

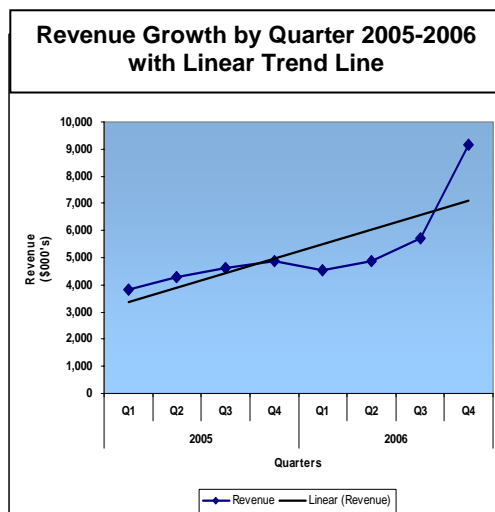
Dear Phonetime Shareholders,

The year that ended December 31, 2006 has been a break-out year for the Company. In November 2006, we secured the financing required to take us to the next level and this had an immediate impact on our business as our fourth quarter revenue, gross profits, and net earnings drove our annual results up significantly compared to the previous year. Most important, these results are continuing into 2007. In the first four months of 2007 alone, we have already exceeded our total 2006 revenue. This progress represents the culmination of the diversification strategy we implemented over two years ago, which led us to establish a burgeoning residential service (delivered by our Call Select subsidiary) and a rapidly growing international wholesale telecommunications operation (delivered by our new Phonetime Network subsidiary). Accordingly, we are very pleased to have this opportunity to share the results of our efforts over the past year with you.

Financial Highlights

The most important financial development during the year was the private placement of \$4million US. This investment enabled the Company to shift our already growing international wholesale operation into high gear and to invest in the growth of Call Select.

We had three reasons for focusing on our wholesale services: (a) to increase utilization of Phonetime's existing network facilities across Canada and elsewhere; (b) to enhance Phonetime's long distance purchasing power of call delivery services from other telephone companies around the world, which directly correlates to increased volume – for the benefit of Call Select and our card business, and (c) to increase net earnings as the operating expenses relating to wholesale services increase at a much slower rate.



Consequently, fourth quarter 2006 revenue jumped by \$3.4 million over the third quarter and \$4.25 million over the same quarter in 2005. Revenues for 2006 increased by 38% to \$24.3 million from \$17.6 million in 2005 and gross profit jumped 23.1% to \$8.1 million in 2006 from \$6.6 million in 2005. Operating expenses as a percent of revenue were 31.2% of revenue in 2006 compared to 32.3% in 2005. In 2006, Phonetime realized net tax benefits totalling just over \$1 million. As a result, the Company experienced net earnings for the year of \$761,000 compared to \$102,000 in 2005 – an increase of \$659,000

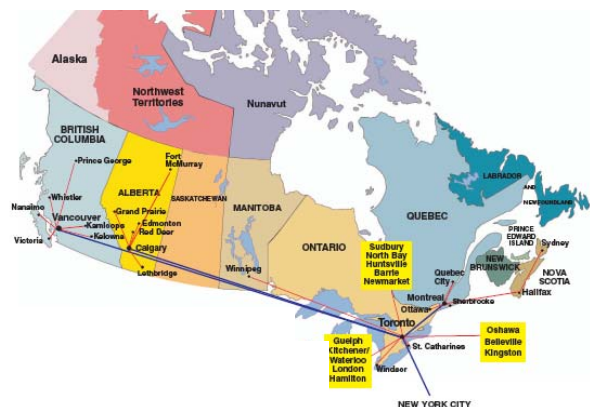
In terms of cash flow, our operations generated more than \$500,000 in 2006; we invested \$1.4 million in equipment and our network to increase the city areas served across Canada to 40 (up from 35 at the end of 2005) and to establish several international Points-of-Presence. We generated a net \$4.3 million in financing activities. As a result, the Company's cash increased by \$3.4 million in 2006 to bring our cash and cash equivalents position to \$3.7 million at the end of the year. The balance sheet impact of this was such that at year-end, our working capital ratio (current assets to current liabilities) – a benchmark of financial stability – increased to 1.9:1 up from 1.3:1 at December 31, 2005.

In addition to the cash on hand, the Company still has a never used operating line of credit of \$250,000 from its bank which was arranged in 2005 and, in 2007, we have arranged an additional line of credit of \$ 3.4 million from our bank. We have contracted with the Export Development Corporation of Canada to insure our wholesale export receivables. This provides the company with the financial security to contract with Telco companies worldwide.

Network

Phonetime entered the Canadian market 11 years ago as a supplier of long distance cards and now owns its own large integrated switching platform and operates one of Canada's' largest private networks offering local access from 40 of Canada's major markets.

The real highlight of the year is our rapidly trending revenue growth, fuelled by our burgeoning wholesale business. In the first four months of 2007 alone, the Company has already processed more than 700 million minutes of traffic and generated more revenue than in all of 2006 and at the current pace of growth, the Company is projecting revenues to reach three to four times the 2006 revenue in 2007.



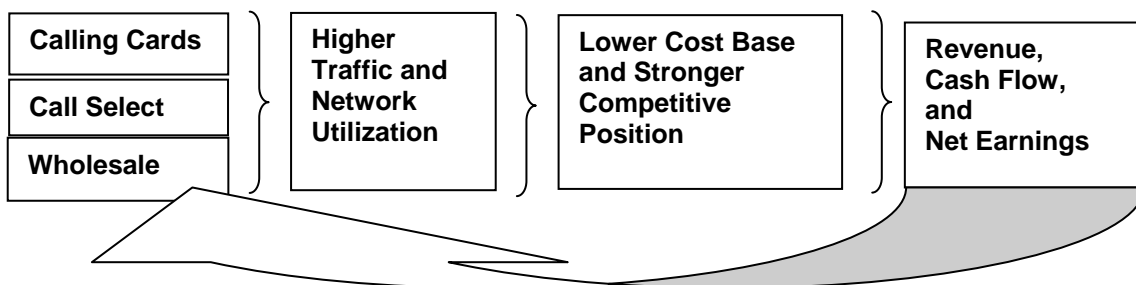
The Company carried and terminated over 1.3 billion minutes of domestic and international long-distance voice traffic in 2006 and increased its switching platform capacity utilizing 4 Lucent Telica and 12 Excel switches, plus the Nextone VoIP platform and has software upgrades installed in order to meet the growing demands of all of its products and services. This scalable and redundant network is currently capable of processing 8 billion minutes of long distance traffic annually using some of the most sophisticated technology available.

Phonetime operates its own custom Quality Based Routing and scalable software architecture for its wholesale business. This enables the company to provide long distance routing based on the quality routes set by each individual customer's expectations and our carriers abilities, on a real time basis

Strategy and Execution

As long-time Phonetime shareholders are aware, the Company implemented a diversification strategy in 2004. In practical terms, this meant the establishment of a long distance service to a variety of ethnic communities across Canada and an international wholesale business to complement our card operation. All three services utilize our network infrastructure and the traffic they generate serves to reduce our overall cost of goods sold and improve our network utilization resulting in higher revenues, strong cash flow and improved net earnings.

Our straightforward strategy is represented in the graphic below:



Simply put, by investing in diversified services, we generate higher traffic and our network is utilized more efficiently, which in turn leads to lower costs and a stronger competitive position resulting in higher revenue and net earnings. With these financial resources, we can then invest more in our services leading to the continuation of the cycle.

Your management team knows it is not enough to simply articulate a strategy. Success is in the execution. In mid-2004, we established Call Select, which now has approximately 60,000 active subscribers across Canada. In 2005, Phonetime began to proactively leverage its Canadian network by marketing its excess capacity to other carriers – essentially a situation in which all revenue flowed to the bottom line. In 2006, wholesale services emerged as Phonetime's engine of revenue growth.

Long Distance Phone Cards

Our original telecommunications service, long distance calling cards, continued to generate an increased volume of long distance traffic. As we noted last year, revenue per minute continued to decline due to competitive pressure and the growing popularity of retail Internet-based long distance services (VoIP) services. As a result, revenues from cards stayed relatively flat in 2006 compared to 2005 even though we processed nearly 6 million cards in 2006. Although costs also continued to decline, gross profit also remained relatively stable from 2005 to 2006.

However, while the contribution to operating expenses and net earnings from this business segment is not growing, the value of the business is in the volume of long distance traffic it generates. This volume contributes significantly to keeping Phonetime's cost base among the lowest in the industry, which is vital to the Company's continued success.

Call Select

In mid-2004, we established Call Select to market our equal access services in conjunction with a team of highly experienced telecommunications professionals, who initially owned 20% of the business. During 2006, Phonetime acquired the 20% from the management team in exchange for shares in the Company. In 2006, Call Select had a banner year. Our active subscriber base grew from 40,000 at the end of 2005 to 60,000 at the end of 2006, which included residential, business and cellular telephone users. The growth in 2006 was fuelled by 40 additional new call centre seats in Vancouver and Montreal. Moreover, Call Select is not finished expanding its operations and is currently in the process of establishing a joint venture call centre in the Philippines.

During 2006, Call Select successfully integrated the Punjabi speaking subscriber base of Beutel Communications Inc., which Phonetime acquired in 2005. In 2006, we acquired a base of Romanian speaking subscribers (and other assets) from Thomas Hook Communications Inc. and we are continuing to grow subscribers in this community.

From a corporate governance perspective, in 2006 Phonetime acquired the 20% stake of the company that was owned by Call Select's management team. This acquisition was effected through an exchange of shares with the management continuing on in their roles. This enabled the company to include 100% of Call Select revenue in the corporation results.

Wholesale Services

Phonetime provides long distance call origination and delivery services on a wholesale basis for switchless long distance resellers and VoIP service providers in Canada as well as AtoZ international long distance delivery services to international carriers and retail customers worldwide. To facilitate development of this business, Phonetime established subsidiary companies in 2006 – Phonetime Network Inc. in Toronto and Phonetime Networks Inc. in Miami with mandates to build, manage and grow our wholesale business.

During 2006, Phonetime established relationships and signed contracts with some of the world's largest ILEC's, CLEC's, PTT's as well as many smaller regional carriers and VoIP start-ups. The wholesale segment of the telecommunications services market determines its supplier of services based on quality, reliability, territorial coverage, delivery and price. Phonetime focuses on the delivery of high levels of network reliability, route diversity, rapid installation and excellent customer support to its wholesale customers. Phonetime provides long distance services to the wholesale market at competitive prices; it does so profitably by using proprietary software to ensure least-cost routing to efficiently manage its network.

As a result of our focus on this opportunity, our wholesale services are now growing rapidly, and we are adding capacity to meet the rapidly growing demand. While this means that our gross profit margin is impacted, the additional revenue generates higher gross profit in absolute dollars. Moreover, the higher volume drives our long distance costs down to the benefit of Call Select and our calling card businesses. Furthermore, because wholesale has relatively low overheads our overall operating expenses are lower as a percentage of revenue. Ultimately, this means higher net earnings.

SHAREHOLDER VALUE

In 2006, in order to assist in raising Phonetime's profile in the investment community, the Company retained the services of Cronus Marketing Inc. to generate interest in the company.

Phonetime is preparing to apply to the main trading board of the Toronto Stock Exchange (TSX) to increase its stock market visibility.

SUMMARY

The Company continues to build all three of its business segments and as they continue to succeed in attracting new customers and as revenue increases, management believes that the Company should be able to sustain profitability and positive cash flow.

In closing, we want to take this opportunity to thank our employees, agents, customers and shareholders for their support over the past year. We look forward to continued success through 2007 and beyond.

Yours truly,

(signed)

Rodney Franklin
Chairman and CFO

(signed)

Wayne Silver
President and CEO