



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 audited consolidated financial statements and the accompanying notes as at and for the year ended December 31, 2008, which have been filed with certain securities regulatory authorities in Canada and may be accessed at www.sedar.com (under Call Genie’s profile). CG’s annual financial statements and the accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). All amounts are stated in Canadian dollars unless otherwise indicated. The information in this MD&A is current to March 30, 2009, unless otherwise noted.

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

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

FORWARD LOOKING STATEMENTS and DISCLAIMER

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

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.**



The Company has included non-generally accepted accounting principles ("non-GAAP") measures in this document. "Net Loss before stock compensation expense", a non-GAAP measure as defined by the Company, means Net Loss without the inclusion of any stock-based compensation expense and is derived from the Company's consolidated statement of operations.

Readers are cautioned that non-GAAP definitions are not recognized measures under Canadian GAAP, do not have standardized meanings prescribed by GAAP, and should not be construed to be alternatives to net income determined in accordance with GAAP or as indicators of performance or liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities. The Company uses these measures because it believes they provide useful information to both management and investors with respect to the operating and financial performance of the Company.



EXECUTIVE SUMMARY

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

During 2008, the Company integrated the operations and technologies acquired with the acquisitions of BTS Logic ApS (“BTS”) and PhoneSpots Inc. (“PhoneSpots”). These technologies enable the Company to provide a broad product offering that provides a seamless multi-modal consumer experience.

The Company’s loss for the year ended December 31, 2008 was \$20.46 million or \$0.25 per share, up 62% from the loss of \$12.64 million or \$0.18 per share from prior year. The increased loss for the period was primarily the result of increased investment in all areas of the Company’s business. Sales and marketing costs increased \$1.15 million, technology and product development costs increased \$2.51 million, and general and administrative costs increased \$1.76 million. As a result of this continued investment, the Company’s cash resources declined to \$4.98 million at December 31, 2008 from \$21.42 million at the end of 2007.

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

KEY FINANCIAL METRICS	2008	2007	2006
Cash and Cash Equivalents	\$ 4,975,440	\$ 21,422,717	\$ 5,930,024
Deferred Revenue	\$ 936,240	\$ 421,789	\$ nil
Revenue	\$ 4,267,353	\$ 1,811,176	\$ 698,246
Net Loss excluding stock-based Compensation*	\$ (17,861,483)	\$ (11,374,631)	\$ (5,691,588)
Net Loss	\$ (20,464,275)	\$ (12,636,466)	\$ (6,451,062)
Earnings per share – fully diluted	\$ (0.25)	\$ (0.18)	\$ (0.13)
Common shares outstanding			
- Basic	81,880,116	77,714,474	53,217,074
- Fully diluted	87,256,355	89,062,379	62,388,264
* - non GAAP measure – see disclaimer			



BUSINESS STRATEGY

Vision

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

Our Strategy

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

Strategic Priorities and Progress in 2008

Strategic Priority	Progress in 2008
Build seamless multi-modal user experience	<ul style="list-style-type: none"> • Completed integration of technologies purchased from BTS and PhoneSpots. • Merchant information can be delivered via voice or data. • Interaction with the CG service can be automated or through human interaction with the capabilities of the operator workstation.
Continued focus on global business development and adding new accounts.	<ul style="list-style-type: none"> • Technology deployed in 11 countries around the world principally in Canada, the United States, and Europe. • Signed two major accounts in Europe - 118 Media and Yell Communications. • Signed a major customer in India – Tata Consulting to a 10 year long term contract.
Increase revenue through customer retention and relationship expansion	<ul style="list-style-type: none"> • Revenue grew 136% year over year • All tier 1 customers retained. • Cross selling of acquired technology has occurred.



Develop ad network (the “Ad Network”)	<ul style="list-style-type: none"> • Key business development team hired with strong industry contacts. • Agreements with merchant listing providers upgraded to enable monetization through voice or data presentation to consumers. • Technology solution built to accommodate multiple ad sources.
Partner with industry leaders	<ul style="list-style-type: none"> • Entered into key partnership arrangements with Telcordia, Soleo, and Vlingo.
Achieve decreasing quarterly cash usage	<ul style="list-style-type: none"> • Cash usage declined quarter over consecutive quarter. Quarterly cash burn is as follows: <ul style="list-style-type: none"> ○ Q1 - \$4.92 million ○ Q2 - \$4.72 million ○ Q3 - \$4.35 million ○ Q4 - \$2.46 million

KEY PERFORMANCE DRIVERS

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

1) Revenues from the Canadian market:

The commercialization of the voice search service with TELUS and Yellow Pages Group of Canada (“YPG”) is on-going. In the 3rd quarter of 2008, the Company announced TELUS’s national deployment of its interact voice service. In conjunction with the increase in business category search traffic, YPG has been refining its voice directory commercialization strategy. This strategy may have a positive effect on the revenues from the Canadian market as Call Genie primarily derives its Canadian market revenues from its revenue sharing agreement with YPG.

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

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



fees and revenue sharing arrangements following implementation and commercial roll-out of applications using CG technology.

3) Revenues from deployment of Directory Assistance workstation software:

The Company has identified several business development opportunities for the sale of its workstation software. In the past, the Company has entered into agreements that are based on fixed up-front license fees rather than a future orientated revenue sharing arrangement. This software is of particular importance in Europe where voice automation has been slow to penetrate in many markets.

4) Revenues from Ad Network opportunities:

The Company expanded its addressable market to include bringing its mobile local search and advertising products to newspaper, television and triple-play publishers and is engaged in discussions with both local and national brand advertisers who have expressed an interest in capitalizing on this type of inventory. As well, the Company announced a contractual arrangement with 118 Media for the delivery of a self-serve advertising solution via a web based campaign management tool.

CAPABILITY TO DELIVER

Leadership

Due to the nature of the Company, execution of the Company's business plan is, to a significant degree, dependent on the capabilities of the people within the organization. Executive leadership is a key component of the planning, organize and deliver of the activities necessary to achieve success. The Company has an executive management team with over 110 years of industry specific experience in the technology field. The executive team is led by Michael Durance, CEO. Mr. Durance has over 25 years of experience and has been with the CG since June 1, 2006. Before joining Call Genie, Mr. Durance was vice president and general manager of the Digital Solutions division of Toshiba America Information Systems. As leader of a number of business units, he was charged with bringing together Toshiba's telecommunications, imaging, hotspots, PDA and laptop technology into bundled mobility solutions. Prior to Toshiba, Mr. Durance was Corporate vice president of the Integrated Solutions Group for ADC Telecommunications, Inc., a data transmission products company.

Mr. Durance has assembled an experienced team consisting of Mike Henderson, Chief Sales Officer – hired in May 2008 with over 25 years of experience; Chet Chan, Senior VP of Client Services – hired in June 2007 with 21 years of experience; Eric Fredine, Chief Technology Officer – hired in January 2006 with 21 years of experience; and Chris Shelton, Chief Financial Officer – hired in March 2006 with over 18 years of experience. Further



information about the executive team and the Board of Directors is available on the Company's website at www.callgenie.com.

Financing

The Company did not raise any equity financing in 2008 and did not attempt to secure long-term debt, which was consistent with its plan to fund its operations from the proceeds of equity financing completed in 2007. In the second half of 2008, the Company recognized that economic and market events significantly increased the uncertainty with respect to forecasting short-term growth and profitability. Certain customer projects were scaled back, delayed or cancelled.

Management and the directors of CG recognize that the current credit and equity markets affect the Company's ability to secure further equity financing. The cash resources available at December 31, 2008 would not have been sufficient to execute the Company's business plans in the absence mitigating risk management strategies and accordingly, the Company has continued to execute on its cash conservation programs which included a temporary salary reduction in 2009 for all staff.

Productive Capacity

The Company's business model is based on the ability to generate recurring revenues without a proportional increase in expenses for staff salaries and benefits. To that end, the Company builds its application software using a product model rather than building individual customized solutions. In 2008, the Company allocated research and development resources to integrate its product lines and reorganize its voice directory software to facilitate improved deployment timelines in 2009. Management of CG believes that the Company has adequate resources, both human and capital, to deliver all projects currently scheduled.



RESULTS OF OPERATIONS

Overall

The Company's loss for the year ended December 31, 2008 was \$20.46 million or \$0.25 per share, up 62% from the loss of \$12.64 million or \$0.18 per share for the year ended December 31, 2007. The increased loss for the period was primarily the result of increased investment in all areas of the Company's business. Sales and marketing costs increased \$1.15 million, technology and product development costs increased \$2.51 million, and general and administrative costs increased \$1.76 million.

Revenues

Revenues for the year ended December 31, 2008 increased to \$4.27 million from \$1.81 million for the year ended December 31, 2007, which is a 136% period over period increase. The increase is primarily due to revenues generated from customers located in Europe and the United States, and to a lesser degree, revenues earned in the Canadian market. Revenues increased \$1.23 million in Europe, \$0.83 million in the United States and \$0.26 million in Canada. These increases predominately reflect the customers and product-lines acquired with the acquisitions of BTS and PhoneSpots.

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

In 000's	2008	2007	Variance	% change
Voice	1,977	1,441	536	38%
SMS Data	803	n/a	803	100%
Workstation	1,487	370	1,117	302%
Total	4,267	1,811	2,456	136%

The Company has reviewed its revenue arrangements and determined that, in substance, certain arrangements are hosted solutions wherein all implementation fees should be deferred and recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Deferred Revenue at December 31, 2008 was \$0.936 million compared to \$0.422 million at the end of 2007. The Deferred Revenue will be predominantly recognized over the next 3-5 years for financial statement purposes.



Cost of Sales

Cost of sales for the year ended December 31, 2008 increased to \$3.29 million from \$1.29 million in the year ended December 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 the Company's hosted services, including telephony costs, hosting, network, voice recordings and other third party charges.

Expenses excluding Stock Based Compensation and Amortization

Expenses excluding stock option compensation and amortization for the year ended December 31, 2008, increased to \$17.86 million from \$11.37 million for the year ended December 31, 2007. The \$6.49 million increase in expense is primarily due to the level of staff resources in all operational areas of the business. The quarterly average level of staff resources was 118 in 2008 compared to 87 in 2007.

Sales and Marketing

Sales and marketing costs for the year ended December 31, 2008 were \$5.48 million compared to \$4.32 million for the year ended December 31, 2007. The 26% increase of \$1.15 million is primarily attributable to the number of staff engaged, either directly or on contract, to undertake business development, account management or marketing activities. In the second half of 2008, the Company allocated staff to business development initiatives involving the Ad Network while scaling back some marketing activities.

Salaries, commissions and benefits for all sales & marketing staff represented an increase of approximately \$1.20 million. Reduced trade conference activity in the year resulted in travel expenses increasing only \$0.04 million compared to the same period last year. Correspondingly, conferences, advertising and promotional expenses collectively decreased by \$0.13 million compared to the same period last year. Consulting and miscellaneous other expenditures also increased by \$0.04 million compared to the same period last year.

Technology and Product Development

Technology and Product Development costs of \$6.51 million increased by \$2.51 million for the year ended December 31, 2008, compared to 2007. The 63% increase was primarily due to increased staff engaged in further developing product software and processes. In 2008, staffing cost increased by approximately \$2.27 million compared to the year ended December 31, 2007. For 2008, the Company maintained an average staff of 46 compared to 26 for 2007. The increase in staff was commensurate with acquisition of the new products acquired from BTS and PhoneSpots. Recent development has focused on the refactoring and integration of the complete product suite in order to improve future delivery capabilities.



General and Administration

General and administration costs for the year ended December 31, 2008 were \$5.67 million compared to \$3.91 million for 2007. The 45% increase of \$1.76 million was consistent with the infrastructure costs required to execute the Company's business plan and the acquisitions of BTS and PhoneSpots. The increase was due to 1) increased staff costs of approximately \$0.55 million; 2) increased office rent, telephone charges and supplies of \$0.60 million required to support the employee base; and 3) increased professional services fees of \$0.40 million.

Stock Based Compensation

Stock based compensation expense for the year ended December 31, 2008 was \$2.60 million compared to \$1.26 million for the year ended December 31, 2007. Approximately \$1.28 million of the \$1.34 million period over period increase was the result of the accounting treatment required when undertaking a voluntary option surrender program. In November, 2008, the Company completed a voluntary stock option surrender program wherein employees and directors surrendered 8.7 million stock options for cancellation. CG management viewed this non-recurring, non-cash expense as necessary but not a relevant expense to measurement of the Company's operational performance.

Interest Income

Interest income for the year ended December 31, 2008 was \$0.40 million, compared to \$0.84 million for same period in 2007. The decrease is consistent with the decreased average cash held by the Company in interest bearing short-term investments.

Net Loss

As a result of the foregoing, CG's net loss for the year ended December 31, 2008 was \$20.46 million which was \$7.83 million higher than the net loss for the same period in 2007.



SUMMARY OF QUARTERLY RESULTS

For the Quarters Ended (unaudited)								
in thousands	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Revenue	\$ 293	\$ 353	\$ 407	\$ 758	\$ 1,013	\$ 1,402	\$ 875	\$ 977
Cost of sales	196	298	345	454	844	921	870	657
Gross margin	97	55	62	304	169	481	5	319
Expenses								
Sales and marketing	858	992	1,164	1,316	1,436	1,510	1,381	1,147
Research and development	699	728	1,025	1,548	1,731	1,763	1,553	1,470
General and administrative	682	808	1,156	1,264	1,397	1,769	1,195	1,308
Stock based compensation	192	487	97	486	376	497	312	1,417
Amortization	71	119	148	154	366	402	395	410
	2,502	3,134	3,590	4,768	5,306	5,940	4,836	5,752
Loss from operations	(2,405)	(3,079)	(3,528)	(4,464)	(5,137)	(5,459)	(4,831)	(5,433)
Other income								
Interest income	51	206	321	261	179	109	60	48
Net loss for the period	(2,354)	(2,873)	(3,207)	(4,203)	(4,958)	(5,350)	(4,771)	(5,385)
Basic and diluted loss per share	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.06)	\$ (0.06)	\$ (0.07)	\$ (0.06)	\$ (0.06)

Overall

The Company's loss for the three months ended December 31, 2008 was \$5.39 million or \$0.06 per share, up 28% from the loss of \$4.20 million from same quarter in the prior year. The increased loss of \$1.19 million for the period was primarily the result of increased stock based compensation expense (non-cash) associated with the voluntary stock option surrender program completed in the fourth quarter of 2008. As previously discussed the expense recorded in connection with the voluntary stock option surrender program was \$1.28 million. The variance in other expenses categories was not significant. Sales and marketing costs decreased \$0.17 million, technology and product development costs decreased \$0.08 million, and general and administrative costs increased \$0.04 million.



Revenues

Revenues for the three months ended December 31, 2008 increased to \$0.98 million from \$0.76 million for the three months ended December 31, 2007, which is a 29% period over period increase. The increase is primarily due to revenues generated from customers located in Europe and the United States which reflects increased revenue from the customers and product-lines acquired with the acquisition of PhoneSpots Inc.

FINANCIAL CONDITION

Selected data on financial position	2008	2007	2006
Cash and cash equivalents	\$ 4,975,440	\$ 21,422,717	\$ 5,930,024
Net working capital	\$ 3,353,970	\$ 21,477,096	\$ 5,869,270
Total assets	\$ 14,255,348	\$ 26,945,360	\$ 6,961,759
Total long-term liabilities	\$ 391,521	\$ 541,092	\$ -
Total liabilities	\$ 2,892,488	\$ 2,209,391	\$ 578,757
Shareholders' equity	\$ 11,362,860	\$ 24,735,969	\$ 6,383,002

LIQUIDITY AND CAPITAL RESOURCES

Assets

CG's total asset base as at December 31, 2008 was \$14.26 million, down from \$26.95 million at December 31, 2007. The decrease was principally the result of the continuing operating losses incurred as the Company executes its business plan. See "Business Risks and Uncertainties" below.

The reduction in total assets was offset with the purchase of goodwill and intangibles related to the acquisition of PhoneSpots. Purchased goodwill and intangibles increased by \$5.39 million, while cash and cash equivalents decreased \$16.45 million to \$4.98 million as at December 31, 2008.

Working Capital

At December 31, 2008, the Company had positive working capital including cash and cash equivalents of \$3.35 million, down \$18.12 million from December 31, 2007. The decrease in working capital is primarily due to the decreased cash of \$16.45 million and, to a lesser



degree, decreases in accounts receivable and increases in accrued liabilities and deferred revenue.

Cash and Cash Equivalents

At December 31, 2008, the Company's cash and cash equivalents amounted to approximately \$4.98 million compared with \$21.42 million at December 31, 2007. The \$16.44 million decrease was due to the \$15.56 million of cash used in 2008 to fund operations, \$0.07 million used in 2008 to repurchase common shares and \$0.81 million used in 2008 to fund investing activities. The purchase of capital assets, \$0.88 million, related primarily to the Company's investment in a data centre located in the United States.

OUTSTANDING SHARE DATA

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized for issuance. On December 31, 2008, 81,880,116 common shares were outstanding compared to 77,714,473 common shares outstanding at December 31, 2007. The increase is due to 4,297,842 common shares issued in connection with the acquisition of PhoneSpots on January 2, 2008, less 132,200 shares repurchased for cancellation pursuant to a normal course issuer bid.

On December 31, 2008, the Company had 1,465,833 (6,957,499 in 2007) stock options outstanding with a weighted average exercise price of \$0.45 and 3,910,406 (4,390,406 in 2007) warrants outstanding with an exercise price of \$0.225. The number of outstanding shares on fully diluted basis was 87,256,355 at December 31, 2008 compared to 89,062,379 at December 31, 2007. On February 25, 2009, the Company issued 9,962,500 stock options to employees and directors. Further information on CG's outstanding share capital is provided in Note 9 to the Company's consolidated annual financial statements.

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 could, 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 purchased and cancelled 132,200 common shares (at a weighted average of \$0.49 per share) under the NCIB.

CONTRACTUAL OBLIGATIONS & OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2008, the Company had \$2.88 million (\$3.62 million in 2007) of obligations under long-term operating leases for premises and office equipment for various periods up to 2013. For 2009, the minimum annual lease obligation is \$0.88 million.

The Company did not have any "off-balance sheet" arrangements as of December 31, 2008.



RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Company recorded \$423,281 (\$567,678 in 2007) of general and administrative expenses for transactions with companies controlled by officers in the normal course of operations. Included in accounts payable and accrued liabilities is \$43,860 (\$78,838 in 2007) due to various directors, officers and consultants of the Company all of which is for services rendered and reimbursement of expenses.

OUTLOOK

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

The Company continues to implement various measures to reduce the use of cash. These measures include but are not limited to: 1) temporary reduction of salaries; 2) elimination of major capital purchases; 3) reduced expenditures on travel and conferences; 4) rationalization of manpower in certain non-strategic operational areas; 5) cancelation of the existing management bonus program; and 6) elimination of directors fees. The amount of investment in technology development and business development continues to be assessed relative to available cash resources.



BUSINESS RISKS AND UNCERTAINTIES

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

No Record of Profit

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

Current Enterprise Value assigned by the Market; Liquidity

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

Substantial Capital Requirements; Liquidity

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



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

Cash Conservation Programs impacting Delivery Capability

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

Developing Market

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

Third Party Technology

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



Rapid Technological Change

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

Competition

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

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

Need for Research and Development

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

Defects and Liability

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



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

Patents and Other Intellectual Property

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

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

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

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

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



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

Personnel Resources

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

Potential Fluctuations in Quarterly Operating Results

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

Government Regulation

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

Costs Associated with Compliance with Securities Laws

CG is a publicly traded corporation and is subject to all of the obligations imposed on "reporting issuers" under applicable securities laws and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with public company status have escalated dramatically in recent years and regulatory initiatives under consideration may further increase the costs of being public in Canada and could have a material adverse effect on CG's business, results of operations and financial condition. If CG is unable to generate significant revenues from business operations, the cost of complying with applicable regulatory requirements will represent a significant financial burden to CG and may have a material adverse effect on CG's business, results of operations and financial condition.



Risk of Future Terrorist Attacks or Related Disasters

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

Risk of Industry Consolidation

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



REGULATORY MATTERS AND DISCLOSURES

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

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

Hosted Arrangements

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

Software License Arrangements

The Company also offers complete solutions integrated into customer data centers. These solutions may involve the delivery of multiple services and products occurring at different points in time or over different periods of time (or both). Revenue recognition for these arrangements is determined based on evaluation of the individual elements of the arrangements. If vendor-specific objective evidence of fair value (“VSOE”) of all the undelivered elements exists and the undelivered elements are not essential to the functionality of the delivered elements, separate units of accounting are identified, the total arrangement consideration is allocated to the individual units of accounting following the residual method and revenue for the individual elements is recognized as appropriate. If VSOE of all undelivered elements does not exist, the entire arrangement is treated as one unit of accounting and revenue is deferred and recognized ratably over the remaining term of the contract, commencing when all elements except for PCS are delivered. To date, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements.



Services

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

Asset Impairment

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

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates in the future. The most significant estimates relate to the valuation of property, plant and equipment, intangibles, goodwill, deferred costs, and future income tax liabilities.

Stock-Based Compensation

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

Adoption of Recent Canadian Accounting Pronouncements in 2008

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.

Other Recent Canadian Accounting Pronouncements Not Yet Adopted

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

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.

Business combinations, consolidated financial statements and non-controlling interests

In October 2008, the CICA issued Section 1582 Business Combinations ("Section 1582") concurrently with Section 1601 Consolidated Financial Statements ("Section 1601"), and Section 1602 Non-controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581 Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business



combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its consolidated financial statements.

International Financial Reporting Standards

The CICA Accounting Standards Board ("AcSB") plans to converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 with the adoption of IFRS. On February 13, 2008 the AcSB announced that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has not yet determined the effect of the transition to and adoption of IFRS on its financial statements. An initial diagnostic impact assessment is planned for the first half of 2009.

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 and annual 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 particularly during the period in which the interim filings are being prepared. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in its filings with provincial securities regulators is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

Management's Annual 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 establishing and maintaining internal controls over financial reporting ("ICFR") and have designed and tested such controls (or caused them to be designed and tested under their supervision) in order to



provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company is satisfied with the effectiveness of its internal controls over financial reporting. Consistent with the Company's stage of development, the Company continues to rely on risk mitigating procedures during its financial close processes in order to provide comfort that the financial statements are presented fairly in accordance with Canadian GAAP.

While the Company is satisfied with the effectiveness of its internal controls over financial reporting, additional improvements could be undertaken to address 1) further segregation of accounting duties; 2) further investment technical accounting knowledge with respect to non-routine transactions and projects; and 3) further investment in accounting systems software.

Changes in Internal Controls over Financial Reporting

The CEO and CFO determined that there were no changes in the Company's ICFR that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

CLIMATE CHANGE AND OTHER ENVIROMENTAL ISSUES

CG management have assessed the risk of changes to the climate against the Company's ability to execute its business plans and concluded the risks are not material. This is consistent with the inherent nature of an application software business.