

**Call Genie Inc.  
Interim Consolidated Financial Statements  
For the three and six months period ended June 30, 2008  
(unaudited - prepared by Management)**

**Contents**

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|  |             |
|--|-------------|
| <b>Notice to Reader</b>  | <b>2</b>    |
| <b>Interim Consolidated Financial Statements</b>                 |             |
| <b>Consolidated Balance Sheets</b>                               | <b>3</b>    |
| <b>Consolidated Statements of Operations</b>                     | <b>4</b>    |
| <b>Consolidated Statements of Comprehensive Loss and Deficit</b> | <b>5</b>    |
| <b>Consolidated Statements of Cash Flows</b>                     | <b>6</b>    |
| <b>Notes to Consolidated Financial Statements</b>                | <b>7-25</b> |

**NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated balance sheet of Call Genie Inc. as at June 30, 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the six months then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed 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  
August 5, 2008

“           signed           ”

Christopher L. Shelton  
Chief Financial Officer  
Toronto, Ontario  
August 5, 2008

**Call Genie Inc.**  
**Consolidated Balance Sheets**

| As at   | June 30,<br>2008<br>Unaudited | December 31,<br>2007<br>Audited |
|---|-------------------------------|---------------------------------|
| <b>Assets (Note 1)</b>                              |                               |                                 |
| <b>Current assets:</b>                              |                               |                                 |
| Cash and cash equivalents (Note 17)                 | \$ 11,782,340                 | \$ 21,422,717                   |
| Accounts receivable (Note 17)                       | 1,446,074                     | 1,409,467                       |
| Prepaid expenses and deposits                       | 535,228                       | 313,211                         |
|   | <u>13,763,642</u>             | <u>23,145,395</u>               |
| <b>Capital assets (Note 5)</b>                      | 1,398,242                     | 854,797                         |
| <b>Goodwill (Note 6)</b>                            | 2,267,965                     | 757,900                         |
| <b>Intangibles (Note 7)</b>                         | 5,411,099                     | 1,327,818                       |
| <b>Corporate transaction costs</b>                  | -                             | 65,143                          |
| <b>Restricted cash held for pending acquisition</b> | -                             | 696,425                         |
| <b>Deferred costs (Note 8)</b>                      | 100,517                       | 97,882                          |
|   | <u>\$ 22,941,465</u>          | <u>\$ 26,945,360</u>            |
| <b>Liabilities and Shareholders' Equity</b>         |                               |                                 |
| <b>Current liabilities:</b>                         |                               |                                 |
| Accounts payable and accrued liabilities (Note 12)  | \$ 1,900,550                  | \$ 1,407,136                    |
| Current portion of lease inducements                | 16,007                        | -                               |
| Current portion of deferred revenue                 | 237,651                       | 216,377                         |
| Current portion of future tax liability (Note 14)   | 44,785                        | 44,786                          |
|   | <u>2,198,993</u>              | <u>1,668,299</u>                |
| <b>Lease inducements</b>                            | 120,901                       | 44,512                          |
| <b>Deferred revenue</b>                             | 358,256                       | 205,412                         |
| <b>Future tax liability (Note 14)</b>               | 322,022                       | 291,168                         |
|   | <u>3,000,172</u>              | <u>2,209,391</u>                |
| <b>Shareholders' equity:</b>                        |                               |                                 |
| Equity instruments (Note 9)                         | 51,108,709                    | 46,609,605                      |
| Contributed surplus (Note 10)                       | 3,534,026                     | 2,643,207                       |
| Deficit   | (34,929,028)                  | (24,621,239)                    |
| Accumulated other comprehensive income (Note 11)    | 227,586                       | 104,396                         |
|   | <u>19,941,293</u>             | <u>24,735,969</u>               |
|   | <u>\$ 22,941,465</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

**Call Genie Inc.**  
**Consolidated Statements of Operations**  
**(Unaudited – Prepared by Management)**

|  | For the three month period ended |                  | For the six month period ended |                  |
|--|----------------------------------|------------------|--------------------------------|------------------|
|  | June 30,<br>2008                 | June 30,<br>2007 | June 30,<br>2008               | June 30,<br>2007 |
| <b>Revenue (Notes 17 and 19)</b>                 | \$ 1,402,321                     | \$ 353,356       | \$ 2,415,622                   | \$ 646,719       |
| <b>Costs of sales</b>                            | <u>921,093</u>                   | 298,787          | <u>1,765,075</u>               | 494,931          |
| <b>Gross margin</b>                              | <u>481,228</u>                   | 54,569           | <u>650,547</u>                 | 151,788          |
| <b>Expenses (Note 12):</b>                       |                                  |                  |                                |                  |
| Sales and marketing                              | 1,509,552                        | 991,565          | 2,945,638                      | 1,849,907        |
| Research and development                         | 1,763,046                        | 727,634          | 3,494,191                      | 1,427,235        |
| General and administrative                       | 1,769,263                        | 808,403          | 3,166,135                      | 1,489,905        |
| Stock based compensation<br>(Note 9)             | 496,890                          | 486,973          | 873,540                        | 678,584          |
| Amortization (Note 13)                           | 401,593                          | 119,273          | 767,294                        | 190,155          |
|  | <u>5,940,344</u>                 | 3,133,848        | <u>11,246,798</u>              | 5,635,786        |
| Loss from operations                             | <u>(5,459,116)</u>               | (3,079,279)      | <u>(10,596,251)</u>            | (5,483,998)      |
| <b>Other income:</b>                             |                                  |                  |                                |                  |
| Interest income                                  | <u>109,259</u>                   | 205,994          | <u>288,462</u>                 | 257,277          |
| <b>Net loss for the period</b>                   | <u>(5,349,857)</u>               | (2,873,285)      | <u>(10,307,789)</u>            | (5,226,721)      |
| Deficit, beginning of the period                 | <u>(29,579,171)</u>              | (14,338,209)     | <u>(24,621,239)</u>            | (11,984,773)     |
| <b>Deficit, end of period</b>                    | \$ <u>(34,929,028)</u>           | \$ (17,211,494)  | \$ <u>(34,929,028)</u>         | \$ (17,211,494)  |
| <b>Basic and diluted loss per share</b>          |                                  |                  |                                |                  |
|  | \$ (0.07)                        | \$ (0.04)        | \$ (0.13)                      | (0.09)           |
| <b>Weighted average number of shares – basic</b> | 82,223,669                       | 67,601,947       | 82,194,720                     | 60,450,077       |

**Call Genie Inc.**

**Consolidated Statements of Comprehensive Loss and Deficit**

|  | For the three month period ended |                        | For the six month period ended |                        |
|--|----------------------------------|------------------------|--------------------------------|------------------------|
|  | June 30,<br>2008                 | June 30,<br>2007       | June 30,<br>2008               | June 30,<br>2007       |
| <b>Comprehensive loss:</b>                         |                                  |                        |                                |                        |
| Net loss for period                                | \$ (5,349,857)                   | \$ (2,873,285)         | \$ (10,307,789)                | \$ (5,229,721)         |
| Other comprehensive income<br>(loss)               |                                  |                        |                                |                        |
| Net change in cumulative<br>translation adjustment | (45,875)                         | -                      | 121,191                        | -                      |
| <b>Comprehensive loss</b>                          | <b>\$ (5,395,732)</b>            | <b>\$ (2,873,285)</b>  | <b>\$ (10,186,598)</b>         | <b>\$ (5,229,721)</b>  |
| <b>Deficit, beginning of period</b>                | <b>\$ (29,579,171)</b>           | <b>\$ (14,338,209)</b> | <b>\$ (24,621,239)</b>         | <b>\$ (11,984,773)</b> |
| <b>Net Loss for period</b>                         | <b>(5,349,857)</b>               | <b>(2,873,285)</b>     | <b>(10,307,789)</b>            | <b>(5,226,721)</b>     |
| <b>Deficit, end of period</b>                      | <b>\$ (34,929,028)</b>           | <b>\$ (17,211,494)</b> | <b>\$ (34,929,028)</b>         | <b>\$ (17,211,494)</b> |

**Call Genie Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited – Prepared by Management)**

|  | For the three month period ended |                      | For the six month period ended |                      |
|--|----------------------------------|----------------------|--------------------------------|----------------------|
|  | June 30, 2008                    | June 30, 2007        | June 30, 2008                  | June 30, 2007        |
| <b>Cash flows from operating activities</b>          |                                  |                      |                                |                      |
| Net loss for the period                              | \$ (5,349,857)                   | \$ (2,873,285)       | \$ (10,307,789)                | \$ (5,226,721)       |
| Items not involving cash:                            |                                  |                      |                                |                      |
| Stock based compensation                             | 496,890                          | 486,973              | 873,540                        | 678,584              |
| Amortization   | 401,593                          | 119,273              | 767,294                        | 190,155              |
|  | <u>(4,451,374)</u>               | <u>(2,267,039)</u>   | <u>(8,666,955)</u>             | <u>(4,357,982)</u>   |
| Changes in non-cash working capital:                 |                                  |                      |                                |                      |
| Accounts receivable                                  | 66,885                           | (459,098)            | 6,824                          | (278,149)            |
| Prepaid expenses and advances                        | (122,843)                        | (12,349)             | (76,093)                       | (18,308)             |
| Accounts payable and accrued liabilities             | 133,839                          | 160,820              | (5,388)                        | 136,266              |
| Deferred revenue                                     | (144,917)                        | -                    | (11,886)                       | -                    |
|  | <u>(4,518,410)</u>               | <u>(2,577,666)</u>   | <u>(8,753,498)</u>             | <u>(4,518,173)</u>   |
| <b>Cash flows from financing activities</b>          |                                  |                      |                                |                      |
| Issuance of common shares (net of share issue costs) | -                                | 28,968,865           | -                              | 28,973,365           |
| Repurchase of common shares (Note 9(e))              | (65,116)                         | -                    | (65,116)                       | -                    |
|  | <u>(65,116)</u>                  | <u>28,968,865</u>    | <u>(65,116)</u>                | <u>28,973,365</u>    |
| <b>Cash flows from investing activities</b>          |                                  |                      |                                |                      |
| Purchase of capital assets                           | (296,652)                        | (495,359)            | (788,315)                      | (579,060)            |
| Lease inducements received                           | 92,395                           | -                    | 92,395                         | -                    |
| Deferred costs capitalized                           | -                                | -                    | (2,635)                        | -                    |
| Acquisition of PhoneSpots Inc.,(Note 4)              | -                                | -                    | (709,898)                      | -                    |
| Restricted cash held for pending acquisition         | -                                | -                    | 696,425                        | -                    |
| Corporate transaction costs                          | 65,143                           | -                    | 65,143                         | -                    |
| Acquisition of intangible assets                     | 335                              | (10,332)             | (174,878)                      | (11,483)             |
|  | <u>(138,779)</u>                 | <u>(505,691)</u>     | <u>(821,763)</u>               | <u>(590,543)</u>     |
| <b>Decrease in cash and cash equivalents</b>         | <b>(4,722,305)</b>               | <b>25,885,508</b>    | <b>(9,640,377)</b>             | <b>23,864,649</b>    |
| Cash and cash equivalents, beginning of period       | <u>16,504,645</u>                | <u>3,909,165</u>     | <u>21,422,717</u>              | <u>5,930,024</u>     |
| <b>Cash and cash equivalents, end of period</b>      | <b>\$ 11,782,340</b>             | <b>\$ 29,794,673</b> | <b>\$ 11,782,340</b>           | <b>\$ 29,794,673</b> |

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**1. Nature of Operations and Going Concern**

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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.

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**2. Summary of Significant Accounting Policies**

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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.

**June 30, 2008 and 2007**

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**2. Significant Accounting Policies (cont'd)**

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(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  |

**June 30, 2008 and 2007**

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**2. Significant Accounting Policies (cont'd)**

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(g) Operating leases

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

(h) Lease Inducements

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

(i) 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.

(j) 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.

(k) 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.

(l) Goodwill

Goodwill, being the excess of the purchase price over the assigned values of the net assets acquired, is stated at cost. The Company's goodwill is not amortized, but is tested for impairment at least annually. Goodwill 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.

(m) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income tax expense is recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on the differences between the tax and accounting bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company receives certain investment tax credits, which are reflected as a reduction in the cost of the related asset or operating expense.

(n) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the 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.

**June 30, 2008 and 2007**

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**2. Significant Accounting Policies (cont'd)**

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(o) 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.

(p) 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.

(q) Translation of Foreign Currencies

The Company's foreign operations in Denmark are classified as self-sustaining. All assets and liabilities of self-sustaining foreign operations are translated 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.

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**3. Changes in Accounting Policies**

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The CICA have 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 are effective for fiscal years beginning on or after October 1, 2007 and the Company adopted them as of January 1, 2008.

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

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

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**4. Business Combination**

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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> |
| <br><b>Consideration given:</b>              |                     |
| 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.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**4. Business Combination (cont'd)**

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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> |
| <br><b>Consideration given:</b>              |                     |
| 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 June 30, 2008, the Company determined that the potential contractual arrangement will not be completed. As such, the purchase price of BTS will not be adjusted further.

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

**5. Capital Assets**

|                         | <b>June 30, 2008</b> |                                     |                           |
|-------------------------|----------------------|-------------------------------------|---------------------------|
|                         | <b>Cost</b>          | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> |
| Computer hardware       | \$ 1,701,921         | \$ 843,392                          | \$ 858,529                |
| Computer software       | 691,900              | 538,971                             | 152,929                   |
| Furniture and equipment | 439,078              | 157,400                             | 281,678                   |
| Leasehold improvements  | 126,518              | 21,412                              | 105,106                   |
|                         | \$ 2,959,417         | \$ 1,561,175                        | \$ 1,398,242              |

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

**6. Goodwill**

|          | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|----------|--------------------------|------------------------------|
| Goodwill | <b>\$ 2,267,965</b>      | <b>\$ 757,900</b>            |

As at June 30, 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**

|               | <b>June 30,<br/>2008</b> |                                     |                       | <b>December 31,<br/>2007</b> |
|---------------|--------------------------|-------------------------------------|-----------------------|------------------------------|
|               | <b>Cost</b>              | <b>Accumulated<br/>Amortization</b> | <b>Net Book Value</b> | <b>Net Book Value</b>        |
| Technology    | \$ 5,542,494             | \$ 344,579                          | \$ 5,197,915          | \$ 1,186,988                 |
| Customer list | 228,731                  | 15,547                              | 213,184               | 140,830                      |
|               | \$ 5,771,225             | \$ 360,126                          | \$ 5,411,099          | \$ 1,327,818                 |

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

**8. Deferred Costs**

|                        | June 30, 2008 |                        |                | December 31, 2007 |
|------------------------|---------------|------------------------|----------------|-------------------|
|                        | Cost          | Valuation<br>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<br>of Shares | Amount        |
|--|---------------------|---------------|
| <b>Balance, January 1, 2007</b>                        | 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       |
| <b>Balance, December 31, 2007</b>                      | 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               | -                   | -             |
| Shares repurchased 9(e)                                | (132,200)           | (82,395)      |
| <b>Balance, June 30, 2008</b>                          | 82,133,599          | \$ 51,108,709 |

- (c) Issued and outstanding warrants

|   | Warrant Exercise<br>Price Range | Weighted<br>Average<br>Remaining Life | Number    |
|---|---------------------------------|---------------------------------------|-----------|
| <b>Balance, January 1, 2007</b>           | \$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) |
| <b>Balance, December 31, 2007</b>         | \$0.225 - 1.00                  | 2.37 years                            | 4,390,406 |
| Less warrants expired                     |                                 |                                       | (480,000) |
| <b>Balance, June 30, 2008</b>             | \$0.225                         | 2.13 years                            | 3,910,406 |

**June 30, 2008 and 2007**

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**9. Equity Instruments (cont'd)**

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- (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 June 30, 2008, 3,910,406 warrants remained unexercised; these warrants expire on August 16, 2010.

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 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 12,071,000 stock options to its employees, officers and directors. As at June 30, 2008, 10,296,000 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 June 3, 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:

|                                    | <b>June 30, 2008</b>    | December 31, 2007 |
|------------------------------------|-------------------------|-------------------|
| Risk Free Rate                     | <b>3.28%</b>            | 4.2%              |
| Dividend Yield                     | <b>0.0%</b>             | 0.0%              |
| Volatility Rate                    | <b>90.8%</b>            | 86.3%             |
| Expected Option Life               | <b>3.35 years</b>       | 3.35 years        |
| Weighted Average Option Fair Value | <b>\$0.33 per share</b> | \$0.81 per share  |

For the period ended June 30, 2008, \$873,540 (2007 - \$678,584) 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 June 30, 2008:

| <b>Range of Exercise Prices per Share</b> | <b>Number of Options Outstanding</b> | <b>Weighted Average Remaining Contractual Life in Years</b> | <b>Weighted Average Exercise Price</b> | <b>Number of Options Vested</b> | <b>Weighted Average Remaining Contractual Life in Years</b> | <b>Weighted Average Exercise Price</b> |
|---|--------------------------------------|---|--|---------------------------------|---|--|
| \$0.00 to \$0.49                          | 585,000                              | 1.05  | \$0.43                                 | 585,000                         | 1.05  | \$0.43                                 |
| \$0.50 to \$0.99                          | 7,736,000                            | 3.99  | \$0.60                                 | 2,580,824                       | 3.05  | \$0.61                                 |
| \$1.00 to \$1.49                          | 645,000                              | 4.06  | \$1.32                                 | 76,664                          | 3.47  | \$1.37                                 |
| \$1.50 to \$1.99                          | 740,000                              | 4.17  | \$1.61                                 | 110,000                         | 4.08  | \$1.60                                 |
| \$2.00 to \$2.50                          | 590,000                              | 4.02  | \$2.31                                 | 83,333                          | 3.89  | \$2.19                                 |
| <b>\$0.00 to \$2.50</b>                   | <b>10,296,000</b>                    | <b>3.84</b>   | <b>\$0.81</b>                          | <b>3,435,821</b>                | <b>2.77</b>   | <b>\$0.67</b>                          |

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

**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 June 30, 2008:

|                                   | Number of<br>Options | Option<br>Exercise<br>Price Range | Weighted<br>Average<br>Remaining<br>Life | Weighted<br>Average<br>Exercise<br>Price |
|-----------------------------------|----------------------|-----------------------------------|--|--|
| <b>Balance, January 1, 2007</b>   | 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                                   |
| <b>Balance, December 31, 2007</b> | 6,957,499            | \$0.30 - \$2.40                   | 3.78 years                               | \$0.97                                   |
| Options granted                   | <b>3,873,500</b>     | <b>\$0.50 - \$1.13</b>            | <b>4.73 years</b>                        | <b>\$0.54</b>                            |
| Options forfeited                 | <b>(535,000)</b>     | <b>\$0.45 - \$2.40</b>            | <b>2.96 years</b>                        | <b>\$0.94</b>                            |
| <b>Balance, June 30, 2008</b>     | <b>10,296,000</b>    | <b>\$0.30 - \$2.40</b>            | <b>3.84 years</b>                        | <b>\$0.81</b>                            |

(e) Share Repurchase

On April 21, 2008, the Company announced it had received approval from the Toronto Stock Exchange to make a normal course issuer bid to repurchase for cancellation up to 5,000,000 Common Shares, representing approximately 8% of the outstanding shares as at April 3, 2008. Share repurchases may be made from April 24, 2008 to April 23, 2009.

As at June 30, 2008, the Company repurchased 132,200 Common Shares for a purchase cost of \$65,118, at a weighted average cost of \$0.49 per share. The excess of the assigned share value over the purchase cost has been charged to contributed surplus.

**10. Contributed Surplus**

|  |                            |
|--|----------------------------|
| <b>Balance, January 1, 2007</b>                                      | <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                    |
| <b>Balance, December 31, 2007</b>                                    | <u>\$ 2,643,207</u>        |
| Value assigned for options (Note 9 (d))                              | <b>873,540</b>             |
| Value of options and warrants exercised during the year (Note 9 (b)) | -                          |
| Value assigned for shares repurchased (Note 9 (e))                   | <b>17,279</b>              |
| <b>Balance, June 30, 2008</b>  | <u><b>\$ 3,534,026</b></u> |

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**11. Accumulated Other Comprehensive Income**

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|   | <b>June 30,<br/>2008</b> | December 31,<br>2007 |
|---|--------------------------|----------------------|
| Cumulative translation adjustments            | <b>227,586</b>           | 104,396              |
| <b>Accumulated other comprehensive income</b> | <b>\$ 227,586</b>        | \$ 104,396           |

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**12. Related Party Transactions**

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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 \$144,608 (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 \$16,332 (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.

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**13. Information included in the Consolidated Statements of Operations**

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|  | <b>June 30,<br/>2008</b> | June 30,<br>2007 |
|--|--------------------------|------------------|
| Amortization of capital assets   | <b>\$ 422,092</b>        | \$ 173,124       |
| Amortization of deferred charges   | -                        | 17,031           |
| Amortization of intangibles  | <b>345,202</b>           | -                |
| Foreign exchange gain (loss) included in general and administrative expenses | <b>18,634</b>            | (7,621)          |

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

**14. Income Taxes**

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

|  | <b>2008</b>           | <b>2007</b>    |
|--|-----------------------|----------------|
| Combined tax rates                               | <b>31.2 %</b>         | 33.0 %         |
| Expected income tax (recovery) at statutory rate | <b>\$ (3,216,030)</b> | \$ (1,698,684) |
| Stock-based compensation                         | <b>272,545</b>        | 220,540        |
| Share issue costs                                | -                     | (24,331)       |
| Change in rate                                   | <b>1,013,527</b>      | -              |
| Other permanent differences                      | <b>9,510</b>          | 5,012          |
| Change in valuation allowance                    | <b>1,920,448</b>      | 1,497,463      |
| Actual income tax provision                      | <b>\$ -</b>           | \$ -           |

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.

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:

|   | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|--------------------------|------------------------------|
| <b>Future tax assets:</b>               |                          |                              |
| Property and equipment and other assets | <b>\$ 139,824</b>        | \$ 8,093                     |
| Share issue costs                       | <b>407,502</b>           | 407,502                      |
| Unused tax loss carryforwards           | <b>9,514,584</b>         | 7,406,624                    |
|   | <b>10,061,910</b>        | 7,822,219                    |
| Valuation allowance                     | <b>(10,061,910)</b>      | (7,822,219)                  |
| <b>Future income tax asset</b>          | <b>\$ -</b>              | \$ -                         |
| <b>Future tax liabilities:</b>          |                          |                              |
| Intellectual property and customer list | <b>\$ 366,808</b>        | \$ 335,954                   |
| <b>Total future tax liability</b>       | <b>\$ 366,808</b>        | \$ 335,954                   |

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

**14. Income Taxes (cont'd)**

As at June 30, 2008, subject to confirmation from applicable income tax authorities, the Company has a total of \$32,679,620 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

|      | Non-Capital<br>Losses |
|------|-----------------------|
| 2009 | 925,878               |
| 2013 | 899,304               |
| 2014 | 611,406               |
| 2015 | 1,919,903             |
| 2016 | 5,804,665             |
| 2017 | 13,134,211            |
| 2018 | 9,384,253             |
|      | <u>\$ 32,679,620</u>  |

For Canadian tax purposes, the Company has non-capital losses of \$28,761,149 and for US tax purposes, the Company has a net operating losses of \$3,470,478 that have a 15 year carry forward period.

**15. Commitments and Contingencies**

**(a) Leases**

The Company has \$3,408,036 of 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       | \$ 524,725 | \$ 5,684  | \$ 530,409 |
| 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 |

**June 30, 2008 and 2007**

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**15. Commitments and Contingencies (cont'd)**

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**(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.

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**16. Indemnifications**

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**(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.

**(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.

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**June 30, 2008 and 2007**

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## **17. Financial instruments**

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### **Classification of financial instruments**

The Company holds various forms of financial instruments as follows:

#### *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 June 30, 2008, the Company held \$11,137,246 (\$21,100,000 at December 31, 2007) of cashable guaranteed investment certificates (GIC's) bearing interest rates of 3.00% (4.50% in 2007) with a maturity date of no more than 3 months.

#### *Receivables and Loans*

Accounts receivable 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.

#### *Other financial liabilities*

Accounts payable and accrued liabilities, deferred revenue, lease inducements and future tax liabilities are classified as other liabilities, all of which are measured at amortized cost.

For the periods ended June 30, 2007 and 2008, the Company has not used derivative instruments. The Company has no derivatives embedded in its financial or non-financial contracts.

### **Financial risk management**

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

#### *Credit risk*

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

At June 30, 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 six months ended June 30, 2008, the Company earned 32% (76% in 2007) of its revenues from one directory service provider and at June 30, 2008, the Company had \$279,305 (\$ 499,549 in 2007) receivable from this customer.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk through cash flow forecasting including anticipated investing and financing activities.

**June 30, 2008 and 2007**

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**17. Financial instruments (cont'd)**

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*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.

*Interest rate risk*

The Company is exposed to interest rate risk only through its financial assets. For the periods ended June 30, 2007 and 2008, the Company has no interest bearing financial obligations. The Company manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity reserves necessary to meet day-to-day operating cash flow requirements

**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.

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**18. Capital Management**

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The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders. The Company includes equity, comprising of issued common shares, contributed surplus and deficit in the definition of capital. As at June 30, 2008 the Company had capital of \$19,713,697 (\$24,631,573 at December 31, 2007).

The Company's primary responsibilities with respect to its capital management are to ensure that it has sufficient cash resources to fund its investment in business development and technology development required to commercialize and maintain its ongoing operations. To secure additional capital necessary to pursue these objectives, the Company may attempt to raise additional funds through the issuance of additional equity. It is the result of the Company's abilities to raise financing through equity that has created the cash balances as at June 30, 2008.

The Company is not subject to externally imposed capital requirements.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**19. Segmented Information**

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**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:

|               | <u>June 30, 2008</u> | <u>June 30, 2007</u> |
|---------------|----------------------|----------------------|
| Canada        | \$ 778,793           | \$ 568,204           |
| United States | 705,102              | 78,514               |
| Europe        | 769,791              | -                    |
| Other         | 161,936              | -                    |
| Total         | <u>\$ 2,415,622</u>  | <u>\$ 646,718</u>    |

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

|               | <u>June 30,<br/>2008</u> | <u>June 30,<br/>2007</u> |
|---------------|--------------------------|--------------------------|
| Canada        | \$ 18,074,674            | \$ 31,342,243            |
| United States | 1,893,772                | 154,367                  |
| Europe        | 2,973,019                | 26,644                   |
| Total         | <u>\$ 22,941,465</u>     | <u>\$ 31,523,253</u>     |

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**20. Future Changes in Accounting Policies**

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**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.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**

**June 30, 2008 and 2007**

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**21. Comparative Figures**

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

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