter end the Company entered into a 36 month lease for telecommunications equipment with a principal amount of US\$597,000 and monthly payments of approximately US\$18,000.

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

11) CONVERTIBLE DEBENTURES

The Company issued US\$5,300,000 of convertible debentures that mature in June 2010 at 0% interest as part of the Symphony acquisition purchase consideration (note 4). The debentures are being repaid in equal monthly payments of US\$176,667. The debentures are convertible into common shares of the Company at any time at a price equal to the greater of \$1.00 and 90% of the average closing price of the common shares of the Company for the twenty trading days prior to the date of conversion, provided that in no event shall less than USD \$500,000 of the principal amount be converted at any time. The repayments converted to Canadian dollars are as follows:

2009	\$	2,005,467
2010		1,326,163
		3,331,630
Less: interest portion at an implied rate of 10.25%		(204,115)
		3,127,515
Less: current portion		(2,467,459)
	\$	660,056

The debentures have been classified into their debt and equity components based on fair values. On issuance, this resulted in \$4,657,979 being classified as a liability and \$370,717 being classified as equity (contributed surplus). The liability portion accretes up to the principal balance at maturity with implied interest being recorded as interest expense in the consolidated statement of income and comprehensive income. If any amount of the debentures is converted to common shares, the relative portion of the amount classified as equity (contributed surplus) will be reclassified to common share capital along with the principal amount of the debenture that is converted.

12) RELATED PARTY TRANSACTIONS

The following table summarizes the Company's related party transactions for the period:

	March 31, 2009	March 31, 2008
Operating expenses		
Rent paid on premises owned by certain directors	\$ 36,300	\$ 38,498
Consulting fees paid to shareholders and directors	\$ 147,939	\$ 60,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

PHONETIME INC.
Condensed Notes to Interim Consolidated Financial Statements
March 31, 2009

13) COMMITMENTS

The Company is committed to future minimum annual lease payments under various operating leases as follows:

2009	\$	415,000
2010		375,000
2011		106,000
2012		17,000
2013 and subsequent years		18,000
	\$	931,000

14) SHARE CAPITAL

a) Authorized:

The authorized share capital of the Company consists of 500,000 redeemable, voting, Series A special shares, and an unlimited number of common shares and special shares.

b) Issued:

Changes in the issued and outstanding common shares are as follows:

March 31, 2009

	Number of Shares	Dollar Amount
Balance as at December 31, 2008	107,988,092	\$ 14,761,752
Issues of common shares	-	-
Balance as at March 31, 2009	107,988,092	\$ 14,761,755

December 31, 2008

	Number of Shares	Dollar Amount
Balance as at December 31, 2007	94,838,092	\$ 11,937,636
Shares issued on acquisition of Symphony Holdings, Inc.	12,000,000	2,520,000
Stock options exercised	150,000	304,116
Balance as at December 31, 2008	107,988,092	\$ 14,761,752

PHONETIME INC.
Condensed Notes to Interim Consolidated Financial Statements
March 31, 2009

14) SHARE CAPITAL (continued)

c) Share issues:

As part of the consideration to acquire 100% of the shares of Symphony Holdings Inc., 12,000,000 common shares valued at \$0.21 per share were issued on January 2, 2008.

d) Earnings per share:

Earnings per share is calculated using the weighted average number of common shares outstanding throughout the period.

	Basic	Fully Diluted
Balance, March 31, 2009	107,988,092	108,600,188
Balance, March 31, 2008	106,763,916	137,077,679

The average market price in the period to March 31, 2009 was \$0.16 (2008 - \$0.42).

The following table sets forth the computation of basic and diluted earnings per share:

	March 31, 2009	March 31, 2008
Numerator for basic earnings (loss) per share	\$ 236,301	\$ 618,828
Denominator:		
Weighted average number of common shares	107,988,092	106,763,916
Dilutive effect of stock options and warrants	612,096	30,313,763
Denominator for diluted earnings (loss) per share	108,600,188	137,077,679
Earnings (loss) per share		
Basic	\$ 0.002	\$ 0.006
Diluted	\$ 0.002	\$ 0.005

The following lists the equity securities excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares of \$0.16 (2008 - \$0.42) for the current year and because they were anti-dilutive in the previous year.

	March 31, 2009	March 31, 2008
Stock options	5,450,500	-
Convertible debentures	2,650,000	4,770,000

PHONETIME INC.
Condensed Notes to Interim Consolidated Financial Statements
March 31, 2009

14) SHARE CAPITAL (continued)

e) Stock option plan:

The Company has a stock option plan under which, the maximum aggregate number of shares which may be granted shall not exceed 18,600,000 subject to adjustment or increase of such numbers pursuant to changes in the capital stock of the Company.

At March 31, 2009, common shares of the Company were reserved as follows for stock options:

Price	Expiry Date	Number
\$0.10	December 2010	1,388,000
\$0.15	October 2011	1,145,330
\$0.432	January 2012	2,000,000
\$0.45	February 2012	1,000,000
\$0.18	December 2012	1,950,500
\$0.28	August 2013	500,000

Options granted vest over a period not exceeding three years and the purchase price is payable in full at the time the options are exercised.

A summary of the status of the stock option plan as of March 31 2009 and December 31, 2008, and changes during the periods ended on those dates is presented below:

Options	March 31, 2009		December 31, 2008	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	7,983,830	\$ 0.24	13,531,330	\$ 0.22
Granted	-	-	750,000	\$ 0.32
Exercised	-	-	(1,150,000)	\$ 0.14
Forfeited	-	-	(5,147,500)	\$ 0.18
Outstanding at end of period	7,983,830	\$ 0.24	7,983,830	\$ 0.24
Options exercisable period end	4,531,163	\$ 0.23	4,468,386	\$ 0.23

Included in options are 3,225,000 options issued to the officers and directors of the Company at an average exercise price of \$0.32.

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

14) SHARE CAPITAL (continued)

e) Stock option plan (continued):

The following table summarized information about stock options outstanding at March 31, 2009:

Options Outstanding			
Range of Exercise Prices	Number Outstanding March 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 0.10 - \$0.17	2,533,330	2.10 years	\$0.120
\$ 0.18 - \$0.27	2,950,500	3.42 years	\$0.210
\$ 0.28 - \$0.432	2,500,000	3.03 years	\$0.402

Options Exercisable			
Range of Exercise Prices	Number Outstanding March 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 0.10 - \$0.17	2,099,997	2.10 years	\$0.120
\$ 0.18 - \$0.27	1,014,500	3.35 years	\$0.210
\$ 0.28 - \$0.432	1,416,667	2.82 years	\$0.432

For the year, the Company recognized a compensation expense of \$179,025 for previously granted stock option awards.

The fair value of options granted is estimated at the attribution date using the Black-Scholes options pricing model using the average exercise price and vesting period along with assumptions for the average risk free interest rate and the average expected annual volatility of the Company's market price. For purposes of calculating compensation cost, the fair value of stock options is recognized over the graded vesting period of the stock options.

f) Contributed surplus:

The following is a continuity of the changes in contributed surplus arising from the issue and exercise of options and the equity portion of the convertible debentures.

	March 31, 2009	December 31, 2008
Opening balance	\$ 2,189,805	\$ 1,612,817
Stock-based compensation expense during the period	179,025	716,104
Allocated to share capital on exercise of options during the period	-	(139,116)
Ending balance	\$ 2,368,830	\$ 2,189,805

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

15) INCOME TAXES

Income tax expense differs from the amounts which would be obtained by applying the combined Canadian basic Federal and Provincial tax rate at approximately 33.5% and US Federal and State income tax rate at approximately 36.5% to earnings before income taxes.

	March 31, 2009	March 31, 2008
Income taxes based on combined income tax rate	\$ 211,820	\$ 339,150
Non deductible expenses	97,068	118,452
Change in valuation allowance	75,277	(107,429)
Income tax expense	\$ 384,165	\$ 350,173

The Company currently has non-capital losses of approximately \$2,262,000 which expires as follows:

Years	
2009	23,000
2010	392,000
2014	281,000
2015	288,000
2026	508,000
2027	770,000
	\$ 2,262,000

Significant components of the Company's future income tax assets are as follows:

	March 31, 2009	December 31, 2008
Potential tax benefit related to:		
Non-capital losses carried forward	\$ 786,688	\$ 774,837
Tax value of property and equipment and intangible assets in excess of accounting value	66,078	197,586
Total future income tax assets	852,766	972,423
Less: Current portion	(67,000)	(67,000)
Future income tax assets	\$ 785,766	\$ 905,423

16) SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	March 31, 2009	March 31, 2008
Acquisition of property and equipment through lease obligations	\$ -	\$ 175,723
Common shares issued on Symphony purchase	\$ -	\$ 2,520,000
Income taxes paid	\$ -	\$ -
Interest paid	\$ 160,481	\$ 281,452

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

17) SEGMENTED INFORMATION

The Company has two reportable operating segments: consumer sales and services (“Consumer”) and global wholesale telecommunications (“Wholesale”). The consumer sales and services division includes its original calling card business as well as a 1+ Equal Access long distance service for consumers and small and medium size enterprises. The Wholesale division provides long distance call origination and delivery services for switchless long distance resellers and VoIP service providers on a wholesale basis.

The Company accounts for intersegment revenues and expenses at either prices that approximate current market prices or costs, depending upon the type of service.

The following table provides further segmented information.

March 31, 2009	Wholesale \$	Consumer \$	Corporate \$	Intersegment Eliminations \$	Total \$
Sales	42,817,364	7,970,113	-	(8,210,675)	42,576,802
Expenses	(41,392,219)	(8,125,665)	(234,217)	8,210,675	(41,541,426)
Interest on long-term debt	(9,657)	(4,814)	(146,010)	-	(160,481)
Amortization	(126,314)	(127,180)	(935)	-	(254,429)
Net income before income taxes	1,289,174	(287,546)	(381,162)	-	620,466
Income tax expense					(384,165)
Net income					236,301
Total assets	18,241,374	6,193,144	15,624,090	(7,695,708)	32,362,900
Capital expenditures	122,681	30,001	-		152,682
Goodwill and other Intangible assets	14,361,424	1,138,162	-	-	15,499,586

PHONETIME INC.

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17) SEGMENTED INFORMATION (continued)

March 31, 2008	Wholesale \$	Consumer \$	Corporate \$	Intersegment Eliminations \$	Total \$
Sales	33,556,820	6,926,888	6,662	(3,994,713)	36,495,657
Expenses	(32,128,028)	(6,643,900)	(238,388)	3,994,713	(35,015,603)
Interest on long-term debt	(13,897)	(9,999)	(257,556)	-	(281,452)
Amortization	(99,539)	(124,739)	(5,323)	-	(229,601)
Net income before income taxes	1,315,356	148,250	(494,605)	-	969,001
Income tax expense					(350,173)
Net income					618,828
Total assets	11,857,220	3,969,984	18,899,551	(5,313,695)	29,413,060
Capital expenditures	39,969	19,957	-	-	59,926
Goodwill and other Intangible asset	14,361,424	1,240,839	-	-	15,602,263

Geographically, the Company purchases and sells products and services in Canada and the United States and Internationally. Geographic disclosures are as follows:

	March 31, 2009	March 31, 2008
Revenue:		
Canada	\$ 6,936,091	\$ 4,138,529
U.S. and international	35,640,711	32,357,128
	\$ 42,576,802	\$ 36,495,657

Revenues are attributed to countries based on the location of the customer.

	March 31, 2009	March 31, 2008
Property and equipment and intangibles		
Canada	\$ 1,556,760	\$ 2,610,219
U.S.	15,851,693	15,212,462
	\$ 17,408,453	\$ 17,822,681

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18) CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's objectives when managing capital are (i) to maintain an acceptable level of liquidity risk so that the Company can continue to cover its financial obligations and investment requirements under its current business model and (ii) to enhance shareholder value by maintaining an efficient cost of capital.

The Company manages capital through the monitoring of a number of measures, being the working capital ratio, funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization excluding stock compensation costs and misappropriation costs (EBITDA) and fixed charges to EBITDA on a trailing four quarter basis. The calculation of EBITDA does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

The ratios the Company monitors are as follows.

March 31, 2009

Components of debt and coverage ratios

Total funded debt	7,891,098
Short term portion of funded debt	6,712,773
EBITDA (rolling four quarters, as adjusted)	4,703,617
Free cash flow	3,587,826
Financing costs, (rolling four quarters, as adjusted)	901,151

Debt ratio

Funded debt to EBITDA, as adjusted ratio	1.68	(required - <1.75)
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Coverage ratios

Fixed charge coverage	0.70	(required - >1.40)
Current ratio	0.75	(required - >1.20)

PHONETIME INC.

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18) CAPITAL STRUCTURE FINANCIAL POLICIES (continued)

Funded debt is calculated as follows.

March 31, 2009	
Bank indebtedness	\$ 2,521,011
Long-term debt including short term portion	1,275,283
Loan payable and other debts including short-term portion	353,737
Convertible debentures	3,127,515
Capital lease obligations	613,552
<hr/>	
Total funded debt	\$ 7,891,098
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Portion of funded debt that is current	
Bank indebtedness	\$ 2,521,011
Long-term debt	1,025,283
Long payable and other debts	279,334
Convertible debentures	2,467,459
Capital lease obligations	419,686
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Current portion of funded debt	\$ 6,712,773

The above-noted calculations are based on financial figures prior to reclassification of long-term debt to current due to the breach of bank covenants. See note 6 and 8.

19) COMPETITON BUREAU CLAIM

As a result of the Competition Bureau investigation into allegations of deceptive marketing practices, the Company has been ordered to pay an administrative penalty, a contribution to the Bureau's costs and to place corrective notices in certain newspapers. Management has made a provision in these financial statements of its estimate of the amount \$300,000 for which this matter can likely be settled.

20) FINANCIAL INSTRUMENT RISK MANAGEMENT

a) Fair value

The Company's financial instruments include short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, current income taxes, customer deposits, capital lease obligations, long-term debt, loans payable, convertible debentures and other debts. Due to the short-term nature of short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and income tax payable, the carrying values of these financial instruments are reasonable estimates of their fair value. Capital lease obligations, long-term debt, loans payable, convertible debentures and other debts are carried at amortized cost using the effective interest rate method. The fair values of these financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments at the consolidated balance sheet date and approximate carrying values.

PHONETIME INC.

Condensed Notes to Interim Consolidated Financial Statements

March 31, 2009

2) FINANCIAL INSTRUMENT RISK MANAGEMENT

b) Credit risk

The Company's exposure to credit risk arises from the possibility that its customers may fail to meet their obligations. The Company has credit evaluation, approval and monitoring processes, and insurance of certain accounts receivable from the Export Development Corporation of Canada which mitigates these potential credit risks. The Company continually evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management, reasonably believes will be collected. A specific allowance is recorded against customer receivables that are considered to be impaired based upon the Company's knowledge of the financial condition of its customers. The failure of a large customer would have a significant effect on the Company.

Short-term investment consists of investments with maturities between 90 days and one year at the date of purchase. Short-term investment held by the Company has consisted of guaranteed investment certificates, treasury bills and money market funds held with a Canadian financial institution. All short-term investments have been classified as held for trading and are carried at fair value with gains or losses recorded in the Statement of Operations. Transaction costs are expensed as incurred.

The carrying amount of accounts receivable and short-term investments represents the maximum credit exposure.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, long distance rates and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

d) Currency risk

Approximately 74% and 77% of the Company's purchases and sales, respectively, are denominated in U.S. dollars and consequently, those related liabilities and receivable balances are exposed to foreign exchange fluctuations. As at March 31, accounts payable to U.S. suppliers was \$8,960,000 (December 31, 2008 - \$7,412,000) and accounts receivable from U.S. customers was \$11,134,000 (December 31, 2008 - \$10,903,000). Further declines in the value of the Canadian dollar in relation to the U.S. dollar from 1.2180 at December 31, 2008 to 1.2613 at March 31 resulted in more exposure to the fluctuations in foreign exchange causing realized exchange losses for the year-to-date. Unrealized foreign exchange gains and losses incurred on the conversion of foreign currencies to Canadian currency are disclosed separately in the statement of income and comprehensive income.

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk related to its credit facility agreement where both the revolving demand facility and the non-revolving term facility have interest rates tied to the lending Bank's prime lending rate. In the current year the term rate declines and as the Company continues to repay the debt the exposure to rising prime lending

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Condensed Notes to Interim Consolidated Financial Statements

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rates declines. Other current and long-term obligations bear no interest or are at fixed interest rates.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable and the settlement of obligations and arranging to obtain funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows as well as ensuring the availability of borrowing facilities and regular consideration of additional equity placements.