



## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (“MD&A”) for Call Genie Inc. (“CG”, “Call Genie” or the “Company”) should be read in conjunction with CG’s unaudited consolidated financial statements and the accompanying notes as at and for the period ended June 30, 2009, which have been filed with certain securities regulatory authorities in Canada and may be accessed at [www.sedar.com](http://www.sedar.com) (under Call Genie’s profile). CG’s quarterly financial statements and the accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). All amounts are stated in Canadian dollars unless otherwise indicated. The information in this MD&A is current to August 4th, 2009, unless otherwise noted.

The content of this MD&A has been approved by the Company’s Board of Directors, on the recommendation of its Audit Committee.

Further information regarding the Company, and its business and operations, may be obtained from continuous disclosure materials filed by the Company from time-to-time with certain securities regulatory authorities in Canada. These continuous disclosure materials are available through the Company’s website at [www.callgenie.com](http://www.callgenie.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **FORWARD LOOKING STATEMENTS and DISCLAIMER**

Certain information set out in this MD&A constitutes forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. The forward-looking information set out in this Management Discussion and Analysis includes information, appearing below under the heading "Results of Operations - Revenues", respecting the percentage of Deferred Revenue that is expected to be recognized as revenue in the Statement of Operations during the 12 months ending June 30, 2010;

Forward-looking statements are based upon the opinions, expectations and estimates of management are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include such things as the Company's current stage of development, its reliance on third parties and third party technology, the existence of competition, the availability of third-party financing and the other risk factors noted below under the heading "Business Risks and Uncertainties". **Accordingly, readers should not place undue reliance upon the forward-looking information contained herein and the forward-looking statements contained in this MD&A should not be considered or interpreted as guarantees of future outcomes or results.**



Forward-looking information respecting the percentage of Deferred Revenue that is expected to be recognized as revenue in the Company's statements of operation in the 12 months ending June 30, 2010 is based on upon the existing terms of the arrangements with customers, the Company's revenue recognition policy and management's understanding of Canadian generally accepted accounting policies.

Whenever used in this MD&A, the term "GAAP" means Canadian generally accepted accounting principles. "Net Loss before stock compensation expense", a non-GAAP measure as defined by the Company, means Net Loss without the inclusion of any stock-based compensation expense and is derived from the Company's consolidated statement of operations.

**Readers are cautioned that non-GAAP measures do not have standardized meanings prescribed by GAAP. Net loss before stock compensation expense should not be construed to be an alternative to net income determined in accordance with GAAP or an indicator of performance or liquidity or cash flows. The Company's method of calculating non-GAAP measures may differ from methods used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities. The Company uses net loss before stock compensation expense because it believes the measure provides useful information to both management and investors with respect to the operating and financial performance of the Company.**



## EXECUTIVE SUMMARY

Call Genie is a provider of mobile local search and advertising solutions. Its mission is to connect ready to transact consumers with relevant local businesses. Call Genie seeks to provide technology, services and solutions that utilize advanced wireless networks as well as the mobile web internet to enable a mobile ecosystem that encompasses advertisers, advertising publications (e.g. internet yellow pages) and mobile users.

The Company's loss for the six months ended June 30, 2009 was \$6.34 million or \$0.08 per share, a 39% improvement from the loss of \$10.31 million or \$0.13 per share from same period in the prior year. The Company's loss for the three months ended June 30, 2009 was \$3.13 million or \$0.04 per share, a 41% improvement from the loss of \$5.35 million or \$0.07 per share from same period in the prior year. The reduced loss for each such period was primarily the result of reduced expenditures in all areas of the Company's business. For the six month period ended June 30, 2009, sales and marketing costs decreased \$1.05 million, technology and product development costs decreased \$1.27 million, and general and administrative costs decreased \$1.04 million. For the three month period ended June 30, 2009, sales and marketing costs decreased \$0.54 million, technology and product development costs decreased \$0.72 million, and general and administrative costs decreased \$0.65 million. The Company used \$2.03 million to fund its operations in the second quarter of 2009.

Effective June 26th, 2009, the Company completed a debt financing for aggregate proceeds of \$2.5 million. The debt, structured as a secured convertible debenture, bears interest at a rate of 10% per annum and it may be converted into common shares of the Company based on a conversion price of \$0.50 per share. Certain officers and directors of the Company purchased \$340,000 aggregate principal amount of convertible debentures in connection with the financing.

As at June 30<sup>th</sup>, 2009 the Company had a cash balance of \$2.35 million and accounts receivable equal to \$1.36 million. 66.7% of those receivables (\$0.91 million) were attributable to one customer who has disputed scheduled payments for maintenance and support services and reimbursement of technology expenditures previously incurred by the Company. The Company is actively pursuing resolution of the matter which may include commencement of arbitration proceedings.

Ongoing economic and market events have significantly increased uncertainty with respect to forecasts of short-term growth and profitability. During the last half of 2008 and continuing into 2009, certain customer projects were scaled back, delayed or cancelled. While the Company has continued to pursue other customer projects that, if successfully implemented, could replace revenue from scaled back, delayed or cancelled projects, significant uncertainty continues to exist in the current economic environment.



<b>KEY FINANCIAL METRICS</b>	<b>3 Months ended June 30, 2009</b>	<b>3 Months ended June 30, 2008</b>
Cash and Cash Equivalents	\$ 2,348,076	\$ 11,782,340
Deferred Revenue	\$ 1,874,930	\$ 595,907
Revenue	\$ 911,619	\$ 1,402,321
Net Loss excluding stock-based Compensation*	\$ (3,024,317)	\$ (4,852,967)
Net Loss	\$ (3,131,506)	\$ (5,349,857)
Earnings per share – fully diluted	\$ (0.04)	\$ (0.07)
Common shares outstanding		
- Basic	82,993,656	82,133,599
- Fully diluted	103,395,662	96,340,005

\* - Non-GAAP financial measure – see the cautionary statement that appears on page 2 of this Management Discussion and Analysis.

## **BUSINESS STRATEGY**

### **Vision**

To be a leading global provider of mobile local search and advertising solutions.

### **Our Strategy**

Call Genie’s mission is to connect ready to transact consumers with relevant local businesses. The Company seeks to provide technology, services and solutions that utilize advanced wireless networks as well as the mobile web internet to enable a mobile ecosystem that encompasses advertisers, advertising publications (e.g. internet yellow pages) and mobile users. To advertisers and advertising publications, Call Genie provides a range of tools and marketing solutions designed to enable them to reach consumers through mobile devices and the mobile web, using both voice commands and data services. This information or advertising is presented to users in voice and or data format and may be sent to advanced mobile devices such as the Apple iPhone.

### **Strategic Priorities and Progress in 2009**

<b>Strategic Priority</b>	<b>Progress in 2009</b>
Productize investment in technology development	<ul style="list-style-type: none"> <li>Completed development of Open Listings database, and Open Location database.</li> </ul>
Continued focus on global business development and adding new accounts.	<ul style="list-style-type: none"> <li>Technology deployed in 11 countries around the world; principally in Canada, the United States, and Europe.</li> </ul>
Increase revenue through customer retention and relationship expansion	<ul style="list-style-type: none"> <li>Recognized revenues increased 6% from Q1 of 2009 to Q2 of 2009.</li> </ul>



	<ul style="list-style-type: none"> <li>• Deferred Revenue increased by 67% from Q1 of 2009 to Q2 of 2009.</li> <li>• Starting new projects with existing customers</li> </ul>
Develop ad network (the “Ad Network”)	<ul style="list-style-type: none"> <li>• Key business development team hired with strong industry contacts.</li> <li>• Additional opportunities progressing through sales pipeline.</li> </ul>
Secure additional financing	<ul style="list-style-type: none"> <li>• Completed \$2.5 million of debt financing.</li> </ul>

**KEY PERFORMANCE DRIVERS**

There are four key drivers that management continues to monitor to gauge performance and the Company’s ability to execute its business plan as summarized below.

1) Revenues from the Canadian market:

The commercialization of the Company’s voice search service with TELUS and Yellow Pages Group of Canada (“YPG”) is on-going. To date, the revenues from these customers have been primarily generated from implementation fees and maintenance and support services. In light of the with prospect of an increase over the current business category search traffic now integrated with TELUS’ 411 directory assistance, YPG has advised that it wishes to restructure its contractual arrangements with the Company. If implemented, this strategy would have an effect on the Company’s revenues from the Canadian market. However, at this time, the Company is unable to definitively assess the effect of this development, as the current revenue sharing arrangement with YPG has yet to generate significant revenues and the discussion around new arrangements has not been finalized.

2) Revenues from existing customers in the United States market:

The commercialization of previously announced customer relationships – Verizon, RH Donnelley and to a lesser degree AT&T is on-going. To date, the revenues from these customers have been primarily generated from implementation fees. The agreements with these customers provide for revenue from transaction fees following implementation and commercial roll-out of applications using CG technology.

3) Revenues from deployment of Directory Assistance workstation software:

The Company has identified several business development opportunities for the sale of its workstation software. In the past, the Company has entered into agreements



that are based on fixed up-front license fees rather than a future orientated revenue sharing arrangement. This software is of particular importance in Europe where voice automation has been slow to penetrate in many markets.

4) Revenues from Ad Network opportunities:

The Company expanded its addressable market to include bringing its mobile local search and advertising products to newspaper, television and triple-screen publishers and is engaged in discussions with both local and national brand advertisers who have expressed an interest in capitalizing on this type of inventory.

## **CAPABILITY TO DELIVER**

### **Leadership**

Due to the nature of the Company, execution of the Company's business plan is, to a significant degree, dependent on the capabilities of the people within the organization. Executive leadership is a key component of the planning, organizing and delivery necessary to achieve success. The Company has an executive management team with over 110 years of industry specific experience in the technology field. The executive team is led by Michael Durance, the Company's Chief Executive Officer. Mr. Durance has over 25 years of experience and has been with the CG since June 1, 2006.

The Company has assembled an experienced team consisting of Mike Henderson, Chief Sales Officer – hired in May 2008 with over 25 years of experience; Chet Chan, Senior VP of Client Services – hired in June 2007 with 21 years of experience; and Chris Shelton, Chief Financial Officer – hired in March 2006 with over 18 years of experience. Further information about the executive team and the Board of Directors is available on the Company's website at [www.callgenie.com](http://www.callgenie.com).

### **Financing**

Effective June 26, 2009, the Company completed a debt financing for aggregate gross proceeds of \$2.5 million. The debt, structured as secured convertible debentures, provides that the principal amount of the debentures will bear interest at a rate of 10% per annum, calculated and payable semi-annually, and that the debentures will mature on May 30, 2012. Principal and accrued but unpaid interest under the debentures may be converted into common shares of the Company based on a conversion price of \$0.50 per share, subject to adjustment. In connection with the sale of the convertible debentures, the Company granted a security interest in all of its present and after-acquired property to the debenture holders. At June 30, 2009, the Company had a cash balance of \$2,348,076.



Management and the directors of CG recognize that the current credit and equity markets affect the Company's ability to secure further equity financing. The cash resources available at June 30, 2009 may not be sufficient to execute the Company's business plans in the absence of additional financing and/or other mitigating risk management strategies. The Company continues to execute on its cash conservation programs and is actively seeking additional financing.

### **Productive Capacity**

The Company's business model is premised on the ability to generate recurring revenues without a proportional increase in expenses for staff salaries and benefits. To that end, the Company builds its application software using a product model rather than building individual customized solutions. Management of CG believes that the Company has adequate human resources to deliver all projects currently scheduled.

## **RESULTS OF OPERATIONS**

### Overall

The Company's loss for the six months ended June 30, 2009 was \$6.34 million or \$0.08 per share, an improvement of 39% from the loss of \$10.31 million or \$0.13 per share for the six months ended June 30, 2008. The Company's loss for the three months ended June 30, 2009 was \$3.13 million or \$0.04 per share, an improvement of 41% from the loss of \$5.35 million or \$0.07 per share for the three months ended June 30, 2008. The decreased loss for both periods was primarily the result of decreased expenditures in all areas of the Company's business. For the six month period ended June 30, 2009, sales and marketing costs decreased \$1.05 million, technology and product development costs decreased \$1.27 million, and general and administrative costs decreased \$1.04 million. For the three months ended June 30, 2009, sales and marketing costs decreased \$0.54 million, technology and product development costs decreased \$0.72 million, and general and administrative costs decreased \$0.65 million.

### Revenues

Revenues for the six months ended June 30, 2009 decreased to \$1.77 million from \$2.42 million for the six months ended June 30, 2008, which is a 27% period over period decrease. The decrease is primarily due to revenues generated from timing of discrete project implementation fees from customers located in North America. Revenues decreased \$0.26 million in Canada and \$0.40 million in the United States while revenues in Europe increased \$0.02 million. Revenues for the three months ended June 30, 2009 decreased to \$0.91 million from \$1.40 million for the three months ended June 30, 2008, which is a 35% period over period decrease.



The Company earned revenue from multiple sources including software licenses, implementation and consulting fees, transactional processing fees, hosting fees as well as maintenance and support revenues. Revenue can be categorized by product line as follows:

In 000's	6 months ended June 30, 2009	6 months ended June 30, 2008	Variance	% change
Voice	653	1,055	(402)	(38%)
SMS Data	634	477	157	33%
Workstation	486	884	(398)	(45%)
Total	1,773	2,416	(643)	(27%)

In 000's	3 months ended June 30, 2009	3 months ended June 30, 2008	Variance	% change
Voice	363	606	(243)	(40%)
SMS Data	323	304	19	6%
Workstation	225	492	(267)	(54%)
Total	911	1,402	(491)	(35%)

The Company has reviewed its revenue arrangements and determined that, in substance, certain arrangements are hosted solutions wherein all implementation fees should be deferred and recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Deferred Revenue at June 30, 2009 was \$1.87 million compared to \$0.56 million at June 30, 2008. 50% of the Deferred Revenue is expected to be recognized as revenue in the 12 months ending June 30, 2010.

#### Cost of Sales

For the six months ended June 30, 2009, cost of sales decreased to \$1.05 million from \$1.77 million for the same period in 2008. Cost of sales for the three months ended June 30, 2009 decreased to \$0.47 million compared to \$0.92 million for the three months ended June 30, 2008. The 45% second quarter decrease was due to the reduced staff resources required to support customer specific activities related to market trials and implementation of the Company's multiple product lines. Decreases also resulted from decreased direct costs incurred in the operation of the Company's hosted services, including telephony costs, hosting, network, voice recordings and other third party charges.

#### Expenses excluding Stock Based Compensation and Amortization

Expenses excluding stock option compensation and amortization for the six months ended June 30, 2009, decreased to \$6.30 million from \$9.61 million for the six months ended June



30, 2008. Expenses excluding stock option compensation and amortization for the three months ended June 30, 2009, decreased to \$3.13 million from \$5.04 million for the three months ended June 30, 2008. The 38% decrease of \$1.91 million for the quarter ended June 30, 2009 was primarily due to fewer staff members in all operational areas of the business. The quarterly average level of staff resources was 59 for Q2 2009 compared to 88 in the second quarter of 2008. The decrease in staff was principally attributable the cash conservation program implemented by the Company.

### *Sales and Marketing*

Sales and Marketing costs for the six months ended June 30, 2009 were \$1.90 million compared to \$2.95 million for the six months ended June 30, 2008. Sales and Marketing costs for the three months ended June 30, 2009 were \$0.97 million compared to \$1.51 million for the three months ended June 30, 2008. The 36% decrease of \$0.54 million for the quarter ended June 30, 2009 was primarily attributable to the number of staff engaged, either directly or on contract, to undertake business development, account management or marketing activities. For the second quarter of 2009, the Company maintained a sales and marketing team of 14 compared to 26 for Q2 2008. In 2009, the Company continued to allocate staff to business development initiatives involving the Ad Network, while scaling back certain other marketing activities.

Salaries, commissions and benefits for all sales and marketing staff decreased by approximately \$0.41 million for Q2 2009, as compared to the second quarter of 2008. Reduced trade conference activity and other cash conservation measures resulted in travel expenses decreasing by \$0.11 million for the quarter ended June 30, 2009 compared to the same period last year.

### *Technology and Product Development*

For the six months ended June 30, 2009, Technology and Product Development costs were \$2.23 million which compares to \$3.49 million for the same period in 2009. The period over period change in expenditures of \$1.26 million represents a 36% decrease. Technology and Product Development costs for the three months ended June 30, 2009 were \$1.05 million. The result is a decrease of \$0.72 million or 41% when compared to same period in 2008. The quarter over quarter decrease was primarily due to fewer staff members engaged in developing product software and processes. For second quarter of 2009, the Company maintained a research and development staff averaging 33 compared to 48 for the comparative period in 2008.

### *General and Administration*

General and administration costs for the six months ended June 30, 2009 were \$2.13 million compared to \$3.17 million for the six months ended June 30, 2008. General and



administration costs for the three months ended June 30, 2009 were \$1.12 million which compares to \$1.77 million for second quarter of 2008. The 37% decrease of \$0.65 million for the quarter ended June 30, 2009 was consistent with the Company's cash conservation programs. The decrease consisted of 1) decreased professional services fees of \$0.23 million; 2) decreased staff costs including consultants of approximately \$0.19 million; 3) decreased recruiting costs of \$0.16 million; and 4) decreased office rent, telephone charges and supplies of \$0.07 million required to support the employee base.

#### *Stock Based Compensation*

Stock based compensation expense for the three months ended June 30, 2009 was \$0.11 million compared to \$0.50 million for the three months ended June 30, 2008. The expense, as determined through the use of the Black-Scholes methodology, is primarily driven by the stock price in effect at the time options are granted.

#### Interest Income

Interest income for the three months ended June 30, 2009 was \$393, compared to \$109,259 for same period in 2008. The decrease is consistent with the decreased average cash held by the Company in interest bearing short-term investments and a decline in the interest rates.

#### Net Loss

As a result of the foregoing, CG's net loss for the six months ended June 30, 2009 was \$6.34 million which was \$3.97 million lower than the net loss for the same period in 2008. CG's net loss for the three months ended June 30, 2009 was \$3.13 million, which was \$2.22 million lower than the net loss for the same period in 2008.



## SUMMARY OF QUARTERLY RESULTS

For the Quarters Ended (unaudited)								
in thousands	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Revenue	\$ 407	\$ 758	\$ 1,013	\$ 1,402	\$ 875	\$ 977	\$ 862	\$ 912
Cost of sales	345	454	844	921	870	657	577	474
Gross margin	62	304	169	481	5	319	285	438
Expenses								
Sales and marketing	1,164	1,316	1,436	1,510	1,381	1,147	930	966
Research and development	1,025	1,548	1,731	1,763	1,553	1,470	1,178	1,045
General and administrative	1,156	1,264	1,397	1,769	1,195	1,308	1,006	1,120
Stock based compensation	97	486	376	497	312	1,417	20	107
Amortization	148	154	366	402	395	410	365	332
	3,590	4,768	5,306	5,940	4,836	5,752	3,499	3,570
Loss from operations	(3,528)	(4,464)	(5,137)	(5,459)	(4,831)	(5,433)	(3,214)	(3,132)
Other income								
Interest income	321	261	179	109	60	48	4	-
Net loss for the period	(3,207)	(4,203)	(4,958)	(5,350)	(4,771)	(5,385)	(3,210)	(3,132)
Basic and diluted loss per share	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.07)	\$ (0.06)	\$ (0.06)	\$ (0.04)	\$ (0.04)

## FINANCIAL CONDITION

Selected data on financial position	June 30, 2009	December 31, 2008	June 30, 2008
Cash and cash equivalents	\$ 2,348,076	\$ 4,975,440	\$ 11,782,340
Net working capital	\$ 1,027,448	\$ 3,353,970	\$ 11,564,649
Total assets	\$ 11,671,555	\$ 14,255,348	\$ 22,941,465
Total long-term liabilities	\$ 2,997,907	\$ 391,521	\$ 801,179
Total liabilities	\$ 5,958,679	\$ 2,892,488	\$ 3,000,172
Shareholders' equity	\$ 5,712,876	\$ 11,362,860	\$ 19,941,293



## **LIQUIDITY AND CAPITAL RESOURCES**

### *Assets*

CG's total asset base as at June 30, 2009 was \$11.67 million, down from \$22.94 million at June 30, 2008. The \$11.27 million decrease was principally the result of the continuing operating losses incurred as the Company executed its business plan. See "Business Risks and Uncertainties" below. Long-term assets including capital assets, goodwill, and intangibles decreased \$1.50 million from \$9.18 million at June 30, 2008 to \$7.68 million as of June 30, 2009 based on the application of the Company's amortization policies. Current assets, consisting primarily of cash and cash equivalents, declined \$9.78 million as compared to June 30, 2008.

### *Working Capital*

At June 30, 2009, the Company had positive working capital including cash and cash equivalents of \$1.03 million, down \$10.53 million from the \$11.56 million of working capital at June 30, 2008. The decrease in working capital is primarily due to decreased cash of \$9.43 million (used to support ongoing operations) and increased accrued liabilities and deferred revenue of \$0.76 million.

As at June 30, 2009 the Company's trade accounts receivables equaled \$1.21 million. 75.0% of these receivables (\$0.91 million) are attributable to one customer who is disputing scheduled payments for maintenance and support services and a repayment of previously delivered technology expenditures. The Company is actively pursuing resolution of the matter which may include commencement of arbitration proceedings.

### *Cash and Cash Equivalents*

At June 30, 2009, the Company's cash and cash equivalents amounted to approximately \$2.35 million compared with \$11.78 million at June 30, 2008. The \$9.43 million decrease was due to the \$11.81 million of cash used in fund operations, \$0.09 million used in 2008 to fund the purchase of capital assets offset by the \$2.5 million of debt financing received in the second quarter of 2009.

## **OUTSTANDING SHARE DATA**

CG's outstanding share capital consists of common shares. An unlimited number of common shares are authorized for issuance. At June 30, 2009, 82,933,656 common shares were outstanding compared to 82,133,599 common shares outstanding at June 30, 2008. The increase was due to the issuance of 800,057 common shares under the Company's employee share purchase plan.



As of June 30, 2009, the Company had 11,030,000 (10,296,000 in 2008) stock options outstanding with a weighted average exercise price of \$0.12 and 4,502,006 (3,910,406 in 2008) warrants outstanding with an average exercise price of \$0.225. The convertible debenture financing completed in June 2009 granted the holders an option to convert the debenture into common shares at a conversion price of \$0.50, subject to adjustment. If the debenture were fully converted, an additional 4,930,000 common shares would be issued. Thus the number of outstanding shares on fully diluted basis was 103,395,662 at June 30, 2009 compared to 96,340,005 at June 30, 2008. Further information on CG's outstanding share capital is provided in Note 9 to the Company's consolidated financial statements.

### **CONTRACTUAL OBLIGATIONS & OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2009, the Company had \$2.44 million (\$3.41 million in 2008) of obligations under long-term operating leases for premises and office equipment for various periods up to 2013. For the remainder of 2009, the minimum lease obligation is \$0.44 million.

The Company did not have any "off-balance sheet" arrangements as of June 30, 2009.

### **RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2009, the Company recorded \$153,569 (\$144,608 in 2008) of general and administrative expenses for transactions with companies controlled by officers in the normal course of operations. Effective June 26, 2009, senior management, officers and directors of the Company purchased \$340,000 of convertible debentures as part of a \$2.5 million debt financing.

### **OUTLOOK**

Ongoing economic and market events have significantly increased uncertainty with respect to forecasts of short-term growth and profitability. During the last half of 2008 and continuing into 2009, certain customer projects were scaled back, delayed or cancelled. While the Company has continued to pursue other customer projects that, if successfully implemented, could replace revenue from scaled back, delayed or canceled projects, significant uncertainty continues to exist in the current economic environment. The current credit crisis may negatively affect some of the Company's customers, and prospective customers, and their ability to invest in new projects and new potential revenue streams.



## **BUSINESS RISKS AND UNCERTAINTIES**

The business of CG is subject to numerous risk factors, as more particularly described below. An investment in, and ownership of common shares of, CG should be considered highly speculative due to the nature of CG's business, its current stage of development and the potential requirement for additional financing.

### *No Record of Profit*

CG has incurred significant losses to date, and there can be no assurance that the future business activities of CG will be profitable. Since its organization, CG has incurred costs to develop and enhance its technology, to establish strategic relationships, to acquire complementary technologies and to build administrative support systems. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$20,464,275 for the year ended December 31, 2008, \$12,636,466 for the year ended December 31, 2007, and \$6,451,062 for the year ended December 31, 2006. CG's ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including its ability to further develop and test its technology on schedule and on budget, the pace at which it secures additional customers, the time and expense required for the roll-out of its products, its success in marketing such service to consumers and merchants, the intensity of the competition experienced by CG and the availability of additional capital to pursue its business plan, including development of new services). An inability to generate sufficient funds from operations will have a materially adverse affect on CG's business, results of operations and financial condition.

### *Current Enterprise Value assigned by the Market; Liquidity*

During the year ended December 31, 2008, the market capitalization of the Company declined from \$87.82 million (\$1.13/share) at the start of the year to \$5.73 million (\$0.07/share). As of the date of this MD&A, no material change in the market capitalization has occurred as compared to December 31, 2008. All stakeholders in the business may be adversely affected by the current market capitalization of the Company. These stakeholders include customers, potential customers, competitors, channel delivery partners, technology partners, and current or prospective employees. These stakeholders may ascribe a higher business risk to the Company due to the decline in the market capitalization that may have a materially adverse effect on CG's business, results and financial condition.

### *Substantial Capital Requirements; Liquidity*

Because of the costs associated with further development of CG's technology and business, and the fact that CG's ability to generate revenue will depend on a variety of factors



(including the ability of CG to meet its development schedule and consumer and merchant acceptance of CG technologies), additional funds may be required to advance and expand CG's business. Additional funds (whether through additional equity financing, debt financing or other sources) may not be available, may not be available on terms acceptable to CG or may result in significant dilution to CG shareholders. The inability to obtain additional funds may have a material adverse affect on CG's business, results of operations, and financial condition.

#### *Cash Conservation Programs impacting Delivery Capability*

The Company implemented various cash conservation measures in the last half of 2008 and in the first quarter of 2009. These programs were designed to provide a hedge against the Company's potential inability to obtain additional capital in the current market. As a result of these measures, negative economic consequences have affected CG staff resources at all levels. The Company may experience further attrition of staff as a result of these conservation measures which may affect the Company's ability to deliver software and services to current and prospective customers.

#### *Developing Market*

CG is developing a new service and, as such, the primary market for CG's software and services is underdeveloped and continues to evolve. As is typical in the case of a new evolving industry segment, the demand for the Company's services is subject to a high level of uncertainty. If the markets for the CG technology fail to develop, develop more slowly than expected or become saturated with competitors, or if the CG technology does not achieve and maintain market acceptance, CG's business, results of operations and financial condition will be materially adversely affected.

#### *Third Party Technology*

In providing the CG technology, CG is, and will continue to be, dependent on technologies and infrastructure that are beyond CG's control, including landline and cellular telephone networks, directory databases and speech recognition and text-to-speech applications. There can be no assurance that if weaknesses or errors in third party software or hardware are detected, CG will be able to correct or compensate for such weaknesses or errors. If CG is unable to address weaknesses or errors and the CG technology is therefore unable to meet consumer or merchant needs or expectations, CG's business, results of operations and financial condition will be materially adversely affected. In addition, there can be no assurance that the Company will continue to have access to required third-party technology on terms acceptable to Call Genie. If CG is unable to obtain third party technology on acceptable terms, CG's business, results of operations and financial condition will be materially adversely affected.



### *Rapid Technological Change*

The technology industry is subject to rapid change, and the inability of CG to adapt to such change may have an adverse affect on CG's business, results of operations and financial condition. The effect of new developments and technological changes on the business sector in which CG is active cannot be predicted. Such developments would include, but are not limited to, failure of the speech recognition industry to provide ongoing improvements in speech recognition and text-to-speech engines, a slow down in the deployed base of voice platforms in the North American market place, to such an extent as to create financial uncertainty for the speech technology providers, an unexpected trend in the voice industry away from open standards programming languages towards unique proprietary application development and consumer backlash against the ongoing proliferation of voice technologies. CG's failure to adapt to any of the above could have a material adverse effect on CG's business, results of operations and financial condition.

### *Competition*

CG is subject to competition from other organizations (many of which have substantially greater human and financial resources) and there can be no assurance that CG will be able to compete effectively in its target markets. Technologies exist that are competitive with the Company's product suite. Certain organizations with substantially greater financial and human resources than the Company have active research and development initiatives involving the development and implementation of voice search capabilities, workstation applications and Ad Network arrangements. The inability of CG to secure additional customers due to competitive technologies would have a material adverse effect on CG's business, results of operations and financial condition.

In addition, advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring and any such change could have a material adverse impact on CG.

### *Need for Research and Development*

To achieve its business objectives and obtain market share and profitability, CG will need to continually research, develop and refine the CG technology. Many factors may limit CG's ability to develop and refine required technologies or to create or acquire or negotiate access to new technologies. CG may also be exposed to marketplace resistance to new technology and services. Any failure of CG to develop or refine the CG technology, or create or acquire new technologies or offer new services could have a material adverse effect on CG's business, results of operations and financial condition.

### *Defects and Liability*

The hardware and software utilized to deliver the CG technology is complex and sophisticated and may contain design defects or software errors that are difficult to detect and



correct. There can be no assurance that the CG technology will be free from errors or defects, or, if discovered, that CG will be able to successfully correct such errors in a timely manner or at all. Errors or failures in the technology could result in loss of or delay in market acceptance of the CG technology and correcting such errors and failures could require significant expenditures. Because of the limited number of directory service providers, the reputational harm resulting from errors and failures could be very damaging to CG. The consequences of such errors and failures could have a material adverse effect on CG's businesses, results of operations and financial condition.

#### *Patents and Other Intellectual Property*

While CG has applied for patents for certain elements of the CG technology, there can be no assurance that such applications will result in the granting of patent protection. Competitors may have filed patent applications or hold issued patents relating to services or processes competitive with those that CG is developing. Any patents covering elements of the CG technology granted to third parties (or the inability of CG to successfully challenge such patents) may impair CG's ability to do business in a particular area including in key markets. Others may independently develop similar services or duplicate unpatented elements of the CG technology.

CG's success will be largely dependent upon its ability to protect its proprietary technology. CG relies upon copyrights, trademarks and trade secrets to protect its intellectual property. Where appropriate, CG also enters into non-disclosure agreements with persons to whom it reveals proprietary information. Any failure or inability on the part of CG to protect its intellectual property could have a material adverse effect on CG's business, results of operations and financial condition.

CG may have to engage in litigation in the future to enforce or protect its intellectual property rights or to defend against claims of invalidity and CG may incur substantial costs as a result. Any claims or litigation initiated by CG to protect its proprietary technology could result in significant expense to CG and diversion of the efforts of CG's technical and management resources, whether or not the claims or litigation are determined in favor of CG.

#### *Ability to Manage Growth; Transition from Research and Development Company to Operating Company*

Responding to consumer and merchant demands, expansion into other geographical markets and targeted growth in CG's business has placed, and is likely to continue to place, significant strains on CG's administrative and operational resources and increased demands on its internal systems, procedures and controls. If CG experiences rapid acceptance of its technology solutions, the need to manage such growth will add to the demands on CG's management, resources, systems, procedures and controls. There can be no assurance that CG's administrative infrastructure, systems, procedures and controls will be adequate to support CG's operations or that CG's officers and personnel will be able to manage any



significant expansion of operations. If CG is unable to manage growth effectively, CG's business, operating results and financial condition will be materially adversely affected.

#### *Personnel Resources*

CG is (and will continue to be) reliant upon its management and technical personnel to anticipate and address consumer and merchant demands in the areas of software development, customer service, marketing, finance, strategic planning and management. There can be no assurance that qualified management or technical personnel will be available to CG in the future. The success of the operations and activities of CG will depend to a significant extent on the efforts and abilities of its management and technical personnel. The loss of services of any of its management or technical personnel could have a material adverse effect on CG's business, results of operations and financial condition.

#### *Potential Fluctuations in Quarterly Operating Results*

CG expects to be exposed to significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the CG technology, the introduction of competing technologies, market acceptance of such enhancements or services, delays in the introduction of such enhancements or services, changes in CG's pricing policies or those of its competitors, the mix of services sold, foreign currency exchange rates and general economic conditions.

#### *Risk of Industry Consolidation*

CG's business customers may be classified as yellow pages providers, directory assistance providers and telecommunication service providers. Each of these industries is characterized by a relatively small number of large providers. Industry consolidation is ongoing in this group of providers. As a result, CG may have established working relationships with one provider undermined by a business combination with another provider. This could have a material adverse effect on CG's business, results of operations and financial conditions.

#### *Government Regulation*

The directory services business is largely unregulated at this time (apart from federal, provincial, state and local laws and regulations applicable to businesses in general and respecting the gathering and use of personal information). However, there can be no assurance that this business will not become subject to significant regulatory intervention in the future.

#### *Costs Associated with Compliance with Securities Laws*

CG is a publicly traded corporation and is subject to all of the obligations imposed on "reporting issuers" under applicable securities laws and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with public



company status have escalated dramatically in recent years and regulatory initiatives under consideration may further increase the costs of being public in Canada and could have a material adverse effect on CG's business, results of operations and financial condition. If CG is unable to generate significant revenues from business operations, the cost of complying with applicable regulatory requirements will represent a significant financial burden to CG and may have a material adverse effect on CG's business, results of operations and financial condition.

*Risk of Future Terrorist Attacks or Related Disasters*

The terrorist attacks of September 11, 2001 had an adverse impact on various regions of the North America and on a wide range of industries. In the future, civil unrest, economic recession, war and additional acts of terrorism may adversely impact the North American and global economies and financial markets and could adversely affect the CG's business, results of operations and financial condition.



## **REGULATORY MATTERS AND DISCLOSURES**

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

#### *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 collectability is reasonably assured.

#### *Hosted Arrangements*

The Company enters into hosting arrangements whereby the underlying software is maintained and operated in Company data center facilities. The Company earns transaction automation fees, data management fees, system maintenance fees, hosting fees, and in some cases, customer revenue participation fees from the service provided to the customer. 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 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 customer data centers. These solutions may involve the delivery of multiple services and products occurring at different points in time or over different periods of time (or both). 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 as appropriate. 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 contract, commencing when all elements except for PCS are delivered. To date, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements.



### *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.

### *Asset Impairment*

Capital assets and deferred costs 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 cash flows from the use of the asset, then an impairment loss is recognized to write the asset down to fair value.

### *Use of Estimates*

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues 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 property, plant and equipment, intangibles, goodwill, deferred costs, and future income tax liabilities.

### *Stock-Based Compensation*

The Company records compensation expense for stock options granted to directors, officers, employees and agents of the Company and its affiliates. 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 model. Any consideration paid on exercise of stock options is credited to equity instruments.

### **Adoption of Recent Canadian Accounting Pronouncements in 2009**

#### **Goodwill and intangible assets**

The CICA issued the new accounting standard Section 3064 Goodwill and Intangible Assets which will replace 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 will be effective for fiscal years beginning on or after October 1, 2008 and the Company has adopted



it effective January 1, 2009. Adoption of this new standard had no impact on the Company's financial results.

### **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 standard had no impact on the Company's financial results.

### **Other Recent Canadian Accounting Pronouncements Not Yet Adopted**

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

#### **Business combinations, consolidated financial statements and non-controlling interests**

In October 2008, the CICA issued Section 1582 Business Combinations ("Section 1582") concurrently with Section 1601 Consolidated Financial Statements ("Section 1601"), and Section 1602 Non-controlling Interests ("Section 1602"). 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.

#### **International Financial Reporting Standards**

The CICA Accounting Standards Board ("AcSB") plans to converge Canadian GAAP 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. On February 13, 2008, the AcSB announced 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 effect of the transition to and adoption of IFRS on its financial statements. An initial diagnostic impact assessment is planned for the third quarter of 2009.



## **CONTROLS AND PROCEDURES**

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

### ***Evaluation of Disclosure Controls and Procedures***

As part of the NI 52-109 certifications, the Chief Executive Officer and the Chief Financial Officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to provide reasonable assurance that material information with respect to the Company, including its consolidated subsidiaries, is made known to them particularly during the period in which the interim filings are being prepared. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in its filings with provincial securities regulators is accumulated and communicated to the Company’s management to allow timely decisions regarding required disclosure. The Company is satisfied with the effectiveness of its disclosure controls and procedures.

### ***Management’s Annual Report on Internal Control over Financial Reporting***

As part of the NI 52-109 certifications, the Chief Executive Officer and Chief Financial Officer of the Company must certify that they are responsible for establishing and maintaining internal controls over financial reporting (“ICFR”) and have designed such controls (or caused them to be designed under their supervision) in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company is satisfied with the effectiveness of its internal controls over financial reporting. Consistent with the Company’s stage of development, the Company continues to rely on risk mitigating procedures during its financial close processes in order to provide comfort that the financial statements are presented fairly in accordance with Canadian GAAP.

### **Changes in Internal Controls over Financial Reporting**

The CEO and CFO determined that there were no changes in the Company’s ICFR that occurred during the period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.



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