

**Call Genie Inc.
Interim Consolidated Financial Statements
For the three and six months ended June 30, 2010 and 2009
(unaudited – prepared by Management)**

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Notice to Reader

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet of Call Genie Inc. as at June 30, 2010 and the interim consolidated statements of operations, comprehensive loss and deficit and cash flows for the three and six months ended June 30, 2010 and 2009 are the responsibility of the Company's management.

These interim consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Ernst & Young, LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

“ signed ”

Michael E. Durance
Chief Executive Officer
Toronto, Ontario
August 13, 2010

“ signed ”

Christopher L. Shelton
Chief Financial Officer
Toronto, Ontario
August 13, 2010

Call Genie Inc.
Consolidated Balance Sheets

As at	June 30, 2010	December 31, 2009
	Unaudited	Audited
Assets		
Current assets:		
Cash and cash equivalents (Note 18)	\$ 404,211	\$ 3,447,084
Accounts receivable (Notes 13(c) and 18)	1,627,880	1,732,109
Prepaid expenses and deposits	129,513	185,084
	<u>2,161,604</u>	<u>5,364,277</u>
Deposits	55,402	55,402
Restricted cash (Note 9)	-	122,237
Capital assets (Notes 5 and 20)	407,778	602,806
Goodwill (Notes 4, 6 and 20)	2,178,257	2,290,055
Intangible assets (Notes 3 and 7)	3,637,436	5,411,362
	<u>\$ 8,440,477</u>	<u>\$ 13,846,139</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued liabilities (Notes 8 and 13(b))	\$ 2,481,087	\$ 2,589,328
Current portion of deferred revenue	3,241,197	3,186,626
Advances from shareholders (Note 13(f))	730,000	-
	<u>6,452,284</u>	<u>5,775,954</u>
Other liabilities (Note 8)	832,393	878,736
Deferred revenue	929,716	1,511,678
Convertible debentures (Note 9)	5,241,196	5,027,837
	<u>13,455,589</u>	<u>13,194,205</u>
Shareholders' equity (deficiency):		
Equity instruments (Notes 10 and 23)	51,440,702	51,182,642
Equity portion of convertible debentures (Note 9)	1,057,713	1,057,712
Contributed surplus (Note 11)	6,083,815	5,886,162
Deficit	(63,601,546)	(57,552,884)
Accumulated other comprehensive income (Note 12)	4,204	78,302
	<u>(5,015,112)</u>	<u>651,934</u>
	<u>\$ 8,440,477</u>	<u>\$ 13,846,139</u>

Going concern (Note 1)

Commitments and contingencies (Notes 16 and 17)

Approved on behalf of the Board:

“ signed “ Director

Richard DeVries

“ signed “ Director

S. Graeme Ross

Call Genie Inc.
Consolidated Statements of Operations

	For the three month period ended		For the six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue (Note 20)	\$1,282,505	\$ 911,619	\$1,874,698	\$1,773,490
Cost of sales	461,812	473,657	1,024,129	1,050,782
Gross margin	820,693	437,962	850,569	722,708
Expenses:				
Sales and marketing	469,111	966,105	1,137,203	1,895,979
Technology and product development	484,579	1,044,811	1,153,191	2,222,945
General and administrative (Notes 13(a) and 14)	892,710	1,040,398	1,789,359	2,061,171
Stock-based compensation (Notes 10 and 11)	72,716	107,189	197,653	126,746
Impairment of intangible asset (Note 7)	1,106,809	-	1,106,809	-
Amortization (Note 14)	436,353	332,173	879,489	696,729
	3,462,278	3,490,676	6,263,704	7,003,570
Loss from operations	(2,641,585)	(3,052,714)	(5,413,135)	(6,280,862)
Other income (expense):				
Interest and accretion on convertible debentures (Note 9)	(313,214)	-	(615,588)	-
Interest income (expense)	(344)	393	(685)	4,028
Foreign exchange (loss)	(57,579)	(79,185)	(22,823)	(64,950)
Provision for income tax recovery (Note 15)	-	-	3,569	-
Net loss for the period	\$(3,012,722)	\$(3,131,506)	\$(6,048,662)	\$(6,341,784)
Basic and diluted loss per share	\$(0.04)	\$(0.04)	\$(0.07)	\$(0.08)
Weighted average number of shares – basic and diluted	83,829,586	82,933,656	83,434,706	82,805,470

Call Genie Inc.
Consolidated Statements of Comprehensive Loss and Deficit

	For the three month period ended		For the six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Comprehensive loss:				
Net loss for the period	\$ (3,012,722)	\$ (3,131,506)	\$ (6,048,662)	\$ (6,341,784)
Other comprehensive income (loss)				
Unrealized foreign currency translation adjustment	(30,412)	49,296	(74,098)	43,055
Comprehensive loss	\$ (3,043,134)	\$ (3,082,210)	\$ (6,122,760)	\$ (6,298,729)
Deficit, beginning of period (as previously stated)				
Adoption of new accounting policy (Note 3)	-	-	-	(108,717)
Deficit, beginning of period (restated)	(60,588,824)	(48,295,792)	(57,552,884)	(45,194,231)
Net loss for the period	(3,012,722)	(3,131,506)	(6,048,662)	(6,341,784)
Deficit, end of period	\$ (63,601,546)	\$ (51,427,298)	\$ (63,601,546)	\$ (51,536,015)

Call Genie Inc.
Consolidated Statements of Cash Flows

	For the three month period ended		For the six month period ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities				
Net loss for the period	\$ (3,012,722)	\$ (3,131,506)	\$ (6,048,662)	\$ (6,341,784)
Items not involving cash:				
Stock-based compensation	72,716	107,189	197,653	126,746
Amortization of capital assets and intangible assets	436,353	332,173	879,489	696,729
Impairment of intangible asset	1,106,809	-	1,106,809	-
Accretion on convertible debentures	110,585	-	213,359	-
Amortization of lease inducement	(5,241)	(4,330)	(10,481)	(8,660)
	(1,291,500)	(2,696,474)	(3,661,833)	(5,526,969)
Changes in non-cash working capital:				
Accounts receivable	45,225	(508,818)	104,228	(811,738)
Prepaid expenses and deposits	42,681	64,662	55,571	51,091
Accounts payable and accrued liabilities	(74,790)	371,921	(26,799)	278,620
Deferred salary payable	(12,712)	-	(79,196)	-
Deferred revenue	(521,234)	739,911	(527,391)	938,690
	(1,812,330)	(2,028,798)	(4,135,420)	(5,070,306)
Cash flows from financing activities				
Issuance of common shares, net of issuance costs	248,749	-	258,060	44,724
Proceeds of convertible debentures, net of issuance costs	-	2,415,000	-	2,415,000
Advances from shareholders	730,000	-	730,000	-
Restricted cash held for interest payments	122,237	-	122,237	-
	1,100,986	2,415,000	1,110,297	2,459,724
Cash flows from investing activities				
Purchase of capital assets	-	1,339	(10,896)	(5,156)
Deferred costs capitalized	-	(11,626)	-	(11,626)
Acquisition of intangible assets, net of accrued and other liabilities	-	-	(6,854)	-
	-	(10,287)	(17,750)	(16,782)
Net increase (decrease) in cash and cash equivalents	(711,344)	375,915	(3,042,873)	(2,627,364)
Cash and cash equivalents, beginning of period	1,115,555	1,972,161	3,447,084	4,975,440
Cash and cash equivalents, end of period	\$ 404,211	\$ 2,348,076	\$ 404,211	\$ 2,348,076
Supplemental cash flow information				
Cash payment for interest charged to income	\$ 331,129	\$ -	\$ 331,129	\$ -
Cash payment for income taxes charged to income	\$ 2,238	\$ -	\$ 2,238	\$ -

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

1. Nature of Operations and Going Concern

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

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company began commercial operations on October 17, 2000 and, to June 30, 2010, has incurred losses amounting to \$63,601,546. The Company has a working capital deficiency of \$4,290,680 as at June 30, 2010 (December 31, 2009 - \$411,677).

The Company's future operations are dependent upon its ability to secure additional funds and/or secure sales contracts which provide the Company with adequate funds to cover the cash flows projected for the fiscal 2010 year. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider additional strategic alternatives which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or sale of the Company. These factors raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

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

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Call Genie (Ontario) Inc., Call Genie (USA) Inc., Call Genie Europe B.V., BTS Logic Europe ApS ("BTS"), PhoneSpots Inc. ("PS") and PhoneSpots Limited, from their respective dates of incorporation or acquisition, as applicable.

(b) Cash and cash equivalents

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

June 30, 2010 and 2009

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

(c) Research and development costs

Research costs are expensed as incurred. Development costs are deferred if the product or process and its market or usefulness is clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If these criteria are not met, the development costs are expensed as incurred.

(d) Revenue recognition

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

Hosting arrangements

The Company enters into hosting arrangements whereby the underlying software is maintained and operated in Company data centre facilities. The Company earns transaction automation fees, system maintenance fees, hosting fees and, in some cases, a share of customer advertising revenue from the service provided to the customer. The Company may also earn advertising revenue directly from advertising partners. Advertising revenue is recorded net of any revenue share portion retained by, or paid to, advertising sources or partners. Revenues for the fixed portion of these fees are recognized ratably over the contract period, while revenues for the variable portion of these fees are recognized as earned. In addition, the Company may charge for implementation or set-up fees in connection with the service provided. These fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

Software license arrangements

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

Services

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

The timing of revenue recognition sometimes differs from the contract payment schedule, resulting in revenues that have been earned but not billed. These amounts are recorded as unbilled contract revenue. Amounts billed in accordance with customer contracts but not yet earned are deferred and recorded as revenue in the period earned.

June 30, 2010 and 2009

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

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service and Short Message Service ("SMS") delivery service which includes employee salaries and benefits, telephony costs, hosting, network, prize fees and other third-party charges.

(f) Capital assets

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

Leasehold improvements	Term of the lease
Furniture and equipment	5 years
Computer hardware	3 years

(g) Operating leases

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

(h) Capital leases

Capitalized assets acquired under capital lease agreements and their related liabilities are reported at the present value of the minimum lease payments.

(i) Lease inducements

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

(j) Impairment of long-lived assets

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

(k) Intangible assets

Intangible 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:

Acquired technology	7 years
Customer lists	7 years
Rights licenses	3 years
Software licenses	1 year

The Company does not hold any indefinite-lived intangible assets.

(l) Goodwill

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

June 30, 2010 and 2009

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

(m) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income tax expense is recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on the differences between the tax and accounting bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(n) Earnings (loss) per share

Basic earnings (loss) per common share are computed by dividing earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share considers the dilutive impact of the exercise of outstanding stock options, warrants and the conversion of convertible debentures, as if the events had occurred at the beginning of the period or at a time of issuance, if later. The treasury stock method is used to determine the dilutive effect of stock options and warrants, in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3500, *Earnings Per Share*. As the effect of all outstanding options, warrants and convertible debentures is anti-dilutive during a period when the Company incurs a loss, diluted earnings (loss) per share does not differ from basic earnings (loss) per share.

(o) Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method in accordance with CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. Under this method, stock-based compensation expense related to these programs is charged to income with the corresponding amount increasing contributed surplus over the vesting period. When an employee leaves the Company, any associated options are forfeited and any expense recorded in the consolidated financial statements related to unvested options is recovered in the period in which the employee forfeits the options. On the exercise of options, consideration received and the related accumulated contributed surplus is credited to common shares.

(p) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates in the future. The most significant estimates relate to the valuation of capital assets, intangible assets, goodwill, deferred costs, future income tax assets and liabilities, stock-based compensation, allowance for doubtful accounts, equity portion of convertible debentures and revenue recognition VSOE.

(q) Translation of foreign currencies

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

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

June 30, 2010 and 2009

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

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

(r) Classification of financial instruments

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. Financial instruments that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs on financial instruments classified as held-for-trading are expensed as incurred. Transaction costs related to held-to-maturity investments, loans and receivables and available-for-sale financial assets are included in the carrying amounts of the financial instruments and amortized over the life of the instrument by the effective interest rate method.

(s) Convertible debentures

Convertible debentures are accounted for in accordance with their substance and are presented in their component parts of debt and equity. The debt component has been measured as the present value of the cash payments of interest and principal due over the term of the debentures. The fair value of the warrant equity component was estimated using the Black-Scholes option valuation model. The difference between the face value of the debentures, the debt component value and the warrant component value is allocated to the equity component.

Financing costs are allocated proportionally to the debt component, the warrant component and the equity component. The debt component, net of its proportional financing costs, is accreted to its face value through an interest charge over its term to maturity using the effective interest method. Upon conversion of the debentures, the equity portion related to the principal amount of debt converted is recognized as a change to shareholders' equity.

June 30, 2010 and 2009

3. Changes in Accounting Policies

Goodwill and intangible assets

The CICA issued the new accounting standard Section 3064, *Goodwill and Intangible Assets*, which replaces 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 is effective for fiscal years beginning on or after October 1, 2008 and the Company adopted it on January 1, 2009. The new standard was adopted on a retroactive basis for the year ended December 31, 2008 and as a result intangible assets decreased by \$108,717 and deficit, beginning of period increased by \$108,717 for the year ended December 31, 2009.

In addition to the above, the adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from capital assets (Note 5) to intangible assets (Note 7).

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

In January 2009, the CICA issued Emerging Issues Committee Abstract of Issue 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. Adoption of this new recommendation had no impact on the Company's financial results.

Financial instruments

Effective January 1, 2009, the Company adopted the amendments to CICA Section 3862, *Financial Instruments – Disclosures*. Section 3862 requires that an entity classify the fair value measurements of its financial assets and liabilities using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy of inputs is summarized below.

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Fair value is based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. This disclosure is provided in Note 18 to the consolidated financial statements.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

4. Business Combinations

PhoneSpots Inc.

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

Under the terms of the purchase agreement, 3,864,628 of the common shares issued were held in escrow for a period of four months from the closing date and then released ratably over the subsequent eight-month period. The remaining 686,698 common shares were held in escrow for up to one year to provide for any potential purchase price adjustment in accordance with the purchase agreement. The Company estimated that a purchase price adjustment of \$270,214 was required to offset the negative working capital that was in existence at the date of the acquisition. In October 2009, the Company finalized the return and cancelation of the 253,484 common shares from shares held in escrow.

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

Cash	\$	632,894
Accounts receivable and other current assets		201,011
Capital assets		177,563
Customer list		225,000
Technology		3,960,578
Goodwill		1,465,037
		<u>6,662,083</u>
Current liabilities		<u>(1,110,570)</u>
	\$	<u>5,551,513</u>
 Consideration given:		
Cash	\$	709,898
Common shares issued		4,851,713
Working capital adjustment		(270,214)
Acquisition costs		260,116
Total consideration	\$	<u>5,551,513</u>

The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the assets acquired amounted to \$1,465,037, which was allocated to goodwill.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

4. Business Combinations (cont'd)

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 intangible assets is being amortized on a straight-line basis over seven years, which is the estimated period over which cash flows will be generated.

5. Capital Assets

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,434,098	\$ 1,233,414	\$ 200,684
Furniture and equipment	410,639	269,982	140,657
Leasehold improvements	111,173	44,736	66,437
	\$ 1,955,910	\$ 1,548,132	\$ 407,778
	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,428,312	\$ 1,082,836	\$ 345,476
Furniture and equipment	414,547	234,772	179,775
Leasehold improvements	111,173	33,618	77,555
	\$ 1,954,032	\$ 1,351,226	\$ 602,806

6. Goodwill

Balance, January 1, 2009	\$ 2,396,140
Foreign currency translation adjustment	(106,085)
Balance, December 31, 2009	2,290,055
Foreign currency translation adjustment	(111,798)
Balance, June 30, 2010	\$ 2,178,257

As a result of the impairment charge of the rights license (Note 7) during the period ended June 30, 2010, the Company performed an additional impairment test of goodwill as at June 30, 2010 and determined that goodwill was not impaired.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

7. Intangible Assets

	June 30, 2010			December 31, 2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	\$ 5,217,765	\$ 1,826,450	\$ 3,391,315	\$ 3,764,013
Customer lists	358,000	126,761	231,239	256,810
Rights license	1,560,551	1,560,551	-	1,366,901
Software licenses	782,470	767,588	14,882	23,638
	\$ 7,918,786	\$ 4,281,350	\$ 3,637,436	\$ 5,411,362

During the three month period ended June 30, 2010, the Company determined that a change in circumstances specific to the rights license indicated that its carrying amount may not be recoverable. In accordance with its accounting policy, the Company performed an impairment test as at June 30, 2010, and recognized a write-down of its rights license asset of \$1,106,809 in the three and six month periods ended June 30, 2010.

8. Other Liabilities

Other liabilities are comprised of lease inducements, deferred salary payable and rights license payable, as follows:

	June 30, 2010	December 31, 2009
Lease inducements	\$ 113,775	\$ 124,256
Less: current portion included in accounts payable and accrued liabilities	(25,343)	(20,961)
Long-term lease inducements	88,432	103,295
Deferred salary payable	320,003	418,890
Less: deferred future service benefit	(26,256)	(45,947)
Net deferred salary payable	293,747	372,943
Rights license payable	1,169,331	1,156,100
Less: current portion included in accounts payable and accrued liabilities	(585,530)	(578,050)
Less: net present value adjustment	(133,587)	(175,552)
Net long-term rights license payable	450,214	402,498
Other liabilities	\$ 832,393	\$ 878,736

June 30, 2010 and 2009

9. Convertible Debentures

- (a) Effective June 26, 2009, the Company completed a private placement of 2,465 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$2,465,000. The debentures bear interest at a rate of 10% per annum, payable semi-annually on October 31 and April 30, and mature on May 30, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. Under the terms of the debentures, the Company segregates 10% of the principal amount as a reserve to be used to pay interest accruing for the first 12 months that the debenture remains outstanding and is recorded in the consolidated balance sheets as restricted cash (December 31, 2009 - \$122,237). The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 591,600 common share purchase warrants to the debenture holders, being 240 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until June 26, 2011.

- (b) Effective November 6, 2009, the Company completed a private placement of 2,540 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$2,540,000. The debentures bear interest at a rate of 12% per annum, payable semi-annually on October 31 and April 30, and mature on October 31, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 1,219,200 common share purchase warrants to the debenture holders, being 480 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until November 6, 2011.

- (c) Effective December 23, 2009, the Company completed a private placement of 1,460 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$1,460,000. The debentures bear interest at a rate of 12% per annum, payable semi-annually on October 31 and April 30, and mature on October 31, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.50 per share. The debentures are not redeemable by the Company prior to maturity.

In conjunction with the debenture issuance, the Company issued 700,800 common share purchase warrants to the debenture holders, being 480 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.225 until December 23, 2011.

In addition, the Company issued 90 broker warrants to the agent involved in the placement. Each broker warrant entitles the holder to purchase \$1,000 principal amount of the December 23, 2009 convertible debenture issuance, exercisable until December 23, 2011.

In conjunction with the distribution of the debentures described above, the Company incurred financing costs of \$64,656, \$20,593 and \$144,655, respectively.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

9. Convertible Debentures (cont'd)

The debt component has been measured as the present value of the cash payments of interest and principal due over the term of the debentures discounted at a rate of 20%, which is the estimated cost of borrowing for a similar non-convertible financial instrument with comparable terms and risk at the date of issue.

All of the Company's convertible debentures grant a security interest in and to all of the Company's present and future personal property as collateral for the debt.

Convertible debentures consist of:

	June 26, 2009	November 6, 2009	December 23, 2009	Total
Debt component:				
Proceeds	\$ 2,465,000	\$ 2,540,000	\$ 1,460,000	\$ 6,465,000
Less amounts allocated to:				
Equity component - conversion rights	(486,367)	(390,521)	(218,386)	(1,095,274)
Warrant component	(40,908)	(144,990)	(79,734)	(265,632)
Amount recorded as debt component	1,937,725	2,004,489	1,161,880	5,104,094
Debt component of financing charges	(50,826)	(16,251)	(115,117)	(182,194)
Accretion of debt component	166,225	93,600	59,471	319,296
Balance in debt component of convertible debentures, June 30, 2010	\$ 2,053,124	\$ 2,081,838	\$ 1,106,234	\$ 5,241,196
Equity component:				
Conversion feature of proceeds	\$ 486,367	\$ 390,521	\$ 218,386	\$ 1,095,274
Less: equity component of financing charges	(12,757)	(3,167)	(21,637)	(37,561)
Balance in equity component of convertible debentures, June 30, 2010	\$ 473,610	\$ 387,354	\$ 196,749	\$ 1,057,713
Warrants:				
Warrants portion of proceeds	\$ 40,908	\$ 144,990	\$ 79,734	\$ 265,632
Broker warrants	-	-	19,979	19,979
Less: warrant component of financing charges	(1,073)	(1,176)	(7,899)	(10,148)
Balance in contributed surplus, June 30, 2010	\$ 39,835	\$ 143,814	\$ 91,814	\$ 275,463

Call Genie Inc.
Notes to Consolidated Financial Statements

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10. 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, 2009	81,880,116	\$ 51,108,709
Shares issued under employee stock purchase plan (Note 10(e))	1,110,567	73,933
Balance, December 31, 2009	82,990,683	51,182,642
Shares issued under employee stock purchase plan (Note 10(e))	107,679	16,876
Shares issued under shares for rent agreement (Note 10(f))	1,512,012	239,871
Shares issued on exercise of options	17,500	1,313
Balance, June 30, 2010	84,627,874	\$ 51,440,702

- (c) Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Balance, January 1, 2009	\$0.225	1.62 years	3,910,406
Warrants issued in connection with convertible debentures (Note 9)	\$0.225	1.80 years	2,511,600
Balance, December 31, 2009	\$0.225	1.08 years	6,422,006
	-	-	-
Balance, June 30, 2010	\$0.225	0.59 years	6,422,006

<u>Broker warrants</u>	Warrant Exercise Price Range	Weighted Average Remaining Life	Number
Broker warrants issued in connection with convertible debentures (Note 9(c))	\$1,000	1.98 years	90
Balance, December 31, 2009	1,000	1.98 years	90
	-	-	-
Balance, June 30, 2010	\$1,000	1.48 years	90

- (i) On August 17, 2004, the Company completed the reverse takeover of a public company, GRD. Upon the completion of this business combination, 4,360,035 previously issued warrants were repriced to \$0.225 each (pre-business combination price \$0.613). Each warrant holder is entitled to acquire one common share of the Company for each warrant. These warrants expire on August 16, 2010. As at June 30, 2010, 3,910,406 warrants remained unexercised.

June 30, 2010 and 2009

10. Equity Instruments (cont'd)

- (ii) Effective June 26, 2009, the Company issued \$2,465,000 of convertible debentures (Note 9(a)). As part of this debt issuance, the Company issued 591,600 warrants to purchase common shares at a price of \$0.225 per share, exercisable until June 26, 2011. As at June 30, 2010, 591,600 warrants remain unexercised.

The fair value of the warrants of \$40,908 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.07 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.0%, an expected volatility of 128% and an expected life of 2.0 years.

- (iii) Effective November 6, 2009, the Company issued \$2,540,000 of convertible debentures (Note 9(b)). As part of this debt issuance, the Company issued 1,219,200 warrants to purchase common shares at a price of \$0.225 per share, exercisable until November 6, 2011. As at June 30, 2010, 1,219,200 warrants remain unexercised.

The fair value of the warrants of \$144,990 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.12 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.3%, an expected volatility of 127% and an expected life of 2.0 years.

- (iv) Effective December 23, 2009, the Company issued \$1,460,000 of convertible debentures (Note 9(c)). As part of this debt issuance, the Company issued 700,800 warrants to purchase common shares at a price of \$0.225 per share, exercisable until December 23, 2011. As at June 30, 2010, 710,800 warrants remain unexercised.

The fair value of the warrants of \$79,734 was recorded as warrants issued in relation to convertible debentures, within contributed surplus. The grant date fair value of the warrants of \$0.11 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.1%, an expected volatility of 126% and an expected life of 2.0 years.

As part of this private placement, the Company paid the agent cash compensation of \$81,000, and issued 90 broker warrants. Each broker warrant entitles the holder to purchase \$1,000 principal amount of the December 23, 2009 convertible debenture issuance, exercisable until December 23, 2011. As at June 30, 2010, 90 broker warrants remain unexercised.

The fair value of the broker warrants of \$19,979 was recorded as issuance costs in relation to convertible debentures, within contributed surplus. The grant date fair value of the broker warrants was estimated as two components, one being the value of the debenture conversion feature into 180,000 common shares of the Company and the other being the value of the 43,200 warrants issued with the debentures. The grant date fair value of the conversion feature of \$0.08 was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.1%, an expected volatility of 134%, an effective exercise price of \$0.50 per share and an expected life of 1.7 years. The grant date fair value of the warrants of \$0.11 is the same as calculated above.

Call Genie Inc.
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June 30, 2010 and 2009

10. Equity Instruments (cont'd)

(d) Options

Under the Company's current Stock Option Plan (the "Plan"), the Company's directors may approve the issuance of stock options to directors, officers and employees and agents of the Company and its affiliates. The aggregate number of shares reserved for issuance under the Plan is up to 15% of the number of outstanding common shares. Since the inception of the Plan, the Company has granted 26,867,250 stock options to its employees, officers and directors. As at June 30, 2010, 12,548,750 stock options remain outstanding at prices ranging from \$0.07 to \$0.58 per share. Options for the Company's directors vest immediately, while options for employees vest ratably over a period of three years, except for the 9,962,500 options granted on February 25, 2009, which vest ratably over a period of two years, and 264,375 options granted on February 10, 2010, and 175,000 options granted on April 22, 2010, which vest after one year. All options have a life of five years and have expiry dates ranging from September 1, 2010 to May 18, 2015.

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

	2010	2009
Risk-free rate	1.3%	1.4%
Dividend yield	0.0%	0.0%
Volatility rate	119.6%	97.5%
Expected option life	3.00 years	3.00 years
Weighted average option fair value	\$0.12 per share	\$0.06 per share

For the period ended June 30, 2010, \$197,653 (2009 - \$347,422) 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 June 30, 2010:

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/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.00 to \$0.49	11,766,250	3.86	\$0.10	5,093,749	3.73	\$0.09
\$0.50 to \$0.99	782,500	0.44	\$0.52	757,501	0.35	\$0.52
\$0.00 to \$0.99	12,548,750	3.65	\$0.13	5,851,250	3.29	\$0.15

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

10. Equity Instruments (cont'd)

- (ii) The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at June 30, 2010 and December 31, 2009:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
Balance, January 1, 2009	1,465,833	\$0.20 - \$0.94	3.68 years	\$0.45
Options granted	10,862,500	\$0.07 - \$0.18	4.18 years	\$0.09
Options forfeited	(1,068,333)	\$0.08 - \$0.94	4.45 years	\$0.20
Balance, December 31, 2009	11,260,000	\$0.07 - \$0.83	4.13 years	\$0.12
Options granted	2,216,250	\$0.09 - \$0.21	4.66 years	\$0.17
Options exercised	(17,500)	\$0.08	3.66 years	\$0.08
Options forfeited	(910,000)	\$0.07 - \$0.83	3.59 years	\$0.14
Balance, June 30, 2010	12,548,750	\$0.07 - \$0.58	3.65 years	\$0.15

- (e) Employee stock purchase plan

The Company has an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at three-month intervals at 85% of the weighted average trading price of each of the three-month periods. Employees may contribute from 3% to 20% of their gross base salary. During the six months ended June 30, 2010, 107,679 common shares (2009 - 1,110,567) were issued to employees at an average price of \$0.17 per share (2009 - \$0.07) for shares purchased in the prior two three-month periods. At June 30, 2010, 6,949,966 common shares were reserved for future issuance.

- (f) Shares for rent agreement

On May 4, 2010, the Company issued 1,512,012 common shares with a value of \$239,871 under a "shares for rent" agreement with one of its landlords. Under the terms of the agreement, the landlord investor shall subscribe for a number of the Company's common shares in exchange for the value of monthly net rent, commencing July 1, 2009 and ending on September 30, 2012. The number of common shares, calculated on the first day of each quarter, is equal to the net rent due divided by a denominator equal to the previous five-day weighted average closing price of the common shares. The common shares issued on May 4, 2010 were for the 12 month period July 1, 2009 through June 30, 2010.

Call Genie Inc.
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June 30, 2010 and 2009

11. Contributed Surplus

Balance, January 1, 2009	\$	5,263,277
Fair value assigned for options (Note 10(d))		347,422
Issuance costs in relation to convertible debentures (Note 9)		19,979
Warrants issued in relation to convertible debentures (Note 9)		265,632
Less: warrant component of convertible debenture financing charges (Note 9)		(10,148)
Balance, December 31, 2009		5,886,162
Fair value assigned for options (Note 10(d))		197,653
Balance, June 30, 2010	\$	6,083,815

12. Accumulated Other Comprehensive Income

	June 30, 2010	December 31, 2009
Unrealized foreign currency translation adjustments	\$ 4,204	\$ 78,302
Accumulated other comprehensive income	\$ 4,204	\$ 78,302

13. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in general and administrative expenses during the six months ended June 30, 2010 are \$187,867 (2009 - \$87,170) of consulting services paid to companies controlled or influenced by directors and management contractors of the Company.
- (b) Included in accounts payable and accrued liabilities as at June 30, 2010 is \$143,213 (December 31, 2009 - \$91,594) due to various directors, companies controlled or influenced by directors and management contractors of the Company, all of which is for services rendered and reimbursement of expenses.
- (c) Included in accounts receivable as at December 31, 2009 was \$50,000 due from senior management for the purchase of convertible debentures issued December 23, 2009. This amount was received in full on January 3, 2010.
- (d) During 2009, senior management, management contractors and directors of the Company purchased \$380,000 aggregate principal amount of convertible debentures and received 103,200 warrants as part of the debt financings described in Note 9.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

13. Related Party Transactions (cont'd)

- (e) During the six months ended June 30, 2010, the Company made interest payments on convertible debentures of \$18,485 (2009 – nil) to directors, senior management and management contractors of the Company.
- (f) During the three months ended June 30, 2010, two of the Company's directors, advanced \$630,000 to the Company on account of the non-brokered debt financing discussed in Note 23.

All the related party transactions are in the normal course of operations and have been measured at the exchange amounts.

14. Information Included in the Consolidated Statements of Operations

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Amortization of rights license intangible assets	\$ 260,092	\$ -
Amortization of capital assets	205,517	254,310
Amortization of other intangible assets	413,880	442,419
	<u>879,489</u>	<u>696,729</u>
 Provision for bad debt expense included in general and administrative expense	 38,881	 -

15. Income Taxes

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

	<u>2010</u>	<u>2009</u>
Combined tax rates	<u>28.0%</u>	<u>29.5%</u>
Expected income tax recovery at statutory rate	\$ (1,693,625)	\$ (1,870,826)
Stock-based compensation	55,343	37,390
Share issuance costs	(55,470)	(52,747)
Change in rate	20,166	186,608
Other permanent differences	75,955	11,800
Change in tax reserves	(3,569)	-
Change in valuation allowance	1,597,631	1,687,775
Actual income tax provision (recovery)	<u>\$ (3,569)</u>	<u>\$ -</u>

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

15. Income Taxes (cont'd)

The difference between the effective rate and the actual rate is attributable to the fact that no future income tax assets have been recorded for available loss carryforwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

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

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

Future income tax assets:	June 30, 2010	December 31, 2009
Capital and other assets	\$ 1,279,674	\$ 774,553
Share issuance costs	169,125	219,394
Unused tax loss carryforwards	<u>13,108,398</u>	12,207,509
	14,557,197	13,201,456
Valuation allowance	<u>(14,557,197)</u>	(13,201,456)
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>
Reserve for future income tax assessments included in accrued liabilities	<u>\$ 552,533</u>	<u>\$ 595,253</u>

As at June 30, 2010, subject to confirmation from the respective income tax authorities, the Company has a total of \$50,318,426 of non-capital losses that are available for carryforward to offset future taxable income expiring as follows:

	<u>Non-Capital Losses</u>
2014	\$ 1,017,542
2015	1,279,000
2026	5,631,524
2027	11,190,197
2028	17,473,750
2029	9,585,988
2030	<u>4,140,425</u>
	<u>\$ 50,318,426</u>

For Canadian tax purposes, the Company has non-capital losses of \$48,882,926 and for U.S. tax purposes, the Company has net operating losses of \$1,435,500 that have a 15-year carry forward period.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

16. Commitments and Contingencies

(a) Leases

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

	Facilities	Equipment	Total
2010	\$ 352,917	\$ 14,505	\$ 367,422
2011	\$ 708,311	\$ 22,606	\$ 730,917
2012	\$ 612,540	\$ 1,470	\$ 614,010
2013	\$ 176,975	\$ -	\$ 176,975

(b) General

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

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. 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.

Call Genie Inc.
Notes to Consolidated Financial Statements

June 30, 2010 and 2009

17. Indemnifications (cont'd)

(b) Other

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

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

18. Financial Instruments and Risk Management

Classification of financial instruments

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

The Company holds various forms of financial instruments as follows:

Financial Instrument	Designation	Measurement	June 30, 2010	December 31, 2009
Cash and restricted cash	Held-for-trading	Fair value	\$ 404,211	\$ 3,569,321
Accounts receivable	Loans and receivables	Amortized cost	\$ 1,627,880	\$ 1,732,109
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 2,481,087	\$ 2,589,328
Advances from shareholders	Other financial liabilities	Amortized cost	\$ 730,000	\$ -
Other liabilities	Other financial liabilities	Amortized cost	\$ 832,393	\$ 878,736
Convertible debentures	Other financial liabilities	Amortized cost	\$ 5,241,196	\$ 5,027,837

June 30, 2010 and 2009

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

Held-for-trading

The Company has classified its cash and cash equivalents and restricted cash as held-for-trading. These instruments are accounted for at fair value with the change in fair value recognized in net income or loss during the period. As at June 30, 2010, the Company held \$10,000 (December 31, 2009 - \$102,921) of cashable guaranteed investment certificates bearing a weighted average interest rate of 0.3% (December 31, 2009 - 0.3%) with a maturity date of no more than three months.

Loans and receivables

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

Other financial liabilities

Accounts payable and accrued liabilities, advances from shareholders, other liabilities and convertible debentures are classified as other financial liabilities, and are measured at amortized cost.

For the periods ended June 30, 2010 and December 31, 2009, the Company has not used derivative instruments. The Company has no derivatives embedded in its financial or non-financial contracts.

Financial risk management

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

Credit risk

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

At June 30, 2010, primarily all of the Company's cash was 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. Any amounts not provided for are considered fully collectible. For the six months ended June 30, 2010, the Company earned 45% of its revenue from one single customer as a result of the completion of delivery of a workstation solution. Otherwise, the Company earned no more than 9% of its revenue from one single customer. For the year ended December 31, 2009, the Company earned 19% of its revenue from one European directory service provider and 12% from one Canadian directory service provider and at June 30, 2010, the Company had \$911,038 (December 31, 2009 - \$911,038) receivable from this Canadian customer. This customer is disputing scheduled payments for maintenance and support services and repayment of technology development costs previously incurred by the Company. The Company is actively pursuing resolution of the matter, initially through arbitration proceedings and subsequently through legal proceedings. The Company expects full payment of the amounts and no provision has been provided. However, as the amount is in dispute there is uncertainty as to the final outcome.

Call Genie Inc.
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June 30, 2010 and 2009

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

The following table provides the details of the aged receivables and the related allowance for doubtful accounts:

	<u>Amount</u>
Current	\$ 372,675
31 to 60 days	10,843
61 to 90 days	15,107
Over 90 days	1,283,855
Less: allowance for doubtful accounts	(54,600)
Total accounts receivable, net	<u>\$ 1,627,880</u>

Liquidity risk

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

The contractual maturities of the Company's financial liabilities as at June 30, 2010 are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Convertible debentures including interest	\$ 366,236	\$ 726,500	\$ 7,088,812

Foreign currency risk

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

The most significant exposure arises from U.S. dollar revenue and costs. For the six months ended June 30, 2010, approximately 67% of revenue and 17% of costs were transacted in U.S. dollars. As a result, the Company may experience transaction exposure because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net outflows, as at June 30, 2010, an increase in the value of the U.S. dollar versus the Canadian dollar of 10% would, everything else being equal, have an effect of increasing revenue by 6.7%, increasing costs by 1.7% and increasing the income from operations by 0.2%. A decrease in the value of the U.S. dollar would effect a corresponding decrease by these percentages.

The Company is also exposed to foreign exchange risk from transactions in British pounds, Euros and Danish kroner. Fluctuations of 10% in the exchange rates for these currencies, when compared to the Canadian dollar, are not expected to individually have a material impact on the Company's results of operations.

June 30, 2010 and 2009

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

Interest rate risk

The Company is exposed to interest rate risk through its financial assets. The Company manages interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity reserves necessary to meet day-to-day operating cash flow requirements.

The Company believes that interest rate risk is not significant, as interest rates on short-term investments range from 0.1% to 0.3%. A 50 basis points change in interest rates would have no significant impact per quarter based on March 31, 2010 financial asset balances.

For the periods ended June 30, 2010 and December 31, 2009, the Company has no variable interest-bearing financial obligations.

Fair values of financial instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The amount of the convertible debentures as determined and recorded at their respective 2009 issue dates is representative of their fair value as at June 30, 2010, due to the close proximity in time.

Cash and restricted cash carried on the consolidated balance sheets at fair value are classified as Level 1 - quoted prices, in the fair value hierarchy described in Note 3. There are no financial instruments valued according to Level 2 - observable market inputs or Level 3 - valuation techniques using unobservable market inputs.

19. Capital Management

The Company's objective when managing capital is to ensure that the Company has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns for shareholders and benefits to other stakeholders. The capital structure of the Company consists of common equity issues and convertible debentures.

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

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

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20. Segmented Information

Operating segments

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

Product category information

The Company earned revenue attributed to the following product categories based on the main product or service sold to the customer:

	June 30, 2010	June 30, 2009
Voice	\$ 300,704	\$ 624,542
SMS Data	216,744	622,015
Workstations	1,357,250	526,933
Total	<u>\$ 1,874,698</u>	<u>\$ 1,773,490</u>

Geographic information

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

	June 30, 2010	June 30, 2009
Canada	\$ 129,511	\$ 500,615
United States	307,703	294,647
Europe	455,941	853,896
Rest of the world	981,543	124,332
Total	<u>\$ 1,874,698</u>	<u>\$ 1,773,490</u>

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

	June 30, 2009	December 31, 2009
Canada	\$ 360,386	\$ 529,737
United States	44,454	67,602
Europe	2,938	5,467
Total	<u>\$ 407,778</u>	<u>\$ 602,806</u>

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20. Segmented Information (cont'd)

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

	June 30, 2010	December 31, 2009
United States	\$ 1,465,037	\$ 1,465,037
Europe	713,220	825,018
Total	<u>\$ 2,178,257</u>	<u>\$ 2,290,055</u>

21. 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:

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 consolidated financial statements.

Business combinations, consolidated financial statements and non-controlling interests

In October 2008, the CICA issued Section 1582, *Business Combinations* concurrently with Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. 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.

June 30, 2010 and 2009

21. Future Changes in Accounting Policies (cont'd)

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC-175, *Multiple Deliverable Revenue Arrangements* which replaced EIC-142, *Revenue Arrangements with Multiple Deliverables* and may be applied prospectively and will apply to the Company effective January 1, 2011. The abstract includes updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated. The Company is reviewing the guidance to assess the potential impact on its consolidated financial statements.

22. Comparative Figures

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

23. Subsequent Event

Effective August 12, 2010, the Company completed a brokered private placement of 1,625 units of non-redeemable, secured convertible debentures, in denominations of \$1,000, in the aggregate principal amount of \$1,625,000. The debentures bear interest at a rate of 15% per annum, payable semi-annually commencing February 28, 2011, and mature on August 12, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of \$0.10 per share. The debentures are not redeemable by the Company prior to maturity. In addition, the Company issued agent options for the purchase of that number of debentures and warrants equal to 9% of the debentures and warrants issued through the brokered private placement. The agent options are exercisable until August 12, 2014.

In conjunction with the debenture issuance, the Company issued 3,250,000 common share purchase warrants to the debenture holders, being 2,000 warrants for each debenture unit. Each warrant is exercisable to acquire one common share at \$0.12 until August 12, 2014.

In addition to completion of the brokered private placement, the Company completed a \$875,000 non-brokered debt placement. The straight debt financing bears interest at 15.0%. The Company has exercised its option to make monthly interest payments with a 2.5% interest premium with principal being repaid on August 12, 2012. The Company has the option to repay the debt prior to maturity without penalty. This debt will share in the security with the debenture holders above on a pari passu basis. Approximately \$630,000 of the funds were received prior to June 30, 2010 as an advance from two directors.
