Management's Discussion and Analysis
For the Quarter Ended March 31, 2009

This discussion and analysis is intended to help shareholders, analysts and other readers understand Phonetime Inc.'s business and to provide a review of the financial condition and results of operations of Company for the quarter ended March 31, 2009. The following information should be read in conjunction with Phonetime's unaudited consolidated financial statements for the three months ended March 31, 2009 together with the notes contained therein. The consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts, unless specifically identified otherwise are expressed in Canadian dollars. Additional information on the Company is available at www.sedar.com.

This discussion and analysis for the quarter ended March 31, 2009 is prepared and has been updated to reflect information occurring up to and including May 15, 2009.

Forward-looking Statements

The consolidated financial statements and the Management's Discussion and Analysis include amounts and conclusions based on informed judgments and estimates which it relies upon are reasonably based on information available at the time that these estimates and assumptions are made. In preparing the financial information, management must make determinations as to the relevancy of information to be included with appropriate consideration as to materiality.

This Management's Discussion and Analysis (MD&A) contains forward-looking statements, including statements concerning possible or assumed future results of operations of the Company. Forward-looking statements typically involve words or phrases such as "believes", "expects", "anticipates", "intends", "foresees", "estimates" or similar expressions. Forward-looking statements involve risks, uncertainties and assumptions, as described from time to time in the Company's reports and filed with securities commissions in Canada, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. In addition, the Company expressly disclaims any obligation to publicly update or alter its previously issued forward-looking statements.

COMPANY OVERVIEW AND STRATEGY

Phonetime Inc. (TSX:PHD) is a diversified telecommunications company that got its start in 1994 distributing pre-paid long distance phone cards and has since added a second retail division and an international Wholesale Division that leverage Phonetime's extensive Canadian network and its facilities in Europe, Africa, and North America. As a result of its network coverage and reputation for competitive services, it has established solid carrier and customer relationships over the years.

Phonetime owns its own integrated switching platform and operates one of Canada's largest private networks offering local access in 40 of Canada's major markets. The switching platform capacity has been constantly upgraded to meet the significant growth of domestic and international long-distance voice and data traffic carried and terminated by the Company. It currently utilizes four Lucent/Telica switches that includes a new switch that was installed in North America at the end of the quarter, all of which gives us a total of 100,000 ports of traditional TDMA or VoIP connections. The network has been designed for scalability as well as redundancy to enable growth and a high level of service. Phonetime is currently capable of processing 8.0 billion minutes of long distance traffic annually and carried approximately 1.2 billion minutes in the recently completed first quarter and finished March at a run rate equal to approximately 5.0 billion minutes per year. Upgrades to network capacity have been underway during the first quarter and are expected to have an impact on traffic volume in the second quarter of 2009 as a new switch is put into service.

The Company also operates proprietary call management software, possibly the most sophisticated "real-time" routing engine in the Wholesale telecom business. It allows Phonetime to provide quality and price/cost based routing of long distance traffic to its customers using a unified database that controls the Company's switches and nodes worldwide. It provides the Company's traders and Management with real-time information on the status of traffic activity on its network with the express purpose of allowing our traders to better manage the buying and selling of minutes of traffic and in turn gross margins. We refer to this software as the Soft Switch Management Console or call-trading platform.

Phonetime divides its service offerings into two types, Consumer and Wholesale. Services provided by the Consumer Division include branded phone cards, 1+ direct access long distance, Equal Access services and Dial-Around long distance services. Phonetime sells over 2.5 million cards annually representing 300 million minutes of long distance service through more than 2,500 retailers and 5,000 Point of Sale ("POSA") machines in high traffic retail areas across Canada. The Company targets well defined residential ethnic communities for its remaining consumer services, marketed by its Call Select subsidiary, utilizing a multilingual call centre with agents fluent in over 15 languages. Established in mid-2004, Call Select now provides service to over 110,000+ subscribers.

The Wholesale Division was established in November 2006 and provides wholesale long distance services internationally on an arbitrage basis as well as through an extensive network of direct connections to hard to reach routes into Africa and Southeast Asia that came with the acquisition late in 2007 of Symphony Holdings, Inc. Phonetime currently has over 500+ global carriers/customers who are connected to its network for whom the Company originates and terminates global long distance traffic.

By definition, the Consumer Division delivers higher gross margins in the 30% range with lower traffic volume than the Wholesale Division. The Wholesale Division is currently experiencing significant revenue growth with lower than retail gross margins that are targeted to be in the 9 – 10% range. The combination of the high volume Wholesale Division traffic along with the Consumer Diivision's traffic improves the Company's network utilization minimizing the cost per minute of traffic as well as putting the Company in a better position to negotiate better pricing for further capacity commitments. These lower costs in turn drive gross margins up across the two divisions and we have been demonstrating the benefits of this approach by the in improvement in gross margin as a percent year over year.

Results of Operations

Selected annual information

The following selected financial information for 2009 and 2008 has been derived from and should be read in conjunction with the unaudited consolidated financial statements of Phonetime for the first quarter ended March 31, 2009.

First quarter ended March 31 *[$'000s]*	2009	%	2008	%
Revenue	$ 42,577	100.0%	$ 36,496	100.0%
Gross profit	5,836	13.7%	4,917	13.5%
Operating costs	4,798	11.3%	3,183	8.7%
Operating income *	1,038	2.4%	1,734	4.8%
Loss (gain) on foreign exchange	(177)		(99)	
Misappropriation of funds	-		143	
Stock-based compensation	179		210	
Amortization	254		230	
Financing costs	160		281	
Income taxes, net	384		350	
Net Income (Loss)	$ 236		$ 619	
Total assets	$ 32,363		$ 29,413	
Current maturities of long-term debt	$ 4,192		$ 4,016	
Long-term debt	$ 1,178		$ 4,528	
Shareholders' equity	$ 12,505		$ 11,636	

* Operating income is a measure that has no standardized meaning prescribed by Canadian GAAP and is considered a non-GAAP measure. Operating income is earnings before loss (gain) on foreign exchange, misappropriation of funds, stock compensation costs, interest, taxes, depreciation and amortization. Therefore the measure may not be comparable to similar measures presented by other issuers. This measure is described and presented in the MD&A, in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and ability to generate funds to finance its operations.

Revenue growth in the first quarter of 2009 of 17% over 2008 was primarily driven by the Wholesale Diviision but the Consumer Division continues to grow year over year. Wholesale margins improved slightly year over year to 9.1% from 8.6%. At the same time however, the Consumer Diviision gross margins declined to 24% from 27% primarily driven by a stronger U.S. dollar and is the primary reason for the decline year over year. Growth in overall revenue in the first quarter over the fourth quarter of 2008 was approximately 1% and each Division contributed to that growth. Since the fourth quarter of the fiscal year typically is higher due to increased demand over the holiday period in December, revenue typically falls off in subsequent months, which Phonetime did not experience this year. Operating costs grew by over 50% year over year as the Wholesale Division increased its head count to manage its increased level of operating activities but also due to the increase in the value of the U.S. dollar versus the Canadian of approximately 24% from the prior year's corresponding quarter. From the fourth quarter of 2008 to the first quarter of 2009, the change in operating costs was negligible even as the Canadian dollar weakened further against its U.S. counterpart.

Debt reduction of the amounts related to the acquisition of Symphony Holdings, Inc. continued to be a priority as a further $900,000 was repaid. The outstanding principal amount of the convertible debentures, which are denominated in U.S. dollars were converted at a higher rate of exchange versus the Canadian dollar at March 31 as against December 31 which effectively reduced the amount of debt reduction by $115,000.

Quarterly results summary and first quarter

These financial results over the past eight quarters are summarized below:

[$ thousands]	**2009 Q1**	**2008 Q4**	**2008 Q3**	**2008 Q2**	**2008 Q1**	**2007 Q4**	**2007 Q3**	**2007 Q2**
Revenue	**$ 42,576**	$ 42,156	$39,204	$39,311	$36,496	$ 29,643	$23,928	$23,030
Gross margin	**5,836**	4,730	5,552	5,179	4,916	4,474	2,553	2,567
Operating costs	**4,798**	4,805	3,924	3,265	3,283	3,911	2,248	2,291
Operating income	**1,038**	(75)	1,628	1,914	1,634	563	305	276
Loss(gain) on foreign exchange	**(177)**	957	(128)	29	(99)	15	163	14
Misappropriation of funds	**-**	9	-	85	143	260	155	190
Stock-based compensation	**179**	148	216	142	210	353	262	253
Amortization	**254**	254	242	244	230	113	228	316
Financing costs	**160**	222	251	267	282	26	24	33
Income taxes	**384**	23	423	384	350	(112)	143	(72)
Net income (loss)	**$ 236**	$ (1,688)	$ 751	$ 734	$ 619	$ (107)	$ (833)	$ (473)

Over the past eight quarters, Phonetime has experienced significant revenue growth highlighted by the increase in the first quarter of 2008, which included the first full quarter of Symphony revenue. Subsequent to that period, growth has been steady, representing 17% growth year over year and as noted previously the increase of 1% in the current quarter versus the fourth quarter comes in spite of which is typically higher due to seasonality in the first quarter over the prior quarter as was the gross margin. The average increase in the U.S. dollar in the first quarter over the fourth quarter of 2008 was approximately 3% which negatively impacted the Consumer Division margins even as its sales in Canadian dollars reached all time monthly highs.

Operating costs also grew as a percentage of revenue to 11.3% in the fourth quarter from 8.7% in the first quarter of 2008 and by 50% in absolute dollar terms. A portion of this increase is driven by the weaker Canadian dollar but otherwise is a function of expanding the Wholesale Division outside Canada where costs are typically incurred in U.S. dollars. The Company continues to be rigorous in its evaluation of its customers and new customers when arranging to give credit in this current economic recession and therefore has not had to record any unexpected bad debt provisions in the quarter.

Stock based compensation expense relates to the expense of previously granted options of which there have been no significant new grants in the past few quarters, although there were a number of grants that were forfeited resulting in a decline in the expense over the quarters.

Amortization of $254,000 in the quarter was comparable to the prior quarters as there have been no significant acquisitions of property and equipment throughout the quarters until the new switch that has been acquired subsequent to the quarter end.

The Company's financing costs continue to decline as the term debt and the convertible debentures are repaid, resulting in a decline to $160,000 from $282,000 in the prior year's corresponding quarter. The Company has also seen the cost of its term debt and revolving demand facility decline as they are linked to the bank's prime lending rate which has declined over the year.

The Company operates through a number of legal entities some of which have losses for income tax purposes and others that have none. The Company has reasonable expectations that it will be able to fully utilize all of its tax losses due to its consistent profitability in both divisions, however the income growth in the Wholesale Division is cannot be reduced by losses in the Consumer Division, resulting in current income tax provisions and unused tax losses. The Company plans on moving ahead with a comprehensive tax planning project that is needed to restructure the Company's international business activities into a more efficient tax structure.

The Company returned to a profit in the first quarter as there were no significant one time transactions that had a material impact on income although as noted previously, the increased value of the U.S. dollar year over year has resulted in the Wholesale Division's operating costs growing at a faster rate than its operating costs resulting in a decline in income in the first quarter versus the prior year.

In respect of corporate initiatives, our strategy is to focus on organic growth although growth through mergers and acquisitions remains a priority for Phonetime's management. In addition, first quarter activities that involved integrating the operating activities of Symphony's wholesale business into Phonetime Network's network as well as migrating Symphony's personnel should promote our efforts to grow organically. We also announced the addition of new senior business development representatives to cover the Europe, Asia and Latin America telecom markets.

Management anticipates that it will continue to experience high rates of revenue growth in 2009 in spite of the relatively flat revenue growth from the fourth quarter of 2008 to the first quarter of 2009 due to the significant number of new carriers that have been added and the work we have already undertaken to increase our network capacity. The Company remains committed to its diversification strategy and is continually looking to grow its retail business with its higher gross margins. From the international wholesale perspective, the Company is particularly well positioned to help small and large carriers around the world to provide competitive international long distance services to their retail customers.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Bank indebtedness at March 31, 2009 of $2.52 million consists of a drawdown of $2.49 million on its operating line of credit, outstanding cheques and wire transfers, net of cash on hand. Bank indebtedness is $200,000 less than the year end and is well within the $5.0 million limit on its revolving demand credit facility.

In the quarter, cash flow from operating activities was $1.2 million down from $1.8 million in the fourth quarter and $2.2 million in the prior year. This decline is in part due to the timing of when the quarter end fell as many of the Company's carriers require weekly settlement, just prior to March 31, but Phonetime's larger customers would not have paid their monthly invoices until after quarter end. The prior year's customer base did not include many of these larger wholesale customers who pay the Company on 30-day terms.

Management continues to follow vigorous and timely cash management activities as the nature of the Wholesale Division's business typically requires that Phonetime pays its carriers in advance of being paid by customers. Many of the larger customers that the Company has been establishing relationships with often demand 30 day invoicing and 15 to 30 day payment terms although we are finding that they are paying more slowly than that. In light of the slowing economy, Management has been more careful with the amount of credit extended and terms provided when signing or renewing agreements. In respect of Phonetime's Wholesale Division, the economic situation has not worsened for our customers and consequently, no significant provisions for bad debts had to be recorded in the quarter.

Investing activities in the quarter amounted to acquisitions of computer equipment of $153,000, although the more significant acquisitions are expected in the second quarter when a new switch, worth approximately US$600,000 is delivered and installed for the network. Most of the expenditures to date have been driven by network requirements and head count requirements.

From a financing activities aspect, the Company focused on repaying debt during the quarter making total principal payments of approximately US$530,000 against the convertible debentures and $250,000 against the term debt. Management has signed an agency best basis enagagement letter to raise $1,950,000 through an equity issue at $0.15 per common share with a warrant attached. This transaction is expected to close in the near future.

In relation to the credit facility agreement the Company has with its bank; the debt covenant ratios that it is to meet under the agreement for the bank, the situation has not changed. Two of three ratios that must be met by the Company relating to the credit facility agreement with its lending bank are a fixed charge coverage ratio (not less than 1.40:1) and a ratio of total funded debt to adjusted EBITDA (defined as income before unrealized losses on foreign exchange, misappropriation of assets, stock based compensation, interest, taxes and depreciation and amortization) ratio of not more than 1.75:1. These are quarterly tests and are based on the prior four quarters results. At March 31, 2009, the Company achieved a total funded debt to adjusted EBITDA ratio of 1.67:1, and a fixed charge coverage ratio of 0.66:1. The third ratio relates to working capital and at 0.76:1 was less than the required 1.20:1 stated in the credit facility agreement (discussed below).

Management has been working with the bank to ensure the bank is aware of management's efforts to raise additional capital. The bank continues to work with the Company as Management works to improve its financial results and meet its financial covenants in a timely manner. The credit facility agreement also has additional restrictions on making material capital expenditures, incurring any additional funded debt or pursuing additional acquisitions without the bank's written consent although Management does not believe that this will impact its ability to grow the business organically.

Management believes that the Company is still well positioned to fund on-going operations. The timing of payments and receipts from the Wholesale Division will continue to cause more dramatic changes in working capital than previously experienced however the revolving demand facility should be sufficient to accommodate the changes to cash that this causes. The Company has also taken the extra precaution of purchasing receivable insurance through the Export Development Corporation of Canada (EDC) for U.S. and international accounts receivable (all transacted in US dollars) to ensure there is a timely collection of its larger receivables.

Balance Sheet

Phonetime's working capital ratio has been slow to improve and at March 31, 2008 was 0.75:1 versus 0.78:1 at December 31, 2008. The decline is in part due to the increase in the value of the convertible debenture debt because of the stronger U.S. dollar as well as the collection of deposits from new customers to the Wholesale Division. Operating cash flow however remains strong and more than sufficient to repay the debt as it comes due, so Management expects the current ratio to improve dramatically in the latter part of 2009 as the Company continues to repay the debt related to the Symphony acquisition.

LONG TERM DEBT

Capital resources

The Company has approximately $820,000 available on its lease line of credit after taking into account the reduction in principal amounts of the existing leases previously funded by the lease. Subsequent to the year end, an order was placed for a switch in the amount of US$600,000 which is expected to be financed by the lease line of credit.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at March 31, 2009.

Financial Instruments and Other Instruments
Management has entered into forward contracts from time to time to purchase or sell U.S. dollars to fund the Wholesale Division. The amounts committed through forward contracts were typically for no more than 90 days and for less than the projected cash requirements and not considered to be hedges. At March 31, 2009 the Company had no financial instruments other than normal course working capital balances as well as the aforementioned lines of credit outstanding.

OUTLOOK

In addition to focusing on growing its core business, Management is open to considering other merger and acquisition activities that have natural synergies with its Consumer and Wholesale Divisions, subject to its ongoing results and ability to finance such activities in a prudent manner (and in conformance with its bank credit facility agreement).

The economy has impacted some of the Company's customers and therefore Phonetime. However, the industry is still known as recession resistant as people may reduce the number of times they travel but they will still need to communicate. The Wholesale Division is more impacted by the global economic slowdown as each customer can represent a significant amount of revenue. It remains important for the Company to follow a safe effective credit policy as it signs up new carriers and customers for its Wholesale Division since the margins earned do not allow for significant delays in payment or non-payment of invoices rendered.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its results of operations and financial condition are based upon its consolidated financial statements that have been prepared in accordance with Canadian GAAP. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

Revenue Recognition
Revenue from phone cards, wholesale long-distance minutes, and 1+ equal access long-distance service are recognized as minutes of phone time are used by the customer. Revenue from phone cards is deferred for the amount of unused time. Management has estimated unused telephone minutes sold via phone cards based on historical patterns of the phone card usage, which includes estimates of the lead-time for the first call and the residual talk time on the cards at the period-end date. Dealer deposits represent amounts paid against future purchases of wholesale long distance minutes.

Allowance for Doubtful Accounts:
The Company maintains accounts receivable allowances for estimated losses resulting from the inability of its customers to make payments. Additional allowances may be required if the financial condition of the Company's customers deteriorates although the Company insures qualified foreign receivables through the EDC to mitigate the risk of losses from doubtful accounts.

Future Income Taxes:
The Company uses the asset and liability method to provide for income taxes on all transactions recorded in the consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases and of tax losses. Future income tax assets and liabilities are determined for each temporary difference and tax losses based on enacted or substantively enacted tax rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized.

A valuation allowance is provided to the extent that it is uncertain that future income tax assets will be realized.

Accounting Policy Developments

In 2006, the CICA Accounting Standards Board confirmed the convergence of Canadian GAAP, as used by publicly accountable enterprises, with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board over a transitional period to be complete by 2011. The Company has selected January 1, 2011 as its changeover date for both interim and annual financial statements. Consequently, the Company will present its results for fiscal 2010 using contemporary Canadian GAAP. In 2011, Phonetime will present its comparative results for fiscal 2010 using contemporary IFRS. To accomplish this, in 2010 the Company will effectively maintain two parallel books of account.

In 2009, Phonetime will review the remaining standards for application to the Company, carry out impact assessments and provide targeted training. The Company will also make accounting policy choices and prepare its accounting systems accordingly, to enable preparation of its opening financial position under IFRS for 2010. Although its impact assessment activities have begun, continued progress is necessary before the Company can properly disclose the impact of the transition to IFRS on the Company's accounting policies and quantify the differences.

The changeover plan will also include a review of current information systems and requirements for the full conversion to IFRS and changes needed to our internal controls over financial reporting and disclosure controls and procedures. Management already anticipates that this will require the implementation of a new information system and has undertaken a review of existing enterprise software vendors with a view to beginning the implementation of a new system before the end of the year.

RELATED PARTIES TRANSACTIONS

Included in selling, general and administrative expenses is rent paid on premises to certain directors of $36,000 in the quarter which is consistent with what was paid in the prior corresponding period.

Payments to a consultant who is also a shareholder for development and maintenance work on its proprietary trading software platform as well as to a Board member for their assistance in managing the Wholesale Divisionamounted to $148,000 in the quarter ended March 31, 2009 versus $60,000 in the corresponding period in 2008.

These transactions were conducted in the normal course of business on terms similar to those entered into with arm's length parties. They have been measured at exchange amounts being the amount of consideration established and agreed to by the related parties.

SHARE DATA

The following table sets forth the outstanding Share Data for the Company as at March 31, 2009 and as of the release of this document on May 15, 2009.

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:
The issued share capital of the Company consists of 107,988,092 Common Shares.

c) stock options outstanding under the stock option plan were 7,983,830 as at March 31, 2009.

RISK AND UNCERTAINTIES

The primary risks the Company faces are credit risk, currency risk, regulatory, competitive and technological risk. Credit risk arises from the sales of products on credit terms to customers. To mitigate this risk, the Company takes an aggressive approach to collecting outstanding receivables and taking legal action to collect from slow or non-payers. Furthermore, the Company attempts to mitigate its credit risk through the establishment of credit limits, the collection of deposits for new customers, enforced terms of sales with its customers, and the requirement for deposits and pre-payments from certain customers. Credit limits are also reviewed and monitored regularly. The Company has also undertaken to insure through the EDC certain of its foreign Wholesale Division customer accounts receivable to mitigate its potential credit risks.

Approximately 74% and 77% of the Company's purchases and sales, respectively, are denominated in U.S. dollars and consequently, those related liabilities and expenses are exposed to foreign exchange fluctuations. As at March 31, 2009, accounts payable to U.S. suppliers was $8.96 million (December 31, 2008 - $7.4 million) and accounts receivable from U.S. customers was $11.1 million (December 31, 2008 - $10.9 million).

While the decline was not as significant or rapid, the Canadian dollar continued to lose value against the U.S. currency (3 ½% from the fourth quarter of 2008 to the first quarter of 2009) ending the quarter at an exchange rate of USD/CAD of 1.26:1 versus 1.22 at December 31. Since the end of the quarter the exchange rate has moved in the favour of the Canadian dollar to less than USD/CAD 1.18:1. Management expects that these significant fluctuations are likely to continue throughout the year but as the U.S. denominated debt is repaid and the operating costs of the Wholesale Division remain fairly static, then the impact of these significant fluctuations will lessen.

By its nature, the wholesale services are delivered to a small number of customers, and in the past Management have noted that one customer represented more than 20% of its revenue. This is not the case anymore however, as new customers continue to be signed at a record rate, lessening the impact the failure one would have on the Company's results and cash flow.

Telecommunications companies in Canada operate under the Telecommunications Act and are regulated by the Canadian Radio-Television and Telecommunications Commission ("CRTC"). The CRTC has been actively promoting competition in the long-distance telecommunications market for the past 20 years and these efforts continue. Accordingly, Phonetime is registered as a Class A carrier as it operates its own telecommunications facilities. This means the Company is subject to periodic procedural and information requests as well as the payment of royalties to the CRTC. Failure to remit the royalties or to co-operate with the CRTC in its procedural requirements or requests for information can result in the revocation of its license. This risk is viewed as extremely minimal, provided Phonetime continues to comply with the CRTC, as the Company has for the past 12 years.

The long distance telecommunications market in which Phonetime operates is both highly competitive and fragmented. The consequence of these market characteristics is that product pricing is under constant pressure from both large and well established players exerting their buying power as well as from small start-up companies seeking to gain a "foothold" in the market (like ourselves), not to mention all the players in-between. In the past few years, Voice over Internet Protocol ("VoIP") service providers have also begun to assert themselves, which also puts further pressure on the Company to lower prices to meet this competition. To mitigate this risk, Phonetime focuses on certain market segments (i.e. ethnic markets in the case of Call Select), as well as ensuring that it operates at the lowest possible cost, in part by using VoIP technologies throughout its network, as well as other advanced telecommunications hardware and software. Phonetime also operates one of the largest private telecommunications networks in Canada comprised of 40 Points of Presence providing local access across the country, which gives Phonetime an advantage in attracting wholesale long distance customers.

The telecommunications services industry is characterized by rapid technological change, new product introduction and evolving industry standards. Phonetime's success will depend, in part, on its ability to make

timely and cost-effective enhancements and additions to its technology and introduce new or enhanced services that meet customer demands.

DISCLOSURE AND INTERNAL CONTROLS AND PROCEDURES

As required by National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim filings, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have made certain certifications related to the Company's annual filings (as defined by NI 52-109), which have been filed with certain securities regulators in Canada.

Evaluation of Disclosure Controls and Procedures

As part of the NI 52-109 certifications, the CEO and CFO must certify that they are responsible for establishing and maintaining a system of disclosure controls and procedures over the public disclosure of financial and non-financial information regarding the Company. These controls and procedures are designed to provide reasonable assurance that all relevant material information is gathered and reported on a timely basis, to senior management so that appropriate decisions can be made regarding public disclosure.

The system of disclosure controls and procedures includes, but is not limited to, procedures in place to identify matters warranting consideration of disclosure by senior management, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&A and other documents and external communications.

Control framework

The Company's CEO and CFO, caused to be used a control framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), to design Phonetime's Internal Controls over Financial Reporting. Management is still in the process of designing and completing documentation such as human resource policies and procedures, written codes of conduct and procedures manuals including job descriptions and training materials but otherwise sufficient other documentation exists relating to the control environment in the Company. After evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in NI 52-109), Phonetime's CEO and CFO have concluded that a material weakness existed that still requires remediation.

Management's Report on Internal Control over Financial Reporting

As part of the NI 52-109 certifications, the CEO and CFO of the Company must certify that they are responsible for establishing and maintaining appropriate internal controls over financial reporting. Internal controls over financial reporting include, but are not limited to, policies and procedures related to financial accounting and reporting, and controls over systems that process and summarize transactions.

(a) In the first quarter of 2008, it was discovered that the Controller had been misappropriating assets of the Company. Upon determining that the Company's internal controls had been circumvented through a forgery, the response to this discovery was limited to replacing the Controller. As this process took longer than anticipated, and covered two interim reporting periods, it was not determined until the December year end that the policies and procedures in the department, in particular in the areas of review, control and staff training were insufficient to ensure that errors in the day to day transaction processing were occurring and being corrected on a timely basis. While ultimately the transactions that were recorded with material errors related to the fourth quarter, the risk of material errors occurring on an ongoing basis would be significant if improvements were not made.

(b) Staff resources were insufficient to ensure an appropriate review procedure took place to mitigate the risk of errors occurring in the original recording of transactions, nor were the staff trained sufficiently to identify and correct their own errors, resulting in significant reviews of substantially all material transactions during the year by the qualified departmental staff. Consequently, the impact was a significant number of revisions to the books of account and internally prepared

financial statements that were ultimately produced for the audit and further revisions as the auditors carried out their tests of the source transactions.

(c) Management had, along with its external auditors, advised the Audit Committee of the state of the work in the department early on in the course of the audit. The Chief Executive Officer and the Chief Financial Officer have committed to undertaking a thorough review of the procedures, staff qualifications and organization of the department to improve the general skill level of the staff involved, to hire additional qualified staff and to strengthen the authority of the Controller to ensure new procedures remain in place.

The CEO and CFO have determined that in spite of the material weakness disclosed above, sufficient additional work could be performed in order to prepare the first quarter interim financial statements and other related financial reporting materials. However the Internal Controls over Financial Reporting that currently exist involve inefficient procedures that need significant strengthening to ensure the potential for a material error to occur on an ongoing basis is mitigated. Significant progress is expected to be made in the second quarter to improve the existing situation.

The design of any system of internal controls and procedures is based upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

ADDITIONAL INFORMATION

Additional information relating to the Company including the Company's Annual Information Form and unaudited quarterly financial results for the reporting period ended March 31, 2009 is available on SEDAR at www.sedar.com.

May 15, 2009