

**Call Genie Inc.
Interim Consolidated Financial Statements
For the three months ended March 31, 2008 and 2007
(unaudited - prepared by Management)**

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NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet of Call Genie Inc. as at March 31, 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the three months then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Ernst & Young, LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

“ signed ”

Michael E. Durance
Chief Executive Officer
Toronto, Ontario
May 6, 2008

“ signed ”

Christopher L. Shelton
Chief Financial Officer
Toronto, Ontario
May 6, 2008

Call Genie Inc.
Consolidated Balance Sheets

As at	March 31, 2008 Unaudited	December 31, 2007 Audited
Assets (Note 1)		
Current assets:		
Cash and cash equivalents (Note 17)	\$ 16,504,645	\$ 21,422,717
Accounts receivable (Note 17)	1,514,303	1,409,467
Prepaid expenses and deposits	412,459	313,211
	<u>18,431,407</u>	<u>23,145,395</u>
Capital assets (Note 5)	1,307,271	854,797
Goodwill (Note 6)	2,293,565	757,900
Intangibles (Note 7)	5,642,661	1,327,818
Corporate transaction costs	-	65,143
Restricted cash held for pending acquisition	-	696,425
Deferred costs (Note 8)	100,517	97,882
	<u>\$ 27,775,421</u>	<u>\$ 26,945,360</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 12)	\$ 1,774,152	\$ 1,451,648
Current portion of deferred revenue	533,991	216,377
Current portion of future tax liability (Note 14)	44,786	44,786
	<u>2,352,929</u>	<u>1,712,811</u>
Deferred revenue	206,483	205,412
Future tax liability (Note 14)	310,757	291,168
	<u>2,870,169</u>	<u>2,209,391</u>
Shareholders' equity:		
Equity instruments (Note 9)	51,191,104	46,609,605
Contributed surplus (Note 10)	3,019,858	2,643,207
Deficit	(29,579,171)	(24,621,239)
Accumulated other comprehensive income (Note 11)	273,461	104,396
	<u>24,905,252</u>	<u>24,735,969</u>
	<u>\$ 27,775,421</u>	<u>\$ 26,945,360</u>

Going concern (Note 1)

Commitments (Note 15)

Approved on behalf of the Board:

"Signed" Director
Richard DeVries

"Signed" Director
S. Graeme Ross

3 The accompanying notes are an integral part of the Consolidated Financial Statements

Call Genie Inc.
Consolidated Statements of Operations

For the three months ended March 31	2008	2007
	(Unaudited)	(Unaudited)
Revenue (Notes 17 and 18)	\$ 1,013,301	\$ 293,363
Costs of sales	843,982	196,145
Gross margin	169,319	97,218
Expenses (Note 12):		
Sales and marketing	1,436,086	858,341
Research and development	1,731,145	699,600
General and administrative	1,396,871	681,502
Stock based compensation (Note 9)	376,651	191,611
Amortization (Note 13)	365,701	70,883
	5,306,454	2,501,937
Loss from operations	(5,137,135)	(2,404,719)
Other income:		
Interest income	179,203	51,283
Net loss for the period	\$ (4,957,932)	(2,353,436)
Basic and diluted loss per share	\$ (0.06)	\$ (0.04)
Weighted average number of shares – basic and diluted	82,165,770	53,218,741

Call Genie Inc.

Consolidated Statements of Comprehensive Loss and Deficit

For the three months ended March 31	2008 (Unaudited)	2007 (Unaudited)
Comprehensive loss:		
Net loss for period	\$ (4,957,932)	\$ (2,353,436)
Other comprehensive income (loss)		
Net change in cumulative translation adjustment	169,605	-
Comprehensive loss	\$ (4,788,867)	\$ (2,353,436)
Deficit, beginning of year	\$ (24,621,239)	\$ (11,984,773)
Net loss for period	(4,957,932)	(2,353,436)
Deficit, end of period	\$ (29,579,171)	\$ (14,338,209)

Call Genie Inc.
Consolidated Statements of Cash Flows

For the three months ended March 31	2008	2007
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net loss for the period	\$ (4,957,932)	\$ (2,353,436)
Items not involving cash:		
Stock based compensation	376,651	191,611
Amortization	365,701	70,883
	<u>(4,215,580)</u>	<u>(2,090,942)</u>
Changes in non-cash working capital:		
Accounts receivable	(60,061)	180,949
Prepaid expenses and advances	46,750	(5,959)
Accounts payable and accrued liabilities	(139,228)	(24,554)
Deferred revenue	133,031	-
	<u>(4,235,088)</u>	<u>(1,940,506)</u>
Cash flows from financing activities		
Issuance of common shares, net of issuance costs	-	4,500
	<u>-</u>	<u>4,500</u>
Cash flows from investing activities		
Purchase of capital assets	(491,663)	(83,702)
Deferred costs capitalized	(2,635)	(1,151)
Acquisition of PhoneSpots Inc.,(Note 4)	(709,898)	-
Restricted cash held for pending acquisition	696,425	-
Acquisition of intangible assets	(175,213)	-
	<u>(682,984)</u>	<u>(84,853)</u>
Decrease in cash and cash equivalents	(4,918,072)	(2,020,859)
Cash and cash equivalents, beginning of period	<u>21,422,717</u>	<u>5,930,024</u>
Cash and cash equivalents, end of period	\$ 16,504,645	\$ 3,909,165

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

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 with monetizable content. This ecosystem provides a new revenue stream to both the carrier and content provider while providing consumers with relevant local merchant content.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. Because the Company has derived limited revenue from its technology development projects, its ability to continue operations is uncertain and dependent upon the successful completion of the technical and market development of such technology and achieving profitable operations. Additional financing may also be required. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and liabilities that might be necessary should the Company be unable to continue in business.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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., and Phonespots Limited since its date of acquisition of January 2, 2008. All material intercompany transactions have been eliminated.

(b) Cash and cash equivalents

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

(c) Technology and product development costs

Technology and product development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. There have been no development costs capitalized to date.

March 31, 2008 and 2007

2. Significant Accounting Policies (cont'd)

(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.

Hosted Arrangements

The Company enters into hosting arrangements whereby the underlying software is maintained and operating 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 periods, 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 centers. 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 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.

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of its products as a service which includes employee salaries and benefits, telephony costs, hosting, network, tuning 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	5 years
Office furniture	5 years
Computer hardware	3 years
Computer software	1 year

March 31, 2008 and 2007

2. Significant Accounting Policies (cont'd)

(g) Operating leases

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

(h) Deferred Costs

The costs of acquiring and applying for patents, trademarks and licensed technology costs are capitalized and amortized on a straight-line basis over their estimated useful lives of five years. Amortization is recorded upon awarding of a patent, or trademark.

(i) Impairment of Long-Lived Assets

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.

(j) Intangibles

Amortization is recorded on acquired technology and customer lists on a straight-line basis over a seven year period which is the estimated period over which cash flows will be generated. This determination is based on management's estimates. In the event that these estimates prove incorrect, the computation of amortization will be adjusted in future periods, or could result in an impairment loss in future periods.

(k) 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 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 fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The fair value of goodwill is determined in the same manner as in a business combination.

(l) 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. The Company receives certain investment tax credits, which are reflected as a reduction in the cost of the related asset or operating expense.

(m) 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 period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants. As the effect of all outstanding options and warrants is anti-dilutive, diluted loss per share does not differ from basic loss per share.

March 31, 2008 and 2007

2. Significant Accounting Policies (cont'd)

(n) Stock based compensation

The Company has a stock-based compensation plan as described in Note 9(d). The Company accounts for its stock-based compensation programs using the fair value method in accordance with CICA Handbook Section 3870. 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.

(o) 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 sales 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.

(p) 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 using the current rate method, at exchange rates in effect at period end. Revenues and expenses are translated at the average rates of exchange prevailing during the period. The resulting net gains or losses are included in accumulated other comprehensive loss.

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. Revenues 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 earnings.

3. Changes in Accounting Policies

The CICA issued three new accounting standards: Section 1535 Capital Disclosures ("Section 1535"), Section 3862 Financial Instruments – Disclosures ("Section 3862"), and Section 3863 Financial Instruments – Presentation ("Section 3863"). These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Company adopted them as of January 1, 2008. The Company is in the process of evaluating the disclosure and presentation requirement of the new standards.

Section 1535 establishes disclosure requirements about a Company's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

4. Business Combination

On January 2, 2008, the Company acquired 100% of the issued and outstanding shares of PhoneSpots Inc. ("PS"), located in the United States, for cash consideration of \$882,327, including acquisition costs of \$172,430 and the issuance of 4,551,326 common shares of the Company at an aggregate issue price of \$4,851,713. 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, 3,864,628 of the common shares issued were to be held in escrow for a period of 4 months from the closing date and then released ratably over the subsequent 8 month period. The remaining 686,698 common shares were to be held in escrow for up to 1 year to provide for any potential purchase price adjustment in accordance with the purchase agreement.

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
Intangibles	4,185,578
Goodwill	1,377,351
	<u>\$ 6,574,397</u>
Current liabilities	(1,110,570)
	<u>\$ 5,463,827</u>
 Consideration given:	
Cash	\$ 709,898
Common shares issued	4,851,713
Working capital adjustment	(270,214)
Acquisition costs	172,430
Total consideration	<u>\$ 5,463,827</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 \$1,377,351 which was allocated to goodwill. The Company will perform an impairment test for goodwill on an annual basis in accordance with the provisions of CICA 3062, Goodwill and Other Intangible Assets.

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 intangibles is being amortized on a straight-line basis over seven years which is the estimated period over which cash flows will be generated.

Potential Adjustment to PS Purchase price

The Company estimates that a purchase price adjustment of \$270,214 is appropriate to offset the negative working capital that was in existence at the date of the acquisition. The Company is finalizing the return of the 253,484 common shares from shares held in escrow. As a result, the purchase price of PS is still subject to change.

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

4. Business Combination (cont'd)

On November 9, 2007, the Company acquired 100% of the issued and outstanding shares of BTS Logic ApS ("BTS"), located in Denmark, for cash consideration of \$1,496,414, including acquisition costs of \$90,816. BTS develops and sells operator workstation software to directory assistance providers.

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	\$ 126,357
Accounts receivable and other current assets	236,287
Capital assets	17,242
Intangibles	1,254,000
Goodwill	746,270
	<u>\$ 2,380,156</u>
Current liabilities	(570,242)
Future tax liability	(313,500)
	<u>\$ 1,496,414</u>
 Consideration given:	
Cash	\$ 1,405,598
Acquisition costs	90,816
Total consideration	<u>\$ 1,496,414</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 \$746,270 which was allocated to goodwill. The Company will perform an impairment test for goodwill on an annual basis in accordance with the provisions of CICA 3062, Goodwill and Other Intangible Assets.

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 intangibles is being amortized on a straight-line basis over seven years which is the estimated period over which cash flows will be generated.

Potential Adjustment to BTS Purchase price

In connection with the acquisition of BTS, the Company is contingently liable to pay the Vendor an additional US\$166,000 if a certain contractual arrangement with a potential customer is finalized. At March 31, 2008, the Company determined that although this amount is measurable, the likelihood of the contract being completed is not determinable and therefore no provision has been recorded. However, if such an amount becomes payable, the purchase price of BTS will be adjusted.

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

5. Capital Assets

	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,576,771	\$ 739,807	\$ 836,964
Computer software	657,450	462,984	194,466
Furniture and leasehold improvements	435,133	159,292	275,841
	\$ 2,669,354	\$ 1,362,083	\$ 1,307,271

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 632,908	\$ 247,566	\$ 385,342
Computer software	531,013	350,402	180,611
Furniture and leasehold improvements	369,496	80,652	288,844
	\$ 1,533,417	\$ 678,620	\$ 854,797

6. Goodwill

	March 31, 2008	December 31, 2007
Goodwill	\$ 2,293,565	\$ 757,900

As at March 31, 2008, the Company assessed the fair value of all the operating segments to which underlying goodwill is attributed and determined that no charge for impairment of goodwill was required.

7. Intangibles

	March 31, 2008			December 31, 2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Technology	\$ 5,571,483	\$ 152,873	\$ 5,418,610	\$ 1,186,988
Customer list	232,170	8,119	224,051	140,830
	\$ 5,803,653	\$ 160,992	\$ 5,642,661	\$ 1,327,818

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

8. Deferred Costs

	March 31, 2008			December 31, 2007
	Cost	Valuation Allowance	Net Book Value	Net Book Value
Trademarks and patents	\$ 186,682	\$ 86,165	\$ 100,517	\$ 97,822

9. 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, 2007	53,217,074	\$ 16,497,161
Shares issued on private placements 9(c)(ii),9(c)(iii)	22,882,448	30,000,000
Share issue costs 9(c)(ii), 9(c)(iii)		(1,652,266)
Shares issued on exercise of options/warrants	1,614,951	1,083,157
Fair value of options/warrants exercised (Note 10)		681,553
Balance, December 31, 2007	77,714,473	\$ 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)	-	(270,214)
Shares issued on exercise of options/warrants	-	-
Fair value of options/warrants exercised	-	-
Balance, March 31, 2008	82,265,799	\$ 51,191,104

- (c) Issued and outstanding warrants

	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance, January 1, 2007	\$0.225 – 1.00	2.91 years	4,663,690
Warrants issued on private placement (ii)	\$1.00	1.00 years	600,000
Less warrants exercised			(873,284)
Balance, December 31, 2007	\$0.225 - 1.00	2.37 years	4,390,406
Less warrants expired			(150,000)
Balance, March 31, 2008	\$0.225 - 1.00	2.20 years	4,240,406

March 31, 2008 and 2007

9. Equity Instruments (cont'd)

- (i) 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.

The fair value of the warrants (\$586,408) was recorded in the share issue costs and credited to contributed surplus for broker warrants issued in connection with this placement. The fair value of the broker warrants used to calculate compensation expenses was estimated using the Black Scholes option pricing model assuming a risk-free interest rate of 4.0% and an expected volatility of 97% and expected life of 2 years and have a grant date fair value of \$0.98.

The Company incurred \$1,342,100 of share issuance costs of which \$755,692 were cash related and \$586,408 were non-cash related to the broker warrants issued in connection with this private placement.

- (ii) 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.

The fair value of the warrants (\$192,311) was recorded in the share issue costs and credited to contributed surplus for broker warrants issued in connection with this placement. The grant date fair value of the broker warrants of \$0.32 was estimated using the Black Scholes option pricing model assuming a risk-free interest rate of 4%, an expected volatility of 84% and an expected life of .67 years.

The Company incurred \$937,440 of share issuance costs of which \$745,129 were cash related and \$192,311 were non-cash related to the broker warrants issued in connection with this private placement.

- (iii) On May 16, 2007, the Company issued 9,661,835 common shares, in aggregate, by way of a private placement, at a price of \$1.5525 per share. On May 22, 2007, the Company issued 3,220,613 common shares, in aggregate, by way of a private placement, at a price of \$1.5525 per share. The combined gross proceeds were \$20,000,000. No broker warrants were issued in connection with these private placements.

The Company incurred \$714,826 of share issuance costs all of which were cash related.

- (iv) 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 entitles the holder to acquire one common share of the Company. As at March 31, 2008, 3,910,406 warrants remained unexercised; these warrants expire on August 16, 2010.

Call Genie Inc.
Notes to Consolidated Financial Statements

March 31, 2008 and 2007

9. Equity Instruments (cont'd)

(d) Options

Under the Company's current Stock Option Plan ("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 11,251,000 stock options to its employees, officers and directors. As at March 31, 2008, 9,866,000 stock options remain outstanding at prices ranging from \$0.30 to \$2.40 per share. Options for the Company's directors vest immediately, options for employees vest ratably over a period of three years. All options have a life of five years and have expiry dates ranging November 27, 2008 to March 19, 2013.

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 with the following assumptions:

	March 31, 2008	December 31, 2007
Risk Free Rate	3.37%	4.2%
Dividend Yield	0.0%	0.0%
Volatility Rate	90.7%	86.3%
Expected Option Life	3.35 years	3.35 years
Weighted Average Option Fair Value	\$0.33 per share	\$0.81 per share

For the period ended March 31, 2008, \$376,651 (2007 - \$191,611) has been recorded as stock based compensation related to options, with the corresponding amount charged to contributed surplus.

(i) The following table sets out information concerning stock options outstanding at March 31, 2008:

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	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.00 to \$0.49	755,000	1.58	\$0.43	755,000	1.33	\$0.43
\$0.50 to \$0.99	7,076,000	3.79	\$0.61	2,159,156	3.46	\$0.63
\$1.00 to \$1.49	665,000	4.46	\$1.32	23,332	3.22	\$1.27
\$1.50 to \$1.99	755,000	4.63	\$1.61	105,000	4.39	\$1.60
\$2.00 to \$2.50	615,000	4.52	\$2.31	50,000	4.12	\$2.15
\$0.00 to \$2.50	9,866,000	3.78	\$0.83	3,092,488	2.98	\$0.65

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9. 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 March 31, 2008:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
Balance, January 1, 2007	4,507,500	\$0.30 - \$1.60	3.43 years	\$0.59
Options granted	3,470,000	\$0.68 - \$2.40	4.42 years	\$1.37
Options exercised	(741,668)	\$0.30 - \$0.94	-	\$0.44
Options forfeited	(278,333)	\$0.45 - \$2.25	-	\$1.15
Balance, December 31, 2007	6,957,499	\$0.30 - \$2.40	3.78 years	\$0.97
Options granted	3,073,500	\$0.50 - \$1.13	4.95 years	\$0.53
Options forfeited	(165,000)	\$0.80 - \$2.40	3.71 years	\$1.41
Balance, March 31, 2008	9,866,000	\$0.30 - \$2.40	3.97 years	\$0.83

10. Contributed Surplus

Balance, January 1, 2007	<u>\$ 1,870,614</u>
Value assigned for options (Note 9 (d))	1,261,835
Value of options and warrants exercised during the year (Note 9 (b))	(681,553)
Value of agent warrants issued on April 17, 2007 (Note 9(c)(ii))	192,311
Balance, December 31, 2007	<u>\$ 2,643,207</u>
Value assigned for options (Note 9 (d))	376,651
Value of options and warrants exercised during the year (Note 9 (b))	-
Balance, March 31, 2008	<u>\$ 3,019,858</u>

11. Accumulated Other Comprehensive Income

	March 31, 2008	December 31, 2007
Cumulative translation adjustments	<u>273,461</u>	104,396
Accumulated other comprehensive income	<u>\$ 273,461</u>	\$ 104,396

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Notes to Consolidated Financial Statements

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12. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in technology and product development, business development, and general and administrative expenses in the normal course of operations are \$30,834 (2007 - \$81,208) of consulting services paid directly to officers of the Company or to companies controlled by officers of the Company.
- (b) Included in accounts payable and accrued liabilities is \$103,666 (2007 - \$73,350) due to various directors, officers and consultants of the Company all of which is for services rendered and reimbursement of expenses.

All the related party transactions have been recorded at the agreed upon exchange amounts.

13. Information included in the Consolidated Statements of Operations

	March 31, 2008	March 31, 2007
Amortization of capital assets	\$ 219,635	\$ 62,564
Amortization of deferred charges	-	8,319
Amortization of intangibles	146,064	-
Foreign exchange gain (loss) included in general and administrative expenses	(35,061)	9

14. Income Taxes

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

	2008	2007
Combined tax rates	30.9 %	33.0 %
Expected income tax (recovery) at statutory rate	\$ (1,532,001)	\$ (4,170,034)
Stock-based compensation	116,385	416,594
Share issue costs	-	(157,872)
Change in rate	943,117	1,069,127
Other permanent differences	4,676	10,524
Change in valuation allowance	467,823	2,831,783
Actual income tax provision	\$ -	\$ -

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

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Future income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amount used for income tax purposes. Future income tax assets are calculated and as the realization is not considered likely, a valuation allowance is provided. Comparative numbers are provided from audited December 31, 2007 statements as they would be more relevant when reading in conjunction with current statements.

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

	March 31, 2008	December 31, 2007
Future tax assets:		
Property and equipment and other assets	\$ (179,262)	\$ 8,093
Share issue costs	407,502	407,502
Unused tax loss carryforwards	<u>8,888,245</u>	<u>7,406,624</u>
	9,116,485	7,822,219
Valuation allowance	<u>(9,116,485)</u>	<u>(7,822,219)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>
Future tax liabilities:		
Intellectual property and customer list	<u>\$ 355,543</u>	<u>\$ 335,954</u>
Total future tax liability	<u>\$ 355,543</u>	<u>\$ 335,954</u>

As at March 31, 2008, subject to confirmation from applicable income tax authorities, the Company has a total of \$28,649,377 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

	<u>Non-Capital Losses</u>
2008	\$ 145,800
2009	925,878
2013	899,304
2014	611,406
2015	1,919,903
2016	5,804,665
2017	13,250,404
2018	<u>5,092,017</u>
	<u>\$ 28,649,377</u>

For Canadian tax purposes, the Company has non-capital losses of \$25,788,731 and for US tax purposes, the Company has a net operating losses of \$2,469,382 that have a 15 year carryforward period.

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15. Commitments and Contingencies

(a) Leases

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

	Facilities	Equipment	Total
2008	\$ 661,262	\$ 8,525	\$ 669,787
2009	\$ 863,970	\$ 11,367	\$ 875,337
2010	\$ 812,746	\$ 11,367	\$ 824,113
2011	\$ 614,320	\$ 4,963	\$ 619,283
2012	\$ 381,919	\$ -	\$ 381,919
Thereafter	\$ 176,975	\$ -	\$ 176,975

(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 judgements 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 matter. 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.

16. 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 as 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 indemnities 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.

March 31, 2008 and 2007

16. Indemnifications (cont'd)

(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, asset use agreements etc. In such contracts, the Company may agree to 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.

17. Financial instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit 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.

Current financial assets and liabilities

Held for trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. As at March 31, 2008, the Company held \$15,874,570 (\$21,100,000 at December 31, 2007) of cashable guaranteed investment certificates (GIC's) bearing interest rates of 3.25% (4.50% in 2007) with a maturity date of no more than 3 months.

Receivables and Loans

Receivables and payables including accrued liabilities are accounted for at amortized cost after initial fair value estimate. For the Company, the measured amount generally corresponds to cost; this is consistent with the treatment under prior accounting standards.

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 the 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 earnings 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.

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17. Financial instruments (cont'd)

Credit risk

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

At March 31, 2008, primarily all of the Company's cash and cash equivalents were 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. For the three months ended March 31, 2008, the Company earned 38% (76% in 2007) of its revenues from one directory service provider and at March 31, 2008, the Company had \$399,269 (\$ 499,549 in 2007) receivable from this customer.

Fair Values of Financial Instruments

The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair values of financial instruments are described as follows:

Accounts receivable, deposits, accounts payable and accrued liabilities:

Due to the short period to maturity of these financial instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair values.

18. 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 makes decisions about allocating resources based on the one operating segment.

Geographic Information

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

	March 31, 2008	March 31, 2007
Canada	\$ 387,757	\$ 192,848
United States	251,061	100,514
Europe	234,657	-
Other	139,826	-
Total	<u>\$ 1,013,301</u>	<u>\$ 293,361</u>

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Notes to Consolidated Financial Statements

March 31, 2008 and 2007

18. Segmented Information (cont'd)

The Company has total assets attributed to the following geographical locations based on location:

	March 31, 2008	December 31, 2007
Canada	\$ 22,844,149	\$ 24,075,315
United States	1,964,146	268,924
Europe	2,967,126	2,601,121
Total	\$ 27,775,421	\$ 26,945,360

19. Future Changes in Accounting Policies

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. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Company plans to adopt it on January 1, 2009. The Company is in the process of evaluating the requirements of the new standards.

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. 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 financial statements.

20. Comparative Figures

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