

**Call Genie Inc.
Consolidated Financial Statements
For the years ended December 31, 2009 and 2008**

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Auditors' Report

To the Shareholders of Call Genie Inc.

We have audited the consolidated balance sheets of Call Genie Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 23, 2010

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Call Genie Inc.
Consolidated Balance Sheets

As at December 31	2009	(restated – Note 3) 2008
Assets		
Current assets:		
Cash and cash equivalents (Note 18)	\$ 3,447,084	\$ 4,975,440
Accounts receivable (Notes 13(c) and 18)	1,732,109	552,339
Prepaid expenses and deposits	185,084	240,018
	5,364,277	5,767,797
Deposits	55,402	87,140
Restricted cash (Note 9)	122,237	-
Capital assets (Notes 5 and 20)	602,806	1,026,473
Goodwill (Notes 4, 6 and 20)	2,290,055	2,396,140
Intangible assets (Notes 3 and 7)	5,411,362	4,869,081
	\$ 13,846,139	\$ 14,146,631
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Notes 8 and 13(b))	\$ 2,589,328	\$ 1,832,996
Current portion of deferred revenue	3,186,626	667,971
	5,775,954	2,500,967
Other liabilities (Note 8)	878,736	123,252
Deferred revenue	1,511,678	268,269
Convertible debentures (Note 9)	5,027,837	-
	13,194,205	2,892,488
Shareholders' equity:		
Equity instruments (Note 10)	51,182,642	51,108,709
Equity portion of convertible debentures (Note 9)	1,057,712	-
Contributed surplus (Note 11)	5,886,162	5,263,277
Deficit	(57,552,884)	(45,194,231)
Accumulated other comprehensive income (Note 12)	78,302	76,388
	651,934	11,254,143
	\$ 13,846,139	\$ 14,146,631

Going concern (Note 1)

Commitments and contingencies (Notes 16 and 17)

Approved on behalf of the Board:

“Signed” _____ Director
Richard DeVries

“Signed” _____ “ Director
S. Graeme Ross

Call Genie Inc.
Consolidated Statements of Operations

For the years ended December 31	(restated – Note 3)	
	2009	2008
Revenue (Notes 18 and 20)	\$ 3,486,633	\$ 4,267,353
Cost of sales (Note 18)	2,072,986	3,292,523
Gross margin	1,413,647	974,830
Expenses (Note 13):		
Sales and marketing	3,503,083	5,475,989
Technology and product development	3,774,932	6,514,193
General and administrative	3,957,036	5,642,599
Stock-based compensation (Note 10)	347,422	2,602,792
Amortization (Note 14)	1,532,058	1,572,918
	13,114,531	21,808,491
Loss from operations	(11,700,884)	(20,833,661)
Other income (expense):		
Interest and accretion on convertible debentures (Note 9)	(284,660)	-
Interest income	2,342	395,527
Foreign exchange loss	(95,451)	(36,976)
Provision for income tax expense (Note 15)	(280,000)	-
Net loss for the year	\$ (12,358,653)	\$ (20,475,110)
Basic and diluted loss per share	\$ (0.15)	\$ (0.25)
Weighted average number of shares – basic and diluted	82,948,977	82,163,992

Call Genie Inc.
Consolidated Statements of Comprehensive Loss and Deficit

For the years ended December 31	2009	(restated – Note 3) 2008
Comprehensive loss:		
Net loss for the year	\$ (12,358,653)	\$ (20,475,110)
Other comprehensive income (loss)		
Unrealized foreign currency translation adjustment	1,914	(28,008)
Comprehensive loss	\$ (12,356,739)	\$ (20,503,118)
Deficit, beginning of year (as previously stated)	\$ (45,085,514)	\$ (24,621,239)
Adoption of new accounting policy (Note 3)	(108,717)	(97,882)
Deficit, beginning of year (restated)	\$ (45,194,231)	\$ (24,719,121)
Net loss for the year	(12,358,653)	(20,475,110)
Deficit, end of year	\$ (57,552,884)	\$ (45,194,231)

Call Genie Inc.
Consolidated Statements of Cash Flows

For the years ended December 31	2009	(restated – Note 3) 2008
Cash flows from operating activities		
Net loss for the year	\$ (12,358,653)	\$ (20,475,110)
Items not involving cash:		
Stock-based compensation	347,422	2,602,792
Amortization of capital assets and intangible assets	1,532,058	1,572,918
Accretion on convertible debentures	105,937	-
Amortization of lease inducements	(17,291)	-
	<u>(10,390,527)</u>	<u>(16,299,400)</u>
Changes in non-cash working capital:		
Accounts receivable	(1,179,770)	862,088
Prepaid expenses and deposits	86,672	138,812
Accounts payable and accrued liabilities	285,369	(550,655)
Deferred salary payable	372,943	-
Deferred revenue	3,762,064	346,826
	<u>(7,063,249)</u>	<u>(15,502,329)</u>
Cash flows from financing activities		
Issuance of common shares, net of issuance costs	73,933	-
Proceeds of convertible debentures, net of cash issuance costs	6,255,075	-
Restricted cash held for interest payments (Note 9)	(122,237)	-
Repurchase of common shares (Note 10(e))	-	(65,116)
	<u>6,206,771</u>	<u>(65,116)</u>
Cash flows from investing activities		
Purchase of capital assets	(64,080)	(875,276)
Acquisition of intangible assets, net of accrued and other liabilities	(607,798)	(153,291)
Lease inducements received	-	97,065
Acquisition of PhoneSpots Inc. (Note 4)	-	(709,898)
Restricted cash held for pending acquisition	-	696,425
Corporate transaction costs	-	65,143
	<u>(671,878)</u>	<u>(879,832)</u>
Net decrease in cash and cash equivalents	(1,528,356)	(16,447,277)
Cash and cash equivalents, beginning of year	<u>4,975,440</u>	<u>21,422,717</u>
Cash and cash equivalents, end of year	\$ 3,447,084	\$ 4,975,440
Supplemental cash flow information		
Cash payment for interest charged to income	\$ 86,444	-
Cash payment for income taxes charged to income	\$ 31,338	-

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Nature of Operations and Going Concern

Call Genie Inc. (the "Company" or "CGI") was incorporated under the laws of Canada on October 17, 2000 and was continued into Alberta on February 5, 2003. On August 17, 2004, the Company amalgamated with GRD Enterprises Inc. ("GRD") with CGI being the surviving entity.

The Company is a leading provider of local mobile search and advertising solutions. These solutions enable Yellow Pages publishers, directory assistance providers and wireless carriers to increase revenue by offering a localized, mobile search capability that connects consumers with merchants. CGI created its broad product suite as a way to connect companies with voice and data traffic to companies that have monetizable content. This ecosystem provides a new revenue stream to both the carrier and content provider while providing consumers with relevant local merchant content.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company began commercial operations in October 17, 2000 and, to date, has incurred losses amounting to \$57,552,884 and has a working capital deficiency of \$411,677 (2008 - \$3,266,830).

The Company's future operations are dependent upon its ability to secure additional funds and/or secure sales contracts which provide the Company with adequate funds to cover the cash flows projected for the fiscal 2010 year. If the Company does not secure such contracts, or if it cannot secure additional financing, 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 sale of the Company. 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 classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Call Genie (Ontario) Inc., Call Genie (USA) Inc., Call Genie Europe B.V., BTS Logic Europe ApS ("BTS"), PhoneSpots Inc. ("PS") and PhoneSpots Limited, from their respective dates of incorporation or acquisition, as applicable.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with maturities at the date of acquisition of less than three months.

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (cont'd)

(c) Research and development costs

Research costs are expensed as incurred. Development costs are deferred if the product or process and its market or usefulness is clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If these criteria are not met, the development costs are expensed as incurred.

(d) Revenue recognition

The Company enters into arrangements of three broad categories: (i) recurring multi-year service-oriented hosting arrangements, (ii) software license arrangements which include provision of software licenses, implementation services and post-contract support ("PCS"), and (iii) services. Revenue from these arrangements is recognized when earned, specifically when all the following conditions are met: software licenses are delivered and/or services are provided, there is clear evidence that an arrangement exists, amounts are fixed or determinable and collectibility is reasonably assured.

Hosting arrangements

The Company enters into hosting arrangements whereby the underlying software is maintained and operated in Company data centre facilities. The Company earns transaction automation fees, system maintenance fees, hosting fees and, in some cases, a share of customer advertising revenue from the service provided to the customer. The Company may also earn advertising revenue directly from advertising partners. Advertising revenue is recorded net of any revenue share portion retained by, or paid to, advertising sources or partners. Revenues for the fixed portion of these fees are recognized ratably over the contract period, while revenues for the variable portion of these fees are recognized as earned. In addition, the Company may charge for implementation or set-up fees in connection with the service provided. These fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

Software license arrangements

The Company also offers complete solutions integrated into the customers' data centres. These solutions may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time. Revenue recognition for these arrangements is determined based on evaluation of the individual elements of the arrangements. If vendor-specific objective evidence of fair value ("VSOE") of all the undelivered elements exists and the undelivered elements are not essential to the functionality of the delivered elements, separate units of accounting are identified, the total arrangement consideration is allocated to the individual units of accounting following the residual method and revenue for the individual elements is recognized when the general revenue recognition criteria are met for that element. If VSOE of all undelivered elements does not exist, the entire arrangement is treated as one unit of accounting and revenue is deferred and recognized ratably over the remaining term of the PCS contract, commencing when all elements except for PCS are delivered.

Services

The Company also enters into annual standalone renewals of PCS after the initial contract has been completed. The Company recognizes these PCS revenues ratably over the PCS period. In addition, the Company provides standalone consulting services, training and minor system enhancements as requested from time to time by its customers. These service revenues are recorded as the services are provided.

The timing of revenue recognition sometimes differs from the contract payment schedule, resulting in revenues that have been earned but not billed. These amounts are recorded as unbilled contract revenue. Amounts billed in accordance with customer contracts but not yet earned are deferred and recorded as revenue in the period earned.

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (cont'd)

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service and Short Message Service ("SMS") delivery service which includes employee salaries and benefits, telephony costs, hosting, network, prize fees and other third-party charges.

(f) Capital assets

Capital assets are recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	Term of the lease
Furniture and equipment	5 years
Computer hardware	3 years

(g) Operating leases

Costs of operating leases are charged to income on a straight-line basis over the term of the lease.

(h) Capital leases

Capitalized assets acquired under capital lease agreements and their related liabilities are reported at the present value of the minimum lease payments.

(i) Lease inducements

Lease inducements comprise free rent and leasehold improvement incentives. Lease inducements are deferred and amortized to rent expense on a straight-line basis over the term of the related lease.

(j) Impairment of long-lived assets

Capital assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value of the asset exceeds the estimated undiscounted future cash flows from the use and eventual disposition of the asset, then an impairment loss is recognized to write the asset down to fair value.

(k) Intangible assets

Intangible assets are recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Acquired technology	7 years
Customer lists	7 years
Rights licenses	3 years
Software licenses	1 year

The Company does not hold any indefinite-lived intangible assets.

(l) Goodwill

Goodwill, being the excess of the purchase price over the assigned values of the net assets acquired, is stated at cost. The Company's goodwill is not amortized, but is tested for impairment at least annually. Goodwill is tested for impairment between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Goodwill impairment is assessed based on the comparison of the fair value of each reporting unit to which goodwill has been attributed to the carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as in a business combination.

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (cont'd)

(m) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income tax expense is recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on the differences between the tax and accounting bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(n) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share considers the dilutive impact of the exercise of outstanding stock options, warrants and the conversion of convertible debentures, as if the events had occurred at the beginning of the period or at a time of issuance, if later. The treasury stock method is used to determine the dilutive effect of stock options and warrants, in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3500, *Earnings Per Share*. As the effect of all outstanding options, warrants and convertible debentures is anti-dilutive during a period when the Company incurs a loss, diluted earnings (loss) per share does not differ from basic earnings (loss) per share.

(o) Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method in accordance with CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-Based Payments*. Under this method, stock-based compensation expense related to these programs is charged to income with the corresponding amount increasing contributed surplus over the vesting period. When an employee leaves the Company, any associated options are forfeited and any expense recorded in the consolidated financial statements related to unvested options is recovered in the period in which the employee forfeits the options. On the exercise of options, consideration received and the related accumulated contributed surplus is credited to common shares.

(p) Use of estimates

The preparation of financial statements in accordance 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates in the future. The most significant estimates relate to the valuation of capital assets, intangible assets, goodwill, deferred costs, future income tax assets and liabilities, stock-based compensation, allowance for doubtful accounts, equity portion of convertible debentures and revenue recognition VSOE.

(q) Translation of foreign currencies

The Company's foreign operations in Denmark are classified as self-sustaining. All assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars using the current rate method, at exchange rates in effect at year end. Revenues and expenses are translated at the average rates of exchange prevailing during the year. The resulting unrealized gains or losses on translation of the Company's net investment in self-sustaining foreign operations are included in accumulated other comprehensive income.

The appropriate amounts of translation gains or losses in accumulated other comprehensive income are reflected in income when there is a reduction, as a result of capital transactions, in the Company's net investment in the operation that gave rise to such exchange gains or losses.

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (cont'd)

All other foreign operations are classified as integrated. Accordingly, monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at foreign exchange rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net loss.

(r) Classification of financial instruments

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. Financial instruments that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs on financial instruments classified as held-for-trading are expensed as incurred. Transaction costs related to held-to-maturity investments, loans and receivables and available-for-sale financial assets are included in the carrying amounts of the financial instruments and amortized over the life of the instrument by the effective interest rate method.

(s) Convertible debentures

Convertible debentures are accounted for in accordance with their substance and are presented in their component parts of debt and equity. The debt component has been measured as the present value of the cash payments of interest and principal due over the term of the debentures. The fair value of the warrant equity component was estimated using the Black-Scholes option valuation model. The difference between the face value of the debentures, the debt component value and the warrant component value is allocated to the equity component.

Financing costs are allocated proportionally to the debt component, the warrant component and the equity component. The debt component, net of its proportional financing costs, is accreted to its face value through an interest charge over its term to maturity using the effective interest method. Upon conversion of the debentures, the equity portion related to the principal amount of debt converted is recognized as a change to shareholders' equity.

December 31, 2009 and 2008

3. Changes in Accounting Policies

Goodwill and intangible assets

The CICA issued the new accounting standard Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for fiscal years beginning on or after October 1, 2008 and the Company adopted it on January 1, 2009. The new standard was adopted on a retroactive basis with restatement of the prior year comparatives, and as a result, for the year ended December 31, 2008, intangible assets decreased by \$108,717, general and administrative expense and net loss increased by \$10,835 and deficit, beginning of year increased by \$97,882. This retroactive change did not result in a change in net loss per share for 2008.

In addition to the above, the adoption of this standard also required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from capital assets (Note 5) to intangible assets (Note 7). The net book value of the computer software reclassified as at December 31, 2008 was \$51,721. In addition, the amortization of computer software has been reclassified from amortization of capital assets to amortization of intangible assets. The reclassification of amortization for the year ended December 31, 2008 was \$333,274. As at December 31, 2009, computer software of \$23,638 is included within intangible assets. For the year ended December 31, 2009, amortization expense of \$55,131 has been recorded relating to computer software.

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

In January 2009, the CICA issued Emerging Issues Committee Abstract of Issue Discussed 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173") applicable to the Company's 2009 fiscal year. EIC-173 recommends that a company take into account its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. Adoption of this new recommendation had no impact on the Company's financial results.

Financial Instruments

Effective January 1, 2009, the Company adopted the amendments to CICA Section 3862, *Financial Instruments – Disclosures*. Section 3862 requires that an entity classify the fair value measurements of its financial assets and liabilities using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy of inputs is summarized below.

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Fair value is based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. This disclosure is provided in Note 18 to the consolidated financial statements.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

4. Business Combinations

PhoneSpots Inc.

On January 2, 2008, the Company acquired 100% of the issued and outstanding shares of PS, located in the United States, for cash consideration of \$970,014, including acquisition costs of \$260,116, and the issuance of 4,551,326 common shares of the Company at an aggregate issue price of \$4,851,713. The per share value of the common shares issued was based on the weighted average trading price of the Company's common shares for the immediately preceding two business days, the day of the transaction and the subsequent two business days. PS delivers advanced mobile data services and advertising solutions to the Yellow Pages industry and directory assistance (411) providers.

Under the terms of the purchase agreement 3,804,628 of the common shares issued were held in escrow for a period of four months from the closing date and then released ratably over the subsequent eight-month period. The remaining 686,698 common shares were held in escrow for up to one year to provide for any potential purchase price adjustment in accordance with the purchase agreement. The Company estimated that a purchase price adjustment of \$270,214 was required to offset the negative working capital that was in existence at the date of the acquisition. In October 2009, the Company finalized the return and cancelation of the 253,484 common shares from shares held in escrow.

The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations are included in the consolidated financial statements from the date of acquisition. The consideration and allocation of the purchase price is as follows:

Cash	\$	632,894
Accounts receivable and other current assets		201,011
Capital assets		177,563
Customer list		225,000
Technology		3,960,578
Goodwill		1,465,037
		<u>6,662,083</u>
Current liabilities		<u>(1,110,570)</u>
	\$	<u>5,551,513</u>
 Consideration given:		
Cash	\$	709,898
Common shares issued		4,851,713
Working capital adjustment		(270,214)
Acquisition costs		260,116
Total consideration	\$	<u>5,551,513</u>

The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the assets acquired amounted to \$1,465,037, which was allocated to goodwill.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

4. Business Combinations (cont'd)

The amounts allocated to acquired intangible assets are related to the estimated fair value of the technology acquired and the customer list acquired. The estimated fair value of the acquired intangible assets is being amortized on a straight-line basis over seven years, which is the estimated period over which cash flows will be generated.

5. Capital Assets

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,428,312	\$ 1,082,836	\$ 345,476
Furniture and equipment	414,547	234,772	179,775
Leasehold improvements	111,173	33,618	77,555
	\$ 1,954,032	\$ 1,351,226	\$ 602,806
December 31, 2008			
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,368,913	\$ 702,230	\$ 666,683
Furniture and equipment	418,256	158,255	260,001
Leasehold improvements	111,173	11,384	99,789
	\$ 1,898,342	\$ 871,869	\$ 1,026,473

6. Goodwill

Balance, January 1, 2008	\$ 757,900
Goodwill arising from acquisition of PS (Note 4)	1,465,037
Adjustment of BTS purchase price	39,025
Foreign currency translation adjustment	134,178
Balance, December 31, 2008	2,396,140
Foreign currency translation adjustment	(106,085)
Balance, December 31, 2009	\$ 2,290,055

As at October 1, 2009, the Company performed its annual impairment test of goodwill and determined that goodwill was not impaired.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

7. Intangible Assets

	December 31, 2009			December 31, 2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	\$ 5,217,766	\$ 1,453,753	\$ 3,764,013	\$ 4,509,407
Customer lists	358,000	101,190	256,810	307,953
Rights licenses	1,560,551	193,650	1,366,901	-
Software licenses	780,295	756,657	23,638	51,721
	\$ 7,916,612	\$ 2,505,250	\$ 5,411,362	\$ 4,869,081

As a result of the annual impairment test of goodwill performed as at October 1, 2009, the Company determined that intangible assets are not impaired. There have been no events or changes in circumstances to December 31, 2009 that indicate that the carrying amount of intangible assets may not be recoverable.

8. Other Liabilities

Other liabilities are comprised of lease inducements, deferred salary payable and rights license payable, as follows:

	December 31, 2009	December 31, 2008
Lease inducements	\$ 124,256	\$ 141,577
Less: current portion included in accounts payable and accrued liabilities	(20,961)	(18,325)
Long-term lease inducements	103,295	123,252
Deferred salary payable	418,890	-
Less: deferred future service benefit	(45,947)	-
Net deferred salary payable	372,943	-
Rights license payable	1,156,100	-
Less: current portion included in accounts payable and accrued liabilities	(578,050)	-
Less: net present value adjustment	(175,552)	-
Net long-term rights license payable	402,498	-
Other liabilities	\$ 878,736	\$ 123,252

December 31, 2009 and 2008

9. Convertible Debentures

- (a) Effective June 26, 2009, the Company completed a private placement of 2,465 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$2,465,000. The debentures bear interest at a rate of 10% per annum, payable semi-annually commencing October 31, 2009, and mature on May 30, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. Under the terms of the debentures, the Company segregates 10% of the principal amount as a reserve to be used to pay interest accruing for the first 12 months that the debenture remains outstanding. At December 31, 2009, the cash reserved to pay the remaining portion of the first 12 months' interest is recorded in the consolidated balance sheets as a restricted cash amount of \$122,237. The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 591,600 common share purchase warrants to the debenture holders, being 240 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until June 26, 2011.

- (b) Effective November 6, 2009, the Company completed a private placement of 2,540 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$2,540,000. The debentures bear interest at a rate of 12% per annum, payable semi-annually commencing April 30, 2010, and mature on October 31, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 1,219,200 common share purchase warrants to the debenture holders, being 480 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until November 6, 2011.

- (c) Effective December 23, 2009, the Company completed a private placement of 1,460 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$1,460,000. The debentures bear interest at a rate of 12% per annum, payable semi-annually commencing April 30, 2010, and mature on October 31, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 700,800 common share purchase warrants to the debenture holders, being 480 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until December 23, 2011.

In addition, the Company issued 90 broker warrants to the agent involved in the placement. Each broker warrant entitles the holder to purchase \$1,000 principal amount of the December 23, 2009 convertible debenture issuance, exercisable until December 23, 2011.

In conjunction with the distribution of the debentures described above, the Company incurred financing costs of \$64,656, \$20,593 and \$144,655, respectively.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

9. Convertible Debentures (cont'd)

The debt component has been measured as the present value of the cash payments of interest and principal due over the term of the debentures discounted at a rate of 20%, which is the estimated cost of borrowing for a similar non-convertible financial instrument with comparable terms and risk at the date of issue.

All of the Company's convertible debentures grant a security interest in and to all of the Company's present and future personal property as collateral for the debt.

Convertible debentures consist of :

	June 26, 2009	November 6, 2009	December 23, 2009	Total
Debt component:				
Proceeds	\$ 2,465,000	\$ 2,540,000	\$ 1,460,000	\$6,465,000
Less amounts allocated to:				
Equity component - conversion rights	(486,367)	(390,521)	(218,386)	(1,095,274)
Warrant component	(40,908)	(144,990)	(79,734)	(265,632)
Amount recorded as debt component	1,937,725	2,004,489	1,161,880	5,104,094
Debt component of financing charges	(50,826)	(16,251)	(115,117)	(182,194)
Accretion of debt component	81,660	21,529	2,748	105,937
Balance in debt component of convertible debentures, end of year	\$1,968,559	\$2,009,767	\$1,049,511	\$5,027,837
Equity component:				
Conversion feature of proceeds	\$ 486,367	\$ 390,521	\$ 218,386	\$1,095,274
Less: equity component of financing charges	(12,757)	(3,167)	(21,638)	(37,562)
Balance in equity component of convertible debenture, end of year	\$ 473,610	\$ 387,354	\$ 196,748	\$1,057,712
Warrants:				
Warrants portion of proceeds	\$ 40,908	\$ 144,989	\$ 79,735	\$265,632
Broker warrants	-	-	19,979	19,979
Less: warrant component of financing charges	(1,073)	(1,175)	(7,900)	(10,148)
Balance in contributed surplus, end of year	\$ 39,835	\$ 143,814	\$ 91,814	\$275,463

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

10. Equity Instruments

- (a) Authorized
 Unlimited common shares without par value
 Unlimited preferred shares without par value, non cumulative, redeemable and non-voting

- (b) Issued and outstanding common shares

	Number of Shares		Amount
Balance, January 1, 2008	77,714,474	\$	46,609,605
Shares issued for PS acquisition (Note 4)	4,551,326		4,851,713
Working capital claw-back of PS acquisition (Note 4)	(253,484)		(270,214)
Shares repurchased (Note 10(e))	(132,200)		(82,395)
Balance, December 31, 2008	81,880,116	\$	51,108,709
Shares issued under employee stock purchase plan (Note 10(f))	1,110,567		73,933
Balance, December 31, 2009	82,990,683	\$	51,182,642

- (c) Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance, January 1, 2008	\$0.225 – 1.00	2.37 years	4,390,406
Less warrants expired	-	-	(480,000)
Balance, December 31, 2008	\$0.225	1.62 years	3,910,406
Warrants issued in connection with convertible debentures (Note 9)	\$0.225	1.80 years	2,511,600
Balance, December 31, 2009	\$0.225	1.08 years	6,422,006

<u>Broker warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Broker warrants issued in connection with convertible debentures (Note 9(c))	\$1,000	1.98 years	90
Balance, December 31, 2009	\$1,000	1.98 years	90

- (i) On August 17, 2004, the Company completed the reverse takeover of a public company, GRD. Upon the completion of this business combination, 4,360,035 previously issued warrants were repriced to \$0.225 each (pre-business combination price \$0.613). Each warrant holder is entitled to acquire one common share of the Company for each warrant. These warrants expire on August 16, 2010. As at December 31, 2009, 3,910,406 warrants remained unexercised.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

10. Equity Instruments (cont'd)

- (ii) On March 21, 2006, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, exercisable at \$1.00 per share, to the underwriters of the private placement. During 2007, 450,000 of the warrants were exercised; the remaining 150,000 warrants expired on March 21, 2008.
- (iii) On April 17, 2007, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, exercisable at \$1.00 per share, to the underwriters of the private placement. During 2007, 270,000 of the warrants were exercised; the remaining 330,000 warrants expired on April 17, 2008.
- (iv) Effective June 26, 2009, the Company issued \$2,465,000 of convertible debentures (Note 9(a)). As part of this debt issuance, the Company issued 591,600 warrants to purchase common shares at a price of \$0.225 per share, exercisable until June 26, 2011.

The fair value of the warrants of \$40,908 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.07 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.0%, an expected volatility of 128% and an expected life of 2.0 years.

- (v) Effective November 6, 2009, the Company issued \$2,540,000 of convertible debentures (Note 9(b)). As part of this debt issuance, the Company issued 1,219,200 warrants to purchase common shares at a price of \$0.225 per share, exercisable until November 6, 2011.

The fair value of the warrants of \$144,990 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.12 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.3%, an expected volatility of 127% and an expected life of 2.0 years.

- (vi) Effective December 23, 2009, the Company issued \$1,460,000 of convertible debentures (Note 9(c)). As part of this debt issuance, the Company issued 700,800 warrants to purchase common shares at a price of \$0.225 per share, exercisable until December 23, 2011.

The fair value of the warrants of \$79,735 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.11 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.1%, an expected volatility of 126% and an expected life of 2.0 years.

As part of this private placement, the Company paid the agent cash compensation of \$81,000, and issued 90 broker warrants. Each broker warrant entitles the holder to purchase \$1,000 principal amount of the December 23, 2009 convertible debenture issuance, exercisable until December 23, 2011.

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

10. Equity Instruments (cont'd)

The fair value of the broker warrants of \$19,979 was recorded as issuance costs in relation to convertible debentures, within contributed surplus. The grant date fair value of the broker warrants was estimated as two components, one being the value of the debenture conversion feature into 180,000 shares of the Company and the other being the value of the 43,200 warrants issued with the debentures. The grant date fair value of the conversion feature of \$0.08 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.1%, an expected volatility of 134%, an effective exercise price of \$0.50 per share and an expected life of 1.7 years. The grant date fair value of the warrants of \$0.11 is the same as calculated above.

(d) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers and employees and agents of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. Since the inception of the Plan, the Company has granted 24,651,000 stock options to its employees, officers and directors. As at December 31, 2009, 11,260,000 stock options remain outstanding at prices ranging from \$0.07 to \$0.83 per share. Options for the Company's directors vest immediately, while options for employees vest ratably over a period of three years, except for the 9,962,500 options granted on February 25, 2009, which vest ratably over a period of two years. All options have a life of five years and have expiry dates ranging from September 1, 2010 to December 1, 2014.

The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. The fair value of each option is determined at the grant date using the Black-Scholes option valuation model with the following assumptions:

	2009	2008
Risk-free rate	1.4%	3.27%
Dividend yield	0.0%	0.0%
Volatility rate	97.5%	91.2%
Expected option life	3.00 years	3.35 years
Weighted average option fair value	\$0.06 per share	\$0.30 per share

For the year ended December 31, 2009, \$347,422 (2008 - \$2,602,792) has been recorded as stock-based compensation related to options with the corresponding amount charged to contributed surplus. The amount expensed in 2008 includes \$1,284,509 related to a voluntary option surrender program completed by the Company on November 21, 2008, which resulted in the cancellation of 8,707,666 options.

(i) The following table summarizes information about the stock options outstanding at December 31, 2009:

Range of Exercise Prices per Share	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.00 to \$0.49	10,397,500	4.18	\$0.09	58,330	3.68	\$0.24
\$0.50 to \$0.99	862,500	1.05	\$0.52	806,670	0.89	\$0.52
\$0.00 to \$0.99	11,260,000	4.13	\$0.12	865,000	1.08	\$0.50

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

10. Equity Instruments (cont'd)

- (ii) The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at December 31, 2009 and 2008:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
Balance, January 1, 2008	6,957,499	\$0.30 - \$2.40	3.78 years	\$0.97
Options granted	5,611,000	\$0.20 - \$1.13	4.33 years	\$0.49
Options exercised	(8,707,666)	\$0.24 - \$2.40	3.89 years	\$0.77
Options forfeited	(2,395,000)	\$0.20 - \$2.40	3.90 years	\$0.91
Balance, December 31, 2008	1,465,833	\$0.20 - \$0.94	3.68 years	\$0.45
Options granted	10,862,500	\$0.07 - \$0.18	4.18 years	\$0.09
Options forfeited	(1,068,333)	\$0.08 - \$0.94	4.45 years	\$0.20
Balance, December 31, 2009	11,260,000	\$0.07 - \$0.83	4.13 years	\$0.12

(e) Share repurchase

On April 21, 2008, the Company announced it had received approval from the Toronto Stock Exchange to make a normal course issuer bid ("NCIB") to repurchase for cancellation up to 5,000,000 common shares, representing approximately 8% of the outstanding shares as at April 3, 2008. The NCIB expired April 23, 2009.

During 2008, the Company repurchased 132,200 common shares for a purchase cost of \$65,116, at a weighted average cost of \$0.49 per share. The excess of the assigned share value over the purchase cost has been charged to contributed surplus.

(f) Employee stock purchase plan

The Company has an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at three-month intervals at 85% of the weighted average trading price of each of the three-month periods. Employees may contribute from 3% to 20% of their gross base salary. During 2009 employees purchased 1,110,567 shares (2008 - nil) at an average price of \$0.07 per share. At December 31, 2009, 7,102,792 shares were reserved for future issuance.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

11. Contributed Surplus

Balance, January 1, 2008	\$ 2,643,207
Fair value assigned for options (Note 10(d))	2,602,792
Fair value assigned for shares repurchased (Note 10(e))	<u>17,278</u>
Balance, December 31, 2008	\$ 5,263,277
Fair value assigned for options (Note 10(d))	347,422
Fair value assigned for warrants (Note 9)	265,632
Broker warrants issued in relation to convertible debentures (Note 9)	19,979
Less: warrant component of convertible debenture financing charges (Note 9)	<u>(10,148)</u>
Balance, December 31, 2009	<u>\$ 5,886,162</u>

12. Accumulated Other Comprehensive Income

	December 31, 2009	December 31, 2008
Unrealized foreign currency translation adjustments	\$ 78,302	\$ 76,388
Accumulated other comprehensive income	\$ 78,302	\$ 76,388

13. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in technology and product development, sales and marketing, and general and administrative expenses are \$337,719 (2008 - \$423,281) of consulting services paid to companies controlled or influenced by directors and management contractors of the Company.
- (b) Included in accounts payable and accrued liabilities is \$91,594 (2008 - \$43,860) due to various directors, companies controlled or influenced by directors and management contractors of the Company, all of which is for services rendered and reimbursement of expenses.
- (c) Included in accounts receivable is \$50,000 due from senior management for the purchase of convertible debentures issued December 23, 2009. This amount was received in full on January 3, 2010.
- (d) During 2009, senior management, management contractors and directors of the Company purchased \$380,000 aggregate principal amount of convertible debentures and received 103,200 warrants as part of the debt financings described in Note 9.
- (e) During 2009, the Company made interest payments on convertible debentures of \$11,573 (2008 nil) to directors, senior management and management contractors of the Company.

Call Genie Inc.
Notes to Consolidated Financial Statements

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13. Related Party Transactions (cont'd)

All the related party transactions are in the normal course of operations and have been measured at the exchange amounts.

14. Information Included in the Consolidated Statements of Operations

	December 31, 2009	December 31, 2008
Amortization of rights license intangible assets	\$ 193,650	\$ -
Amortization of capital assets	486,739	496,168
Amortization of other intangible assets	851,669	1,076,750
	\$ 1,532,058	\$ 1,572,918

15. Income Taxes

The effective tax rate of income tax varies from the statutory rate as follows:

	2009	2008
Combined tax rates	29.0%	29.5%
Expected income tax recovery at statutory rate	\$ (3,502,809)	\$ (6,036,961)
Stock-based compensation	100,752	767,824
Share issuance costs	(117,041)	(125,080)
Change in rate	962,943	1,328,972
Other permanent differences	38,344	7,928
Prior year tax losses expired	330,660	-
Increase in tax reserves	280,000	
Change in valuation allowance	2,187,151	4,057,317
Actual income tax provision	\$ 280,000	\$ -

The difference between the effective rate and the actual rate of nil is attributable to the fact that no future income tax assets have been recorded for available loss carryforwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

Future income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Future income tax assets are calculated and, as their realization is not considered likely, a valuation allowance is provided.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2009 and 2008

15. Income Taxes (cont'd)

Significant components of the future income tax assets and liabilities include the following:

Future income tax assets:	December 31, 2009	December 31, 2008
Capital and other assets	\$ 774,553	\$ 438,422
Share issuance costs	219,394	322,685
Unused tax loss carryforwards	<u>12,207,509</u>	<u>10,253,198</u>
	13,201,456	11,014,305
Valuation allowance	<u>(13,201,456)</u>	<u>(11,014,305)</u>
Future income tax assets	\$ -	\$ -
Reserve for future income tax assessments included in accrued liabilities	\$ 595,253	\$ 391,147

As at December 31, 2009, subject to confirmation from the respective income tax authorities, the Company has a total of \$45,531,677 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

	Non-Capital Losses
2014	\$ 1,017,542
2015	1,279,000
2026	5,417,367
2027	11,190,197
2028	17,045,322
2029	<u>11,142,800</u>
	<u>\$ 47,092,228</u>

For Canadian tax purposes, the Company has non-capital losses of \$46,047,666 and for U.S. tax purposes, the Company has net operating losses of \$1,044,562 that have a 15-year carry-forward period.

16. Commitments and Contingencies

(a) Leases

The Company has obligations under long-term operating leases, license agreements and agreements for premises and office equipment for various periods up to 2013. Future minimum annual lease payments over the next four years are as follows:

	Facilities	Equipment	Total
2010	\$ 761,703	\$ 28,785	\$ 790,488
2011	\$ 708,311	\$ 22,381	\$ 730,692
2012	\$ 612,540	\$ 1,452	\$ 613,992
2013	\$ 176,975	\$ -	\$ 176,975

December 31, 2009 and 2008

16. Commitments and Contingencies (cont'd)

(b) General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims from customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. The required provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurances, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position or results of operations of the Company.

17. Indemnifications

(a) Directors and officers

Under the terms of the Company's by-laws, the Company is required to indemnify individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification arrangements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

(b) Other

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements and asset use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement-by-agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions, and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurances, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position or results of operations of the Company.

Call Genie Inc.
Notes to Consolidated Financial Statements

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18. Financial Instruments and Risk Management

Classification of financial instruments

Upon initial recognition, all financial instruments are recorded on the consolidated balance sheets at their fair values. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Changes in the fair value of held-for-trading financial instruments are recognized in net income or loss. The Company does not hold any held-to-maturity investments or available-for-sale financial assets.

The Company holds various forms of financial instruments as follows:

Financial Instrument	Designation	Measurement	December 31, 2009	December 31, 2008
Cash and restricted cash	Held-for-trading	Fair value	\$ 3,466,400	\$ 1,463,934
Short-term investments	Held-for-trading	Fair value	102,921	3,511,506
Accounts receivable	Loans and receivables	Amortized cost	1,732,109	552,339
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	2,589,328	1,832,996
Other liabilities	Other financial liabilities	Amortized cost	878,736	123,252
Convertible debentures	Other financial liabilities	Amortized cost	5,027,837	-

Held-for-trading

The Company has classified its cash and cash equivalents and restricted cash as held-for-trading. These instruments are accounted for at fair value with the change in fair value recognized in net income or loss during the year. As at December 31, 2009, the Company held \$102,921 (2008 - \$3,511,506) of cashable guaranteed investment certificates bearing a weighted average interest rate of 0.3% (2008 - 1.8%) with a maturity date of no more than three months.

Loans and receivables

Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Other financial liabilities

Accounts payable, accrued liabilities, other liabilities and convertible debentures are classified as other financial liabilities, and are measured at amortized cost.

For the years ended December 31, 2009 and 2008, the Company has not used derivative instruments. The Company has no derivatives embedded in its financial or non-financial contracts.

December 31, 2009 and 2008

18. Financial Instruments and Risk Management (cont'd)

Financial risk management

The nature of these financial instruments and the Company's operations expose the Company to a number of financial risks, including credit risk, liquidity risk, foreign currency risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

At December 31, 2009, primarily all of the Company's cash was held at one financial institution.

The Company, in the normal course of business, is exposed to credit risk from its customers. The accounts receivable are subject to normal credit risks. Any amounts not provided for are considered fully collectible. For the year ended December 31, 2009, the Company earned 12% (2008 - 37%) of its revenues from one directory service provider and at December 31, 2009, the Company had \$911,038 (2008 - \$135,715) receivable from this customer. This customer is disputing scheduled payments for maintenance and support services and repayment of technology development costs previously incurred by the Company. The Company is actively pursuing resolution of the matter through arbitration proceedings. The Company expects full payments of the amounts and no provision has been provided however, as the amount is in dispute there is uncertainty to the final outcome.

The following table provides the details of the aged receivables and the related allowance for doubtful accounts:

	Amount
Current	\$ 278,642
31 to 60 days	405,678
61 to 90 days	22,314
Over 90 days	1,039,650
Less: allowance for doubtful accounts	(14,175)
Total accounts receivable, net	\$ 1,732,109

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk through cash flow forecasting including anticipated investing and financing activities. Further discussion with regard to the Company's liquidity management is contained in Note 1 to the consolidated financial statements.

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Notes to Consolidated Financial Statements

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18. Financial Instruments and Risk Management (cont'd)

The contractual maturities of the Company's financial liabilities as at December 31, 2009 are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Convertible debentures including interest	\$ 697,365	\$ 726,500	\$ 7,088,812

Foreign currency risk

The Company operates internationally and is exposed to risk from changes in foreign currency rates. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company sells software and services in both Canadian and foreign currencies. The sale of software and services in foreign currencies gives rise to the risk that the Company's income and cash flows may be adversely impacted by fluctuations in foreign exchange rates. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company does not actively manage this risk and uses its natural hedge to mitigate, to the extent possible, the impact of foreign exchange fluctuations.

The most significant exposure arises from U.S. dollar revenue and costs. For the year ended December 31, 2009, approximately 28% of revenue and 21% of costs were transacted in U.S. dollars. As a result, the Company may experience transaction exposure because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net outflows, as at December 31, 2009, an increase in the value of the U.S. dollar versus the Canadian dollar of 10% would, everything else being equal, have an effect of increasing revenue by 2.8%, increasing costs by 2.1% and increasing the loss from operations by 1.9%. A decrease in the value of the U.S. dollar would effect a corresponding decrease by these percentages.

The Company is also exposed to foreign exchange risk from transactions in British pounds, Euros and Danish kroners. Fluctuations of 10% in the exchange rates for these currencies, when compared to the Canadian dollar, are not expected to individually have a material impact on the Company's results of operations.

Interest rate risk

The Company is exposed to interest rate risk through its financial assets. The Company manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity reserves necessary to meet day-to-day operating cash flow requirements.

The Company believes that interest rate risk is not significant, as interest rates on short-term investments range from 0.1% to 0.3%. A 50 basis points change in interest rates would have no significant impact per quarter based on December 31, 2009 financial asset balances.

For the years ended December 31, 2009 and 2008, the Company has no variable interest bearing financial obligations.

December 31, 2009 and 2008

18. Financial Instruments and Risk Management (cont'd)

Fair values of financial instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The amount of the convertible debentures as determined and recorded at their respective 2009 issue dates is representative of their fair value as at December 31, 2009, due to the close proximity in time.

Cash, restricted cash and short-term investments carried on the consolidated balance sheets at fair value are classified as Level 1 - quoted prices, in the fair value hierarchy described in Note 3. There are no financial instruments valued according to Level 2 - observable market inputs or Level 3 - valuation techniques using unobservable market inputs.

19. Capital Management

The Company's objective when managing capital is to ensure that the Company has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns for shareholders and benefits to other stakeholders. The capital structure of the Company consists of common equity issues and convertible debentures.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. Upon approval of the Board of Directors, the Company balances its overall capital through new share issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements.

There have been no changes in the Company's approach to capital management during the year.

20. Segmented Information

Operating segments

The Company operates in the sale and service of software and hosting solutions and all sales are made in this segment. Management assesses performance and makes decisions about allocating resources based on the one operating segment.

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20. Segmented Information (cont'd)

Product category information

The Company earned revenue attributed to the following product categories based on the main product or service sold to the customer.

	<u>2009</u>	<u>2008</u>
Voice	\$ 892,686	\$ 1,976,721
SMS Data	1,195,090	804,222
Workstations	1,398,857	1,486,410
Total	<u>\$ 3,486,633</u>	<u>\$ 4,267,353</u>

Geographic information

The Company earned revenue attributed to the following countries based on the location of the customer:

	<u>2009</u>	<u>2008</u>
Canada	\$ 627,280	\$ 1,644,637
United States	577,818	982,527
Europe	1,827,770	1,410,780
Rest of the world	453,765	229,409
Total	<u>\$ 3,486,633</u>	<u>\$ 4,267,353</u>

The Company has total capital assets attributed to the following countries based on location:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Canada	\$ 529,737	\$ 931,584
United States	67,602	81,171
Europe	5,467	13,718
Total	<u>\$ 602,806</u>	<u>\$ 1,026,473</u>

The Company has total goodwill attributed to the following countries based on location:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
United States	\$ 1,465,037	\$ 1,465,037
Europe	825,018	931,103
Total	<u>\$ 2,290,055</u>	<u>\$ 2,396,140</u>

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21. Future Changes in Accounting Policies

The following is an overview of accounting standard changes that the Company will be required to adopt in future years:

International Financial Reporting Standards

The CICA Accounting Standards Board (“AcSB”) plans to converge Canadian GAAP principles for publicly accountable enterprises with International Financial Reporting Standards (“IFRS”) over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has not yet determined the impact of the transition to and adoption of IFRS on its consolidated financial statements.

Business combinations, consolidated financial statements and non-controlling interests

In October 2008, the CICA issued Section 1582, *Business Combinations* concurrently with Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. Section 1582, which replaces Section 1581, *Business Combinations*, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company’s interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its consolidated financial statements.

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175, *Multiple Deliverable Revenue Arrangements* which replaced EIC-142, *Revenue Arrangements with Multiple Deliverables* and may be applied prospectively and will apply to the Company effective January 1, 2011. The abstract includes updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated. The Company is reviewing the guidance to assess the potential impact on its consolidated financial statements.

22. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year’s consolidated financial statement presentation.
