

**Call Genie Inc.
Consolidated Financial Statements
For the years ended December 31, 2008 and 2007**

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To the Shareholders of Call Genie Inc.

We have audited the consolidated balance sheets of Call Genie Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 24, 2009

Call Genie Inc.
Consolidated Balance Sheets

As at December 31	2008	2007
Assets		
Current assets:		
Cash and cash equivalents (Note 17)	\$ 4,975,440	\$ 21,422,717
Accounts receivable (Note 17)	552,339	1,409,467
Prepaid expenses and deposits	327,158	313,211
	<u>5,854,937</u>	<u>23,145,395</u>
Capital assets (Note 5)	1,078,194	854,797
Goodwill (Note 6)	2,396,140	757,900
Intangibles (Note 7)	4,817,360	1,327,818
Corporate transaction costs	-	65,143
Restricted cash held for pending acquisition	-	696,425
Deferred costs (Note 8)	108,717	97,882
	<u>\$ 14,255,348</u>	<u>\$ 26,945,360</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 12(b))	\$ 1,814,671	\$ 1,407,136
Current portion of lease inducements	18,325	-
Current portion of deferred revenue	667,971	216,377
Current portion of future tax liability (Note 14)	-	44,786
	<u>2,500,967</u>	<u>1,668,299</u>
Lease inducements	123,252	44,512
Deferred revenue	268,269	205,412
Future tax liability (Note 14)	-	291,168
	<u>2,892,488</u>	<u>2,209,391</u>
Shareholders' equity:		
Equity instruments (Notes 9 and 22)	51,108,709	46,609,605
Contributed surplus (Note 10)	5,263,277	2,643,207
Deficit	(45,085,514)	(24,621,239)
Accumulated other comprehensive income (Note 11)	76,388	104,396
	<u>11,362,860</u>	<u>24,735,969</u>
	<u>\$ 14,255,348</u>	<u>\$ 26,945,360</u>

Going concern (Note 1)

Commitments and contingencies (Notes 15 and 16)

Subsequent event (Note 22)

Approved on behalf of the Board:

"signed" Director
Richard DeVries

"signed" Director
S. Graeme Ross

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

Call Genie Inc.
Consolidated Statements of Operations

For the years ended December 31	2008	2007
Revenue (Note 19)	\$ 4,267,353	\$ 1,811,176
Cost of sales	3,292,523	1,293,332
Gross margin	974,830	517,844
Expenses:		
Sales and marketing (Note 12(a))	5,475,989	4,329,694
Technology and product development (Note 12(a))	6,514,193	4,000,337
General and administrative (Note 12(a))	5,668,740	3,909,468
Stock-based compensation (Note 9)	2,602,792	1,261,835
Amortization (Note 13)	1,572,918	492,158
	21,834,632	13,993,492
Loss from operations	(20,859,802)	(13,475,648)
Other income:		
Interest income	395,527	839,182
Net loss for the year	\$ (20,464,275)	\$ (12,636,466)
Basic and diluted loss per share	\$ (0.25)	\$ (0.18)
Weighted average number of shares – basic and diluted	82,163,992	69,235,350

Call Genie Inc.
Consolidated Statements of Comprehensive Loss and Deficit

For the years ended December 31	2008	2007
Comprehensive loss:		
Net loss for the year	\$ (20,464,275)	\$ (12,636,466)
Other comprehensive income (loss)		
Unrealized foreign currency translation adjustment	(28,008)	104,396
Comprehensive loss	\$ (20,492,283)	\$ (12,532,070)
Deficit, beginning of year	\$ (24,621,239)	\$ (11,984,773)
Net loss for the year	(20,464,275)	(12,636,466)
Deficit, end of year	\$ (45,085,514)	\$ (24,621,239)

Call Genie Inc.
Consolidated Statements of Cash Flows

For the years ended December 31	2008	2007
Cash flows from operating activities		
Net loss for the year	\$ (20,464,275)	\$ (12,636,466)
Items not involving cash:		
Stock-based compensation	2,602,792	1,261,835
Amortization	1,572,918	492,158
	<u>(16,288,565)</u>	<u>(10,882,473)</u>
Changes in non-cash working capital:		
Accounts receivable	862,088	(791,525)
Prepaid expenses and deposits	138,812	(184,697)
Accounts payable and accrued liabilities	(550,655)	360,622
Deferred revenue	346,826	242,166
	<u>(15,491,494)</u>	<u>(11,255,907)</u>
Cash flows from financing activities		
Issuance of common shares, net of issuance costs	-	29,623,202
Repurchase of common shares (Note 9(e))	(65,116)	-
	<u>(65,116)</u>	<u>29,623,202</u>
Cash flows from investing activities		
Purchase of capital assets	(875,276)	(881,181)
Lease inducements received	97,065	-
Deferred costs capitalized	(10,835)	(17,755)
Acquisition of PhoneSpots Inc. (Note 4)	(709,898)	-
Acquisition of BTS Logic Europe ApS, net of cash acquired (Note 4)	-	(1,279,241)
Restricted cash held for pending acquisition	696,425	(696,425)
Corporate transaction costs	65,143	-
Acquisition of intangibles	(153,291)	-
	<u>(890,667)</u>	<u>(2,874,602)</u>
Increase (decrease) in cash and cash equivalents	(16,447,277)	15,492,693
Cash and cash equivalents, beginning of year	<u>21,422,717</u>	<u>5,930,024</u>
Cash and cash equivalents, end of year	\$ 4,975,440	\$ 21,422,717

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

1. Nature of Operations and Going Concern

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

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company began commercial operations in October 17, 2000 and, to date, has incurred losses amounting to \$45,085,514, and has working capital of \$3,353,970 (2007 - \$21,477,096).

The Company's future operations are dependent upon its ability to secure additional funds and/or secure sales contracts which provide the Company with adequate funds to cover the cash flows projected for the fiscal 2009 year. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or sale of the Company. These factors raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian GAAP. The preparation of consolidated financial statements in conformity with Canadian 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. ("PS") and PhoneSpots Limited from their respective dates of acquisition.

(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.

December 31, 2008 and 2007

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

(d) Revenue recognition

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

Hosting arrangements

The Company enters into hosting arrangements whereby the underlying software is maintained and operating in Company data centre facilities. The Company earns transaction automation fees, data management fees, system maintenance fees, hosting fees and, in some cases, customer revenue participation fees from the service provided to the customer. Revenues for the fixed portion of these fees are recognized ratably over the contract period, while revenues for the variable portion of these fees are recognized as earned. In addition, the Company may charge for implementation or set-up fees in connection with the service provided. These fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

Software license arrangements

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

Services

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

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service and SMS delivery 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	Term of the lease
Furniture and equipment	5 years
Computer hardware	3 years
Computer software	1 year

December 31, 2008 and 2007

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

(g) Operating leases

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

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

(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. The Company does not hold any indefinite-lived intangibles.

(l) Goodwill

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

(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.

December 31, 2008 and 2007

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

(n) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted 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 the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3500. As the effect of all outstanding options and warrants is anti-dilutive during a period when the Company incurs a loss, diluted loss per share does not differ from basic loss per share.

(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. When an employee leaves the Company, any associated options are forfeited and any expense recorded in the consolidated financial statements related to unvested options is recovered in the period in which the employee forfeits the options. On the exercise of options, consideration received and the related accumulated contributed surplus is credited to common shares.

(p) Use of estimates

The preparation of 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 revenue and expenses during the reporting periods. Actual results could differ from these estimates in the future. The most significant estimates relate to the valuation of capital assets, intangibles, goodwill, deferred costs, future tax assets and liabilities, stock-based compensation, allowance for doubtful accounts and revenue recognition VSOE.

(q) Translation of foreign currencies

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

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

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

(r) Classification of financial instruments

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-sale trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

3. Changes in Accounting Policies

The CICA has 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 consolidated 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.

4. Business Combinations

PhoneSpots Inc.

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

Under the terms of the purchase agreement, 3,864,628 of the common shares issued were held in escrow for a period of four months from the closing date and then released ratably over the subsequent eight-month period. The remaining 686,698 common shares were held in escrow for up to one year to provide for any potential purchase price adjustment in accordance with the purchase agreement. The Company has estimated that a purchase price adjustment of \$270,214 was required to offset the negative working capital that was in existence at the date of the acquisition. The Company is finalizing the return of the 253,484 common shares from shares held in escrow.

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

Cash	\$	632,894
Accounts receivable and other current assets		201,011
Capital assets		177,563
Customer list		225,000
Technology		3,960,578
Goodwill		1,465,037
	\$	6,662,083
Current liabilities		(1,110,570)
	\$	<u>5,551,513</u>

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

4. Business Combinations (cont'd)

Consideration given:	
Cash	\$ 709,898
Common shares issued	4,851,713
Working capital adjustment	(270,214)
Acquisition costs	260,116
Total consideration	<u>\$ 5,551,513</u>

The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the assets acquired amounted to \$1,465,037, which was allocated to goodwill. The Company will perform an impairment test for goodwill on an annual basis in accordance with the provisions of CICA Section 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.

BTS Logic Europe ApS

On November 9, 2007, the Company acquired 100% of the issued and outstanding shares of 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
Customer list	133,000
Technology	1,121,000
Goodwill	746,270
	<u>\$ 2,380,156</u>
Current liabilities	(570,242)
Future tax liability	(313,500)
	<u>\$ 1,496,414</u>

Consideration given:	
Cash	\$ 1,405,598
Acquisition costs	90,816
Total consideration	<u>\$ 1,496,414</u>

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

4. Business Combinations (cont'd)

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 Section 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.

5. Capital Assets

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,368,913	\$ 702,230	\$ 666,683
Computer software	759,659	707,938	51,721
Furniture and equipment	418,256	158,255	260,001
Leasehold improvements	111,173	11,384	99,789
	\$ 2,658,001	\$ 1,579,807	\$ 1,078,194

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

6. Goodwill

Goodwill arising from acquisition of BTS	\$ 707,245
Foreign currency translation adjustment	50,655
Balance, December 31, 2007	757,900
Goodwill arising from acquisition of PS	1,465,037
Adjustment of BTS purchase price	39,025
Foreign currency translation adjustment	134,178
Balance, December 31, 2008	\$ 2,396,140

As at December 31, 2008, the Company performed its annual impairment test of goodwill and determined that goodwill was not impaired.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

7. Intangibles

	December 31, 2008			December 31, 2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	\$ 5,217,766	\$ 708,359	\$ 4,509,407	\$ 1,186,988
Customer lists	358,000	50,047	307,953	140,830
	\$ 5,575,766	\$ 758,406	\$ 4,817,360	\$ 1,327,818

8. Deferred Costs

	December 31, 2008			December 31, 2007
	Cost	Valuation Allowance	Net Book Value	Net Book Value
Trademarks and patents	\$ 194,883	\$ 86,166	\$ 108,717	\$ 97,882

9. Equity Instruments

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

- (b) Issued and outstanding common shares

	Number of Shares	Amount
Balance, January 1, 2007	53,217,074	\$ 16,497,161
Shares issued on private placement 9(c)(iii),9(c)(iv)	22,882,448	30,000,000
Share issue costs 9(c)(iii),9(c)(iv)	-	(1,652,266)
Shares issued on exercise of options/warrants	1,614,952	1,083,157
Accumulated contributed surplus of options/warrants exercised (Note 10)	-	681,553
Balance, December 31, 2007	77,714,474	\$ 46,609,605
Shares issued for PS acquisition (Note 4)	4,551,326	4,851,713
Working capital claw back of PS acquisition (Note 4)	(253,484)	(270,214)
Shares repurchased 9(e)	(132,200)	(82,395)
Balance, December 31, 2008	81,880,116	\$ 51,108,709

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2008 and 2007

9. Equity Instruments (cont'd)

(c) Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance, January 1, 2007	\$0.225 – 1.00	2.91 years	4,663,690
Warrants issued on private placement (iii)	\$1.00	1.00 years	600,000
Less warrants exercised			(873,284)
Balance, December 31, 2007	\$0.225 – 1.00	2.37 years	4,390,406
Less warrants expired			(480,000)
Balance, December 31, 2008	\$0.225	1.62 years	3,910,406

- (i) On August 17, 2004, the Company completed the reverse takeover of a public company, GRD. Upon the completion of this business combination, 4,360,035 previously issued warrants were repriced to \$0.225 each (pre-business combination price \$0.613). Each warrant holder is entitled to acquire for each warrant one common share of the Company. During 2007, 153,284 of the warrants were exercised. As at December 31, 2008, 3,910,406 warrants remained unexercised; these warrants expire on August 16, 2010.
- (ii) On March 21, 2006, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, exercisable at \$1.00 per share, to the underwriters of the private placement. During 2007, 450,000 of the warrants were exercised; the remaining 150,000 warrants expired on March 21, 2008.
- (iii) On April 17, 2007, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, exercisable at \$1.00 per share, to the underwriters of the private placement. During 2007, 270,000 of the warrants were exercised; the remaining 330,000 warrants expired on April 17, 2008.

The fair value of the warrants of \$192,311 were 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 0.67 years.

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

- (iv) 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 are cash related.

Call Genie Inc.
Notes to Consolidated Financial Statements

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9. Equity Instruments (cont'd)

(d) Options (Note 22)

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers and employees and agents of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. Since the inception of the Plan, the Company has granted 13,788,500 stock options to its employees, officers and directors. As at December 31, 2008, 1,465,833 stock options remain outstanding at prices ranging from \$0.20 to \$0.94 per share. Options for the Company's directors vest immediately, while options for employees vest ratably over a period of three years. All options have a life of five years and have expiry dates ranging from September 1, 2010 to October 1, 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 option pricing model with the following assumptions:

	2008	2007
Risk-free rate	3.27%	4.2%
Dividend yield	0.0%	0.0%
Volatility rate	91.2%	86.3%
Expected option life	3.35 years	3.35 years
Weighted average option fair value	\$0.30 per share	\$0.74 per share

For the year ended December 31, 2008, \$2,602,792 (2007 - \$1,261,835) has been recorded as stock-based compensation related to options with the corresponding amount charged to contributed surplus. The amount expensed in 2008 includes \$1,284,509 related to a voluntary option surrender program completed by the Company on November 21, 2008 which resulted in the cancellation of 8,707,666 options.

- (i) The following table summarizes information about the stock options outstanding at December 31, 2008:

Range of Exercise Prices per Share	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.00 to \$0.49	445,000	4.68	\$0.24	-	-	-
\$0.50 to \$0.99	1,020,833	3.25	\$0.54	689,997	1.80	\$0.52
\$0.00 to \$2.50	1,465,833	3.68	\$0.45	689,997	1.80	\$0.52

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9. Equity Instruments (cont'd)

- (ii) The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at December 31, 2008 and 2007:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
Balance, January 1, 2007	4,507,500	\$0.30 - \$1.60	3.43 years	\$0.59
Options granted	3,470,000	\$0.68 - \$2.40	4.42 years	\$1.37
Options exercised	(741,668)	\$0.30 - \$0.94	-	\$0.44
Options forfeited	(278,333)	\$0.45 - \$2.25	-	\$1.15
Balance, December 31, 2007	6,957,499	\$0.30 - \$2.40	3.78 years	\$0.97
Options granted	5,611,000	\$0.20 - \$1.13	4.33 years	\$0.49
Options cancelled	(8,707,666)	\$0.24 - \$2.40	3.89 years	\$0.77
Options forfeited	(2,395,000)	\$0.20 - \$2.40	3.90 years	\$0.91
Balance, December 31, 2008	1,465,833	\$0.20 - \$0.94	3.68 years	\$0.45

(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 December 31, 2008, the Company had repurchased 132,200 common shares for a purchase cost of \$65,116, at a weighted average cost of \$0.49 per share. The excess of the assigned share value over the purchase cost has been charged to contributed surplus.

10. Contributed Surplus

Balance, January 1, 2007	\$ 1,870,614
Fair value assigned for options (Note 9(d))	1,261,835
Fair value of options and warrants exercised during the year (Note 9(b))	(681,553)
Fair value of agent warrants issued on April 17, 2007 (Note 9(c)(iii))	192,311
Balance, December 31, 2007	\$ 2,643,207
Fair value assigned for options (Note 9(d))	2,602,792
Fair value assigned for shares repurchased (Note 9(e))	17,278
Balance, December 31, 2008	\$ 5,263,277

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11. Accumulated Other Comprehensive Income

	December 31, 2008	December 31, 2007
Unrealized foreign currency translation adjustments	\$ 76,388	\$ 104,396
Accumulated other comprehensive income	\$ 76,388	\$ 104,396

12. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in technology and product development, sales and marketing, and general and administrative expenses in the normal course of operations are \$423,281 (2007 - \$567,678) 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 \$43,860 (2007 - \$78,838) 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 are in the normal course of operations and have been measured at the exchange amounts.

13. Information Included in the Consolidated Statements of Operations

	December 31, 2008	December 31, 2007
Amortization of capital assets	\$ 829,442	\$ 442,145
Change in valuation allowance for deferred costs	-	35,084
Amortization of intangibles	743,476	14,929
	1,572,918	492,158
Foreign exchange loss included in general and administrative expenses	36,976	22,024

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14. Income Taxes

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

	<u>2008</u>	<u>2007</u>
Combined tax rates	29.5%	33.0%
Expected income tax (recovery) at statutory rate	\$ (6,036,961)	\$ (4,170,034)
Stock-based compensation	767,824	416,405
Share issuance costs	(125,080)	(157,800)
Change in rate	1,328,972	1,069,127
Other permanent differences	7,928	10,519
Change in valuation allowance	4,057,317	2,831,783
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

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 carryforwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

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

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Future tax assets:		
Capital and other assets	\$ 438,422	\$ 8,093
Share issuance costs	322,685	407,502
Unused tax loss carryforwards	10,253,198	7,406,624
	11,014,305	7,822,219
Valuation allowance	(11,014,305)	(7,822,219)
Future tax assets	<u>\$ -</u>	<u>\$ -</u>
Reserve for future tax assessments included in accrued liabilities	<u>\$ 391,147</u>	<u>\$ -</u>
Future tax liabilities:		
Acquired technology and customer lists	\$ -	335,954
Total future tax liability	<u>\$ -</u>	<u>\$ 335,954</u>

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14. Income Taxes (cont'd)

As at December 31, 2008, subject to confirmation from the respective income tax authorities, the Company has a total of \$37,318,597 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

	<u>Non-Capital Losses</u>
2009	\$ 145,800
2010	925,878
2014	1,017,542
2015	1,279,000
2026	5,460,110
2027	11,444,945
2028	17,045,322
	<u>\$ 37,318,597</u>

For Canadian tax purposes, the Company has non-capital losses of \$35,801,402 and for U.S. tax purposes, the Company has net operating losses of \$1,453,211 that have a 15-year carryforward period.

15. Commitments and Contingencies

(a) Leases

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

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
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
2013	\$ 176,975	\$ -	\$ 176,975

(b) General

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

December 31, 2008 and 2007

15. Commitments and Contingencies (cont'd)

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

16. Indemnifications

(a) Directors and officers

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

(b) Other

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

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

December 31, 2008 and 2007

17. Financial Instruments and Risk Management

Classification of financial instruments

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

The Company holds various forms of financial instruments as follows:

Financial Instrument	Designation	Measurement	December 31, 2008	December 31, 2007
Cash	Held for trading	Fair value	\$ 1,463,934	\$ 422,717
Short-term investments	Held for trading	Fair value	3,511,506	21,000,000
Accounts receivable	Loans and receivables	Amortized cost	552,339	1,409,467
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost	1,814,671	1,407,136

Held for trading

The Company has classified its cash and cash equivalents as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net income or loss during the year. As at December 31, 2008, the Company held \$3,511,506 (\$21,100,000 at December 31, 2007) of cashable guaranteed investment certificates bearing a weighted average interest rate of 1.8% (4.5% in 2007) with a maturity date of no more than three months.

Loans and receivables

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

Other financial liabilities

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

For the years ended December 31, 2008 and 2007, 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.

December 31, 2008 and 2007

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

Credit risk

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

At December 31, 2008, primarily all of the Company's cash and cash equivalents were held at one financial institution.

The Company, in the normal course of business, is exposed to credit risk from its customers. The accounts receivable are subject to normal credit risks. For the year ended December 31, 2008, the Company earned 37% (76% in 2007) of its revenues from one directory service provider and at December 31, 2008, the Company had \$135,715 (\$499,549 in 2007) receivable from this customer. The following table provides the details of the aged receivables and the related allowance for doubtful accounts:

	Amount
Current	\$ 320,108
31 to 60 days	175,946
61 to 90 days	775
Over 90 days	55,510
Less: allowance for doubtful accounts	-
Total accounts receivable, net	\$ 552,339

Liquidity risk

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

Foreign currency risk

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

The most significant exposure arises from U.S. dollar revenues and costs. For the year ended December 31, 2008, approximately 32% of revenues and 20% of costs were transacted in U.S. dollars. As a result, the Company may experience transaction exposure because of volatility in the exchange rate between the Canadian and U.S. dollars. Based on the Company's current U.S. denominated net outflows, as at December 31, 2008, an increase in the value of the U.S. dollar versus the Canadian dollar of 10% would, everything else being equal, have an effect of increasing revenue by 3.2%, increasing costs by 2.0% and increasing the loss from operations by 1.8%. A decrease in the value of the U.S. dollar would effect a corresponding decrease by these percentages.

December 31, 2008 and 2007

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

The Company is also exposed to foreign exchange risk from transactions in British pounds, Euros and Danish kroner. Fluctuations of 10% in the exchange rates for these currencies, when compared to the Canadian dollar, are not expected to individually have a material impact on the Company's results of operations. Should the exchange rate for any of these currencies fluctuate in the same direction as the U.S. dollar, compared to the Canadian dollar, the effect on revenues, costs and loss from operations would be in the same direction as the U.S. dollar effect and would increase the total effect on the Company's results. Correspondingly, a fluctuation in the exchange rate for any of these currencies that is in the opposite direction as the U.S. dollar would decrease the total effect on the Company's results.

Interest rate risk

The Company is exposed to interest rate risk only through its financial assets. For the years ended December 31, 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.

The Company believes that interest rate risk is low as interest rates on short-term investments range from 1.0% to 3.0% and the interest rates are either variable or are fixed for 90 days or less. A 50 basis points change in interest rates would have increased or decreased interest income by \$6,100 per quarter based on December 31, 2008 financial asset balances.

Fair values of financial instruments

Due to the short-term nature of all financial instruments, the carrying values as presented in the consolidated balance sheets approximate their fair values.

18. Capital Management

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 capital structure of the Company consists of common equity issues.

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

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

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19. Segmented Information

Operating segments

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

Geographic information

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

	2008	2007
Canada	\$ 1,644,637	\$ 1,382,006
United States	982,527	149,094
Europe	1,410,780	182,404
Other	229,409	97,672
Total	\$ 4,267,353	\$ 1,811,176

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

	December 31, 2008	December 31, 2007
Canada	\$ 960,649	\$ 839,951
United States	87,739	-
Denmark	29,806	14,846
Total	\$ 1,078,194	\$ 854,797

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

	December 31, 2008	December 31, 2007
United States	\$ 1,465,037	\$ -
Denmark	931,103	757,900
Total	\$ 2,396,140	\$ 757,900

December 31, 2008 and 2007

20. Future Changes in Accounting Policies

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

Goodwill and intangible assets

The CICA issued the new accounting standard Section 3064 Goodwill and Intangible Assets which will replace Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on January 1, 2009. The Company is currently assessing the effect on its financial results.

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

In January 2009, the CICA issued Emerging Issues Committee Abstract of Issue Discussed 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173") applicable to the Company's 2009 fiscal year. EIC-173 recommends that a company take into account its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. The Company is currently assessing the effect on its financial results.

International financial reporting standards

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

Business combinations, consolidated financial statements and non-controlling interests

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

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21. Comparative Figures

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

22. Subsequent Event

On February 25, 2008, the Board of Directors approved the issuance of 9,962,500 stock options to employees and directors under the Plan. The 9,132,500 options issued to employees have an exercise price of \$0.075. The 830,000 options granted to directors have an exercise price of \$0.15. All options vest over a two-year period. The \$0.075 exercise price of the employee options represents the prior 10-day weighted average closing price.
