

**Call Genie Inc.
Consolidated Financial Statements
For the years ended December 31, 2010 and 2009**

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Independent Auditors' Report

To the Shareholders of Call Genie Inc.

We have audited the accompanying consolidated financial statements of **Call Genie Inc.**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Call Genie Inc.** as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has accumulated a deficit amounting to \$66,096,000 for the year ended December 31, 2010 and as of that date has a working capital deficiency of \$4,575,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Toronto, Canada
March 25, 2011.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Call Genie Inc.
Consolidated Balance Sheets

(In thousands of Canadian dollars, except share data)

As at December 31	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 380	\$ 3,447
Accounts receivable (Note 9(c))	1,697	1,732
Prepaid expenses and deposits	128	241
	<u>2,205</u>	<u>5,420</u>
Restricted cash (Note 7)	-	122
Property and equipment (Note 3)	228	603
Goodwill (Note 4)	2,194	2,290
Intangible assets (Note 5)	3,226	5,411
	<u>\$ 7,853</u>	<u>\$ 13,846</u>

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable and accrued liabilities (Note 9(b))	\$ 2,517	\$ 2,589
Current portion of deferred revenue	2,987	3,187
Current portion of debentures (Note 7)	1,276	-
	<u>6,780</u>	<u>5,776</u>
Other liabilities (Note 6)	82	879
Deferred revenue	387	1,511
Debentures (Note 7)	7,324	5,028
	<u>14,573</u>	<u>13,194</u>
Shareholders' equity (deficiency):		
Equity instruments (Note 8)	51,786	51,183
Contributed surplus	7,591	6,944
Accumulated other comprehensive income (loss)	(1)	78
Deficit	(66,096)	(57,553)
	<u>(6,720)</u>	<u>652</u>
	<u>\$ 7,853</u>	<u>\$ 13,846</u>

Basis of presentation (Note 1)

Commitments and contingencies (Note 11)

Subsequent event (Note 16)

Approved on behalf of the Board:

 "signed" Director
Richard DeVries

 "signed" Director
S. Graeme Ross

Call Genie Inc.
Consolidated Statements of Operations

(In thousands of Canadian dollars, except share data)

For the years ended December 31	2010	2009
Revenue (Note 14)	\$ 4,206	\$ 3,487
Cost of sales	1,676	2,073
Gross margin	2,530	1,414
Expenses:		
Sales and marketing	1,809	3,504
Technology and product development	1,968	3,775
General and administrative (Note 9(a))	3,236	3,957
Stock-based compensation (Note 8)	291	347
Impairment of intangible asset (Note 5)	1,107	-
Amortization	1,470	1,532
	9,881	13,115
Loss from operations	(7,351)	(11,701)
Other income (expense):		
Interest and accretion on debentures (Note 7)	(1,611)	(285)
Gain on settlement of debt (Note 6)	447	-
Other expense	(32)	(93)
Loss before income taxes	(8,547)	(12,079)
Recovery of (provision for) income tax (Note 10)	4	(280)
Net loss for the year	\$ (8,543)	\$ (12,359)
Basic and diluted loss per share	\$ (0.10)	\$ (0.15)
Weighted average number of shares outstanding – basic and diluted	84,630,000	82,948,977

Call Genie Inc.
Consolidated Statements of Comprehensive Loss

(In thousands of Canadian dollars, except share data)

For the years ended December 31	2010	2009
Comprehensive loss		
Net loss for the year	\$ (8,543)	\$ (12,359)
Other comprehensive income (loss)		
Unrealized foreign currency translation adjustment	(79)	2
Comprehensive loss	\$ (8,622)	\$ (12,357)

Call Genie Inc.
Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars, except share data)

For the years ended December 31	Common shares #	Common shares	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
Balance, January 1, 2009	81,880,116	\$ 1,109	\$ 5,263	\$ 76	\$ (45,194)	\$ 11,254
Employee stock purchase plan (Note 8(b)(i))	1,110,567	74	-	-	-	74
Options granted (Note 8(e))	-	-	347	-	-	347
Warrants on debentures (Notes 8(c)(ii)(iii) and 8(d)(i))	-	-	276	-	-	276
Equity component on debentures (Note 7)	-	-	1,058	-	-	1,058
Unrealized foreign currency translation adjustment	-	-	-	2	-	2
Net loss for the year	-	-	-	-	(12,359)	(12,359)
Balance, December 31, 2009	82,990,683	51,183	6,944	78	(57,553)	652
Employee stock purchase plan (Note 8(b)(i))	180,199	23	-	-	-	23
Shares for rent agreement (Note 8(b)(ii))	2,891,865	360	-	-	-	360
Shares on debentures (Note 8(b)(iii))	2,117,000	213	-	-	-	213
Options exercised	52,500	7	-	-	-	7
Options granted (Note 8(e))	-	-	310	-	-	310
Warrants on debentures (Notes 8(c)(iv)(v) and 8(d)(ii))	-	-	290	-	-	290
Extension of warrants (Note 8(c)(i))	-	-	45	-	-	45
Equity component on debentures (Note 7)	-	-	2	-	-	2
Unrealized foreign currency translation adjustment	-	-	-	(79)	-	(79)
Net loss for the year	-	-	-	-	(8,543)	(8,543)
Balance, December 31, 2010	88,232,247	\$ 51,786	\$ 7,591	\$ (1)	\$ (66,096)	\$ (6,720)

Call Genie Inc.
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except share data)

For the years ended December 31	2010	2009
Cash flows from operating activities:		
Net loss for the year	\$ (8,543)	\$ (12,359)
Items not involving cash:		
Stock-based compensation	291	347
Amortization of property, equipment and intangible assets	1,469	1,532
Shares issued under shares for rent agreement (Note 8(b)(ii))	360	-
Impairment of intangible asset	1,107	-
Gain on settlement of debt	(447)	-
Accretion on debentures	642	106
Amortization of lease inducement	(21)	(17)
	<u>(5,142)</u>	<u>(10,391)</u>
Changes in non-cash working capital balances:		
Accounts receivable	35	(1,180)
Prepaid expenses and deposits	113	87
Accounts payable and accrued liabilities	(355)	659
Deferred revenue	(1,323)	3,762
	<u>(6,672)</u>	<u>(7,063)</u>
Cash flows from financing activities:		
Issuance of common shares, net of issuance costs	164	74
Proceeds from debt issuance, net of issuance costs	3,291	6,255
Restricted cash held for interest payments	122	(122)
Extension of founders' warrants	45	-
	<u>3,622</u>	<u>6,207</u>
Cash flows from investing activities:		
Purchase of property and equipment	(11)	(64)
Acquisition of intangible assets	(6)	(608)
	<u>(17)</u>	<u>(672)</u>
Net decrease in cash and cash equivalents	(3,067)	(1,528)
Cash and cash equivalents, beginning of year	3,447	4,975
Cash and cash equivalents, end of year	\$ 380	\$ 3,447
Supplemental cash flow information		
Interest paid	\$ 723	\$ 86
Income taxes paid	\$ 2	\$ 31

(In thousands of Canadian dollars, except share data)

1. Nature of Operations and Basis of Presentation

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 directory 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 December 31, 2010, has accumulated a deficit amounting to \$66,096. The Company has a working capital deficiency of \$4,575 (2009 - \$356).

On March 2, 2011, the Company issued \$5,000 in convertible debentures (Note 16). However, 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 2011 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 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.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances have been eliminated on consolidation.

(b) 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 property and equipment, intangible assets, goodwill, deferred revenue, future income tax assets and liabilities, stock-based compensation, allowance for doubtful accounts, equity portion of convertible debentures and revenue recognition.

(In thousands of Canadian dollars, except share data)

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

(c) Translation of foreign currencies

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 year end. Revenues and expenses are translated at the average rates of exchange prevailing during the year. 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.

For foreign operations that are classified as integrated, 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 exchange rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net loss for the year.

(d) 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.

(e) 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.

(f) Property and equipment

Property and equipment 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.

(In thousands of Canadian dollars, except share data)

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

(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

Property and equipment 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 its 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 license	3 years
Software licenses	1 year

The Company does not hold any indefinite life 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.

(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) 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 using interest rates of comparable non-convertible debt. 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.

(In thousands of Canadian dollars, except share data)

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

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 rate 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.

(o) Earnings per share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings 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 year 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 year when the Company incurs a loss, diluted earnings per share does not differ from basic earnings per share.

(p) 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.

(In thousands of Canadian dollars, except share data)

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

When the delivery of multiple services and products involves significant production, modification or customization of software, the Company applies contract accounting. Revenue from long term contracts is recognized using the percentage of completion method based on a zero profit margin using input measures (e.g. costs incurred). Revenue is only recognized using the percentage of completion method where it is probable that the contract will be profitable. Otherwise revenue is 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.

(q) Cost of sales

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

(r) Research and development costs

Research costs are expensed as incurred. Development costs are deferred when future economic benefits are probable and 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.

(s) 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.

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

3. Property and Equipment

	2010		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,128	\$ 1,057	\$ 71
Furniture and equipment	411	309	102
Leasehold improvements	111	56	55
	<u>\$ 1,650</u>	<u>\$ 1,422</u>	<u>\$ 228</u>
	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,428	\$ 1,083	\$ 345
Furniture and equipment	415	235	180
Leasehold improvements	111	33	78
	<u>\$ 1,954</u>	<u>\$ 1,351</u>	<u>\$ 603</u>

4. Goodwill

Balance, January 1, 2009	\$ 2,396
Foreign currency translation adjustment	(106)
Balance, December 31, 2009	<u>2,290</u>
Foreign currency translation adjustment	(96)
Balance, December 31, 2010	<u><u>\$ 2,194</u></u>

As at October 1, 2010, the Company performed its annual impairment test of goodwill and determined that goodwill was not impaired.

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

5. Intangible Assets

	2010			2009
	Cost	Accumulated Amortization and Impairment	Net Book Value	Net Book Value
Acquired technology	\$ 5,218	\$ 2,199	\$ 3,019	\$ 3,764
Customer lists	358	152	206	257
Rights license	1,561	1,561	-	1,367
Software licenses	295	294	1	23
	\$ 7,432	\$ 4,206	\$ 3,226	\$ 5,411

In June 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 \$1,107.

6. Other Liabilities

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

	2010	2009
Lease inducements	\$ 82	\$ 103
Deferred salary payable	-	373
Rights license payable	-	403
Other liabilities	\$ 82	\$ 879

In October 2010, the Company negotiated an amendment to the terms of its rights license agreement to reduce its future payments which resulted in a gain of \$447.

(In thousands of Canadian dollars, except share data)

7. 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 one thousand dollars, in the aggregate principal amount of \$2,465. 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 50.0 cents per share. Under the terms of the debentures, the Company segregated 10% of the principal amount as a reserve to be used to pay interest accruing for the first 12 months that the debentures remained outstanding. This reserve was recorded in the consolidated balance sheets as restricted cash (2009 - \$122). The Company incurred financing costs of \$65 in connection with this placement of convertible debentures.
- (b) In the fourth quarter of 2009, the Company completed a private placement of 4,000 units of non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$4,000. 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 50.0 cents per share. The debentures are not redeemable by the Company prior to maturity. The Company incurred financing costs of \$165 in connection with this placement of convertible debentures.
- (c) Effective August 12, 2010, the Company completed a brokered private placement of 1,625 units of non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$1,625. The convertible debentures bear interest at a rate of 15% per annum, payable semi-annually on February 28 and August 31, 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 10.0 cents per share. The Company incurred financing costs of \$578 in connection with this placement of convertible debentures.
- (d) Effective August 12, 2010, the Company completed a non-brokered private placement of 875 units of debentures primarily with related parties, in denominations of one thousand dollars, in the aggregate principal amount of \$875. The debentures bear interest at a rate of 17.5% per annum, payable monthly and mature on August 12, 2012. The Company has the option to repay the debt prior to maturity without penalty. The Company incurred financing costs of \$89 in connection with this placement of debentures.
- (e) Effective November 5, 2010, the Company completed a brokered private placement of 1,500 units of debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$1,500. The debentures bear interest at a rate of 10% per annum, payable at maturity and mature on May 5, 2011. The Company has the option to repay the debt prior to maturity without penalty. The Company incurred financing costs of \$174 of which \$98 was paid in cash and the remainder paid through the issuance of 617,000 common shares and 100,000 broker warrants. This debt has been classified as a current liability and was repaid on March 2, 2011 without penalty (Note 16).

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. In addition, the debentures issued on August 12, 2010 and November 5, 2010 are secured by certain assets owned by a company controlled by the Company's Chairman of the Board.

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

7. Debentures (cont'd)

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

	June 26, 2009	December 23, 2009	August 12, 2010	Total
Convertible debentures				
Proceeds	\$ 2,465	\$ 4,000	\$ 1,625	\$ 8,090
Less amounts allocated to:				
Equity component - conversion rights	(486)	(609)	(4)	(1,099)
Warrant component	(41)	(225)	(240)	(506)
Amount allocated to debt component	1,938	3,166	1,381	6,485
Debt component of financing charges	(51)	(131)	(416)	(598)
Accretion of debt component	258	291	88	637
	\$ 2,145	\$ 3,326	\$ 1,053	6,524
Non-convertible debentures				
August 12, 2010 issuance of 875 units of debentures (d)				800
November 5, 2010 issuance of 1,500 units of debentures (e)				1,276
				8,600
Current portion of debentures				(1,276)
Balance at December 31, 2010				\$ 7,324

	June 26, 2009	December 23, 2009	Total
Convertible debentures			
Proceeds	\$ 2,465	\$ 4,000	\$ 6,465
Less amounts allocated to:			
Equity component - conversion rights	(486)	(609)	(1,095)
Warrant component	(41)	(225)	(266)
Amount recorded as debt component	1,938	3,166	5,104
Debt component of financing charges	(51)	(131)	(182)
Accretion of debt component	82	24	106
Balance at December 31, 2009	\$ 1,969	\$ 3,059	\$ 5,028

(In thousands of Canadian dollars, except share data)

8. Equity Instruments

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

There are no issued and outstanding preferred shares.

- b) Issued and outstanding common shares

- (i) 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 year ended December 31, 2010, 180,199 common shares (2009 – 1,110,567) were issued to employees at an average price of 12.9 cents per share (2009 – 6.7 cents). At December 31, 2010, 6,995,113 common shares were reserved for future issuance.
- (ii) In 2010, the Company issued 2,891,865 common shares with a value of \$360 under a "shares for rent" agreement with one of its landlords. Under the terms of the agreement, at the Company's option the landlord investor shall subscribe for a number of the Company's common shares in exchange for the value of quarterly net rent. 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 agreement commenced on July 1, 2009 and ends on September 30, 2012.
- (iii) On November 5, 2010, the Company issued \$1,500 of debentures (Note 7(e)). As part of this debt issuance, the Company issued 1,500,000 common shares to the debenture holders and 617,000 common shares to agents for commissions and fees related to the debt issuance.

- c) Issued and outstanding warrants

	Weighted Average Exercise Price (cents)	Number
Balance, January 1, 2009	22.5	3,910,406
Warrants issued in connection with convertible debentures (ii)(iii)	22.5	2,511,600
Balance, December 31, 2009	22.5	6,422,006
Warrants issued in connection with convertible debentures (iv)	12.0	3,250,000
Agent warrants issued in connection with debentures (v)	11.0	100,000
Warrants expired (i)	22.5	(3,910,406)
Warrants extended (i)	22.5	2,888,523
Balance, December 31, 2010	18.5	8,750,123

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (cont'd)

Exercise Price (cents)	Weighted Average Remaining Life (years)	Number
22.5	0.80	2,511,600
22.5	1.16	2,888,523
12.0	3.62	3,250,000
11.0	3.85	100,000
	2.00	8,750,123

- (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 22.5 cents each (pre-business combination price 61.0 cents), of which 3,910,406 remained outstanding at January 1, 2009. Each warrant holder is entitled to acquire one common share of the Company for each warrant. On August 16, 2010, the Company reached agreement with the holders of 2,888,523 warrants to extend the expiry date to February 28, 2012. In consideration for the extension of the warrants, the warrant holders paid 1.6 cents per warrant as an extension fee, for a gross aggregate amount of \$45. As at December 31, 2010, 2,888,523 warrants remained unexercised.
- (ii) On June 26, 2009, the Company issued \$2,465 of convertible debentures (Note 7(a)). As part of this debt issuance, the Company issued 591,600 warrants. Each warrant holder is entitled to acquire one common share of the Company for each warrant at a price of 22.5 cents per share until June 26, 2011. As at December 31, 2010, 591,600 warrants remain unexercised.

The fair value of each warrant of 6.9 cents 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. An amount of \$40 net of financing charges was allocated to contributed surplus in 2009.

- (iii) In the fourth quarter of 2009, the Company issued a total of \$4,000 of convertible debentures (Note 7(b)). As part of these debt issuances, the Company issued 1,920,000 warrants. Each warrant holder is entitled to acquire one common share of the Company for each warrant at a price of 22.5 cents per share. 1,219,200 warrants are exercisable until November 6, 2011 and 700,800 warrants are exercisable until December 23, 2011. As at December 31, 2010, 1,920,000 warrants remain unexercised.

The fair value of each warrant issued on November 6, 2009 of 11.9 cents 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. The fair value of each warrant issued on December 23, 2009 of 11.4 cents 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. An amount of \$216 net of financing charges was allocated to contributed surplus in 2009.

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (cont'd)

- (iv) On August 12, 2010, the Company issued \$1,625 of convertible debentures (Note 7(c)). As part of this debt issuance, the Company issued 3,250,000 warrants. Each warrant holder is entitled to acquire one common share of the Company for each warrant at a price of 12.0 cents per share until August 12, 2014. As at December 31, 2010, 3,250,000 warrants remain unexercised.

The fair value of each warrant of 7.4 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 2.3%, an expected volatility of 115% and an expected life of 4.0 years. An amount of \$168 net of \$72 in financing costs was allocated to contributed surplus in 2010.

- (v) On November 5, 2010, the Company issued \$1,500 of debentures (Note 7(e)). As part of this debt issuance, the Company issued 100,000 agent warrants for fees related to the debt issuance. The agent warrant holder is entitled to acquire one common share of the Company for each agent warrant at a price of 11.0 cents per share until November 5, 2014. As at December 31, 2010, 100,000 agent warrants remain unexercised.

The fair value of each agent warrant of 8.3 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.8%, an expected volatility of 114% and an expected life of 4.0 years. An amount of \$8 was allocated to contributed surplus in 2010.

d) Issued and outstanding broker warrants

	Weighted Average Exercise Price	Number
Broker warrants issued in connection with convertible debentures (i)	\$ 1	90
Balance, December 31, 2009	1	90
Broker warrants issued in connection with convertible debentures (ii)	1	137.25
Balance, December 31, 2010	\$ 1	227.25

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (cont'd)

Exercise Price	Weighted Average Remaining Life (years)	Number
\$ 1	0.98	90
\$ 1	3.62	137.25
	2.57	227.25

- (i) As part of the December 23, 2009 brokered private placement (Note 7(b)), the Company paid the agent cash compensation of \$81 and issued 90 broker warrants. Each broker warrant entitles the holder to purchase one thousand dollars principal amount of the December 23, 2009 convertible debenture issuance, exercisable until December 23, 2011. As at December 31, 2010, 90 broker warrants remain unexercised.

The fair value of the broker warrants was estimated in two components as follows:

- a. The value of the equity conversion feature of the debenture wherein 90 debentures can be exchanged for 180,000 common shares of the Company. The fair value of the conversion feature of 8.4 cents 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 50.0 cents per share and an expected life of 1.7 years.
- b. The value of 43,200 warrants issued with the 90 debentures. The fair value of each warrant of 11.4 cents is the same as calculated above and 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 50.0 cents per share and an expected life of 1.7 years.

The fair value of the broker warrants of \$20 was allocated to contributed surplus in 2009.

- (ii) As part of the August 12, 2010 brokered private placement (Note 7(c)), the Company paid the agent cash compensation of \$157, and issued 137.25 broker warrants. Each broker warrant entitles the holder to purchase one thousand dollars principal amount of the August 12, 2010 convertible debenture issuance, exercisable until August 12, 2014. As at December 31, 2010, 137.25 broker warrants remain unexercised.

The fair value of the broker warrants was estimated in two components as follows:

- a. The value of the equity conversion feature of the debenture wherein 137.5 debentures can be exchanged for 1,372,500 common shares of the Company. The fair value of the conversion feature of 6.8 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.6%, an expected volatility of 127%, an effective exercise price of 10.0 cents per share and an expected life of 2.4 years.
- b. The value of 274,500 warrants issued with the 137.5 debentures. The fair value of each warrant of 7.4 cents is the same as calculated above and was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 2.3%, an expected volatility of 115%, an effective exercise price of 12.0 cents per share and an expected life of 4.0 years.

The fair value of the broker warrants allocated to contributed surplus in 2010 was \$114.

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (cont'd)

e) 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 29,342,250 stock options to its employees, officers and directors. As at December 31, 2010, 12,228,750 stock options remain outstanding at prices ranging from 7.0 cents to 58.0 cents per share. Options for the Company's directors vest immediately, while options for employees generally 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. All options have a life of five years and have expiry dates ranging from January 9, 2011 to December 1, 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 weighted average assumptions:

	2010	2009
Risk-free rate	1.4%	1.4%
Dividend yield	0.0%	0.0%
Volatility rate	119.3%	97.5%
Expected option life	3.00 years	3.00 years
Fair value	10.2 cents per share	5.9 cents per share

For the year ended December 31, 2010, \$291 (2009 - \$347) has been recorded as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

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

	Weighted Average Exercise Price (cents)	Number of Options
Balance, January 1, 2009	45.1	1,465,833
Options granted	9.0	10,862,500
Options forfeited	20.4	(1,068,333)
Balance, December 31, 2009	12.2	11,260,000
Options granted	15.4	4,691,250
Options exercised	7.5	(52,500)
Options forfeited	17.2	(3,670,000)
Balance, December 31, 2010	11.9	12,228,750

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (cont'd)

- (ii) The following table summarizes information about the stock options outstanding at December 31, 2010:

Range of Exercise Prices per Share (cents)	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (cents)	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (cents)
0 to 10.0	7,325,000	3.22	7.6	3,465,417	3.15	7.5
10.1 to 20.0	4,219,375	4.15	15.0	842,501	3.61	16.6
20.1 to 30.0	201,875	3.04	23.2	99,997	2.67	24.0
30.1 to 40.0	200,000	4.92	35.0	-	-	-
40.1 to 60.0	282,500	0.40	54.7	268,333	0.29	54.9
0 to 60.0	12,228,750	3.50	11.9	4,676,248	3.06	12.2

9. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in general and administrative expenses during the year ended December 31, 2010 are \$226 (2009 - \$338) 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 is \$115 (2009 - \$92) due to various directors, companies controlled or influenced by directors and management contractors of the Company, all of which are for services rendered and reimbursement of expenses.
- (c) Included in accounts receivable at December 31, 2009 was \$50 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 2010, the Company made interest payments on convertible debentures of \$66 (2009 - \$12) to directors, senior management and management contractors of the Company.
- (e) During 2010, senior management and directors of the Company purchased \$905 (2009 - \$380) in aggregate principal amount of debentures as part of the debt financings described in Note 7.

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

December 31, 2010 and 2009

Notes to Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)

10. Income Taxes

The effective tax rates of income tax vary from the statutory rates as follows:

	2010	2009
Combined statutory tax rates	28.0%	29.0%
Expected income tax recovery at statutory rates	\$ 2,392	\$ 3,503
Permanent differences	(74)	(353)
Change in tax rates	(408)	(963)
Increase (decrease) in tax reserves	4	(280)
Change in valuation allowance	(1,910)	(2,187)
Recovery of (provision for) income tax	\$ 4	\$ (280)

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:

	2010	2009
Property and equipment and other assets	\$ 1,761	\$ 775
Share issuance costs	243	219
Unused tax loss carryforwards	13,563	12,208
	15,567	13,202
Valuation allowance	(15,567)	(13,202)
Future income tax assets	\$ -	\$ -
Reserve for future income tax assessments included in accrued liabilities	\$ 559	\$ 595

(In thousands of Canadian dollars, except share data)

10. Income Taxes (cont'd)

As at December 31, 2010, subject to confirmation from the respective income tax authorities, the Company has a total of \$52,617 of non-capital losses that are available for carryforward to offset future years' taxable income expiring as follows:

	Non-Capital Losses
2014	\$ 1,018
2015	1,279
2026	5,585
2027	11,137
2028	17,474
2029	9,639
2030	6,485
	<u>\$ 52,617</u>

For Canadian tax purposes, the Company has non-capital losses of \$51,143 and for U.S. tax purposes, the Company has net operating losses of \$1,474 that have a 15-year carry forward period.

11. 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 three years are as follows:

	Facilities	Equipment	Total
2011	\$ 748	\$ 22	\$ 770
2012	\$ 652	\$ 1	\$ 653
2013	\$ 200	\$ -	\$ 200

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.

(In thousands of Canadian dollars, except share data)

12. 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 for the year. 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:

	Designation	Measurement	2010	2009
Cash and cash equivalents and restricted cash	Held-for-trading	Fair value	\$ 380	\$ 3,569
Accounts receivable	Loans and receivables	Amortized cost	\$ 1,697	\$ 1,732
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 2,517	\$ 2,589
Other liabilities	Other financial liabilities	Amortized cost	\$ 82	\$ 879
Debentures	Other financial liabilities	Amortized cost	\$ 8,600	\$ 5,028

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 during the year. As at December 31, 2010, the Company held \$10 (2009 - \$103) of cashable guaranteed investment certificates bearing a weighted average interest rate of 0.3% (2009 - 0.3%).

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, other liabilities and debentures are classified as other financial liabilities and are measured at amortized cost.

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

(In thousands of Canadian dollars, except share data)

12. Financial Instruments and Risk Management (cont'd)**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 December 31, 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 year ended December 31, 2010, the Company earned 24% of its revenue from one customer as a result of the completion of delivery of a workstation solution, and 18% from a separate directory publisher. Otherwise, the Company earned no more than 14% of its revenue from one single customer. For the year ended December 31, 2009, the Company earned 18% of its revenue from one European directory service provider and 12% from one Canadian directory service provider.

At December 31, 2010, the Company had \$911 (2009 - \$911) receivable from a 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 continues to actively pursue resolution of the matter and has commenced 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.

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

	2010	2009
Current	\$ 257	\$ 279
31 to 60 days	210	405
61 to 90 days	66	22
Over 90 days	1,164	1,040
Less: allowance for doubtful accounts	-	(14)
Total accounts receivable, net	\$ 1,697	\$ 1,732

(In thousands of Canadian dollars, except share data)

12. Financial Instruments and Risk Management (cont'd)*Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become 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 described in Note 1 to the consolidated financial statements.

The contractual maturities of the Company's financial liabilities, including interest charges, as at December 31, 2010 are as follows:

	2011	2012
Accounts payable and accrued liabilities	\$ 2,517	\$ -
Debentures – non-convertible	1,500	875
Debentures – convertible	-	8,090
Interest	1,211	987
	<u>\$ 5,228</u>	<u>\$ 9,952</u>

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 year ended December 31, 2010, approximately 56% of revenue and 12% 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 December 31, 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 5.6%, increasing costs by 1.2% and increasing the income from operations by 2.1%. 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.

(In thousands of Canadian dollars, except share data)

12. 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 December 31, 2010 financial asset balances.

For the years ended December 31, 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 fair values of the debentures, which are estimated by discounting their future cash flows at a rate of 20%, are \$9,877 (2009 – \$5,028).

Financial assets and liabilities are measured 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).

Cash and cash equivalents and restricted cash carried on the consolidated balance sheets at fair value are classified as Level 1. There are no financial instruments valued according to Level 2 or Level 3.

(In thousands of Canadian dollars, except share data)

13. Capital Management

The Company's objective when managing capital is to ensure that it 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 year.

14. Segmented Information**Operating segment**

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:

	2010	2009
Voice	\$ 1,291	\$ 893
SMS Data	382	1,195
Workstations	2,533	1,399
Total	\$ 4,206	\$ 3,487

Geographic information

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

	2010	2009
North America	\$ 1,553	\$ 1,205
Rest of world	2,653	2,282
Total	\$ 4,206	\$ 3,487

Substantially all of the Company's property and equipment are located in North America.

(In thousands of Canadian dollars, except share data)

15. Comparative Figures

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

16. Subsequent Event

Debenture Financing

Effective March 2, 2011, the Company completed a brokered private placement of 5,000 non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of \$5,000. The debentures bear interest at a rate of 12% per annum, payable semi-annually on February 28 and August 31, and mature on March 2, 2015. Holders may convert principal into common shares of the Company at any time prior to their maturity at a conversion price of 25.0 cents per share. The debentures are not redeemable by the Company prior to maturity. Concurrent with this placement, the Company redeemed the debentures issued on November 5, 2010 for \$1,500.