PHONETIME INC.

CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(unaudited)

NOTICE TO READER

The unaudited interim financial information of Phonetime Inc. consisting of the interim consolidated balance sheet as at September 30, 2009 and the interim consolidated statements of income (loss) and comprehensive income (loss), deficit and cash flows for the three month and nine month periods ending September 30, 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
At September 30

	September 30, 2009	December 31, 2008
	(Unaudited)	*(Audited)*
ASSETS		
Current assets		
Short-term investment	**$ 29,219**	$ 29,219
Accounts receivable	**14,289,931**	13,881,509
Inventories	**121,248**	61,707
Prepaid expenses and deposits	**297,961**	376,398
Future income tax assets (note 16)	**67,000**	67,000
	14,805,359	14,415,833
Future income tax assets (note 16)	**834,669**	905,423
Property and equipment (note 3)	**2,321,917**	1,990,611
Goodwill and other intangible assets (note 4)	**15,550,112**	15,525,255
	$ 33,512,057	$ 32,837,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 6)	**$ 5,065,153**	$ 2,713,974
Accounts payable and accrued liabilities	**8,815,799**	10,062,890
Customer deposits	**63,402**	75,791
Income taxes payable	**1,579,636**	1,100,983
Loan from related party (note 12)	**200,000**	-
Short-term loan (note 8)	**250,000**	-
Current portion of long-term debt (note 9)	**477,670**	1,530,453
Current portion of loan payable (note 10)	**184,745**	262,949
Current portion of capital lease obligations (note 11)	**565,094**	454,605
Current portion of subordinated debentures (note 12)	**978,100**	2,322,723
Deferred items (note 7)	**368,666**	515,109
	18,548,265	19,039,477
Long-term portion of deferred items (note 7)	**27,716**	44,345
Loan payable (note 10)	**-**	141,888
Capital lease obligations (note 11)	**365,942**	268,412
Subordinated debentures (note 12)	**853,349**	1,253,345
	19,795,272	20,747,467
Commitments and contingencies (notes 14 and 20)		
Shareholders' equity		
Share capital (note 15)	**15,310,594**	14,761,752
Warrants (note 15)	**136,158**	-
Contributed surplus (note 15e)	**2,616,880**	2,189,805
Deficit	**(4,346,847)**	(4,861,902)
	13,716,785	12,089,655
	$ 33,512,057	$ 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
Unaudited

	Three months ended		Nine months ended	
	September 30, 2009	September 30 2008	**September 30 2009**	September 30 2008
				(Not reviewed)
Sales	**$ 44,406,164**	$ 39,204,183	**$ 128,262,495**	$ 115,010,915
Cost of sales	**39,211,276**	33,652,608	**112,170,279**	99,364,079
	5,194,888	5,551,575	**16,092,216**	15,646,836
Operating expenses	**4,510,731**	3,796,237	**13,458,993**	10,272,855
Loss (gain) on foreign exchange	**(276,621)**	(128,201)	**(190,611)**	(197,880)
Stock based compensation	**270,457**	216,406	**552,075**	567,851
Amortization of property and equipment	**248,780**	216,170	**627,674**	638,272
Amortization of intangible assets	**35,404**	25,669	**86,743**	77,008
Interest paid financing costs	**134,884**	149,682	**258,868**	434,091
Non-cash financing costs	**38,460**	101,616	**222,207**	365,907
	4,962,095	4,377,579	**15,015,949**	12,158,104
Income before the undernoted and income taxes	**232,793**	1,173,996	**1,076,267**	3,488,732
Costs due to misappropriation of funds	**-**	-	**-**	228,120
Income before income taxes	**232,793**	1,173,996	**1,076,267**	3,260,612
Income tax expense (note 16)				
Current	**176,781**	193,623	**490,458**	339,546
Future income taxes	**24,539**	229,271	**70,754**	817,160
	201,320	422,894	**561,212**	1,156,706
Net income and comprehensive income	**31,473**	751,102	**515,055**	2,103,906
Deficit, beginning of period	**(4,378,320)**	(3,925,408)	**(4,861,902)**	(5,278,212)
Deficit, end of period	**$ (4,346,847)**	$ (3,174,306)	**$ (4,346,847)**	$ (3,174,306)
Earnings per share (note 15f)				
Basic earnings per share	**$ 0.00**	$ 0.01	**$ 0.005**	**$ 0.02**
Diluted earnings per share	**$ 0.00**	$ 0.01	**$ 0.005**	**$ 0.02**

See accompanying notes

PHONETIME INC.
Consolidated Statements of Cash Flows
Unaudited

	Three months ended September 30 2009	Three months ended September 30 2008	Nine months ended September 30 2009	Nine months ended September 30 2008
				(Not reviewed)
Operating activities				
Net income	**$ 31,473**	$ 751,102	**$ 515,055**	$ 2,103,906
Non-cash items				
Amortization	**284,184**	241,839	**714,417**	715,280
Stock based compensation	**270,457**	216,402	**552,075**	567,846
Future income taxes	**24,539**	229,271	**70,754**	817,159
Unrealized foreign exchange losses (gains)	**3,387**	21,182	**(168,843)**	150,045
	614,040	1,459,796	**1,683,458**	4,354,236
Net change in non-cash working capital items				
Short term investment	**-**	-	**-**	29,219
Accounts receivable	**(3,181,149)**	(660,064)	**(408,422)**	(1,333,101)
Inventories	**(43,248)**	(1,850)	**(59,541)**	(4,454)
Prepaid expenses and other receivables	**178,271**	2,554	**78,437**	129,345
Dealer deposits	**(6,520)**	10,592	**(12,389)**	10,465
Accounts payable and accrued liabilities	**1,979,769**	739,145	**(1,245,340)**	(229,134)
Income taxes payable	**105,000**	197,932	**478,653**	332,642
Deferred revenue	**(67,340)**	53,839	**(146,443)**	(97,818)
	(1,035,217)	342,148	**(1,315,045)**	(1,162,836)
Cash flows from operating activities	**(421,177)**	1,801,944	**368,413**	3,191,400
Investing activities				
Acquisition of (proceeds) property and equipment	**(76,677)**	13,142	**(343,229)**	(223,528)
Additions to intangible assets	**(111,599)**	-	**(111,599)**	-
Cash flows from investing activities	**(188,276)**	13,142	**(454,828)**	(223,528)
Financing activities				
Issuance of share capital	**423,842**	-	**423,842**	165,000
Issuance of warrants	**136,158**	-	**136,158**	-
Long-term debt	**(534,883)**	(257,133)	**(1,048,143)**	(771,001)
Loan from related party	**200,000**	-	**200,000**	-
Short-term loan	**250,000**	-	**250,000**	-
Loan payable	**(79,475)**	(49,144)	**(220,091)**	(1,931,129)
Capital lease obligations, net	**(76,890)**	(121,610)	**(391,185)**	(396,338)
Subordinated debentures	**(592,840)**	(456,689)	**(1,615,345)**	(1,417,515)
Other debts	**-**	(5,899)	**-**	(23,706)
Cash flows from financing activities	**(274,088)**	(890,475)	**(2,264,764)**	(4,374,689)
Net increase (decrease) in cash and cash equivalents during the period	**(883,541)**	924,611	**(2,351,179)**	(1,406,817)
Bank indebtedness, beginning of period	**(4,181,612)**	(4,255,496)	**(2,713,974)**	(1,924,068)
Bank indebtedness, end of period	**$(5,065,153)**	$(3,330,885)	**$(5,065,153)**	$(3,330,885)

Supplementary disclosure of cash flow information (note 17)
See accompanying notes

1) NATURE OF OPERATIONS AND GOING CONCERN

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.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharges of liabilities in the normal course of business for the foreseeable future.

The Company has experienced significant profitable growth in the past two years. In addition, the Company achieved Net Income of $515,055 for the nine months ended September 30, 2009 and Net Income of $2,103,906 for the nine months ended September 30, 2008.

The Company has implemented its growth primarily through the issuance of debt from both senior and subordinated lenders. Since the quarter ended September 30, 2008, the Company has been in violation of its senior lender's covenants and remains in violation of those covenants as at September 30, 2009. In prior quarters, the senior lender has issued tolerance letters to the Company regarding the covenant violations, subsequent to filing by the Company of its financial results and the Company believes that the bank will do so again. The Company is in discussions with several senior and subordinated lenders and while no assurance is possible management believes that they will be able to restructure its debt in the coming months. If Management are unable to restructure the Company's debt then management, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures or the sale of the Company or divisions of the Company.

The Company has a working capital deficit of $3.74 million as at September 30, 2009 compared to $4.6 million as at December 31, 2008 and $5.4 million at June 30, 2009.

The Company's future operations are dependent upon its ability to secure additional funds that will mend the breach of the financial covenants under which the Company negotiated a credit facility from its bank or to enable the bank to continue to tolerate the breach of the financial covenants under which the loans were given. These factors raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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.

The Company has undertaken a 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 its consideration of the fair value of its financial instruments.

3) PROPERTY AND EQUIPMENT

September 30, 2009

	Cost	Accumulated Amortization	Net book value
Furniture and fixtures	$ 157,093	$ 147,619	$ 9,474
Computer and telecommunication equipment	3,263,397	2,234,997	1,028,400
Computer and telecommunication equipment under capital leases	3,256,298	2,117,498	1,138,800
Computer software	758,235	676,196	82,039
Leasehold improvements	247,409	184,205	63,204
	$ 7,682,432	$ 5,360,515	$ 2,321,917

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

In the year to date ended September 30, 2009, $634,136 (2008 - $175,723) of equipment was acquired through capital lease obligations.

4) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

	September 30, 2009	December 31, 2008
Goodwill – Acquisition of 100% of Symphony Holdings	**$ 14,361,424**	$ 14,361,424
Goodwill – 20% Call Select Inc.	**905,468**	905,468
	$ 15,266,892	$ 15,266,892

Other intangible assets

	September 30, 2009			December 31, 2008
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Customer lists	**$ 624,992**	**$ 341,772**	**$ 283,220**	$ 258,363

5) FINANCING COSTS

Financing costs for the nine months ending September 30, 2009 are as follows:

	2009	2008
Interest on credit facility (note 6)	**$ 160,647**	$ 206,879
Interest on long-term debt (note 9)	**52,958**	165,669
Interest on loans payable (note 10)	**23,596**	55,944
Interest on capital lease obligations (note 11)	**45,263**	61,543
Interest on subordinated debentures (note 12)	**198,611**	309,963
	$ 481,075	$ 799,998

6) BANK INDEBTEDNESS

On June 22, 2009, the Company's credit facility agreement was amended and is comprised of the following:

a) A revolving demand facility of $5,000,000 on which it had drawn $5,000,000 at September 30, 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 3.65%, which at September 30 is a rate of 5.90%.

   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 September 30, 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 its wholly-owned subsidiary, Symphony Holdings. The facility bears interest at the Bank's prime lending rate plus 8%. Principal repayments of $154,762 per month plus interest are required until it is fully repaid by December 18, 2009 (see note 9 for future principal repayments).

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. These financial tests were also amended (see also, Capital structure financial policies, note 19).

The Company continues to be in breach of bank financial covenants as at September 30, 2009. The Company did not meet the three ratios being the Funded debt to EBITDA, the Fixed Charge coverage and the Current ratio requirements all detailed in note 19. As a result of the delay in closing a planned subordinated debt financing (note 8), the closing of which was expected to remedy the breaches, the covenants remained in breach. The Company continues to work with the bank to remedy the situation (see also Note 1).

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.

	September 30 2009	December 31 2008
Deferred revenue	$ 346,494	$ 492,936
Deferred gain on a sale-leaseback arrangement	49,888	66,518
	396,382	559,454
Less: current portion	(368,666)	(515,109)
	$ 27,716	$ 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 $16,629 for 2009 (September 30, 2008 – $16,629).

8) SHORT-TERM LOAN

On September 28, 2009, $250,000 and subsequent to the quarter end a further $200,000, was advanced to Phonetime by the lending group that the Company has been in discussions with regarding a subordinated debenture financing of up to $5,000,000. The Loans is due and demand and bears interest of 14.5% per annum.

Phonetime continues to work with the lending group to satisfy all the pre-conditions of the subordinated debenture financing.

9) LONG-TERM DEBT

	September 30 2009	December 31 2008
Bank loan bearing interest at the bank's prime rate plus 8% per annum with monthly repayments of $154,762 plus interest to maturity on December 18, 2009. Refer to note 6 for details of security.	$ 464,286	$ 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	13,384	30,453
	477,670	1,530,453
Less: current portion	(477,670)	(1,030,453)
	-	500,000
Less: long-term debt reclassified to current due to breach of bank covenants, see note 6	-	(500,000)
	$ -	$ -

After the amendment to the credit facility agreement in June, all principal repayments on the term loan are due in the current fiscal year.

10) LOAN PAYABLE

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

	September 30 2009	December 31 2008
$600,000 USD payable to vendors with monthly repayments of $20,000 to maturity in June 2010 at 0% interest	**$ 184,745**	$ 404,837
	184,745	404,837
Less: current portion	**(184,745)**	(262,949)
	$ -	$ 141,888

Principal repayments due in subsequent years are as follows:

2009	60,018
2010	124,727
	$ 184,745

11) 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	$ 183,546
2010	515,052
2011	259,330
2012	23,208
	981,136
Less: interest portion at an average rate of 5.67%	(50,100)
	931,036
Less: current portion	(565,094)
	$ 365,942

12) SUBORDINATED DEBENTURES

In August 2009, the holders of the convertible debentures agreed to a revision of the terms and conditions of the debentures. Under the original terms of the debentures, monthly payments of US$176,667 were required and have been amended to US$95,000. In addition, the term of the loans were extended by twelve months and now mature at June 30, 2011. In turn, the holders of the debentures have agreed to eliminate the conversion feature of the debenture in return for a higher rate of interest to be paid on the balance outstanding as at July 31, 2009.

The repayments converted to Canadian dollars are as follows:

2009	$ 305,154
2010	1,220,617
2011	610,309
	2,136,080
Less: interest portion at 17.4%	(304,631)
	1,831,449
Less: current portion	(978,100)
	$ 853,349

The convertible debentures had been originally 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). Since the amendments have been considered to be a renegotiation of the debt instrument, the existing portion classified as equity has not been maintained.

13) RELATED PARTY TRANSACTIONS

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

	September 30, 2009	June 30, 2008
Operating expenses		
Rent paid on premises owned by certain directors	**$ 108,900**	$ 74,798
Consulting fees paid to shareholders and directors	**$ 401,297**	$ 120,000
Loan from related party		
Advances from a director	**$ 200,000**	$ -

During the quarter, a director of the Company who is also an officer of the Company advanced $200,000 to the Company that is non-interest bearing, payable on demand and unsecured. Subsequent to the quarter end, $100,000 of this loan was repaid.

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.

14) COMMITMENTS

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

2009	$	161,000
2010		716,000
2011		343,000
2012		17,000
2013 and subsequent years		18,000
	$	1,255,000

15) 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 and outstanding common shares:

September 30, 2009

	Number of Shares	Dollar Amount
Balance as at December 31, 2008	107,988,092	$ 14,761,752
Issues of common shares for cash consideration	3,733,332	423,842
Issues of common shares for services	1,250,000	125,000
Balance as at September 30, 2009	112,971,424	$ 15,310,594

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	1,150,000	304,116
Balance as at December 31, 2008	107,988,092	$ 14,761,752

15) SHARE CAPITAL (continued)

(i) On July 17, 2009 the Company generated gross proceeds of $560,000 through the issue of 3,733,332 units comprised of one common share and one common share purchase warrant. The warrants are exercisable at $0.30 per common share at any time prior to their expiry date in July, 2011.

(ii) Also in connection with the private placement, 180,000 compensation options were issued to purchase broker shares. These options may be exercised to purchase common shares of the Company at $0.15 per share for a period of 24 months and expire on July 17, 2011.

(iii) Also on July 17, 2009, 1,250,000 common shares were issued at a price of $0.10 per share to settle liabilities arising from the acquisition of consulting services. The expense of $125,000 has been included in stock based compensation expenses in the statement of income.

(iv) On January 2, 2008, 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 to the former shareholders of Symphony.

d) Issued and outstanding warrants

September 30, 2009

	Number of Warrants	Attributed Value
Balance as at December 31, 2008	-	$ -
Issues of common shares for cash consideration	3,733,332	136,158
Balance as at September 30, 2009	3,733,332	$ 136,158

	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance as at December 31, 2008	$ -	-	-
Warrants issued in connection with private placement	$ 0.30	1.79 years	3,733,332
Balance as at September 30, 2009	$ 0.30	1.79 years	3,733,332

d) 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.

15) SHARE CAPITAL (continued)

d) Stock option plan (continued):

At September 30, 2009, common shares of the Company were reserved as follows for stock options:

Price	Expiry Date	Number
$0.10	December 2010	1,388,000
$0.10	August 2014	500,000
$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 September 30, 2009 and December 31, 2008, and changes during the periods ended on those dates is presented below:

	September 30 2009		December 31 2008	
Options	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	**500,000**	**0.10**	750,000	$ 0.32
Exercised	**-**	**-**	(1,150,000)	$ 0.14
Forfeited	**-**	**-**	(5,147,500)	$ 0.18
Outstanding at end of period	**8,483,830**	**$ 0.22**	7,983,830	$ 0.24
Options exercisable period end	**4,614,497**	**$ 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.

15) SHARE CAPITAL (continued)

d) Stock option plan (continued):

The following table summarized information about stock options outstanding at September 30, 2009:

Options Outstanding			
Range of Exercise Prices	Number Outstanding September 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.10 - $0.17	3,033,330	2.12 years	$0.119
$ 0.18 - $0.27	2,950,500	2.88 years	$0.211
$ 0.28 - $0.432	2,500,000	2.50 years	$0.402

Options Exercisable			
Range of Exercise Prices	Number Outstanding September 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.10 - $0.17	2,099,997	1.51 years	$0.117
$ 0.18 - $0.27	1,014,500	2.93 years	$0.269
$ 0.28 - $0.432	1,500,000	2.38 years	$0.415

For the year to date, the Company has recognized a compensation expense of $427,075 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.

		August 31 2009
Total options granted		**500,000**
Average exercise price	**$**	**0.10**
Risk free interest rate		**3.20%**
Vesting period		**3 years**
Expected annual volatility		**158%**

For purposes of calculating compensation cost, the fair value of stock options is recognized over the graded vesting period of the stock options.

15) SHARE CAPITAL (continued)

e) 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 debt instruments issued.

	September 30 2009	December 31 2008
Opening balance	**$ 2,189,805**	$ 1,612,817
Stock-based compensation expense during the period	**427,075**	716,104
Allocated to share capital on exercise of options during the period	**-**	(139,116)
Ending balance	**$ 2,616,880**	$ 2,189,805

f) Earnings per share:

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

	Basic	Fully Diluted
Balance, September 30, 2009	108,298,409	108,568,124
Balance, September 30, 2008	107,548,676	131,484,429

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

	September 30 2009	September 30 2008
Numerator for basic earnings per share	**$ 515,055**	$ 2,103,906
Denominator:		
Weighted average number of common shares	**108,298,409**	107,548,676
Dilutive effect of stock options and warrants	**269,714**	23,935,753
Denominator for diluted earnings per share	**108,568,124**	131,484,429
Earnings per share		
Basic	**$ 0.00**	$ 0.02
Diluted	**$ 0.00**	$ 0.02

f) Earnings per share (continued):

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 $0.12 (2008 - $0.34) for the current year and because they were anti-dilutive in the previous year.

	September 30 2009	September 30 2008
Stock options	**6,595,830**	-
Warrants	**3,913,332**	-
Convertible debentures	-	3,785,000

16) INCOME TAXES

For the nine months ended, September 30, 2009 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% (2008 - 35.00%) and US Federal and State income tax rate at approximately 36.5% (2008 - 38.00%) to earnings before income taxes.

	September 30 2009	September 30 2008
Income taxes based on combined income tax rate	**$ 367,412**	$1,190,123
Non deductible expenses	**264,259**	352,647
Change in valuation allowance	**(70459)**	(386,064)
Income tax expense	**$ 561,212**	$1,156,706

The Company currently has non-capital losses of approximately $2,045,000 which expires as follows:

Years	$
2010	198,000
2014	281,000
2015	288,000
2026	508,000
2027	770,000
	$ 2,045,000

16) INCOME TAXES (continued)

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

	September 30 2009	December 31 2008
Potential tax benefit related to:		
Non-capital losses carried forward	$ 720,581	$ 774,837
Tax value of property and equipment and intangible assets in excess of accounting value	181,088	197,586
Total future income tax assets	901,669	972,423
Less: Current portion	(67,000)	(67,000)
Future income tax assets	$ 834,669	$ 905,423

17) SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	September 30 2009	September 30 2008
Acquisition of property and equipment through lease obligations	$ 634,136	$ 175,723
Common shares issued for consulting services	$ 125,000	-
Common shares issued on Symphony purchase	$ -	$ 2,520,000
Interest paid	$ 258,868	$ 434,091

18) SEGMENTED INFORMATION

The Company's reportable segments are 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 calling card business represents less than 5% of the Company's total sales and therefore has been included as part of the Consumer segment. 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. Substantially all of the intersegment revenue that is eliminated represents international long distance costs to terminate traffic on behalf of the Consumer division which in turn records it as a cost of sale.

The following table provides further segmented information.

Three month periods ended September 30 ['000s]

	Wholesale		Consumer		Corporate		Eliminations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	$	$	**$**	$	**$**	$	$	$	**$**	$
Operating revenues										
External revenue	**36,388**	32,665	**8,018**	6,539	-		-		**44,406**	39,204
Intersegment revenue	**6,312**	5,648	-	-	-	-	**(6,312)**	(5,648)	-	-
	42,700	38,313	**8,018**	6,539	-		**(6,312)**	(5,648)	**44,406**	39,204
Cost of sales										
External cost of sales	**38,421**	32,431	**790**	1,222	-		-		**39,211**	33,653
Intersegment cost of sales	**1,395**	2,534	**4,917**	3,114	-	-	**(6,312)**	(5,648)	-	-
	39,816	34,965	**5,707**	4,336	-		**(6,312)**	(5,648)	**39,211**	33,653
Gross margin	**2,884**	3,348	**2,311**	2,203	-	-	-	-	**5,195**	5,551
Operating expenses									**4,505**	3,884
EBITDA (1)									**690**	1,667
Capital expenditures	**72**	(27)	**5**	**14**	-	-	-	-	**77**	(13)
Total Assets	**31,640**	27,622	**6,399**	5,522	**5,083**	6,494	**(9,593)**	(9,313)	**33,529**	30,325
Goodwill and other Intangible assets	**14,361**	14,361	**1,189**	1,190	-	-	-	-	**15,550**	15,551

18) SEGMENTED INFORMATION (continued)

Segmented information for the three month period ended September 30, 2009 (continued)

EBITDA (from previous page)	**690**	1,667
Amortization	**284**	242
Operating income	**405**	1,425
Financing costs	**174**	251
Income before income taxes	**232**	1,174
Income taxes	**201**	423
Net income	**31**	751

(1) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operating expenses and foreign exchange gains or losses but before stock compensation costs.

Nine month periods ended September 30 ['000s]

	Wholesale		**Consumer**		**Corporate**		**Eliminations**		**Consolidated**	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	$	$	**$**	$	**$**	$	**$**	$	**$**	$
Operating revenues										
External revenue	**105,654**	96,748	**22,608**	18,263	**-**		**-**	--	**128,262**	115,011
Intersegment revenue	**21,386**	14,613	**-**	-	**-**		**(21,386)**	(14,613)	**-**	-
	127,040	111,361	**22,608**	18,263	**-**		**(21,386)**	(14,613)	**128,262**	115,011
Cost of sales										
External cost of sales	**109,956**	95,829	**2,214**	3,535	**-**		**-**		**112,170**	99,364
Intersegment cost of sales	**7,489**	6,259	**13,897**	8,354	-	-	**(21,386)**	(14,613)	**-**	-
	117,445	102,088	**16,111**	11,889	**-**		**(21,386)**	(14,613)	**112,170**	99,364
Gross margin	**9,595**	9,273	**6,497**	6,374	**-**	-	**-**	-	**16,092**	15,647
Operating expenses									**13,820**	10,871
EBITDA (1)									**2,272**	4,776
Capital expenditures	**280**	166	**63**	58	**-**	-	**-**	-	**343**	224
Total Assets	**31,640**	27,622	**6,399**	5,522	**5,083**	6,494	**(9,593)**	(9,313)	**33,529**	30,325
Goodwill and other Intangible assets	**14,361**	14,361	**1,189**	1,190	**-**	-	**-**	-	**15,550**	15,551

EBITDA (from above)	**2,272**	4,776
Amortization	**715**	715
Operating income	**1,557**	4,061
Financing costs	**481**	800
Income before income taxes	**1,076**	3,261
Income taxes	**561**	1,157
Net income	**515**	2,104

(1) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operating expenses and foreign exchange gains or losses but before stock compensation costs.

18) SEGMENTED INFORMATION (continued)

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

	September 30 2009	September 30 2008
Revenue:		
Canada	**$ 22,607,735**	$ 9,916,099
U.S. and international	**105,654,760**	105,094,816
	$ 128,262,495	$115,010,915

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

	September 30 2009	September 30 2008
Property and equipment and intangibles		
Canada	**$ 3,476,042**	$ 3,059,554
U.S.	**14,395,987**	14,429,965
	$ 17,872,029	$ 17,489,519

19) 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.

19) CAPITAL STRUCTURE FINANCIAL POLICIES (continued)

The ratios the Company monitors are as follows (see also notes 6 and 9).

September 30, 2009		
Components of debt and coverage ratios		
Total funded debt	8,490,053	
Short term portion of funded debt	7,270,762	
EBITDA (rolling four quarters, as adjusted)(note)	2,560,440	
Free cash flow (note)	1,715,282	
Financing costs, (rolling four quarters, as adjusted)	703,199	
Debt ratio		
Funded debt to EBITDA, as adjusted ratio	3.32	(required - <1.75)
Coverage ratios		
Fixed charge coverage	0.54	(required - >0.85)
Current ratio	0.80	(required - >0.90)

Note: The calculations of EBITDA and Free cash flow do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

The reconciliation of EBITDA is as follows:

['000s]	December 31 2008	Quarter ended March 31 2009	June 30 2009	September 30 2009	Total
EBITDA for the quarter	$(75)	$ 1,038	$ 913	$ 684	$ 2,560
Add/deduct					
Foreign exchange gain (loss)	957	(177)	263	(277)	766
Stock based compensation	148	179	104	271	702
Amortization	255	255	176	284	970
Financing costs	222	161	147	174	704
Income tax expense	23	384	(24)	201	584
Net income	$(1,680)	$ 236	$ 247	$ 31	$ (1,166)

Free cash flow as calculated for bank purposes ('000s):

EBITDA, total for the rolling four quarters, per above	$ 2,560
Deduct:	
Income tax payments made in the four quarter period	215
Capital expenditures in the four quarter period	630
	$ 1,715

Funded debt is calculated as follows.

September 30, 2009		
Bank indebtedness	$	5,065,153
Long-term debt including short term portion		477,670
Loan payable and other debts including short-term portion		184,745
Subordinated debentures		1,831,449
Capital lease obligations		931,036
Total funded debt	$	8,490,053
Portion of funded debt that is current		
Bank indebtedness	$	5,065,153
Long-term debt		477,670
Long payable and other debts		184,745
Convertible debentures		978,100
Capital lease obligations		565,094
Current portion of funded debt	$	7,270,762

20) COMPETITON BUREAU CLAIM

Subsequent to the quarter end, the Company signed an agreement with the Competition Bureau and paid a $300,000 penalty which had been previously accrued. The settlement requires that the Company place corrective notices in a number of national newspapers, the details of which are in the process of being confirmed. As a result, the Company has accrued a further $50,000 to cover such advertising expenditures that will be incurred in the fourth quarter.

21) 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.

19) FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 76% and 71% 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 September 30, accounts payable to U.S. suppliers was $5,240,000 (December 31, 2008 - $7,412,000) and accounts receivable from U.S. customers was $11,784,000 (December 31, 2008 - $10,903,000). While purchases and sales amounts in U.S. are approximately equal and may reflect a natural hedge, or mitigation of currency risk; the difference between the amounts of accounts receivable and payable better indicate the risk that arises due to the timing of settlement of customer and vendor accounts. In periods where the Canadian dollar is strengthening versus the US dollar, the Company is susceptible to realizing foreign exchange losses between the time when a sale is recorded, a carrier paid and the receivable ultimately collected. In turn, outstanding debt commitments denominated in U.S. dollars (notes 10 and 12) will be settled with fewer Canadian dollars and therefore result in foreign exchange gains.

21) FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 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 collection of accounts receivable, the sale of inventory 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.

PHONETIME INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

PHONETIME INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

KLASNER & SOLOMON
CHARTERED ACCOUNTANTS

Auditors' Report

To the Shareholders
of Phonetime Inc.

We have audited the consolidated balance sheets of Phonetime Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed by Klasner & Solomon Chartered Accountants]

Markham, Ontario
March 23, 2009

Chartered Accountants,
Licensed Public Accountants

PHONETIME INC.
Consolidated Balance Sheets
As at December 31

	2008	2007
ASSETS		
Current assets		
Short-term investment (note 5)	$ 29,219	$ 29,219
Accounts receivable	13,881,509	10,772,941
Inventories (note 6)	61,707	57,985
Prepaid expenses and deposits	376,398	444,621
Future income tax assets (note 21)	67,000	345,000
	14,415,833	11,649,766
Future income tax assets (note 21)	905,423	823,848
Property and equipment (note 7)	1,990,611	2,194,245
Goodwill and other intangible assets (note 8)	15,525,255	15,627,933
	$ 32,837,122	$30,295,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 10)	$ 2,713,974	$ 1,924,068
Accounts payable and accrued liabilities	10,062,890	6,334,468
Dealer deposits	75,791	32,122
Income taxes payable	1,100,983	109,963
Current portion of long-term debt (note 12)	1,530,453	1,027,746
Current portion of loans payable (note 13)	262,949	1,981,970
Current portion of capital lease obligations (note 14)	454,605	503,816
Current portion of convertible debentures (note 15)	2,322,723	1,705,456
Other debts (note 16)	-	44,631
Deferred items (note 11)	515,109	483,018
	19,039,477	14,147,258
Long-term portion of deferred items (note 11)	44,345	66,518
Long-term debt (note 12)	-	1,527,754
Loans payable (note 13)	141,888	329,660
Capital lease obligations (note 14)	268,412	520,362
Convertible debentures (note 15)	1,253,345	2,911,999
	20,747,467	19,503,551
Commitments and contingencies (notes 18 and 26)		
Shareholders' equity		
Share capital (note 19)	14,761,752	11,937,636
Capital stock to be issued as consideration for acquisition (note 4)	-	2,520,000
Contributed surplus (note 19g)	2,189,805	1,612,817
Deficit	(4,861,902)	(5,278,212)
	12,089,655	10,792,241
	$ 32,837,122	$ 30,295,792

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 Operations, Comprehensive Income and Deficit

For the years ended December 31

	2008	2007
Sales	**$ 157,167,375**	$ 97,949,178
Cost of sales	**136,790,448**	85,541,301
	20,376,927	12,407,877
Operating expenses	**15,077,157**	10,863,716
Loss on foreign exchange	**759,241**	231,947
Stock based compensation (note 19f)	**716,104**	1,139,630
Amortization of property and equipment	**867,047**	870,144
Amortization of intangible assets	**102,678**	102,683
Financing costs (note 9)	**1,022,122**	103,024
	18,544,349	13,311,144
Income (loss) before the under noted and income taxes	**1,832,578**	(903,267)
Loss due to misappropriation of funds (note 20)	**(236,842)**	(826,841)
Income (loss) before income taxes	**1,595,736**	(1,730,108)
Income tax expense (recovery) (note 21)		
Current	**983,001**	109,963
Future expense (recovery)	**196,425**	(62,378)
	1,179,426	47,585
Net income (loss) and comprehensive income (loss)	**416,310**	(1,777,693)
Deficit, beginning of year	**(5,278,212)**	(3,500,519)
Deficit, end of year	**$ (4,861,902)**	$ (5,278,212)
Earnings (loss) per share (note 19e)		
Basic earnings (loss) per share	$ 0.004	$ (0.019)
Diluted earnings (loss) per share	$ 0.004	$ (0.019)

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

PHONETIME INC.
Consolidated Statements of Cash Flows
For the years ended December 31

	2008	2007
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating Activities		
Net income (loss)	$ 416,310	$ (1,777,693)
Non-cash items		
Amortization of property and equipment	867,047	870,144
Amortization of intangibles	102,678	102,683
Stock based compensation	716,104	1,139,630
Future income taxes	196,425	(62,378)
Unrealized foreign exchange loss (gains)	771,449	(49,065)
	3,070,013	223,321
Changes in non-cash working capital items		
Short-term investment	-	(944)
Accounts receivable	(3,108,568)	(6,443,333)
Inventories	(3,722)	194,559
Prepaid expenses and deposits	68,223	(128,382)
Dealer deposits	43,669	6,200
Accounts payable and accrued liabilities	3,728,422	2,655,344
Income taxes payable	991,020	109,963
Deferred items	32,091	51,270
	1,751,135	(3,555,323)
Cash flows provided by (used in) operating activities	4,821,148	(3,332,002)
Investing activities		
Acquisition of property and equipment	(509,863)	(442,023)
Proceeds from sale of equipment	-	503,550
Acquisition of Symphony	-	(3,331,056)
Cash flows used in investing activities	(509,863)	(3,269,529)
Financing activities		
Issuance of share capital	165,000	218,051
Long-term debt	(1,027,997)	(27,750)
Loans payable	(1,982,143)	1,338,499
Capital lease obligations, net	(504,438)	(379,195)
Convertible debentures	(1,706,982)	-
Other debts (note 16)	(44,631)	(152,858)
Cash flows (used in) provided by financing activities	(5,101,191)	996,747
Net decrease in cash and cash equivalents during the year	(789,906)	(5,604,784)
(Bank indebtedness) cash and cash equivalents, beginning of year	(1,924,068)	3,680,716
Bank indebtedness end of year	$ (2,713,974)	$ (1,924,068)

Supplementary disclosure of cash flow information (note 22)

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

1) GENERAL

Phonetime Inc. (the "Company") provides wholesale long distance telephone services to North American and other international long distance carriers. Through its subsidiaries, the Company also sells and markets long distance telephone services and calling cards to ethnic residential and small and medium business enterprise markets across Canada. The Company is registered with the Canadian Radio-television and Telecommunications Commission ("CRTC") as a licensed Class A Telecom Carrier.

2) SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and they are expressed in Canadian dollars. The significant accounting policies are as follows:

a) Basis of consolidation

The consolidated financial statements include the accounts of Phonetime Inc. and its subsidiaries, all of which are wholly owned. Previously wholly owned subsidiaries, Phonetime International Inc., Provincial Products Inc. and Call Select Inc. were all amalgamated with Phonetime Inc. effective January 1, 2008. All intercompany transactions and accounts have been eliminated on consolidation. Subsidiaries are as follows:

Phonetime Network Inc.
Phonetime Networks, Inc.
Symphony Holdings, Inc.
Symphony Telecommunications, LLC
Symphony Telecom International Inc.
Symphony Telecommunications, SA (previously known as Buena Vista Trading 73 (PTY) Ltd.)

b) Comprehensive income

Comprehensive income is the change in equity (net assets) of an enterprise during a period, from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company did not have any other comprehensive income, which would be excluded from net income but recognized in comprehensive income, and accordingly comprehensive income (loss) and net income (loss) are equal.

c) Stock-based compensation

The Company applies the fair value method of accounting for its stock-based compensation. The fair value at grant date is estimated using the Black-Scholes option pricing model. Stock-based compensation cost is recognized on a straight line basis (with graded vesting) over the expected life of the options which is two years. Any consideration paid upon exercise of stock options is recorded as an increase in share capital and the recorded fair value of the related stock option is reclassified from contributed surplus to share capital. Forfeitures of stock options are recognized as incurred.

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Use of estimates

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

Examples of significant estimates include but are not limited to: the amount of cash receipts recognized as revenue; the allowance for doubtful accounts; the allowance for inventory obsolescence; the estimated useful lives of assets, the amount and composition of future income tax assets and liabilities, accrual for Competition Bureau settlement, the fair value of intangible assets and goodwill; the valuation of stock-based compensation, accruals and convertible debentures. By their nature, these estimates are subject to uncertainty and the effects of changes in these estimates in future periods on the consolidated financial statements could be significant. On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company's business and new information as it becomes available.

e) Inventories

Inventories consist of long-distance telephone calling cards. Inventories are valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis. Net realizable value is the estimated selling price of the calling cards in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

f) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances with banks, net of outstanding cheques, and short-term liquid investments with terms to maturity of less than 90 days.

g) Short-term investment

Short-term investment consists of investment 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, t-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.

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at the rate of exchange in effect on the date of the transactions. Foreign currency revenues and expenses are translated at average rates prevailing throughout the year, except for amortization which is measured at exchange rates prevailing when the related assets were acquired. Exchange gains and losses resulting from translation are included in the determination of net income.

The Company's subsidiaries are considered to be integrated operations. For integrated foreign operations, monetary items are translated at the exchange rates prevailing at the balance sheet date; non-monetary items are translated at the historical exchange rate; and revenue and expenses are translated using the average rates for the period, except for depreciation and amortization which is translated at the historical exchange rates. Translation gains and losses are included in the determination of net income.

i) Revenue recognition

Revenue from wholesale long-distance minutes and retail subscription services are recognized as phone time is consumed by the customer. Revenue from prepaid phone cards is recognized based on management's estimates incorporating historical patterns of phone card usage that include estimates of the lead time for the first call and the residual talk-time on the cards at the year-end. Deferred revenue represents the residual unused talk-time. Dealer deposits represent amounts paid against future purchases of wholesale long distance minutes.

j) Property and equipment

Property and equipment, including equipment under capital leases, are recorded at cost and are amortized based on the estimated useful lives of the assets using the straight-line method over the following periods:

Furniture and fixtures	4 years
Computer and telecommunication equipment	4 years
Computer software	3 years
Leasehold improvements	5 years
Computer and telecommunication equipment under capital leases	4 years

k) Leases

Leases entered into by the Company in which substantially all of the benefits and risks of ownership are transferred to the Company are recorded as capital leases and classified as computer and telecommunication equipment under capital leases. Obligations under capital leases reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by lease payments net of imputed interest. Assets under capital leases are amortized based on the estimated useful life of the asset. All other leases are classified as operating leases and leasing costs are expensed in the period in which they are incurred.

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Goodwill and other intangible assets

Goodwill represents the excess purchase price paid on acquisitions over the fair value assigned to identifiable net assets, including identifiable intangible assets. Goodwill is not amortized but is assessed for impairment annually and when an event or change in circumstances indicates that there may be an impairment. Goodwill is allocated to reporting units that are either the operating business segment or the reporting unit below the segment. Goodwill impairment is identified by a two-step test. Step one consists of a comparison of the carrying value of the reporting unit with its fair value using a cash flow model. If the carrying value of the reporting unit exceeds the fair value, step two requires fair values to be determined for all of its identifiable assets and liabilities. The excess of the fair value of the reporting unit over the total of the amounts assigned to its assets and liabilities is the fair value of goodwill. The excess of the carrying value of goodwill over its fair value is an impairment which is charged to the Statement of Operations and Comprehensive Income in the period in which the impairment is identified. As a result of annual impairment testing, no impairment write-downs were required for the years ended December 31, 2008 and 2007.

Other intangibles consists of customer list intangibles that represent the intangible value of the customer relationships that is acquired in an acquisition. Customer list intangibles are deferred and amortized on a straight line basis over five years, which is the expected estimated useful life.

All other intangible assets are assessed for impairment at least annually and when an event or change in circumstances indicates that the assets might be impaired. An impairment loss is recorded when it is determined that the carrying amount of the assets is no longer recoverable and exceeds its fair value, based on expected discounted future cash flows. As a result of annual impairment testing, no impairment write-downs were required for the years ended December 31, 2008 and 2007.

m) Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets are tested for recoverability whenever there are changes in circumstances, such as future asset utilization and business climate that indicate their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted estimated future cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value based on discounted estimated future cash flows. No impairment loss was recognized in 2008 or 2007.

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Earnings (loss) per share

The computation of basic earnings (loss) per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share reflect the potential dilution that would occur if stock options, warrants and convertible debentures were exercised. The computation of diluted earnings (loss) per share has been calculated by dividing net earnings available to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding arising from the exercise of potentially dilutive stock options and convertible debentures outstanding during the year. The Company uses the treasury stock method if converted method of calculating the dilutive effect of options, warrants and convertible debentures on earnings per share, whereby any proceeds obtained upon their exercise is assumed to be used to purchase common shares at the average market price during the period, except in the instance where such a calculation would be anti-dilutive.

o) 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. The asset and liability 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 which 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 more likely than not that future income tax assets will not be realized.

p) Convertible debentures

The convertible debentures are presented partially as debt and partially as equity. The equity component, representing the holder's option to convert into common shares, is presented as part of contributed surplus. The liability component of convertible debentures increases to its face value over the term of the debenture. The offsetting charge is classified as interest expense on the Consolidated Statements of Operations. Conversions of debentures decrease the liability and the equity components of convertible debentures and increase the share capital.

2) SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Financial instruments and hedging relationships

All financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale; all financial liabilities must be classified as held-for-trading or other financial liabilities. The Company has classified short-term investment as held for trading; accounts receivable as loans and receivables; bank indebtedness, dealer deposits, accounts payable and accruals, obligations under capital leases, long-term debt and loans payable have been classified as other financial liabilities. Upon issuance, the fair value of the Company's convertible debentures was classified on the balance sheet into equity and financial liability components. The convertible debentures are classified as other financial liabilities. The effective interest rate method is used to record interest expense over the maturity of the debentures and to accrete the financial liability to their face value on maturity.

All financial instruments are initially recorded on the consolidated balance sheet at fair value and if classified as held for trading, changes in fair value are included in earnings. For those financial assets classified as available-for-sale, changes in fair value will be included in other comprehensive income.

Financial assets held to maturity, loans and receivables and financial liabilities classified other than as held for trading are measured at amortized cost, based on the effective interest method. Interest income and expenses on these financial assets and liabilities are included in earnings. The application of this standard did not have an impact on the consolidated financial statements at the date of adoption.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the term of the instrument, except if such instruments are classified as "held for trading" in which case these costs are expensed as incurred.

CICA Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item. The Company occasionally uses derivative financial instruments for management of foreign currency rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes.

3) ACCOUNTING POLICY DEVELOPMENTS

Changes in Accounting Policy

a) Inventories

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3031, "Inventories". The Company has adopted this standard prospectively. Section 3031 provides more extensive guidance on the determination of cost, including allocation of overhead, requires impairment testing, and expands disclosure requirements to increase transparency. The Company's accounting policy for inventories is consistent with measurement requirements in the new standard and, therefore, its results have not been significantly impacted with the adoption of this standard. The additional disclosures can be found in Note 6 of the consolidated financial statements.

b) Capital disclosures

Effective January 1, 2008, CICA Section 1535, "Capital Disclosures" was implemented, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. It also requires an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The additional disclosures can be found in Note 25 of the consolidated financial statements.

c) Financial Instruments disclosures and presentation

Effective January 1, 2008, the Company implemented the accounting and disclosure requirements of the CICA's two new equity standards, Section 3862 "Financial Instruments – Disclosures;" and Section 3863 "Financial Instruments – Presentation." The new guidance does not have a material effect on the financial position or earnings of the Company. Section 3862 and 3863 place an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The additional disclosures can be found in Note 28 of the consolidated financial statements.

3) ACCOUNTING POLICY DEVELOPMENTS (continued)

Future Accounting Pronouncements

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 will adopt the new standards for its fiscal year beginning January 1, 2009 to future acquisitions. 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 Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have 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 and will require the restatement for comparative purposes of amounts reported by the Company for the year ending December 31, 2010. The Company has begun to review but has not yet fully determined the impact of the transition to and adoption of IFRS on its consolidated financial statements at this time.

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. Earlier adoption is permitted. The Company is currently assessing the impact of these changes on its consolidated financial statements.

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 assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company is currently assessing the impact of this change on the valuation models used to determine the fair value of its financial instruments.

4) ACQUISITION OF SYMPHONY HOLDINGS, INC.

Effective November 4, 2007, the Company acquired all of the issued and outstanding shares of Symphony Holdings, Inc. ("Symphony") for cash, stock, loans and convertible debentures as described below. The operating results are consolidated in the statement of operations since the acquisition date. Symphony sells and markets voice and data services at a wholesale level through worldwide telecommunications networks through its wholly-owned subsidiaries, Symphony Telecommunications LLC and Symphony Telecommunications SA.

The acquisition represents a business combination and has been accounted for using the purchase method of accounting. Under this method, the residual of the fair value of the consideration paid less the fair value of the identifiable net assets acquired on November 4, 2007 is allocated to goodwill as follows:

Property and equipment	$	16,530
Goodwill		14,361,424
Fair value of assets acquired	$	14,377,954

Total purchase consideration at fair value is comprised as follows:

Cash	$	5,300,000
12,000,000 Common shares		2,520,000
$5,300,000 USD Convertible debentures (note 15)		5,028,696
$1,070,000 USD Loan payable (note 13)		981,672
Acquisition costs paid out of working capital		547,586
Total	$	14,377,954

On January 2, 2008, 12,000,000 common shares of the Company were issued at $0.21 per share to the shareholders of Symphony with certain escrow provisions attached to them. The convertible debentures have been classified into their debt and equity components based on fair values determined by the present value method using the Company's borrowing rate.

5) SHORT-TERM INVESTMENT

Short-term investment is comprised of a Guaranteed Investment Certificate bearing interest at 1.25% per annum (2007 – 3.5% per annum) maturing in November 2009 (2007 – November 2008).

6) INVENTORIES

Minimal quantities of pre-branded long distance telephone cards are maintained in inventory. Cards are ordered from a third party manufacturer to replenish inventory as needed or to complete special custom orders. Included in cost of sales for the year ended December 31, 2008 is an amount of $188,346 (2007 - $232,587) for the cost of cards sold and $42,634 to write-off obsolete inventory (2007 - $87,205).

7) PROPERTY AND EQUIPMENT

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

2007

	Cost	Accumulated Amortization	Net Book value
Furniture and fixtures	$ 144,441	$ 130,280	$ 14,161
Computer and telecommunication equipment	2,539,025	1,745,614	793,411
Computer and telecommunication equipment under capital leases	2,421,322	1,243,324	1,177,998
Computer software	721,454	567,828	153,626
Leasehold improvements	194,869	139,820	55,049
	$ 6,021,111	$ 3,826,866	$ 2,194,245

The Company recorded property and equipment amortization expense of $889,220 (2007 - $870,144).

Also, in 2008, $175,723 (2007 - $684,627) of equipment was acquired through capital lease obligations.

8) GOODWILL AND OTHER INTANGIBLE ASSETS

2008

	Cost	Accumulated Amortization	Net
Goodwill – Symphony	$ 14,361,424	$ -	$ 14,361,424
Goodwill - 20% Call Select Inc.	905,468	-	905,468
Customer lists	513,392	255,029	258,363
	$ 15,780,284	$ 255,029	$ 15,525,255

2007

	Cost	Accumulated Amortization	Net
Goodwill - Symphony	$ 14,361,424	$ -	$ 14,361,424
Goodwill - 20% Call Select Inc.	905,468	-	905,468
Customer lists	513,392	152,351	361,041
	$ 15,780,284	$ 152,351	$ 15,627,933

9) FINANCING COSTS

	2008	2007
Interest on credit facility (note 10)	$ **260,307**	$ -
Interest on long-term debt (note 12)	**191,444**	5,600
Interest on loans payable (notes 13)	**67,263**	-
Interest on capital lease obligations (note 14)	**82,131**	97,424
Interest on convertible debentures (note 15)	**420,977**	-
	$ 1,022,122	$ 103,024

10) 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 $3,471,800 at December 31, 2008 (2007 – $3,020,000). 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 December 31, 2008 amounted to 5.25% per annum.

   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 December 31, 2008 and 2007, 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 12 for future principal repayments) and run for a period of 30 months.

c) On October 20, 2008, the revolving lease line of credit which is part of the credit facility agreement was amended upwards to $1,300,000 (2007 - $1,000,000). 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.

   As at December 31, 2008, the Company had utilized a further $175,723 (2007 - $503,550) to purchase telecommunications equipment.

Under the above 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 and various subsidiaries' guarantees. 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 obligations from net working capital (see also, Capital management, note 25).

The Company is in breach of bank financial covenants as at December 31, 2008. The Company did not meet the Fixed charge coverage ratio and the Current ratio requirements as detailed in note 25. The bank has been notified by the Company of the breach. The bank has acknowledged the breach and has indicated its willingness to work with the Company to analyze the current situation and work towards rectification.

11) 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.

	2008	2007
Deferred revenue	**$ 492,936**	$ 460,846
Deferred gain on a sale-leaseback arrangement	**66,518**	88,690
	559,454	549,536
Less: current portion	**(515,109)**	(483,018)
	$ 44,345	$ 66,518

The deferred gain is amortized on a straight-line basis over four years which is the term of the leased telecommunication equipment. Included in amortization of property and equipment is an amount of $22,173 for 2008 (2007 – nil).

12) LONG-TERM DEBT

	2008	2007
Bank loan bearing interest at the bank's prime rate plus 4% per annum with monthly repayments of $83,333 plus interest to maturity in June 2010. Refer to note 10 for details of security.	**$ 1,500,000**	$ 2,500,000
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.	**30,453**	55,500
	1,530,453	2,555,500
Less: current portion	**(1,030,453)**	(1,027,746)
	500,000	1,527,754
Less: long-term debt reclassified to current due to breach of bank covenants, see Note 10.	**(500,000)**	-
	$ -	$ 1,527,754

Principal repayments due in subsequent years are as follows:

2009	$ 1,030,453
2010	500,000
	$ 1,530,453

13) LOANS PAYABLE

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

	2008	2007
Net working capital distribution payable to vendors	**$ -**	$ 1,338,499
$470,000 USD payable to vendors due April 1, 2008 at 0% interest	**-**	450,401
$600,000 USD payable to vendors with monthly repayments of $20,000 to maturity in June 2010 at 0% interest	**404,837**	522,730
	404,837	2,311,630
Less: current portion	**(262,949)**	(1,981,970)
	$ 141,888	$ 329,660

Principal repayments due in subsequent years are as follows:

2009	$ 262,949
2010	141,888
	$ 404,837

14) 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	$ 493,728
2010	264,472
2011	14,611
	772,811
Less: interest portion at an average rate of 7.71%	(49,794)
	723,017
Less: current portion	(454,605)
	$ 268,412

15) CONVERTIBLE DEBENTURES

The Company issued US$5,300,000 of unsecured 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 the holder's option at any time at a price equal to the greater of $1.00 (Canadian) 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 due in subsequent years converted to Canadian dollars are as follows:

2009	$ 2,582,160
2010	1,291,080
	3,873,240
Less: interest portion at an implied rate of 10.25%	(297,172)
	3,576,068
Less: current portion	(2,322,723)
	$ 1,253,345

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 operations. 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 share capital along with the principal amount of the debenture that is converted.

16) OTHER DEBTS

As at December 31, 2008, the obligation arising from the acquisitions in 2005 and 2006 are as follows:

	2008	2007
Acquisition of the assets of:		
Beetel Communication in 2005	$ -	$ 7,298
Thomas Hook Communication in 2006	-	37,333
	-	44,631
Less: current portion	-	44,631
	$ -	$ -

17) RELATED PARTY TRANSACTIONS

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

	2008	2007
Operating expenses		
Rent paid on premises owned by certain directors	**$ 145,200**	$ 145,200
Consulting fees paid to directors	**$ 323,460**	$ 235,000

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.

18) COMMITMENTS

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

2009	$ 420,890
2010	370,745
2011	106,378
2012	16,597
2013 and subsequent year	18,369
	$ 932,979

19) 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:

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	1,150,000	304,116
Balance as at December 31, 2008	107,988,092	$ 14,761,752

2007

	Number of Shares	Dollar Amount
Balance as at December 31, 2006	93,344,422	$ 11,526,038
Stock options exercised	1,493,670	411,598
Balance as at December 31, 2007	94,838,092	$ 11,937,636

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 and were subject to a four month holding period.

d) Warrants

During the year ended December 31, 2006, the Company issued 40,000,000 units for US$4,000,000 with each unit consisting of one common share and one warrant. Each warrant entitled the holder to a right to purchase one common share at an exercise price of $0.15. The right to exercise these warrants had an expiry date of December 4, 2008. The warrants expired unexercised.

19) SHARE CAPITAL (continued)

e) Earnings per share

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

	Basic	Diluted
Balance, December 31, 2008	107,694,256	109,727,385
Balance, December 31, 2007	94,587,943	94,587,943

The average market price in 2008 was $0.27 (2007 - $0.42).

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

	2008	2007
Earnings (loss) available to common shareholders	**$ 416,310**	$(1,777,693)
Basic weighted average number of common shares	**107,694,256**	94,587,943
Dilutive effect of stock options	**2,033,129**	-
Diluted weighted average number of common shares	**109,727,385**	94,587,943
Earnings (loss) per share		
Basic	**$ 0.004**	$ (0.019)
Diluted	**$ 0.004**	$ (0.019)

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 Cdn$0.27 (2007 - Cdn$0.42) for the current year and because they were anti-dilutive in the previous year.

	2008	2007
Stock options	**2,500,000**	13,531,330
Share purchase warrants	**-**	40,000,000
Convertible debentures	**3,180,000**	5,300,000

19) SHARE CAPITAL (continued)

f) Stock option plan

The Company has a stock option plan available to employees and directors 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 December 31, 2008, 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
$0.27	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 December 31 2008 and 2007, and changes during the periods ended on those dates is presented below:

	2008		2007	
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**13,531,330**	**$ 0.22**	5,229,000	$ 0.12
Granted	**750,000**	**$ 0.32**	9,803,000	$ 0.26
Exercised	**(1,150,000)**	**$ 0.14**	(1,493,670)	$ 0.15
Forfeited	**(5,147,500)**	**$ 0.18**	(7,000)	$ 0.10
Outstanding at end of year	**7,983,830**	**$ 0.24**	13,531,330	$ 0.22
Options exercisable at year end	**4,468,386**	**$ 0.23**	2,861,663	$ 0.19

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.

19) SHARE CAPITAL (continued)

f) Stock option plan (continued)

The following table summarized information about stock options outstanding at December 31, 2008:

Options Outstanding			
Range of Exercise Prices	Number Outstanding December 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.10 - $0.17	2,533,330	2.38 years	$0.120
$0.18 - $0.27	2,950,500	3.72 years	$0.210
$0.28 - $0.432	2,500,000	3.33 years	$0.402

Options exercisable			
Range of Exercise Prices	Number Outstanding December 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.10 - $0.17	2,151,553	2.30 years	$0.120
$0.18 - $0.27	983,500	3.72 years	$0.210
$0.28 - $0.432	1,333,333	3.00 years	$0.432

For the year, the Company recognized a compensation expense of $716,104 for previously granted stock option awards.

The fair value of options granted in 2008 is estimated at the attribution date using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value.

	2008	2007
Total options granted	**750,000**	9,803,000
Average exercise price	**$ 0.32**	$ 0.26
Risk free interest rate	**2.97%**	3.82%
Vesting period	**3 years**	3 years
Expected dividend yield	**0%**	0%
Average expected annual volatility	**89%**	114%
Weighted average grant date fair value	**$ 0.17**	$ 0.27

For purposes of calculating the compensation cost, the fair value of stock options is recognized over the graded vesting period of the stock options.

19) SHARE CAPITAL (continued)

g) 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.

	2008	2007
Opening balance	**$1,612,817**	$ 296,017
Stock-based compensation expense during the year	**716,104**	1,139,630
Equity portion of the convertible debentures	**-**	370,717
Allocated to share capital on exercise of options during the year	**(139,116)**	(193,547)
Ending balance	**$2,189,805**	$1,612,817

20) LOSS DUE TO MISAPPROPRIATION OF FUNDS

During the first quarter of 2008, irregularities were discovered that indicated the Company had been the victim of an internal theft. Management, with the assistance of forensic accountants, estimated that over the course of 2006, 2007 and 2008 the theft resulted in a misappropriation of funds amounting to $1,890,993, being $827,310 in 2006, $826,841 in 2007 and $236,842 in 2008. The 2008 loss includes legal costs of $135,723 incurred related to this matter and an insurance recovery of $49,000. At this time, management is not able to estimate the likelihood of any further recovery of misappropriated funds.

Any further changes in the estimate of losses for 2006, 2007 and 2008 or additional costs to recover the losses as well as any recoveries will be recognized when they can be identified and their likelihood determined.

21) 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.

	2008	2007
Income taxes based on combined income tax rate	**$ 604,698**	$ (605,528)
Non deductible expenses	**668,053**	285,085
Change in valuation allowance	**(93,325)**	368,028
Income tax expense	**$1,179,426**	$ 47,585

21) INCOME TAXES (continued)

The Company currently has non-capital losses of approximately $2,312,000 which expires as follows:

2009	$ 73,000
2010	392,000
2014	281,000
2015	288,000
2026	508,000
2027	770,000
	$ 2,312,000

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

	2008	2007
Potential tax benefit related to:		
Non-capital losses carried forward	**$ 774,837**	$ 1,125,315
Tax basis of property and equipment and intangible assets in excess of carrying amount	**197,586**	43,533
Total future income tax assets	**972,423**	1,168,848
Less: Current portion	**67,000**	345,000
Future income tax assets	**$ 905,423**	$ 823,848

22) SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

	2008	2007
Acquisition of Symphony	**$ -**	$ 8,530,368
Acquisition of property and equipment through lease obligations	**$ 175,723**	$ 684,627
Common shares issued on Symphony purchase	**$ 2,520,000**	-
Income taxes paid	**$ 13,772**	-
Interest paid	**$ 1,022,122**	$ 103,024

23) SEGMENTED INFORMATION

As at December 31, 2008, the Company had two reportable operating segments: consumer sales and services ("Consumer") and global wholesale telecommunications ("Wholesale"). The Consumer division includes its original calling card business as well as a 1+ Equal Access long distance service for consumers and small and medium sized 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.

2008	Wholesale $	Consumer $	Corporate $	Intersegment Eliminations $	Total $
Sales	152,080,233	30,139,886	11,714	(25,064,458)	157,167,375
Expenses	(148,172,192)	(29,021,375)	(1,450,683)	25,064,458	(153,579,792)
Interest on long-term debt	(288,882)	(34,838)	(698,402)	-	(1,022,122)
Amortization	(470,251)	(455,145)	(44,329)	-	(969,725)
Net income before income taxes	3,148,908	628,528	(2,181,700)	-	1,595,736
Income tax expense					(1,179,426)
Net income					416,310
Total assets	13,149,367	5,035,812	20,242,382	(5,590,439)	32,837,122
Capital expenditures	617,289	68,297	-	-	685,586
Goodwill and other intangible assets	14,361,424	1,163,831	-	-	15,525,255

23) SEGMENTED INFORMATION (continued)

2007	Wholesale $	Consumer $	Corporate $	Intersegment Eliminations $	Total $
Sales	76,569,190	30,952,994	13,130	(9,586,136)	97,949,178
Expenses	(77,333,201)	(29,783,907)	(1,072,463)	9,586,136	(98,603,435)
Interest on long-term debt	(31,236)	(71,788)	-	-	(103,024)
Amortization	(410,186)	(523,737)	(38,904)	-	(972,827)
Net loss before income taxes	(1,205,433)	573,562	(1,098,237)	-	(1,730,108)
Income tax expense					(47,585)
Net loss					(1,777,693)
Total assets	9,542,892	6,094,215	24,213,027	(9,554,342)	30,295,792
Capital expenditures	345,602	271,185	-	-	616,787
Goodwill and other intangible assets	14,361,424	1,266,509	-	-	15,627,933

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

	2008	2007
Revenue:		
Canada	**$ 25,948,708**	$ 22,667,757
U.S. and international	**131,218,667**	75,281,421
	$ 157,167,375	$ 97,949,178

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

	2008	2007
Property and equipment and intangibles		
Canada	**$ 1,656,643**	$ 2,618,988
U.S.	**15,859,223**	15,203,190
	$ 17,515,866	$ 17,822,178

24) ECONOMIC DEPENDENCE

One customer of the Company's wholesale operations represented approximately 22% of total revenue whereas in 2007 it represented 44%. Changes in the economic circumstances of that customer may impact the Company's results although it has lessened over the past year. Amounts owed to the Company from this customer are insured to mitigate the credit risk arising from this dependence.

25) CAPITAL MANAGEMENT

Effective January 1, 2008, the Company adopted CICA section 1535 "capital disclosures". These disclosure standards require the Company to provide disclosure of how the Company manages its capital.

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 current ratio, funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization excluding stock compensation costs, misappropriation costs and unrealized foreign exchange loss ("EBITDA Adjusted") and fixed charges to "EBITDA Adjusted" on a trailing four quarter basis. The calculation of "EBITDA Adjusted" 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.

2008		
Components of debt and coverage ratios		
Total funded debt	8,948,349	
Short term portion of funded debt	6,784,704	
EBITDA Adjusted	5,311,978	
Free cash flow	3,901,700	
Financing costs	1,022,122	
Debt ratio		
Funded debt to EBITDA Adjusted ratio	1.68	(required - <1.75)
Coverage ratios		
Fixed charge coverage	0.766	(required - >1.40)
Current ratio	0.78	(required - >1.20)

25) CAPITAL MANAGEMENT (continued)

Funded debt is calculated as follows.

2008		
Bank indebtedness	$	2,713,974
Long-term debt including short term portion		1,530,453
Loan payable and other debts including short-term portion		404,837
Convertible debentures		3,576,068
Capital lease obligations		723,017
Total funded debt	$	8,948,349
Portion of funded debt that is current		
Bank indebtedness	$	2,713,974
Long-term debt		1,030,453
Loan payable and other debts		262,949
Convertible debentures		2,322,723
Capital lease obligations		454,605
Current portion of funded debt	$	6,784,704

The above-noted calculations are based on financial figures prior to reclassification of long-term debt to current due to breach of bank covenants. See Note 10 and 12.

26) 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. In 2007, management had provided an estimate of $300,000 for which this matter can likely be settled. The Company is still in discussions with the Bureau. No further amount has been provided for in 2008.

27) COMPARATIVE FIGURES

Certain 2007 comparative figures have been reclassified to conform with the presentation adopted in 2008.

28) FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company is exposed to different types of risks in the normal course of operations, including credit risk, market risk, currency risk, interest rate risk and liquidity risk.

a) Fair value

The Company's financial instruments include short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dealer deposits, capital lease obligations, long-term debt, loans payable, convertible debentures and other debts. Due to the short-term nature of short-term investment, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, 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.

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 investment 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, t-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.

28) FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 91% and 84% 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 December 31, 2008, accounts payable to U.S. suppliers was $7,412,000 (2007 - $3,793,000) and accounts receivable from U.S. customers was $10,903,000 (2007 - $7,135,000). A rapid decrease in the value of the Canadian dollar in relation to the U.S. dollar from 0.9913 at December 31, 2007 to 1.2180 at December 31, 2008 resulted in more exposure to the fluctuations in foreign exchange causing exchange losses for the year-to-date. Foreign exchange gains and losses incurred on the conversion of foreign currencies to Canadian currency are disclosed separately in the statement of operations 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 as the exposure to rising prime lending 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 raising of 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.

PHONETIME

PHONETIME REPORTS THIRD QUARTER 2009 RESULTS

Mississauga, ON – November 16, 2009 – Phonetime Inc. (TSX: PHD), a leading global supplier of international long distance telecommunication services, today reported its financial results for the three- and nine-month periods ended September 30, 2009. All figures are in Canadian currency.

Financial Highlights

Income Statement metrics	Three month period ended September 30		Nine month period ended September 30	
	2009	2008	2009	2008
Revenue	**$ 44,406,164**	$ 39,204,183	**$ 128,262,495**	$ 115,010,915
Gross Margin	**$ 5,194,888**	$ 5,551,575	**$ 16,092,216**	$ 15,646,836
Operating Income (loss) *	**$ 960,788**	$ 1,887,539	**$ 2,823,834**	$ 5,571,861
Net Income	**$ 31,473**	$ 751,102	**$ 515,055**	$ 2,103,906
Cash flow metrics				
From (Used in) Operating Activities	**$ (421,177)**	$ 1,801,944	**$ 368,413**	$ 3,191,400
From (Used in) Investing Activities	**$ (188,276)**	$ 13,142	**$ (454,828)**	$ (223,528)
Used in Financing Activities	**$ (274,088)**	$ (890,475)	**$ (2,264,764)**	$ (4,374,689)
Earnings per share - fully diluted	**$ 0.000**	$ 0.01	**$ 0.005**	$ 0.02
Common shares outstanding				
Basic	**108,908,925**	107,988,092	**108,298,409**	107,548,676
Fully diluted	**109,178,639**	123,122,382	**108,568,124**	131,484,429

* Operating Income is a non-GAAP financial measure, please see reconciliation to Net Income at the end of the press release.

Consolidated revenue for the third quarter ended September 30, 2009 was $44.4 million, up 13.2% from $39.2 million for third quarter of 2008. For the nine-month period of 2009, Phonetime's revenue was $128.2 million, an increase of 11% when compared to 2008. The growth is chiefly due to higher sales volumes of the Company's Wholesale Division, which buys and resells telecommunications long-distance services to telephone carriers around the world using Phonetime's proprietary call trading platform. Phonetime also generates revenues through its Consumer Division, which provides pre-paid calling cards and long-distance services to targeted ethnic consumer groups across Canada. Phonetime currently has more 130,000 customers using its long-distance retail services.

Operating income (a non-GAAP measure) was $683,000 for the three months ended September 30, 2009, down from $913,000 in the prior quarter and down from $1,755,000 in the third quarter of 2008. Revenue has grown quarter over quarter and over the comparative quarter from the prior year. Gross margin has declined to 11.7% in the three month period and 12.5% for the year to date versus 12.5% and 13.6% in the year prior corresponding periods. In absolute terms, the decline in contribution from gross margin was $357,000 in the three month period ended

September 30, 2009 but contributed an additional $445,000 for the year to date. In the nine month period, operating costs were $3.2 million higher in 2009 than in the prior year. The increase was split between sales and marketing costs which were higher by $1.9 million and general and administrative costs which were higher by $1.5 million. Operating costs in the three month period increased by $715,000 year over year comprised of compensation and commission costs of $500,000, increased marketing costs of $400,000 and higher general and administrative expenses of $815,000. General administrative costs increased in part due to one-time expenses of $300,000, consisting of an additional $50,000 for the Competition Bureau settlement, $250,000 for financing and investor relations costs, $275,000 related network collocation costs and ongoing office costs related to head count increases including office expansions in Vancouver and Florida of approximately $240,000.

Net Income for the three months ended September 30, 2009 was $31,000 or nil per share versus $751,000 or $0.01 per share for the corresponding period in 2008. Net income for the nine months ended September 30, 2009 was $515,000 or $0.005 per share, a decline from net income of $2.1 million, or $0.02 per share, for the same period in the prior year

Cash flow from operating activities was a net outflow of $422,000 in the three-month period ended September 30, 2009 as compared to a contribution of $1.8 million in the prior year. For the nine-month period ended September 30, 2009, the cash contribution from operating activities was $368,000 as compared to $3.2 million for the same period in 2008.

Working Capital deficit was $3.7 million as at September 30, 2009, an improvement from a deficit of $5.4 million as at June 30, 2009 and an improvement from a working capital deficit of $4.6 million at December 31, 2008. Working capital includes $7.7 million of bank and other debt due in the next 12 months, compared to $8.4 million of bank and other debt due as at June 30, 2009 and $7.3 million as at December 31, 2008. The Company has been in breach of its bank loan covenants since December 31, 2008. The bank has tolerated the breach working with Phonetime by amending the credit facility agreement and the covenant ratios therein and by giving management time to source additional financial capital.

In July 2009, the Company closed on an equity financing transaction issuing 3,733,332 units for gross proceeds of $560,000 at $0.15 per common share. Certain officers and employees of the Company subscribed for $260,000 of this amount.

In the quarter ended September 30, 2009, the Company signed a term sheet for a $5,000,000 subordinated debt issue with a tentative closing on or about August 31, 2009. One of the preconditions of the closing was an acceptable Intercreditor Agreement between the anticipated subordinated lender and the senior lender. The Senior Lender and the anticipated Subordinated debt holder were unable to come to terms on the Intercreditor Agreement which has prohibited the subordinated lender from closing the financing.

As a result of the above impasse, the Company has undertaken to seek a replacement to its Senior Lending facility and is also seeking an alternative to the current anticipated Subordinated Lender. The Company expects that it will be able to restructure its debts by the end of the first quarter 2010. There is no certainty that this restructuring can occur or that it can occur on favourable terms.

As at September 30 2009, Phonetime held cash and short-term investments of $0.03 million as well as accounts receivable of $14.4 million.

Operational Highlights

- Completed a private placement, generating gross proceeds of $560,000.
- Renegotiated the terms of its subordinated debentures, in particular reducing the payments to US$95,000 per month from US$176,667 per month and extending the maturity by twelve months.
- The Wholesale Division processed 1.26 billion minutes of international long-distance calls, up 23% from 1.02 billion for Q3 2008.
- The number of carriers served by the Wholesale Division increased to 800.
- The number of Consumer Division customers grew to 130,000.

Highlights Subsequent to Quarter-end

- Announced a number of changes to the Company's Board of Directors designed to enhance independent direction and corporate governance, including the appointment of Gary Clifford as Chairman.

Company Outlook

In the coming periods, Phonetime expects to:

- Refinance its debt and or raise equity in the near term to continue to implement its growth strategy (Phonetime's growth has been financed over the past couple of years via debt, much of the debt was short to mid-term in nature and has been maturing on the Company);
- Continue to increase customer and supplier penetration in Asia and Eastern Europe;
- Continue its organic growth strategy for the Consumer Division;
- Educate the capital markets on the business success to date and market opportunity available to the Wholesale Division with Console;
- Continue to execute on revenue and margin growth while containing overheads; and
- Continue to development and modify internal controls to keep pace with the changing business dynamics.

Phonetime will host a conference call to discuss its 2009 third quarter financial results on Wednesday, November 18 at 11:00 a.m. (ET).

To access the conference call by telephone, dial 416-644-3422 or 1-877-974-0445. Please connect approximately 15 minutes prior to the beginning of the call to ensure participation. The conference call will be archived for replay until Wednesday, November 25, 2009 at midnight. To access the archived conference call, dial 416-640-1917 or 1-877-289-8525 and enter the reservation number 4182045#.

A live audio webcast of the conference call will be available at www.phonetime.com. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. The webcast will be archived at the above web site for 30 days.

Phonetime will file its consolidated financial statements for the third quarter 2009 and related management's discussion and analysis with securities regulatory authorities within the applicable timelines. The material will be available through SEDAR at www.sedar.com and the Company's website, www.phonetime.com.

About Phonetime Inc.

Established in 1994, Phonetime is a leading supplier of international wholesale and retail long distance telecommunications services with network facilities in Canada, the U.S., Europe, Africa and Asia. Through its Wholesale Division, Phonetime buys and resells long-distance services to major telephone carriers around the world using its proprietary call trading platform. Through its Consumer Division, Phonetime competitively markets a range of pre-paid and subscription-based long distance services to targeted ethnic consumers across Canada. Phonetime's common shares trade on the Toronto Stock Exchange under the symbol PHD. More information can be found at the Company's website, www.phonetime.com

Caution Regarding Forward Looking Information:

This press release contains forward-looking statements, which may be identified by words like "expects", "anticipates", "plans", "intends", "indicates" or similar expressions. These statements are not a guarantee of future performance and are inherently subject to risks and uncertainties. Phonetime's actual results could differ materially from those currently anticipated due to a number of factors set forth in reports and other documents filed by the Company with Canadian securities regulatory authorities from time to time.

Readers are cautioned that non-GAAP measures do not have standardized meanings prescribed by GAAP. Operating income has no standardized meaning prescribed by Canadian GAAP and is considered a non-GAAP measure. Operating income is earnings before misappropriation of funds, stock compensation costs, interest, taxes, depreciation and amortization. This measure may not be comparable to similar measures presented by other issuers. This measure is described and presented herein 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.

The reconciliation of Operating income (a non-GAAP financial measure) to Net income is as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2009	2008	**2009**	2008
Operating income	**$ 961**	$ 1,883	**$ 2,824**	$ 5,572
Misappropriation of funds	**-**	-	**-**	228
Stock based compensation	**271**	216	**552**	568
Amortization	**284**	242	**715**	715
Earnings before the undernoted	**406**	1,425	**1,557**	4,061
Financing costs	**174**	251	**481**	800
Income before income taxes	**232**	1,174	**1,076**	3,261
Income taxes	**201**	423	**561**	1,157
Net income	**$ 31**	$ 751	**$ 515**	$ 2,104

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The Consolidated financial results over the past eight quarters are summarized below. Management believe that reviewing the business on a rolling quarter basis is an appropriate way of analysing the business.

	For the Quarters Ended (unaudited)							
[$ thousands]	**Q3 2009**	**Q2 2009**	**Q1 2009**	**Q4 2008**	**Q3 2008**	**Q2 2008**	**Q1 2008**	**Q4 2007**
Revenue	**44,406**	$ 41,280	$ 42,576	$ 42,156	$39,204	$39,311	$36,496	$ 29,643
Cost of sales	**39,211**	36,218	36,740	37,426	33,652	34,132	31,580	25,169
Gross margin - in $s	**5,195**	5,062	5,836	4,730	5,552	5,179	4,916	4,474
Gross margin - in %	**11.7%**	12.3%	13.7%	11.2%	14.2%	13.2%	13.5%	15.1%
Expenses								
Salaries and benefits	**2,124**	2,163	2,299	2,459	2,668	2,125	1,979	1,981
Sales and marketing	**696**	713	1,118	832	295	173	179	253
General and administrative	**1,692**	1,273	1,381	1,514	834	996	1,023	1,692
Loss(gain) on foreign exchange	**(277)**	263	(177)	957	(128)	29	(99)	15
Total operating costs	**4,235**	3,886	4,621	5,762	3,669	3,323	3,082	3,941
Operating income (1)	**961**	650	1,215	(1,032)	1,883	1,856	1,834	533
Misappropriation of funds	**-**	-	-	9	-	85	143	260
Stock-based compensation	**271**	104	179	148	216	142	210	353
Amortization	**284**	176	254	254	242	244	230	113
Financing costs	**174**	147	160	222	251	267	282	26
Income taxes	**201**	(24)	384	23	423	384	350	(112)
Net income (loss)	**$ 31**	$ 247	$ 236	$ (1,688)	$ 751	$ 734	$ 619	$ (107)

(1) Non-GAAP financial measure - see the cautionary statement.

PHONETIME INC.
CONSOLIDATE BALANCE SHEETS
AT SEPTEMBER 30, 2009

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Current assets		
Short-term investment	$ 29,219	$ 29,219
Accounts receivable	14,289,931	13,881,509
Inventories	121,248	61,707
Prepaid expenses and deposits	297,961	376,398
Future income tax assets	67,000	67,000
	14,805,359	14,415,833
Future income tax assets	834,669	905,423
Property and equipment	2,321,917	1,990,611
Goodwill and other intangible assets	15,550,112	15,525,255
	$ 33,512,057	$ 32,837,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 5,065,153	$ 2,713,974
Accounts payable and accrued liabilities	8,815,799	10,062,890
Customer deposits	63,402	75,791
Income taxes payable	1,579,636	1,100,983
Loan from related party	200,000	-
Short-term loan	250,000	-
Current portion of long-term debt	477,670	1,530,453
Current portion of loan payable	184,745	262,949
Current portion of capital lease obligations	565,094	454,605
Current portion of subordinated debentures	978,100	2,322,723
Deferred items	368,666	515,109
	18,548,265	19,039,477
Long-term portion of deferred items	27,716	44,345
Loan payable	-	141,888
Capital lease obligations	365,942	268,412
Subordinated debentures	853,349	1,253,345
	19,795,272	20,747,467
Commitments and contingencies		
Shareholders' equity		
Share capital	15,310,594	14,761,752
Warrants	136,158	-
Contributed surplus	2,616,880	2,189,805
Deficit	(4,346,847)	(4,861,902)
	13,716,785	12,089,655
	$33,512,057	32,837,122

PHONETIME INC.
Consolidated Statements of Income and Comprehensive Income and Deficit

	Three months ended		Nine months ended	
	September 30, 2009	September 30 2008	**September 30 2009**	September 30 2008
				(Not reviewed)
Sales	**$44,406,164**	$ 39,204,183	**$128,262,495**	$ 115,010,915
Cost of sales	**39,211,276**	33,652,608	**112,170,279**	99,364,079
	5,194,888	5,551,575	**16,092,216**	15,646,836
Operating expenses	**4,510,731**	3,796,237	**13,458,993**	10,272,855
Loss (gain) on foreign exchange	**(276,621)**	(128,201)	**(190,611)**	(197,880)
Stock based compensation	**270,457**	216,406	**552,075**	567,851
Amortization of property and equipment	**248,780**	216,170	**627,674**	638,272
Amortization of intangible assets	**35,404**	25,669	**86,743**	77,008
Interest paid financing costs	**134,884**	149,682	**258,868**	434,091
Non-cash financing costs	**38,460**	101,616	**222,207**	365,907
	4,962,095	4,377,579	**15,015,949**	12,158,104
Income before the undernoted and income taxes	**232,793**	1,173,996	**1,076,267**	3,488,732
Costs due to misappropriation of funds	-	-	-	228,120
Income before income taxes	**232,793**	1,173,996	**1,076,267**	3,260,612
Income tax expense				
Current	**176,781**	193,623	**490,458**	339,546
Future income taxes	**24,539**	229,271	**70,754**	817,160
	201,320	422,894	**561,212**	1,156,706
Net income and comprehensive income	**31,473**	751,102	**515,055**	2,103,906
Deficit, beginning of period	**(4,378,320)**	(3,925,408)	**(4,861,902)**	(5,278,212)
Deficit, end of period	**$(4,346,847)**	$ (3,174,306)	**$ (4,346,847)**	$ (3,174,306)
Earnings per share				
Basic earnings per share	**$ 0.00**	$ 0.01	**$ 0.005**	$ **0.02**
Diluted earnings per share	**$ 0.00**	$ 0.01	**$ 0.005**	$ **0.02**