



## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (“MD&A”) for Call Genie Inc. (“CG”, “Call Genie” or the “Company”) should be read in conjunction with CG’s unaudited consolidated financial statements and the accompanying notes for the period ended March 31, 2008 which have been filed with certain securities regulatory authorities in Canada and may be accessed at [www.sedar.com](http://www.sedar.com). CG’s interim financial statements and the accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). All amounts are in Canadian dollars unless otherwise stated. The information in this MD&A is current to May 6, 2008, unless otherwise noted.

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

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

### **FORWARD LOOKING STATEMENTS**

Certain information set out in this MD&A constitutes forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. The forward-looking information set out in this MD&A includes information, appearing under the heading "Outlook", respecting:

- (i) the time frames associated with trials of the Company’s products, timing of sales cycles and anticipated commencement of revenues after a commercial contract is executed;
- (ii) revenue expectations for the Company for the years ending December 31, 2008 and December 31, 2009;
- (iii) profitability expectation for the Company for the year ending December 31, 2009;
- (iv) the percentage of 411 directory assistance inquiries that may be channeled to a Interactive Voice (“IV”) supported service (“IV Service”); and



(v) sources of revenue from the deployment of the IV technology that are not dependent upon the number of merchants contracted for subscription fees.

Readers should review the cautionary statement respecting forward-looking information that appears below.

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

(i) Forward-looking information relating to sales cycles for the IV Service, the length of time required to complete trials of the IV Service and the length of time after a commercial contract concludes until revenues are generated are based upon the Company's historical experiences with YPG, historical experiences other organizations that have conducted trials of the IV Service, experiences with other existing and potential customers, information sourced through discussions with other directory services providers and other potential customers and the experiences of senior management with the introduction of other technology products.

(ii) Forward-looking information respecting revenue expectations for the Company for the years ending December 31, 2008 and December 31, 2009 are based upon management's estimates of revenues to be derived from existing customer arrangements, including customers sourced from BTS Logic Europe ApS ("BTS" or "BTS Logic") and PhoneSpots, Inc. ("PhoneSpots"), the terms of the agreements entered into with those customers, business plan assumptions respecting the number of additional customers who will enter into commercial arrangements with the Company to utilize its products during 2008 and 2009 and the timing of execution and delivery of commercial agreements with those additional customers (including the average timing taken between initial contact and execution of commercial agreements with existing IV customers and the status of existing negotiations with potential customers), and that the Company will be able to maintain a revenue share model consistent with recently executed contracts in any agreements entered into with new customers.

(iii) Forward-looking information respecting profitability expectations for the Company for the year ending December 31, 2009 is based upon management's estimates of revenues noted above in (ii). In addition, profitability expectations are based on estimates of expenses for



2009. 2009 expense estimates are based on business plan assumptions related to the number of staff required to carry out the business plan objectives, the rate at which staff members are paid, the timing of retention of new staff, the ability to train and provide facilities to staff members, and the ability to maintain the planned ratio of staff costs to other costs. Lastly, business plan assumptions related to non-cash items such as depreciation and stock option compensation have been taken into consideration in estimating profitability for 2009.

(vi) Forward-looking information respecting estimates of the percentage of 411 directory assistance calls that may be channeled to the IV Service is based upon estimates of the initial results of a 411 directory assistance trial conducted with a Canadian provider of mobile telephone services during the first six months of 2006 and the percentage of callers to the IV-supported TELUS landline 411 directory assistance service who have opted to undertake an IV-supported business category search since the integration of the IV technology with the TELUS 411 directory assistance service in the fourth quarter of 2007.

(v) Forward-looking information respecting expected sources of revenue from the commercial deployment of the IV Service that are not dependent upon the number of merchants contracted for subscription fees is based upon experiences to date with the Yellowpages411 service, discussions with representatives of YPG, discussions with other potential customers and management's analysis of alternative means to diversify the revenue stream associated with the Yellowpages411 service.

Although the Company believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. **The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and such forward-looking statements should not be taken as guarantees of future outcomes.** Subject to applicable securities laws, the Company does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. The forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by the foregoing cautionary statements.



## BUSINESS OVERVIEW

Call Genie is a leading provider of mobile local search and advertising solutions. These solutions enable Yellow Pages publishers, directory assistance providers and wireless carriers to increase their revenue by offering a localized, mobile search capability that connects consumers directly with merchants.

The CG Mobile Local Search Product Suite includes three product lines: CG Interact, CG Open and CG ADvantage. These product lines offer directory assistance providers, Yellow Pages publishers, wireless carriers and search engine companies, the applications and technology platforms required to deliver innovative mobile local search services quickly in order to take advantage of today's shorter consumer adoption cycles.

CG Interact products deliver automated or operator-assisted voice enabled solutions, mobile data search and seamless delivery of information to phones from web sites. CG Open products have been designed with the underlying philosophy that a positive user experience must be the foundation for any service that will be monetized through ad sponsorship. CG Open products offer key benefits to customers to reduce costs and enhance the user experience. The CG Open platforms leverage industry standards to increase the ability of CG Interact products' to integrate into and interoperate with our customer's existing systems, data sources and with mobile content providers. CG ADvantage products enable our customers to capitalize on the emerging Mobile Local Search advertising opportunity and deliver inventory, taxonomy and campaign management specifically optimized for this unique ad inventory.

## SELECTED QUARTERLY INFORMATION

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
Revenue	\$ 1,013,301	\$ 293,363
Net loss for the period	\$ (4,957,932)	\$ (2,353,436)
Earnings per share – fully diluted	\$ (0.06)	\$ (0.04)
Number of Common shares outstanding		
- Basic	82,265,799	53,232,074
- Fully diluted	96,372,205	63,633,264

## RESULTS OF OPERATIONS

### Overall

The Company's loss for the three months ended March 31, 2008 was \$4.96 million or \$0.06 per share, up 111% from the loss of \$2.35 million or \$0.04 per share from same quarter in the



prior year. The increased loss for the year was primarily the result of increased investment in all areas of the Company's business. Sales and marketing costs increased \$0.58 million, research and development costs increased \$1.03 million, and general and administrative costs increased \$0.72 million.

### Revenues

Revenues for the three months ended March 31, 2008 increased to \$1,013,301 from \$293,363 for the three months March 31, 2007, which is a 245% period over period increase. The increase is primarily due to revenues generated from customers acquired as the result of the BTS and PhoneSpots acquisitions and, to a lesser degree, revenues earned from the Company's relationship with YPG. The Company earned revenue from multiple sources including consulting and implementation fees, merchant subscription fees, transactional processing fees, hosting fees as well as maintenance and support revenues.

The Company has reviewed its revenue arrangements and determined that, in substance, certain arrangements are hosted solutions wherein all implementation fees should be deferred and recognized ratably over the term of the contract commencing upon completed delivery of the implementation and integration services. Management estimates that over and above the recognized revenue of \$1,013,301, approximately \$86,000 or 12% of the total deferred revenue recorded at March 31, 2008 relates to payments received for implementation work completed during the quarter which will be recognized over the next 3-5 years.

### Cost of Sales

Cost of sales for the three months ended March 31, 2008 increased to \$834,982 from \$196,145 in the three months ended March 31, 2007. The increase was due to the staff resources required to support customer specific activities related to market trials and implementation of the Company's multiple product lines. Increases also resulted from increased direct costs incurred in the operation of its hosted services, including telephony costs, hosting, network, voice recordings and other third party charges.

### Expenses

Expenses for the three months ended March 31, 2008 increased to \$5,306,454 from \$2,501,937 for the three months ended March 31, 2007. The increase in expense is primarily due to the increase in staff resources in all operational areas of the business. As at March 31, 2008, the Company had 124 full time equivalent staff compared to 66 at March 31, 2007.

### *Sales and Marketing*

Sales and marketing costs for the three months ended March 31, 2008 were \$1,436,086 compared to \$858,341 for the three months ended March 31, 2007. The 67% increase of \$577,745 is primarily attributable to the number of individuals engaged, either directly or on



contract, to undertake business development, account management or marketing activities. At March 31, 2008, the Company engaged 25 individuals (21 in sales and 4 in marketing) compared to 18 individuals at March 31, 2007. Salaries, commissions and benefits for these individuals represented an increase of approximately \$543,000. Required travel for Company personnel caused travel expenses to increase by approximately \$78,000 compared to the same period last year. The overall increase was partially offset by a decrease in conference fees of approximately \$46,000 compared to the same period last year.

#### *Research and Development*

Research and development costs of \$1,731,145 increased by \$1,031,544 for the three months ended March 31, 2008, compared to the same period in 2007. The 147% increase was primarily due to increased personnel engaged in further developing product software and processes and in supporting product launch activities. Staffing cost increased by approximately \$917,000 over the three months ended March 31, 2007. At March 31, 2008, the Company had 49 staff (2007 – 18) tasked to carry out further development of product software and processes in support of new product launches and continued enhancement of existing products. The acquisition of BTS and PhoneSpots resulted in 12 additional software development staff.

#### *General and Administration*

General and administration costs for the three months ended March 31, 2008 were \$1,396,871 compared to \$681,502 for the same period in 2007. The 105% increase of \$715,369 was consistent with the infrastructure costs required to execute the Company's business plan. The increase was primary due to 1) increased office rent, telephone charges and supplies of approximately \$238,000 required to support the increased employee base, 2) increased salaries and benefits of approximately \$235,000, 3) increased acquisition transition management services of approximately \$133,000, and 4) increased professional fees, agency fees and shareholder communication costs related to the operation of a public company of approximately \$70,000.

#### *Stock Based Compensation*

Stock based compensation expense for the three months ended March 31, 2008 was \$376,651, an increase of \$185,040 from \$191,611 for the three months ended March 31, 2007. The associated costs, calculated using the Black-Scholes method, recognize the costs over the three year vesting period of the applicable options. This results in a higher expense in the initial year an option is granted. The increase was due to the number and timing of options granted under the Company's stock option plan. During the period, the Company issued 3,073,500 stock options (1,330,000 in 2007).



Interest Income

Interest income for the three months ended March 31, 2008 was \$179,203, compared to \$51,283 for same period in 2007. The increase is consistent with the increased quarterly average cash held in interest bearing GICs.

Net Loss

As a result of the foregoing, CG's net loss for the three months ended March 31, 2008 was \$4,957,932 which was \$2,604,496 higher than the net loss for the same period in 2007.

**SUMMARY OF QUARTERLY RESULTS**

For the Quarters Ended								
in thousands	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Revenue	\$ 144	\$ 178	\$ 261	\$ 293	\$ 353	\$ 407	\$ 758	\$ 1,013
Cost of sales	25	142	164	196	298	345	454	844
Gross margin	119	36	97	97	55	62	304	169
Expenses								
Sales and marketing	560	635	796	858	992	1,164	1,316	1,436
Research and development	495	520	618	699	728	1,025	1,548	1,731
General and administrative	374	419	530	682	808	1,156	1,264	1,397
Stock based compensation	112	147	417	192	487	97	486	376
Amortization	34	54	64	71	119	148	154	366
	1,575	1,775	2,425	2,502	3,134	3,590	4,768	5,306
Loss from operations	(1,456)	(1,739)	(2,328)	(2,405)	(3,079)	(3,528)	(4,464)	(5,137)
Other income								
Interest income	88	86	69	51	206	321	261	179
Net loss for the period	(1,368)	(1,653)	(2,259)	(2,354)	(2,873)	(3,207)	(4,203)	(4,958)
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.06)



**FINANCIAL CONDITION**

Selected data on financial position	March 31, 2008	December 31, 2007
Cash and cash equivalents	\$ 16,504,645	\$ 21,422,717
Net working capital	\$ 16,078,478	\$ 21,432,584
Total assets	\$ 27,775,421	\$ 26,945,360
Total long-term liabilities	\$ 517,240	\$ 496,580
Total liabilities	\$ 2,870,169	\$ 2,209,391
Shareholders' equity	\$ 24,905,252	\$ 24,735,969

**LIQUIDITY AND CAPITAL RESOURCES**

*Assets*

CG's total asset base as at March 31, 2008 was \$27.8 million, up from \$26.9 million at December 31, 2007. The increase was principally the result of the purchase of goodwill and intangibles related to the acquisition of PhoneSpots offset by the reduction of cash and cash equivalents. Purchased goodwill and intangibles increased by \$5.85 million while cash and cash equivalents decreased \$4.9 million to \$16.5 million as at March 31, 2008.

*Working Capital*

At March 31, 2008, the Company had positive working capital including cash and cash equivalents of \$16.1 million, down \$5.4 million from December 31, 2007. The decrease in working capital is primarily due to the decreased cash of \$4.9 million and to a lesser degree increases in accrued liabilities and deferred revenue. The Company continues to generate operating losses as it executes its business plan. See "Business Risks and Uncertainties" below.

*Cash and Cash Equivalents*

At March 31, 2008, the Company's cash and cash equivalents amounted to approximately \$16.5 million compared with \$21.4 million at December 31, 2007. The decrease was due to the \$4.2 million of cash used to fund operations and \$0.7 million used to fund investing activities. The purchase of capital assets (\$0.5 million) relates primarily to the Company's investment in a data centre located in the United States, which is required to support hosting services.



## OUTSTANDING SHARE DATA

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized for issuance. 82,265,799 common shares were outstanding at March 31, 2008, compared to 77,714,473 common shares outstanding at December 31, 2007. During the three months ended March 31, 2008, 4,551,326 common shares were issued in connection with the acquisition of PhoneSpots Inc.

During the three months ended March 31, 2008, no options and warrants were exercised. In addition, 3,073,500 options were granted and 165,000 options expired resulting in 9,866,000 options issued and outstanding. The Company also had 4,240,406 warrants outstanding as of March 31, 2008, which remained unchanged from December 31, 2007. Subsequent to the quarter end, 330,000 warrants issued to brokers in connection with a financing which occurred on April 17, 2007 expired unexercised. Further information on CG's outstanding share capital is provided in Note 9 to the Interim Financial Statements for the three months ended March 31, 2008.

On April 21, 2008 the Company filed a Notice of Intention to make a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange (TSX). Under the NCIB, the Company may, during the twelve month period ending April 23, 2009, purchase a maximum of 5,000,000 of its outstanding common shares at market value. As of the effective date of this MD&A, the Company had not purchased and cancelled any common shares under the NCIB.

## CONTRACTUAL OBLIGATIONS

The Company has obligations under long-term operating leases for premises and office equipment for various periods up to 2013. Future minimum annual lease payments 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

## RELATED PARTY TRANSACTIONS

During the 1<sup>st</sup> quarter of 2008, the Company recorded \$30,834 (\$81,208 in 2007) of general and administrative expenses for transactions with companies controlled by officers in the normal course of operations during the first three months of 2008. 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.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### ***Revenue Recognition***

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

### **Hosted Arrangements**

The Company enters into hosting arrangements whereby the underlying software is maintained and 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 period, revenues for the variable portion of these fees are recognized as earned. In addition, the Company may charge implementation or set up fees in connection with the service provided. These fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

### **Software License Arrangements**

The Company also offers complete solutions integrated into 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.

### ***Asset Impairment***

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

### ***Use of Estimates***

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of 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.

### ***Stock-Based Compensation***

The Company records compensation expense for stock options granted to directors, officers, employees and agents of the Company and its affiliates. The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. The fair value of each option is determined at the grant date using the Black-Scholes model. Any consideration paid on exercise of stock options is credited to equity instruments.

### **Adoption of Recent Canadian Accounting Pronouncements in 2008**

The Canadian Institute of Chartered Accountants (“CICA”) has issued new accounting standards, Section 1535 *Capital Disclosures* (“Section 1535”), Section 3862 *Financial Instruments – Disclosures* (“Section 3862”) and Section 3863, *Financial Instruments – Presentation* (“Section 3863”), which are applicable to the Company’s 2008 fiscal year. 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.

The adoption of these Sections is undertaken retroactively without restatement of the consolidated financial statements of prior periods.

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

The Canadian Institute of Chartered Accountants (“CICA”) has issued new accounting standards, Section 3064, *Goodwill and Intangible Assets*, which will be applicable to the Company’s 2009 fiscal year. Section 3064, *Goodwill and Intangible Assets*, will replace Section 3062, *Goodwill and Other Intangible Assets*. The Company is in the process of evaluating the disclosure and presentation 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. An initial diagnostic impact assessment is planned for the second half of 2008.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company did not have any “off-balance sheet” arrangements as of March 31, 2008.

## **OUTLOOK**

### **Global Market Opportunity**

The Kelsey Group, an independent organization that provides analysis of the directory services industry, has estimated advertising revenues from print Yellow Pages, Internet Yellow Pages (“IYP”) and Local Search will grow to \$38.9 billion globally in 2011 from \$30.6 billion in 2006, representing a 4.9% compound annual growth rate (“CAGR”). The



Kelsey Group expects the print Yellow Pages segment of the global directories marketplace to grow from \$26.5 billion in 2006 to \$27.8 billion in 2011 (0.9% CAGR). The online segment, which comprises IYP and local search advertising, is expected by the Kelsey Group to grow from \$4.1 billion in 2006 to \$11.1 billion globally in 2011 (22.3% CAGR).

The Kelsey Group also expects U.S. mobile search advertising revenues to grow from US\$33.2 million in 2007 to US\$1.4 billion in 2012, representing a CAGR of 112%. In a mobile consumer study conducted by The Kelsey Group and ConStat, 9.8% of respondents confirmed that they used their mobile phones to conduct Internet searches for products and services in their local area. During the same period, 10.7% of consumers surveyed downloaded or looked at maps, while 10.9% indicated they had downloaded search or mapping applications (for use on the Internet) to supplement those that came with their mobile phones.

Readers are cautioned that CG has not independently verified the accuracy of the information provided by the Kelsey Group.

### **Customer Expansion**

The Company's existing business strategy is based on selling its three product lines to prospective customers world-wide. As a result of the recent acquisitions, CG now has approximately 30 customers. While business development activities continue to progress, CG management remains focused on the account management of the existing customer base. Management of the Company believes that the new product lines provide cross selling opportunities within the existing customer opportunities.

In respect of the existing customer base (as well as added new customers), CG has a long sales cycle (potentially as much as a year or more) for its customers, in each case dependent on the nature of the business model. The usual preliminary step in the development of a contractual relationship is signing a memorandum of understanding, which outlines the activities and responsibilities of the parties in relation to a trial within a limited geographical area. Trials are then expected to last between six and nine months (depending on the opportunity) before a commercial contract is finalized. Thereafter, realization of revenue streams from commercialized revenue share arrangements may take up to 18 months after a commercial contract is finalized (depending on the customer's ability to sell the service to its merchants and/or consumers); though implementation and transactions fees will usually be realizable immediately following the commercial launch.

The Company's current business plan contemplates that CG will continue to focus on the acquisition of new customers in North America, Europe and other parts of the world for the implementation of its complete product offering. Overall, CG management believes that the Company is now well positioned, from a business development perspective, to take advantage of international market opportunities. CG re-affirms estimates of revenues for the year ended December 31, 2008, which are expected to range from \$7.0 million to \$9.0



million and to increase by over 200% in 2009 resulting in net profitability for the year. At the request of shareholders, CG provided forward looking estimates of revenue and profitability on an overall basis. This is primarily due to the nature of the commercial arrangements with its current customers. Readers should be cautioned against using these statements for any other purposes.

### **Canadian Market - Yellowpages411**

The Company continues to work with the Yellow Pages Group of Canada (“YPG”) and TELUS to provide consumers access to an interactive voice recognition-based service (marketed as IV Service) that provides merchant information for the most popular consumer categories associated with YPG’s directories. Consumers access the IV Service from two primary sources: (i) TELUS offers this service as part of its own directory assistance service, and (ii) YPG continues to offer the service through its own free to consumer “vanity” number – 310-YELO, branded as “YellowPages411”.

Currently, the IV-supported 411 directory assistance service offered by TELUS is available on a national basis for both land-line and wireless customers. Introduction of this integrated service resulted in significantly increased caller volume to the Yellowpages411 service. Initial results indicate that approximately 4.0% of directory assistance callers selected the IV-supported business category search. Expanding the IV Service to other call sources such as TELUS’s wholesale traffic continues to be a part of the Company’s business plan. However, the overall success of the IV Service is not reliant on further expansion.

Based on various reports and inputs, management of CG believes that approximately 200 million directory assistance inquiries are made in Canada on an annual basis. Management of CG estimates that up to 10% of 411 directory assistance calls may be channeled to the IV Service, as callers select an IV supported business category search over a standard 411 assistance inquiry. However, the overall success of the IV Service is not reliant on achieving the target of 10%.

YPG and CG continue to review and evaluate additional commercial products in an effort to maximize the revenues derived from the Yellowpages411 service. On a going forward basis, CG management expects revenues to be derived from several sources (consulting fees, maintenance and support fees, pay-per-call fees, and banner advertisements) that are not dependant on the number of merchants contracted for subscription fees.

### **CONTROLS AND PROCEDURES**

As required by Multilateral Instrument 52-109 – *Certification of Disclosure in Issuer’s Annual and Interim filings*, the Company’s Chief Executive Officer and Chief Financial Officer have made certain certifications related to the Company’s interim filings (as defined



by Multilateral Instrument 52-109), which have been filed with certain securities regulators in Canada.

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

As part of the MI 52-109 certifications, the Chief Executive Officer and the Chief Financial Officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to provide reasonable assurance that material information with respect to the Company, including its consolidated subsidiaries, is made known to them and that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by these filings. Disclosure controls and procedures ensure that information required by the Company in the reports that it files or submits to provincial securities regulators is recorded, processed, summarized and reported, within the time periods required. The Company has adopted or formalized such controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices.

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109), have concluded that, as of March 31, 2008, the Company's disclosure controls and procedures are effective.

### ***Management's Interim Report on Internal Control over Financial Reporting***

As part of the MI 52-109 certifications, the Chief Executive Officer and Chief Financial Officer of the Company must certify that they are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2008, the Company has designed such internal control over financial reporting (as defined in Multilateral Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO are satisfied with the design effectiveness of its internal controls over financial reporting. However, during the process, certain weaknesses were identified as follows:



### 1. Segregation of Duties

Due to limited resources, adequate segregation of duties within the Company's accounting group was not achieved. This creates a risk that inaccurate journal entries could be made and not corrected on a timely basis. The result is that the Company is highly reliant on the performance of mitigating procedures during its financial close processes in order to provide comfort that the financial statements are presented fairly in accordance with GAAP.

Management reviews the assignment of responsibilities on an ongoing basis and expects to continue to monitor the existing mitigating controls and implement changes where appropriate and feasible.

### 2. Adequate accounting staff

Due to limited resources and number of staff, the Company does not have the optimum complement of personnel with all of the technical accounting knowledge required to address all complex and non-routine transactions and projects that may arise, including two key areas, revenue recognition and accounting for acquisitions.

Additional procedures have been performed by the Company in order to provide comfort that the revenue recognition and acquisition transactions recorded in the consolidated financial statements have been presented in accordance with GAAP.

### 3. Business Combinations

The Company has determined that it did not sufficiently design optimum controls over the acquisition processes associated with its acquisitions of BTS and PhoneSpots. Specifically, the Company does not have an overriding policy framework that would apply to all potential acquisitions to provide comfort that all material accounting and other issues are addressed.

As of March 31, 2008, the Company had not undertaken any formalized testing of internal controls. Subsequent to the quarter end, the Company hired additional personnel to improve the identified deficiencies and overall control environment and governance processes within the company.

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

The CEO and CFO determined that there were no changes in the Company's internal controls over financial reporting that occurred during the first three months of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The design of any system of internal controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any



design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

## **BUSINESS RISKS AND UNCERTAINTIES**

The business of CG is subject to numerous risk factors. An investment in, and ownership of common shares of, CG should be considered highly speculative due to the nature of CG's business and its current stage of development. The risk factors noted below are more fully described in the Company's Annual Information Form filed March 31, 2008 or in the Company's 2007 Annual MD&A filed March 14, 2008 and continue to apply to Call Genie:

- *Substantial Capital Requirements*
- *Liquidity*
- *No Record of Profit*
- *Developing Market*
- *Stage of Development*
- *Reliance on Others Generally and Yellow Pages Group Co. in Particular*
- *Third Party Technology*
- *Rapid Technological Change*
- *Competition*
- *Need for Research and Development*
- *Defects and Liability*
- *Patents and Other Intellectual Property*
- *Ability to Manage Growth; Transition from Research and Development Company to Operating Company*
- *Availability of Personnel Resources*
- *Potential Fluctuations in Quarterly Operating Results*
- *Risk of Adverse Government Regulation*
- *Costs Associated with Compliance with Securities Laws*
- *Risk of Future Terrorist Attacks or Related Disasters*
- *Risk of Industry Consolidation*