

**Call Genie Inc.
Consolidated Financial Statements
For the years ended December 31, 2007 and 2006**

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To the Shareholders of Call Genie Inc.

We have audited the consolidated balance sheet of Call Genie Inc. as at December 31, 2007, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated February 16, 2007.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 12, 2008

**Call Genie Inc.
Consolidated Balance Sheets**

As at December 31	2007	2006
Assets (Note 1)		
Current assets:		
Cash and cash equivalents (Note 17)	\$ 21,422,717	\$ 5,930,024
Accounts receivable (Note 17)	1,409,467	422,719
Prepaid expenses and deposits	313,211	95,284
	23,145,395	6,448,027
Capital assets (Note 5)	854,797	398,520
Goodwill (Note 6)	757,900	-
Intangibles (Note 7)	1,327,818	-
Corporate transaction costs (Note 21)	65,143	-
Restricted cash held for pending acquisition (Note 21)	696,425	-
Deferred costs (Note 8)	97,882	115,212
	\$ 26,945,360	\$ 6,961,759
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 12)	\$ 1,451,648	\$ 578,757
Current portion of deferred revenue	216,377	-
Current portion of future tax liability (Note 14)	44,786	-
	1,712,811	578,757
Deferred revenue	205,412	-
Future tax liability (Note 14)	291,168	-
	2,209,391	-
Shareholders' equity:		
Equity instruments (Note 9)	46,609,605	16,497,161
Contributed surplus (Note 10)	2,643,207	1,870,614
Deficit	(24,621,239)	(11,984,773)
Accumulated other comprehensive income (Note 11)	104,396	-
	24,735,969	6,383,002
	\$ 26,945,360	\$ 6,961,759

Going concern (Note 1)

Commitments (Note 15)

Subsequent event (Note 21)

Approved on behalf of the Board:

"Signed" _____ Director
Richard DeVries

"Signed" _____ Director
S. Graeme Ross

Call Genie Inc.
Consolidated Statements of Operations

For the year ended December 31	2007	2006
Revenue (Notes 17 and 18)	\$ 1,811,176	\$ 698,246
Costs of sales	1,293,332	369,428
Gross margin	517,844	328,818
Expenses (Note 12):		
Sales and marketing	4,329,694	2,390,007
Technology and product development, net	4,000,337	1,985,408
General and administrative	3,909,468	1,734,945
Stock based compensation (Note 9)	1,261,835	759,474
Amortization (Note 13)	492,158	179,380
	13,993,492	7,049,214
Loss from operations	(13,475,648)	(6,720,396)
Other income:		
Interest income	839,182	269,334
Net loss for the year	\$ (12,636,466)	(6,451,062)
Basic and diluted loss per share	\$ (0.18)	\$ (0.13)
Weighted average number of shares – basic and diluted	69,235,350	50,842,970

Call Genie Inc.
Consolidated Statements of Comprehensive Loss and Deficit

For the year ended December 31	2007	2006
Comprehensive loss:		
Net loss for year	\$ (12,636,466)	\$ (6,451,062)
Other comprehensive income (loss)		
Net change in cumulative translation adjustment	104,396	-
Comprehensive loss	\$ (12,532,070)	\$ (6,451,062)
Deficit, beginning of year	\$ (11,984,773)	\$ (5,553,711)
Net loss for year	(12,636,466)	(6,451,062)
Deficit, end of year	\$ (24,621,239)	\$ (11,984,773)

Call Genie Inc.
Consolidated Statements of Cash Flows

For the years ended December 31	2007	2006
Cash flows from operating activities		
Net loss for the year	\$ (12,636,466)	\$ (6,451,062)
Items not involving cash:		
Stock based compensation	1,261,835	759,474
Amortization	492,158	179,380
	<u>(10,882,473)</u>	<u>(5,512,208)</u>
Changes in non-cash working capital:		
Accounts receivable	(791,525)	(308,537)
Prepaid expenses and advances	(184,697)	(33,341)
Accounts payable and accrued liabilities	360,622	257,420
Deferred revenue	242,166	-
	<u>(11,255,907)</u>	<u>(5,596,666)</u>
Cash flows from financing activities		
Issuance of common shares, net of issuance costs	29,623,202	9,564,121
	<u>29,623,202</u>	<u>9,564,121</u>
Cash flows from investing activities		
Purchase of capital assets	(881,181)	(454,114)
Deferred costs capitalized	(17,755)	(69,857)
Acquisition of BTS, net of cash acquired (Note 4)	(1,279,241)	-
Restricted cash held for pending acquisition	(696,425)	-
	<u>(2,874,602)</u>	<u>(523,971)</u>
Increase in cash and cash equivalents	15,492,693	3,443,484
Cash and cash equivalents, beginning of year	<u>5,930,024</u>	<u>2,486,540</u>
Cash and cash equivalents, end of year	\$ 21,422,717	\$ 5,930,024

December 31, 2007 and 2006

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 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 Enhanced Voice Directory (EVD) product as a way to connect companies with call volume 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.

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

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Call Genie (Ontario) Inc., Call Genie (USA) Inc., Call Genie Europe B.V., and BTS Logic Europe ApS ("BTS") since its date of acquisition of November 9, 2007. All material intercompany transactions have been eliminated.

(b) Cash and cash equivalents

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

(c) Technology and product development costs

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

December 31, 2007 and 2006

2. Significant Accounting Policies (cont'd)

(d) Revenue recognition

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

Hosted Arrangements

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

Software License Arrangements

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

Services

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

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service which includes employee salaries and benefits, telephony costs, hosting, network, tuning and other third party charges.

(f) Capital assets

Capital assets are recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets.

Leasehold improvements	5 years
Office furniture	5 years
Computer hardware	3 years
Computer software	1 year

December 31, 2007 and 2006

2. Significant Accounting Policies (cont'd)

(g) Operating leases

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

(h) Deferred Costs

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

(i) Impairment of Long-Lived Assets

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

(j) Intangibles

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

(k) Goodwill

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

(l) Income taxes

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

(m) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the 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 standards approved by the Canadian Institute of Chartered Accountants. As the effect of all outstanding options and warrants is anti-dilutive, diluted loss per share does not differ from basic loss per share.

December 31, 2007 and 2006

2. Significant Accounting Policies (cont'd)

(n) Stock based compensation

The Company has a stock-based compensation plan as described in Note 9(d). The Company accounts for its stock-based compensation programs using the fair value method in accordance with CICA Handbook Section 3870. Under this method, stock based compensation expense related to these programs is charged to income with the corresponding amount increasing contributed surplus over the vesting period.

(o) Use of estimates

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

(p) Translation of Foreign Currencies

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

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

3. Changes in Accounting Policies

Effective on January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income ("Section 1530"); Section 1651, Foreign Currency Translation ("Section 1651"); Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"); Section 3861, Financial Instruments – Disclosure and Presentation ("Section 3861"), Section 3865, Hedges ("Section 3865") and Section 3251, Equity ("Section 3251"). These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and nonfinancial derivatives.

(a) Section 1530 Comprehensive Income

This Section describes the reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income (loss) is composed of net loss and other comprehensive income (loss). The Company's other comprehensive income (loss) includes unrealized gains and losses on translation of self-sustaining foreign operations. The components of comprehensive income (loss) are disclosed in the consolidated statements of comprehensive income (loss).

December 31, 2007 and 2006

3. Changes in Accounting Policies (cont'd)

(b) Section 1651 Foreign Currency Translation

This Section provides guidance on the translation of transactions of a reporting enterprise that is denominated in a foreign currency, as well as the translation of financial statements of a foreign operation for inclusion in the consolidated financial statements of a reporting enterprise. The effect of adoption of this section is described in Note 2(p).

(c) Section 3855 Financial Instruments – Recognition and Measurement

This Section sets out the standards for the recognition and measurement of financial assets and financial liabilities. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in either net income or other comprehensive income.

As a result of the adoption of these standards, the Company has made the following classifications. Cash and cash equivalents and restricted cash are classified as “held for trading” and are measured at fair value. Accounts receivable are classified as “loans and receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities are classified as “other financial liabilities” and are initially measured at their fair values. Subsequent measurements are recorded at amortized cost using the effective interest rate method. All transaction costs for these classes of financial assets and liabilities are recognized immediately in net income.

(d) Section 3865 Hedges

This Section sets out the standards on the use of hedge accounting. This standard offers different reporting requirements than those set out in Section 3855 Financial Instruments – Recognition and Measurement to qualifying transactions designated as hedges for accounting purposes.

The Company does not have any hedging instruments. Accordingly, the adoption of this Section has had no effect on the consolidated financial statements.

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

The effect of these changes in accounting policies on net loss for fiscal 2007 is not significant.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2007 and 2006

4. Business Combination

On November 9, 2007, the Company acquired 100% of the issued and outstanding shares of BTS Logic ApS ("BTS"), located in Denmark, for cash consideration of \$1,457,389, including acquisition costs of \$51,791. BTS develops and sells operator workstation software to directory assistance providers.

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

Cash	\$ 126,357
Accounts receivable and other current assets	236,287
Capital assets	17,242
Intangibles	1,254,000
Goodwill	707,244
	<u>\$ 2,341,130</u>
Current liabilities	(570,241)
Future tax liability	(313,500)
	<u>\$ 1,457,389</u>
 Consideration given:	
Cash	\$ 1,405,598
Acquisition costs	51,791
Total consideration	<u>\$ 1,457,389</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 \$707,244 which was allocated to goodwill. The Company will perform an impairment test for goodwill on an annual basis in accordance with the provisions of CICA 3062, Goodwill and Other Intangible Assets.

The amounts allocated to acquired intangible assets are related to the estimated fair value of the technology acquired and the customer list acquired. The estimated fair value of the acquired intangibles is being amortized on a straight-line basis over seven years which is the estimated period over which cash flows will be generated.

Potential Adjustment to BTS Purchase price

In connection with the acquisition of BTS, the Company is contingently liable to pay the Vendor an additional US\$166,000 if a certain contractual arrangement with a potential customer is finalized. At December 31, 2007, the Company determined that although this amount is measurable, the likelihood of the contract being completed is not determinable and therefore no provision has been recorded. However, if such an amount becomes payable, the purchase price of BTS will be adjusted.

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2007 and 2006

5. Capital Assets

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

December 31, 2006			
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 310,196	\$ 101,199	\$ 208,997
Computer software	152,212	86,129	66,083
Furniture and leasehold improvements	131,831	8,391	123,440
	\$ 594,239	\$ 195,719	\$ 398,520

6. Goodwill

	December 31, 2007	December 31, 2006
Goodwill	\$ 757,900	\$ -

As at December 31, 2007, the Company assessed the fair value of all the operating segments to which underlying goodwill is attributed and determined that no charge for impairment of goodwill was required.

7. Intangibles

	December 31, 2007		December 31, 2006
	Cost	Accumulated Amortization	Net Book Value
Technology	\$ 1,200,334	\$ 13,346	\$ 1,186,988
Customer list	142,413	1,583	140,830
	\$ 1,342,747	\$ 14,929	\$ 1,327,818

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2007 and 2006

8. Deferred Costs

	December 31, 2007			December 31, 2006
	Cost	Valuation Allowance	Net Book Value	Net Book Value
Trademarks and patents	\$ 184,048	\$ 86,166	\$ 97,822	\$ 115,212

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, 2006	42,416,539	\$ 7,460,930
Shares issued on private placement 9(c)(i)	10,000,000	10,000,000
Share issue costs 9(c)(i)		(1,342,100)
Shares issued on exercise of options/warrants	800,535	319,813
Fair value of options/warrants exercised (Note 10)		58,518
Balance, December 31, 2006	53,217,074	\$ 16,497,161
Shares issued on private placements 9(c)(ii),9(c)(iii)	22,882,448	30,000,000
Share issue costs 9(c)(ii), 9(c)(iii)		(1,652,266)
Shares issued on exercise of options/warrants	1,614,952	1,083,157
Fair value of options/warrants exercised (Note 10)		681,553
Balance, December 31, 2007	77,714,474	\$ 46,609,605

- (c) Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance, January 1, 2006 (iv) (v)	\$0.225 – 0.90	2.80 years	6,582,235
Warrants issued on private placement (i)	\$1.00	1.22 years	600,000
Less warrants expired (v)			(2,222,200)
Less warrants exercised			(296,345)
Balance, December 31, 2006	\$0.225 – 1.00	2.91 years	4,663,690
Warrants issued on private placement (ii)	\$1.00	1.00 years	600,000
Less warrants exercised			(873,284)
Balance, December 31, 2007	\$0.225 - 1.00	2.37 years	4,390,406

December 31, 2007 and 2006

9. Equity Instruments (cont'd)

- (i) On March 21, 2006, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, priced at \$1.00, to the underwriters of the private placement. The warrants expire on March 21, 2008.

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

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

- (ii) On April 17, 2007, the Company issued 10,000,000 common shares, in aggregate, by way of a private placement, at a price of \$1.00 per share, for gross proceeds of \$10,000,000. As part of this private placement, the Company issued 600,000 broker warrants, exercisable at \$1.00, to the underwriters of the private placement. The warrants expire 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 .67 years.

The Company incurred \$37,440 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.

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

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

- (iv) On August 17, 2004, the Company completed the reverse takeover of a public company GRD. Upon the completion of this business combination, 4,360,035 previously issued warrants were repriced to \$0.225 each (pre business combination price \$0.613). Each warrant holder is entitled to acquire for each warrant, one common share of the Company. The warrants expire on August 16, 2010.
- (v) As part of the concurrent financing on August 17, 2004, equity participants received one common share and a one-half of one share purchase warrant. Each full share purchase warrant, (up to 2,222,200) entitled the holder to acquire one common share, at an exercise price of \$0.90, until February 2006. All of the share purchase warrants expired without being exercised.

Call Genie Inc.
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9. Equity Instruments (cont'd)

(d) Options

Under the Company's current Stock Option Plan ("Plan"), the Company's directors may approve the issuance of stock options to directors, officers and employees and agents of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. Since the inception of the Plan, the Company has granted 8,177,500 stock options to its employees, officers and directors. As at December 31, 2007, 6,957,499 stock options remain outstanding at prices ranging from \$0.30 to \$2.40 per share. Options for the Company's directors vest immediately, options for employees vest ratably over a period of three years. All options have a life of five years and have expiry dates ranging November 27, 2008 to December 1, 2012.

The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. The fair value of each option is determined at the grant date using the Black-Scholes model with the following assumptions:

	2007	2006
Risk Free Rate	4.2%	4.0%
Dividend Yield	0.0%	0.0%
Volatility Rate	86.3%	97.0%
Expected Option Life	3.35 years	5 years
Weighted Average Option Fair Value	\$0.74 per share	\$0.50 per share

For the period ended December 31, 2007, \$1,261,835 (2006 - \$759,474) has been recorded as stock based compensation related to options with the corresponding amount charged to contributed surplus.

(i) The following table summarizes information about the stock options outstanding at December 31, 2007:

Range of Exercise Prices per Share	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.00 to \$0.49	755,000	1.58	\$0.43	755,000	1.58	\$0.43
\$0.50 to \$0.99	4,062,499	3.79	\$0.67	1,537,495	3.20	\$0.57
\$1.00 to \$1.49	695,000	4.46	\$1.33	39,998	3.43	\$1.29
\$1.50 to \$1.99	820,000	4.63	\$1.61	113,333	4.54	\$1.60
\$2.00 to \$2.50	625,000	4.52	\$2.31	50,000	4.37	\$2.15
\$0.00 to \$2.50	6,957,499	3.78	\$0.97	2,495,826	2.80	\$0.62

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9. Equity Instruments (cont'd)

- (ii) The following table summarizes information about the stock options outstanding at December 31, 2007:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
<i>Employees, consultants, directors and officers:</i>				
Balance, January 1, 2006	3,375,000	\$0.30 - \$0.75	4.09 years	\$0.47
Options granted to directors, officers and employees	1,332,500	\$0.50 - \$1.60	4.33 years	\$0.88
Consultant options exercised	(150,000)	\$0.50 - \$0.75	-	\$0.30
Consultant options expired	(50,000)	\$0.50 - \$0.75	-	\$0.30
Subtotal, December 31, 2006	4,507,500	\$0.30 - \$1.60	3.43 years	\$0.59
Options granted to directors, officers and employees	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
Subtotal, December 31, 2007	6,957,499	\$0.30 - \$2.40	3.78 years	\$0.97
<i>Agents:</i>				
Balance, January 1, 2006	636,660	\$0.45 - \$0.90	0.13 years	\$0.61
Less:				
Agents options exercised	(354,190)	\$0.45	-	\$0.31
Agents options expired	(282,470)	\$0.45 - \$0.90	-	\$0.31
Subtotal, December 31, 2006 and December 31, 2007	-	-	-	-
Balance, December 31, 2007	6,957,499	\$0.30 - \$2.40	3.78 years	\$0.97

10. Contributed Surplus

Balance, January 1, 2006	\$ 583,250
Value assigned for options (Note 9 (d))	759,474
Value of options exercised during the year (Note 9 (b)(ii))	(58,518)
Value of agent warrants issued on March 21, 2006 (Note 9(c)(i))	586,408
Balance, December 31, 2006	\$ 1,870,614
Value assigned for options (Note 9 (d))	1,261,835
Value of options and warrants exercised during the year (Note 9 (b))	(681,553)
Value of agent warrants issued on April 17, 2007 (Note 9(c)(ii))	192,311
Balance, December 31, 2007	\$ 2,643,207

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2007 and 2006

11. Accumulated Other Comprehensive Income

	December 31, 2007	December 31, 2006
Cumulative translation adjustments	104,396	-
Accumulated other comprehensive income	\$ 104,396	\$ -

12. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in technology and product development, business development, and general and administrative expenses in the normal course of operations are \$567,678 (2006 - \$254,690) of consulting services paid directly to officers of the Company or to companies controlled by officers of the Company.
- (b) During 2007, officers and directors of the Company did not subscribe for any common shares. In 2006, officers and directors of the Company subscribed for 168,000 common shares for total proceeds of \$168,000 through a private placement.
- (c) Included in accounts payable and accrued liabilities is \$78,838 (2006 - \$64,465) due to various directors, officers and consultants of the Company all of which is for services rendered and reimbursement of expenses.

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

13. Information included in the Consolidated Statements of Operations

	December 31, 2007	December 31, 2006
Amortization of capital assets	\$ 442,145	\$ 150,359
Amortization of deferred charges	35,084	29,021
Amortization of intangibles	14,929	-
Foreign exchange loss included in general and administrative expenses	22,024	2,952

Call Genie Inc.
Notes to Consolidated Financial Statements

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14. Income Taxes

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

	2007	2006
Combined tax rates	33.0 %	33.0 %
Expected income tax (recovery) at statutory rate	\$ (4,170,034)	\$ (2,096,595)
Stock-based compensation	416,594	246,829
Share issue costs	(157,872)	(213,460)
Change in rate	1,069,127	56,757
Other permanent differences	10,524	71,071
Change in valuation allowance	2,831,783	1,935,398
Actual income tax provision	\$ -	\$ -

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

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

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

	December 31, 2007	December 31, 2006
Future tax assets:		
Property and equipment and other assets	\$ 8,093	\$ (28,766)
Share issue costs	407,502	277,226
Unused tax loss carryforwards	7,406,624	3,555,170
	7,822,219	3,803,630
Valuation allowance	(7,822,219)	(3,803,630)
Future income tax asset	\$ -	\$ -
Future tax liabilities:		
Intellectual property and customer list	\$ 335,954	\$ -
Total future tax liability	\$ 335,954	\$ -

Call Genie Inc.
Notes to Consolidated Financial Statements

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14. Income Taxes

As at December 31, 2007, subject to confirmation from the respective income tax authorities, the Company has a total of \$23,441,167 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

	Non-Capital Losses
2008	\$ 145,800
2009	925,878
2013	899,304
2014	611,406
2015	1,919,903
2016	5,804,665
2017	13,134,211
	<u>\$ 23,441,167</u>

For Canadian tax purposes, the Company has non-capital losses of \$21,468,545 and for US tax purposes, the Company has a net operating losses of \$1,615,813 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 payment over the next five years and thereafter are as follows:

	Facilities	Equipment	Total
2008	\$ 799,205	\$ 11,367	\$ 810,572
2009	\$ 849,211	\$ 11,367	\$ 860,578
2010	\$ 797,794	\$ 11,367	\$ 809,161
2011	\$ 598,594	\$ 4,963	\$ 603,557
2012	\$ 365,807	\$ -	\$ 365,807
Thereafter	\$ 167,576	\$ -	\$ 167,576

(b) General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims from customers, suppliers and former employees. On an ongoing basis, the Company assesses the likelihood of any adverse judgements or outcomes to these matters as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual 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.

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, 2007 and 2006

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, asset use agreements etc. 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.

17. Financial instruments

As disclosed in Note 3, the Company holds various forms of financial instruments. The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855. The nature of these instruments and the Company's operations expose the Company to credit risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Current financial assets and liabilities

Held for trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. As at December 31, 2007, the Company held \$21,100,000 (\$5,819,771 in 2006) of cashable guaranteed investment certificates (GIC's) bearing interest rates of 4.5% (4.00% in 2006) with a maturity date of no more than 3 months.

Receivables and Loans

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

December 31, 2007 and 2006

17. Financial instruments (cont'd)

Foreign currency risk

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

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, 2007, 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, 2007, the Company earned 76% (96% in 2006) of its revenues from one directory service provider and at December 31, 2007, the Company had \$499,549 (\$203,845 in 2006) receivable from this customer. In addition, at December 31, 2007, the Company had \$202,347 (nil in 2006) receivable from a US based directory assistance provider.

Fair Values of Financial Instruments

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

Accounts receivable, deposits, accounts payable and accrued liabilities:

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

Call Genie Inc.
Notes to Consolidated Financial Statements

December 31, 2007 and 2006

18. Segmented Information

Operating Segments

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

Geographic Information

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

	2007	2006
Canada	\$ 1,377,009	\$ 670,466
United States	64,484	27,780
Europe	369,683	-
Total	\$ 1,811,176	\$ 698,246

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

	December 31, 2007	December 31, 2006
Canada	\$ 24,075,315	\$ 6,953,277
United States	268,924	8,482
Europe	2,601,121	-
Total	\$ 26,945,360	\$ 6,961,759

19. 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:

Capital Disclosures and Financial Instruments – Presentation and Disclosure

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

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

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

December 31, 2007 and 2006

19. Future Changes in Accounting Policies

Goodwill and Intangible Assets

The CICA issued the new accounting standard Section 3064 Goodwill and Intangible Assets which will replace Section 3062 Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on January 1, 2009. The Company is in the process of evaluating the requirements of the new standards.

International Financial Reporting Standards

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

20. Comparative Figures

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

21. Subsequent Event

On January 2, 2008, the Company, through its wholly owned subsidiary, Call Genie USA, Inc., acquired 100% of the issued and outstanding equity of PhoneSpots Inc. The purchase price, excluding acquisition costs, was approximately US\$5,718,000. As a result of the transaction, 4,551,326 Common Shares of Call Genie Inc. were issued based upon an issue price of US\$1.10 per share. The balance of the consideration was paid in cash totalling US\$712,000. The purchase price is subject to reduction for any negative working capital in existence at the date of acquisition. In addition, corporate transaction costs of \$65,143 were payable at closing.
