



MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("**MD&A**") for Call Genie Inc. ("**CG**", "**Call Genie**" or the "**Company**") should be read in conjunction with CG's unaudited consolidated financial statements and the accompanying notes as at and for the three and six month periods ended June 30, 2010, which have been filed with certain securities regulatory authorities in Canada and may be accessed at www.sedar.com (under Call Genie's profile). References in this MD&A to the Company's financial position and results of operations are presented on a consolidated basis and include the accounts of the Company and its wholly-owned subsidiaries, Call Genie (Ontario) Inc., Call Genie (USA), Inc., BTS Logic Europe ApS, Call Genie Europe B.V., and PhoneSpots Limited. CG's quarterly financial statements, including the notes thereto, and the financial information presented in this MD&A have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("**GAAP**"). All amounts are stated in Canadian currency unless otherwise indicated. The information in this MD&A is current to August 13th, 2010, unless otherwise noted.

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

Further information regarding the Company, and its business and operations, may be obtained from continuous disclosure materials filed by the Company from time-to-time with certain securities regulatory authorities in Canada. These continuous disclosure materials, including the Company's Annual Information Form, are available through the Company's website at www.callgenie.com or through the SEDAR website at www.sedar.com.

FORWARD LOOKING STATEMENTS AND DISCLAIMER

Certain information set out in this MD&A constitutes forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "scheduled", "believe" and similar expressions. The forward-looking information set out in this Management Discussion and Analysis includes the following information, most of which is set out below under the headings "Executive Summary" and "Outlook":

- (i) the percentage of deferred revenue that is expected to be recognized as revenue in the Statement of Operations during the 12 months ending June 30, 2011;
- (ii) the revenue that is expected to be reported for the 12 months ending December 31, 2010;
- (iii) expected net income from operations for the quarter ended December 31, 2010;



- (iv) the number and impact of key customer projects moving into the commercialization phase in 2010, resulting in the Company earning performance based revenues;
- (v) the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan (as set out under the heading "Regulatory Matters and Disclosures -- Critical Accounting Policies and Estimates -- Other Recent Canadian Accounting Pronouncements Not Yet Adopted -- International Financial Reporting Standards"); and

Financial information included in this MD&A of the type described in items (ii) and (iii) above was approved by management and the Board of Directors of the Company on August 12, 2010 and such information has been included to provide readers with an estimate of certain financial results that may be generated by the Company as it moves into a new phase with the commercialization of various technologies. Readers are cautioned that such information may not be appropriate for other purposes.

Forward-looking statements are based upon the opinions, expectations and estimates of management and, in some cases, information received from or disseminated by third parties, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include such things as the Company's current stage of development, the lack of track record with respect to the generation of revenues from performance-based arrangements with customers, its reliance on third parties and third party technology, the existence of competition, the availability of external financing, the inherent risks associated with research and development activities and commercialization of emerging technologies (such as lack of market acceptance), timing of execution of various elements of the Company's business plan, the availability of human resources, the emergence of competing business models and new laws (domestic or foreign) and the other risk factors noted below in this paragraph and under the heading "Business Risks and Uncertainties" herein. In respect of the percentage of deferred revenue that is expected to be recognized as revenue in the Statement of Operations for the 12 months ending June 30, 2011, those risks, uncertainties and factors include, but are not limited to, such things as the level of transactions causing deferred revenue to be recognized not increasing as expected, anticipated call volumes under performance-based arrangements entered into with customers not materializing as expected (with the result that performance based revenue generated by the Company falls short of expectations), the ability of the Company to obtain the necessary documentation required under GAAP to permit the recognition of revenue, material changes in the business terms agreed to by the Company and one or more of its existing customers, and changes in GAAP or the Company's application of GAAP. In respect of the revenue that is expected to be reported for the 12 months ending December 31, 2010, those risks, uncertainties and factors include, but are not limited to, such things as the ability of the Company to meet its contractual commitments, lack of a sufficient level of demand for services that generate performance based revenues, anticipated call volumes under performance-based



arrangements entered into with customers not materializing as expected (with the result that performance based revenue generated by the Company falls short of expectations), the ability to invoice customers and collect amounts owed, the continued solvency of the Company's customers, the ability to complete legal agreements on a timely basis, the level of transactions causing deferred revenue to be recognized not increasing as expected, the ability of the Company to obtain the necessary documentation required under GAAP to permit the recognition of revenue, material changes in the business terms agreed to by the Company and one or more of its existing customers, and changes in GAAP or the Company's application of GAAP. In respect of expectations concerning net income from operations for the quarter ended December 31, 2010, those risks, uncertainties and factors include, but are not limited to, such things as the ability of the Company to meet its contractual commitments, lack of a sufficient level of demand for services that generate performance based revenues, anticipated call volumes under performance-based arrangements entered into with customers not materializing as expected (with the result that performance-based revenue generated by the Company falls short of expectations), the ability to invoice customers and collect amounts owed, the continued solvency of the Company's customers, the ability to complete legal agreements on a timely basis, the level of transactions causing deferred revenue to be recognized not increasing as expected, the ability of the Company to obtain the necessary documentation required under GAAP to permit the recognition of revenue, material changes in the business terms agreed to by the Company and one or more of its existing customers, changes in GAAP or the Company's application of GAAP, and the Company's ability to maintain quarterly cash expenses at an amount equal to or less than \$2.5 million. In respect of the number and impact of key customer projects expected to move into the commercialization phase in 2010, resulting in the Company earning performance based revenues, those risks, uncertainties and factors include, but are not limited to, such things as the ability of the Company to meet its contractual commitments, lack of a sufficient level of demand for services that generate performance based revenues, anticipated call volumes under performance-based arrangements entered into with customers not materializing as expected (with the result that performance-based revenue generated by the Company falls short of expectations), the ability to invoice customers and collect amounts owed, the continued solvency of the Company's customers, the ability to complete legal agreements on a timely basis, the level of transactions causing deferred revenue to be recognized not increasing as expected, the ability of the Company to obtain the necessary documentation required under GAAP to permit the recognition of revenue, material changes in the business terms agreed to by the Company and one or more of its existing customers, and changes in GAAP or the Company's application of GAAP. In respect of expectations concerning the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan, those risks, uncertainties and factors include, but are not limited to, such things as a lack of availability of Company personnel, an inability to provide the financial training to members of staff assigned to complete the various tasks and the scope and complexity of the transition activities determined during the planning phases. **Accordingly, readers should not place undue reliance upon the forward-looking information contained herein and the forward-looking statements contained in this MD&A should not be considered or interpreted as guarantees of future outcomes or results.**

Forward-looking information:



- (i) respecting the percentage of deferred revenue that is expected to be recognized as revenue in the Company's statements of operation in the 12 months ending June 30, 2011 is based upon the existing terms of the arrangements with customers, the Company's revenue recognition policy and management's understanding of GAAP;
- (ii) respecting the revenues that are expected to be reported for the year ended December 31, 2010 is based upon management's estimates of revenues to be derived from existing customer arrangements, the terms of agreements entered into with those customers, information received from customers with respect to anticipated call volumes for Call Genie enabled services (upon which performance-based compensation is dependent), customers devoting sufficient resources to the advertising of Call Genie-enabled services to effectively promote awareness and usage of such services (which is necessary to permit the Company to earn performance-based revenues in accordance with business plan expectations), the Company earning not less than \$4.0 million from performance-based arrangements with customers, management's estimates respecting the timing of execution and delivery of services to be performed, the historical pattern of timing of cash receipts, amounts invoiced to customers to August 13, 2010, customer receipts to August 13, 2010, the Company's revenue recognition policy and management's understanding of GAAP;
- (iii) respecting the expected net income from operations for the quarter ended December 31, 2010 is based upon customer receipts to August 13, 2010, the existing terms of arrangements with customers, the Company's historical experiences with prior customer projects (including the time required to move from contract negotiations to commercialization), information received from customers with respect to anticipated call volumes for Call Genie enabled services (upon which performance-based compensation is dependent), the Company earning not less than \$4.0 million from performance-based arrangements with customers, management's estimates of revenues to be derived from existing customer arrangements, the terms of agreements entered into with those customers, customers devoting sufficient resources to the advertising of Call Genie-enabled services to effectively promote awareness and usage of such services (which is necessary to permit the Company to earn performance-based revenues in accordance with business plan expectations), the Company's planned expenditure rate and contractual arrangements with respect to existing staff, facilities and administrative support costs;



- (iv) respecting the number and impact of key customer projects moving into the commercialization phase in 2010, resulting in the Company earning performance based revenues, is based upon the Company's historical experiences with prior customer projects (including the time required to move from contract negotiations to commercialization), information received from customers with respect to anticipated call volumes for Call Genie enabled services (upon which performance-based compensation is dependent), customers devoting sufficient resources to the advertising of Call Genie-enabled services to effectively promote awareness and usage of such services (which is necessary to permit the Company to earn performance-based revenues in accordance with business plan expectations), management's estimates of revenues to be derived from existing customer arrangements and, the terms of the agreements entered into with those customers;
- (v) the timing of completion of certain components of the Company's IFRS transition plan and the elements of that plan is based upon expected availability and capability of the Company's internal financial staff.

Call Genie does not assume responsibility for the accuracy and completeness of the forward-looking statements set out in this MD&A and, subject to applicable securities laws, does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. Call Genie's forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statement.

EXECUTIVE SUMMARY

Call Genie's mission is to be a leading global solutions provider in mobile local search and mobile digital interactive advertising by enabling traditional industries to move to new business models that support the connection of mobile consumers and local merchants. Call Genie seeks to provide technology, services and solutions that utilize advanced wireless networks as well as the mobile web internet to enable a "mobile ecosystem" that encompasses advertisers, advertising publications (*e.g.* internet yellow pages) and mobile users.

The Company's loss for the six months ended June 30, 2010 was \$6.0 million or \$0.07 per share, a 5% improvement from the loss of \$6.2 million or \$0.08 per share reported for the same period in 2009. The reduced loss for the period was primarily the result of reduced expenditures in all areas of the Company's business. For the six months ended June 30, 2010 (as compared to the same period in 2009), sales and marketing costs decreased \$0.8 million, technology and product development costs decreased \$1.1 million, and general and administrative costs decreased \$0.3 million, a total decrease of \$2.2 million. The Company's loss for the three months ended June 30, 2010 was \$3.0 million or \$0.04 per share, a 3% improvement from the loss of \$3.1 million for the same period in 2009. For the three months ended June 30, 2010, sales and marketing,



technology and product development, and general and administrative costs decreased a total of \$1.2 million (compared to the same period in 2009). The reduced expenditures in both periods was partially off-set by a non-cash impairment charge of \$1.1 million that affected an intangible asset and the addition of interest and accretion expense on convertible debentures distributed by the Company of \$0.6 million and \$0.3 million in each period respectively.

As at June 30, 2010, the Company had an unrestricted cash balance of \$0.4 million and accounts receivable of \$1.6 million. Approximately 55% of those receivables (\$0.9 million) were attributable to one customer who has disputed scheduled payments for maintenance and support services and reimbursement of technology expenditures previously incurred by the Company. The Company is pursuing resolution of the matter through legal proceedings and the outcome of this matter may be material.

On August 12, 2010, the Company completed a brokered private placement of \$1.6 million aggregate principal amount of secured convertible debentures. The Company also raised \$0.9 million through the issuance of debt under a non-brokered private placement for total gross proceeds of \$2.5 million. The debentures bear interest at a rate of 15% per annum, payable semi-annually, and mature two years from the closing date. At the option of the debenture holder, principal under the debentures is convertible into common shares of the Company based on a conversion price of \$0.10 per share. In addition, each debenture holder received 2,000 warrants per \$1,000 principal amount of debentures. Each warrant entitles the holder to purchase one common share of the Company, at an exercise price of \$0.12, at any time until August 12, 2014. The non-brokered debt matures on August 12, 2012 and bears interest at a rate of 17.5% per annum paid monthly in arrears. Principal is to be repaid in a lump sum payment on August 12, 2012. Subscribers for the non-brokered debt included certain insiders of the Company including the Chairman of the Board, the CEO and CFO.

As of June 30, 2010, participants in the non-brokered private placement had advanced \$0.6 million to the Company. The net proceeds from both the brokered private placement and the non-brokered private placement was \$2.3 million, which results in an additional \$1.6 million of cash resources from financing in the 3rd quarter of 2010.

Cash flow used in operations was \$1.8 million for the three months ended June 30, 2010, which represents an 11% improvement over cash flow from operations for the same period in 2009. Deferred revenue at June 30, 2010 was \$4.2 million, a decrease of \$0.7 million from December 31, 2009. Total revenue for the six months ended June 30, 2010 was \$1.9 million, which represents an approximate 6% increase over the same period in the prior year.

The Company's future operations remain dependent upon its ability to secure additional funds or secure sales contracts (or both) that provide the Company with adequate funds to cover the cash flows projected for the balance of fiscal 2010 and 2011. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider strategic alternatives, which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or the sale of the Company.



In 2010, the Company expects a number of key projects to move into the commercialization phase, as a result of which the Company will begin to realize performance-based recurring revenues. For the year ended December 31, 2010, the Company continues to expect revenues to increase by approximately 100% to \$7.0 million as compared to the revenue reported for the year ended December 31, 2009. Provided that reported revenues reach \$7.0 million, CG management believes that the Company will generate positive net income from operations in the fourth quarter of 2010. Due to the nature of performance based revenues, variability of potential results, and dependence on the commercialization efforts required to be undertaken by the Company's customers, **readers should not place undue reliance upon the forward-looking information contained in this paragraph and the forward-looking statements contained in this paragraph should not be considered or interpreted as guarantees of future outcomes or results.**

The following table sets out selected financial information as at the dates and for the periods indicated:

KEY FINANCIAL METRICS	Six Months Ended June 30, 2010	12 Months Ended December 31, 2009	Six Months Ended June 30, 2009
Cash and cash equivalents	\$ 404,211	\$ 3,447,084	\$ 2,348,076
Amounts invoiced to customers	\$ 1,380,195	\$ 7,248,697	\$ 2,628,933
Deferred revenue	\$ 4,170,913	\$ 4,698,304	\$ 1,874,930
Revenue	\$ 1,874,698	\$ 3,486,633	\$ 1,773,440
Net loss	\$ (6,048,662)	\$ (12,358,653)	\$ (6,341,784)
Loss per share – basic and fully diluted	\$ (0.07)	\$ (0.15)	\$ (0.08)
Common shares outstanding			
- Basic	84,627,874	82,990,683	82,993,656
- Fully diluted	116,751,830	113,825,889	103,395,662

BUSINESS STRATEGY

Our Goal and Strategy

Call Genie's mission is to be a leading global solutions provider in mobile local search and mobile digital interactive advertising by enabling traditional industries to move to new business models that support the connection of mobile consumers and local merchants. The Company seeks to provide technology, services and solutions that utilize advanced wireless networks as well as the mobile web internet to enable a "mobile ecosystem" that encompasses advertisers, advertising publications (e.g. internet yellow pages) and mobile users. To advertisers and advertising publications, Call Genie provides a range of tools and marketing solutions designed to enable them to reach consumers through mobile devices and the mobile web, using both voice



commands and data services. This information or advertising is presented to users in voice or data format (or both) and may be sent to advanced mobile devices such as the Blackberry and the iPhone. Consumers use the information to connect with merchants to find contact details such as address, phone number, hours of operations and directions.

Strategic Priorities and Progress in 2010

The following table sets out information concerning various strategic priorities identified for 2010 and the progress made by the Company in achieving those priorities to date.

Strategic Priority	Current Status
Deliver solutions	<ul style="list-style-type: none"> Solutions deployed in 14 countries; principally in Canada, the United States and Europe. The account management function is focused on defining solutions rather than sell technology.
Focus on business models	<ul style="list-style-type: none"> Commercial agreements entered into in connection with those customer projects provide for performance-based compensation.
Take advantage of legacy business transitional window	<ul style="list-style-type: none"> Solutions enable monetization of directory assistance calls, intercept calls and SMS.
Increase revenue through customer retention and relationship expansion	<ul style="list-style-type: none"> Solutions deployed and in early stages of performance based revenue generation.
Embrace partnerships in eco-system for sustainable differentiation	<ul style="list-style-type: none"> Key business development team hired with strong industry contacts. Established Mobile Marketing business relationships with Telcordia Technologies, Inc. and several mobile ad providers.
Secure additional financing	<ul style="list-style-type: none"> Completed \$2.5 million financing in August 2010. Continuing to pursue several potential financing alternatives.

KEY PERFORMANCE DRIVERS

There are four key drivers that management continues to monitor to gauge performance and the Company's ability to execute its business plan. Those drivers are summarized below:

- 1) Revenues from existing customers in the United States market:



The commercialization of previously announced customer relationships (Verizon, Dex One and to a lesser degree AT&T) is on-going. To date, revenues from these customer relationships have been primarily generated from implementation fees. The agreements with these customers provide for revenue from transaction fees following implementation and commercial roll-out of applications using CG technology.

2) Revenues from Ad Network opportunities:

The Company has expanded its addressable market to include making its mobile local search and advertising products available to newspaper publishers, radio and television broadcasters and is engaged in discussions with both local and national brand advertisers who have expressed an interest in capitalizing on this type of inventory. In September, 2009, the Company announced that it entered into a three year agreement to promote and manage a consumer-oriented local search sweepstakes platform for the syndicated game show "Deal or No Deal." The financial results have not met internal projections and alternatives to rejuvenate the business plan are being explored. In the second quarter of 2010, the Company recorded an asset impairment charge of \$1.1 million against this program. Management believes that Ad Network opportunities continue to hold potential as exemplified by the Company's various syndication agreements in the US and the new multi-year agreement with France Telecom to supply its AdExchange technologies.

3) Revenues from deployment of Directory Assistance workstation software:

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

4) Revenues from the Canadian market:

The commercialization of the Company's voice search service with TELUS and Yellow Pages Group of Canada ("**YPG**") has not progressed as expected. To date, revenues from these customers have been primarily generated from implementation fees and maintenance and support services. Although YPG had advised the Company that it wished to restructure its contractual arrangement with the Company, no progress has been made in that regard to date and the agreement between the parties is scheduled to expire on December 31, 2010. While the Company will continue its business development activities in Canada, given the successful expansion in other larger markets, revenues from the Canadian market are not expected to be a key driver going forward.



CAPABILITY TO DELIVER

Leadership

Due to the nature of the Company, execution of the Company's business plan is, to a significant degree, dependent on the capabilities of the people within the organization. Executive leadership is a key component of the planning, organizing and delivery necessary to achieve success. The Company has an executive management team with over 88 years of industry specific experience in the technology field. The executive team is led by Michael Durance, the Company's Chief Executive Officer. Mr. Durance has over 27 years of experience and has been with CG since June 1, 2005.

The Company has assembled an experienced executive team that includes Chet Chan, Senior VP of Client Services (hired in June 2007 with 21 years of experience) and Chris Shelton, Chief Financial Officer (hired in March 2006 with over 21 years of experience). Further information about the executive team and the Board of Directors is available on the Company's website at www.callgenie.com.

In July 2010, the Company's Chief Sales Officer, Michael Henderson, resigned to pursue other opportunities. Mr. Durance has assumed Mr. Henderson's responsibilities and the Global Business Development function has been reorganized into North American and International groups that report to Mr. Durance.

Financing

At June 30, 2010, the Company had a cash balance of \$0.4 million. The Company completed a \$2.5 million debt financing on August 12, 2010 of which \$0.7 million was advanced by participants prior to June 30, 2010. Notwithstanding completion of the financing, the Company's future operations remain dependent upon its ability to secure additional funds or secure sales contracts (or both) that provide the Company with adequate funds to cover expenditures projected for the balance of fiscal 2010 and 2011. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider strategic alternatives, which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or the sale of the Company.

Productive Capacity

The Company's business model is premised on its ability to generate recurring revenues without a proportional increase in expenses for staff salaries and benefits. To that end, the Company builds its application software using a product model rather than building individual customized solutions. Management of CG believes that the Company has adequate human resources to deliver all projects currently scheduled.



RESULTS OF OPERATIONS

Overall

The Company's loss for the six months ended June 30, 2010 was \$6.0 million or \$0.07 per share, an improvement of 5% from the loss of \$6.3 million or \$0.08 per share for the six months ended June 30, 2009. The decreased loss for the period was primarily the result of reduced expenditures in all areas of the Company's business. For the six months ended June 30, 2010 (as compared to the same period in the prior year), sales and marketing costs decreased \$0.8 million, technology and product development costs decreased \$1.1 million, and general and administrative costs decreased \$0.3 million. The total expenditure reduction of \$2.2 million was partially offset by a \$1.1 non-cash impairment charge that affected an intangible asset and interest and accretion expense on convertible debentures distributed by the company of \$0.6 million.

Revenues

Revenues for the six months ended June 30, 2010 increased to \$1.9 million from \$1.8 million for the same period in 2009, which is a 6% period-over-period increase. Revenues decreased \$0.4 million in Canada, remained unchanged in the USA and increased \$0.5 million in Europe and the rest of the world. Revenues for the three months ended June 30, 2010 increased to \$1.3 million from \$0.9 million for the same period last year, an increase of 41%. The following table sets out additional information concerning revenue by product line for the periods indicated.

	Six months ended June 30, 2010 (000's)	Six months ended June 30, 2009 (000's)	Variance	% change
Voice	301	625	(324)	(52%)
SMS Data	217	622	(405)	(65%)
Workstation	1,357	527	830	157%
Total	1,875	1,774	101	6%

	Three months ended June 30, 2010 (000's)	Three months ended June 30, 2009 (000's)	Variance	% change
Voice	154	353	(199)	(56%)
SMS Data	124	324	(200)	(62%)
Workstation	1,005	235	770	328%
Total	1,283	912	371	41%

The overall increase in revenues is primarily attributable to 1) increased revenue recognized upon the completion of the delivery of a workstation solution, offset by, 2) decreased revenues from the Company's voice search service in Canada and 3) decreased consulting fees for implementation work for SMS data projects in Europe. In Canada, the current revenue sharing arrangement with YPG has yet to generate significant revenues and certain fixed maintenance and implementation fees have been disputed by the customer. The Company has not recognized



an additional \$0.4 million of revenues in the first half of 2010, which the Company believes are payable under the terms of commercial agreements entered into with the customer. Discussions with the customer concerning this dispute have not led to a resolution of the matter and the Company is in the process of initiating legal proceedings against the customer.

The Company earns revenue from multiple sources, including software licenses, implementation and consulting fees, transactional processing fees, hosting fees as well as maintenance and support revenues. The Company has reviewed its revenue arrangements and determined that, in substance, certain arrangements are hosted solutions wherein all implementation fees should be deferred and recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services.

Deferred revenue at June 30, 2010 was \$4.2 million compared to \$4.7 million at December 31, 2009. Approximately 78% of the deferred revenue reported at June 30, 2010 is expected to be recognized as revenue in the 12 months ending June 30, 2011.

Cost of Sales

For the six months and three months ended June 30, 2010, cost of sales decreased marginally to \$1.02 million from \$1.05 million and to \$0.46 million from \$0.47 million, respectively, for the same periods in 2009. The decreases were due to reduced staff resources allocated to support customer specific activities related to market trials and implementation of the Company's multiple product lines, offset by increases in direct costs incurred to support the Deal or No Deal sweepstakes program.

Expenses

Expenses for the six months ended June 30, 2010, decreased to \$6.3 million from \$7.0 million for the first half of 2009. The decrease of \$0.7 million was primarily due to lower staff levels in all operational areas of the business. The average level of staff resources was 40 for the first half of 2010 compared to 59 in same period of 2009. The decrease in staff was principally attributable to increased efficiency and the cash conservation program implemented by the Company which began in the fourth quarter of 2008. Expenses for the three months ended June 30, 2010, decreased only marginally to \$3.46 million from \$3.49 million compared to the same period in 2009.

Sales and Marketing

Sales and Marketing costs for the six months ended June 30, 2010 were \$1.1 million compared to \$1.9 million for the first half of 2009. The 42% decrease of \$0.8 million was primarily attributable to the number of staff engaged, either directly or on contract, to undertake business development, account management or marketing activities. For the first half of 2010, the Company maintained a sales and marketing team of 10 compared to 14 for the first half of 2009. The Company continued to allocate staff to business development initiatives involving the expansion of the Company's addressable market (to include making its mobile local search and



advertising products available to newspaper publishers, radio and television broadcasters) while scaling back certain other marketing activities. Sales and Marketing costs for the three months ended June 30, 2010 were \$0.5 million compared to \$1.0 million for the second quarter of 2009. The decrease was mainly attributable to the number of staff engaged, either directly or on contract, to undertake business development, account management or marketing activities.

Technology and Product Development

For the six months ended June 30, 2010, Technology and Product Development costs were \$1.2 million compared to \$2.2 million for the first half of 2009. The period-over-period decrease in expenditures of \$1.0 million represents an approximate 45% decrease. The decrease was primarily due to increased efficiency and fewer staff members engaged in developing product software and processes. For the first half of 2010, the Company maintained a research and development staff averaging 20 compared to 34 for the first half of 2009. Technology and Product Development costs for the three months ended June 30, 2010 were \$0.5 million compared to \$1.0 million for the second quarter of 2009 due to fewer staff members engaged in development activities.

General and Administrative

General and administrative costs for the six months ended June 30, 2010 were \$1.8 million compared to \$2.1 million for the first half of 2009. The decrease of \$0.3 million or approximately 14% was principally attributable to the Company's cash conservation program. The decrease consisted of 1) decreased staff related costs of \$0.16 million, 2) decreased professional services fees of \$0.06 million; and 3) decreased maintenance, office rent, telephone charges and supplies of \$0.08 million. General and Administrative costs for the three months ended June 30, 2010 were \$0.9 million compared to \$1.0 million for the second quarter of 2009 due mainly to decreased staff related costs.

Stock Based Compensation

Stock based compensation expense for the six and three months ended June 30, 2010 was \$0.20 million and \$0.07 million, respectively, compared to \$0.13 million and \$0.11 million for the same periods in 2009. The expense, as determined through the use of the Black-Scholes methodology, is primarily driven by the market price of the Company's common shares at the time options were granted.

Interest Income/Expense

Interest expense for the six and three months ended June 30, 2010 was \$0.6 million and \$0.3 million respectively and was attributable to the convertible debentures that were privately placed during 2009. There was no comparable expense for the six and three months ended June 30, 2009 as the initial debentures were issued June 26, 2009 and represented the first debt instruments used by the Company to finance its operations.



Interest income for the six and three months ended June 30, 2010 and June 30, 2009 was negligible.

Provision for Income Tax Expense

For the six months ended June 30, 2010, the Company recorded a minor gain in income tax expense as a result of a tax assessment of one of the Company's foreign subsidiaries. No provisions or adjustments were required for the same period prior year.

Net Loss

As a result of the foregoing, the Company's net loss for the six months ended June 30, 2010 was \$6.0 million, which was \$0.3 million lower than the net loss for the first six months of 2009 of \$6.3 million. The Company's net loss for the three months ended June 30, 2010 was \$3.0 million, which was \$0.1 million lower than the net loss for the same period in 2009.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial information of the Company for the quarters indicated.

(000's, except per share amounts)	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Revenue	\$875	\$977	\$862	\$912	\$954	\$759	\$592	\$1,283
Cost of sales	870	657	577	474	499	523	562	462
Gross margin	5	319	285	438	455	236	30	821
Expenses								
Sales and marketing	1,381	1,147	930	966	947	660	668	469
Research and development	1,553	1,470	1,178	1,045	846	706	669	484
General and administrative	1,171	1,277	1,020	1,041	916	980	897	892
Stock based compensation	312	1,417	20	107	109	112	125	73
Amortization	395	410	365	332	310	525	443	437
Impairment of intangible asset	-	-	-	-	-	-	-	1,107
	4,812	5,721	3,513	3,491	3,128	2,983	2,802	3,462
Loss from operations	(4,807)	(5,402)	(3,228)	(3,053)	(2,673)	(2,747)	(2,772)	(2,641)
Other income/(expense)								
Interest income (expense)	60	48	4	-	(103)	(183)	(302)	(314)
Foreign exchange gain (loss)	(24)	(31)	14	(79)	(28)	(3)	35	(58)
Income tax (expense)						(280)	3	-
Net loss for the period	(4,771)	(5,385)	(3,210)	(3,132)	(2,804)	(3,233)	(3,036)	(3,013)
Basic and diluted loss per share	\$(0.06)	\$(0.06)	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.04)	\$(0.04)	\$(0.04)



FINANCIAL CONDITION

The following table sets out selected information concerning the Company's financial position as at the dates indicated.

Selected data on financial position	June 30, 2010	December 31, 2009	June 30, 2009
Cash and cash equivalents	\$404,211	\$3,447,084	\$2,348,076
Net working capital	(\$4,290,680)	(\$411,677)	\$1,027,448
Total assets	\$8,440,477	\$13,846,139	\$11,671,555
Total long-term liabilities	\$7,003,305	\$7,418,251	\$2,997,907
Total liabilities	\$13,455,589	\$13,194,205	\$5,958,679
Shareholders' equity	(\$5,015,112)	\$651,934	\$5,712,876

Cash and Cash Equivalents

At June 30, 2010, the Company's cash and cash equivalents amounted to approximately \$0.4 million compared with \$3.5 million at December 31, 2009. The \$3.1 million decrease was primarily due to the \$4.1 million of cash used to fund operations partially offset by \$1.1 in financing activities, in the six months ended June 30, 2010.

Assets

CG's total asset base as at June 30, 2010 was \$8.4 million, down from \$13.8 million at December 31, 2009. The \$5.4 million decrease was principally the result of the continuing operating losses incurred in the first six months of 2010. Long-term assets, consisting primarily of capital assets, goodwill, and intangibles, decreased \$1.8 million from \$8.5 million at December 31, 2009 to \$6.7 million as of June 30, 2010. The decrease was the result of \$0.9 million of amortization and a \$1.1 million impairment charge that affected an intangible asset. Current assets, consisting primarily of cash and accounts receivables, declined \$3.2 million as compared to December 31, 2009.

Working Capital

Working capital represents the Company's current assets less its current liabilities. At June 30, 2010, the Company had a working capital deficit of \$4.3 million compared to a working capital deficit of \$0.4 million at December 31, 2009. The \$3.9 million increase is primarily due to the decrease in cash and the advances from shareholders received in Q2 2010. Cash and cash equivalents decreased \$3.0 million to fund operations during the first six months of 2010. During Q2 2010, three shareholders advanced \$0.7 million to the Company on account of the debt financing completed on August 12, 2010.



At June 30, 2010, the Company's accounts receivable totaled \$1.6 million. 56% of these receivables (\$0.9 million) were attributable to one customer who has disputed scheduled payments for maintenance and support services and reimbursement for previously delivered technology expenditures. Discussions with the customer concerning this dispute have not led to a resolution of the matter and the Company has initiated legal proceedings against the customer.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that Company will not be able to meet its financial obligations as they fall due. The reported financial position of the Company presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses amounting to \$63.6 million since the Company began operating in 2000. As of June 30, 2010, the Company had a working capital deficit of \$4.3 million.

On August 12, 2010, the Company completed a brokered private placement of \$1.6 million aggregate principal amount of secured convertible debentures. The Company also raised \$0.9 million through the issuance of debt under a non-brokered private placement for total gross proceeds of \$2.5 million. The debentures bear interest at a rate of 15% per annum, payable semi-annually, and mature two years from the closing date. At the option of the debenture holder, principal under the debentures is convertible into common shares of the Company based on a conversion price of \$0.10 per share. In addition, each debenture holder received 2,000 warrants per \$1,000 principal amount of debentures. Each warrant entitles the holder to purchase one common share of the Company, at an exercise price of \$0.12, at any time until August 12, 2014. The non-brokered debt matures on August 12, 2012 and bears interest at a rate of 17.5% per annum paid monthly in arrears. Principal is to be repaid in a lump sum payment on August 12, 2012.

At June 30, 2010, the Company had a cash balance of \$0.4 million. The Company completed a \$2.5 million debt financing on August 12, 2010 of which \$0.7 million was advanced by participants prior to June 30, 2010. Notwithstanding completion of the financing, the Company's future operations remain dependent upon its ability to secure additional funds or secure sales contracts (or both) that provide the Company with adequate funds to cover expenditures projected for the balance of fiscal 2010 and 2011. If the Company does not secure such contracts, or if it cannot secure additional financing, the Company will have to consider strategic alternatives, which may include, among other strategies, exploring the monetization of certain intangible assets, modification of planned operating expenditures, or the sale of the Company.

OUTSTANDING SHARE DATA

CG's outstanding share capital consists of common shares. An unlimited number of common shares are authorized for issuance. At June 30, 2010, 84,627,874 common shares were outstanding compared to 82,990,683 common shares outstanding at December 31, 2009. The



increase was due to the issuance of 107,679 common shares under the Company's employee share purchase plan in the first six months of 2010, the exercise of 17,500 stock options and 1,512,012 common shares issued, at a price of \$0.1586 per share, in exchange for 12 months of rent payments totaling \$239,870.

As of June 30, 2010, the Company had 12,548,750 (11,260,000 at December 31, 2009) stock options outstanding with a weighted average exercise price of \$0.13 and 6,422,006 (6,422,006 at December 31, 2009) warrants outstanding with an average exercise price of \$0.225 (\$0.225 at December 31, 2009). Under the convertible debentures distributed by the Company in 2009, holders are entitled to convert the principal amount of their debentures and accrued interest into common shares at a conversion price of \$0.50, subject to adjustment. If the aggregate principal amount of the debentures distributed in 2009 were to be fully converted, at the \$0.50 conversion price, an additional 12,930,000 common shares would be issued. In addition, if the broker warrants distributed in connection with the convertible debenture financing concluded on December 23, 2009 were fully exercised, an additional 223,200 common shares would be issued and outstanding. Accordingly, the number of issued and issuable shares on a fully diluted basis was 116,751,830 at June 30, 2010 compared to 113,825,889 at December 31, 2009. Further information on CG's outstanding share capital is provided in Note 10 to the Company's consolidated financial statements.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table presents a summary of Call Genie's contractual obligations, including payments due for each of the next three years and thereafter.

Contractual Obligations	Payments Due by Period				
	Total	2010	2011	2012	After 3 years
Long Term Debt	\$8,940,000	-	-	\$ 8,940,000	-
Interest on Long Term Debt	\$2,501,548	\$415,819	\$1,119,000	\$ 966,729	-
Equipment Lease Obligations	\$38,582	\$14,506	\$22,606	\$ 1,470	-
Operating Leases	\$1,850,743	\$352,917	\$708,311	\$ 612,540	\$ 176,975
Purchase Obligations	\$1,171,060	\$585,530	\$585,530	-	-
Other Long Term Obligations	\$293,747	-	\$293,747	-	-
Total Contractual Obligations	\$14,795,680	\$1,368,772	\$2,729,194	\$ 10,083,704	\$ 176,975

The Company did not have any "off-balance sheet" arrangements as of June 30, 2010. The Company did not have any commitments for capital expenditures as of June 30, 2010 nor any financing sources arranged but not yet used.



RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2010, the Company recorded \$187,867 (\$337,719 in 2009) of general and administrative expenses for transactions with companies controlled or influenced by Call Genie's officers or directors, which transactions were entered into in the normal course of operations. During the three months ended June 30, 2010, two of the Company's directors, advanced \$630,000 to the Company on account of the subsequent purchase of convertible non-brokered debt discussed in Note 23 of the consolidated financial statements.

OUTLOOK

In the second half of 2010, the Company continues to expect a number of key projects to move into the commercialization phase, as a result of which the Company will begin to realize performance-based recurring revenues from those projects. For the year ended December 31, 2010, the Company expects revenues to grow by 100% to \$7.0 million. Provided that reported revenues reach \$7.0 million, CG management believes that the Company will generate positive net income from operations in the fourth quarter of 2010. **Due to the nature of performance based revenues, variability of potential results, and dependence on the commercialization efforts required to be undertaken by the Company's customers, readers should not place undue reliance upon the forward-looking information contained in this paragraph and the forward-looking statements contained in this paragraph should not be considered or interpreted as guarantees of future outcomes or results.**

BUSINESS RISKS AND UNCERTAINTIES

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

No Record of Profit

CG has incurred significant losses to date, and there can be no assurance that the future business activities of CG will be profitable. Since its organization, CG has incurred costs to develop and enhance its technology, to establish strategic relationships, to acquire complementary technologies and to build administrative support systems. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$6,048,662 for the six months ended June 30, 2010, \$12,358,653 for the year ended December 31, 2009, \$20,475,110 for the year ended December 31, 2008, \$12,619,137 for the year ended December 31, 2007, and \$6,491,898 for the year ended December 31, 2006. CG's ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including its ability to further develop and test its technology on schedule and on budget, the pace at which it secures additional customers, the time and expense required for the roll-out of its products, its success in marketing such service to consumers and merchants, the intensity of the competition experienced by CG and the availability of additional capital to pursue its business plan, including



development of new services). An inability to generate sufficient funds from operations will have a materially adverse affect on CG's business, results of operations and financial condition.

Current Enterprise Value assigned by the Market; Liquidity

The actions of all stakeholders in the business may be adversely affected by the current market capitalization of the Corporation. These stakeholders include customers, potential customers, competitors, channel delivery partners, technology partners, and current or prospective employees. These stakeholders may ascribe a higher business risk to the Corporation due to the decline in the market capitalization that may have a materially adverse effect on Call Genie's business, results and financial condition.

Substantial Capital Requirements; Liquidity

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

Cash Conservation Programs impacting Delivery Capability

The Company implemented various cash conservation measures in 2009 and in the first quarter of 2010. As a result of these measures, negative economic consequences have affected CG staff resources at all levels. The Company may experience further attrition of staff as a result of these conservation measures which may affect the Company's ability to deliver software and services to current and prospective customers.

Developing Market

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



Third Party Technology

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

Rapid Technological Change

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

Competition

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

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



Need for Research and Development

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

Defects and Liability

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

Patents and Other Intellectual Property

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

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

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



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

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

Personnel Resources

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

Potential Fluctuations in Quarterly Operating Results

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

Risk of Industry Consolidation

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



Government Regulation

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

Costs Associated with Compliance with Securities Laws

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

Risk of Changes to the Company's accounting policies

Changes to the Company's accounting policies, including the implementation of IFRS, may result in significant adjustments to its financial results, which could negatively affect the Company's business, and may increase the risk of breaching covenants contained in agreements to which the Company is a party.

Risk of Future Terrorist Attacks or Related Disasters

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

REGULATORY MATTERS AND DISCLOSURES

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual future results could differ from these estimates and those differences could be



material. The most significant estimates relate to 1) revenue recognition, 2) goodwill and long-lived asset impairment, 3) convertible debentures, and 4) stock-based compensation.

Revenue Recognition

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

Hosted Arrangements

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

Software License Arrangements

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

Services

The Company also enters into annual standalone renewals of agreements for 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.

Judgment is involved in assessing whether each criteria required for recognition have been met. Key assessments are: 1) delivery; 2) whether separate units of accounting exist; 3) collectability; and 4) when multiple contracts may be treated as a single arrangement. Judgment is applied to each customer arrangement.

Goodwill and Long-lived Assets

Long-lived assets such as capital assets and intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In reviewing the circumstances which trigger the requirement to test for recoverability, the only event identified was the fact that the Company had a current period operating loss combined with a history of operating losses. While losses are consistent with the stage of development, the Company assessed the fair value of the assets group to determine if the carrying value of the asset group exceeds its fair value. Fair value is estimated by adding expected future cash flows from the relevant assets, using the traditional present value technique.

At June 30, 2010, intangible assets of \$3,637,436 represented approximately 43% (2009 – 34%), of the Company's consolidated assets. Management of the Company determined, at December 31, 2009, that the present value of the Company's estimated cash flows over a five-year period exceeded the carrying value of the Company's intangibles and, accordingly, no write down in the carrying value of such intangibles was required. During the 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 period ended June 30, 2010.

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized. It is assessed for impairment annually as at October 1 each year and sometimes more frequently if a change in circumstances indicates that the asset might be impaired. The impairment test requires the identification of reporting units and a comparison of the estimated fair value of each reporting unit to the carrying value recorded on the Company's consolidated financial statements, including goodwill.

Based on the Company's review, only one reporting unit has been identified for the purpose of performing the annual impairment test. Recoverability of goodwill is determined with the Company as the reporting unit, using a two-step approach. First, the carrying value of the Company is compared to its fair value. If the carrying value of the Company exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the impairment test involves comparing the



implied fair value of the Company's goodwill with its carrying amount to measure the amount of impairment loss, if any.

At June 30, 2010, goodwill of \$2,178,257 represented approximately 26% (2009 – 18%) of the Company's consolidated assets. At June 30, 2010, Company management determined that there had been no changes in circumstances to indicate that the goodwill might be impaired thus requiring the initiation of a goodwill impairment test. Management noted that the Company's estimate of fair value as principally determined by reference to its publicly traded share price over a reasonable period of time prior to the effective date of the impairment test continued to exceed the carrying value of the goodwill.

Convertible Debentures

The Company segregated the fair value of the convertible debentures into three components: debt, warrant and the residual value. To determine the fair value of the debt, the Company calculated the present value of all the cash flows using a discount rate ranging from 20-22%. The fair value of the warrants was determined using the Black-Scholes option model and assuming a volatility factor based on the historical price to the Company's shares for the last two years, no dividends paid and the risk free rate based on a zero-coupon Government of Canada bond. These estimates determine the allocation of the convertible debenture between the long term liability and equity portion of convertible debentures. 2009 represented the first year the Company has issued convertible debentures.

Stock-Based Compensation

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

Adoption of Recent Canadian Accounting Pronouncements in 2010

No recent Canadian Accounting Pronouncements have been adopted by the Company to date in 2010.

Other Recent Canadian Accounting Pronouncements Not Yet Adopted

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

Business combinations, consolidated financial statements and non-controlling interests

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

International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board ("**AcSB**") will require all publicly accountable enterprises to adopt IFRS effective January 1, 2011. Companies will be required to provide comparative information for the previous year. While IFRS is based on a conceptual framework similar to Canadian GAAP there are significant differences in certain accounting policies. The objective of IFRS is to facilitate the comparability between reporting entities that operate in different countries or regions of the world.

The Company has established an IFRS project team, consisting of its senior financial personnel, to plan, implement, and report on the IFRS conversion process. The IFRS conversion may affect financial reporting, business processes, internal controls and information systems. The Company's IFRS conversion plan focuses on the difference between IFRS and Canadian GAAP that will affect the Company as well as assessing the impact of various accounting alternatives available within IFRS. Reporting under IFRS will not affect the cash flows of Call Genie.

The Company's IFRS conversion plan consists of three phases: 1) diagnostic phase; 2) design and development phase; and 3) implementation phase. The diagnostic phase, which involved a high level review of the major differences between Canadian GAAP and IFRS was completed in 2009. The Company is now in Phase 2 of its changeover process and preliminary analysis has identified a number of differences. The areas most likely to have a significant impact include: the initial adoption of IFRS; capital, goodwill, and intangible assets. These areas may affect the Company's policies, procedures and financial statement disclosures. The Company is continuing to assess the impact.



The table below summarizes the expected timing of key activities related to our transition to IFRS:

IFRS expertise and additional training of project team	Throughout 2010
Initial analysis of key areas for which changes to accounting policies may be required	May 15, 2010
Initial impact analysis of IFRS on Infrastructure, Business Policy and Control Environment	September 30, 2010
Determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.	September 30, 2010
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes, accounting process changes, and infrastructure changes.	September 30, 2010
Quantification of financial statement impact of changes in accounting policies	October 31, 2010
2011 financial statement and note disclosure format	November 30, 2010



CONTROLS AND PROCEDURES

As required by National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim filings*, the Company's Chief Executive Officer and Chief Financial Officer have made certain certifications related to the Company's interim and annual filings (as defined by NI 52-109), which have been filed with certain securities regulators in Canada.

Evaluation of Disclosure Controls and Procedures

Under NI 52-109, the Chief Executive Officer and the Chief Financial Officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which interim filings are being prepared; and (ii) information required to be disclosed by the Company in its filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer and the Chief Financial Officer of the Company are satisfied with the effectiveness of the Company's disclosure controls and procedures and have not identified any material weaknesses relating to the design of its disclosure controls and procedures.

Management's Report on Internal Control over Financial Reporting

As part of the NI 52-109 certifications, the Chief Executive Officer and Chief Financial Officer of the Company must certify that they are responsible for establishing and maintaining internal controls over financial reporting ("ICFR") and have designed such controls (or caused them to be designed under their supervision) in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer are satisfied with the effectiveness of the Company's internal controls over financial reporting and have not identified any material weaknesses relating to the design of such internal controls. Consistent with the Company's stage of development, the Company continues to rely on risk mitigating procedures during its financial close processes in order to provide comfort that the financial statements are presented fairly in accordance with GAAP.

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



In particular, the Company records complex and non-routine transactions. These transactions can be extremely technical in nature and require an in-depth understanding of GAAP. To address this risk, the Company consults with third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, an annual audit is completed by the Company's auditors, and presented to the Audit Committee for its review and approval. At this time, the Company is not considering any expansion of the technical expertise within its accounting function. In the meantime, the Company will continue to work closely with its third party advisors.

Subsequent to June 30, 2010, the Company continues to direct available resources to assessing and improving the identified deficiencies and the overall control environment and governance processes within the Company, but has not made any additional material changes to its system of internal controls over financial reporting.

Changes in Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have determined that there were no changes in the Company's ICFR that occurred during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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