MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("**MD&A**") for Call Genie Inc. ("**CG**", "**Call Genie**" or the "**Company**") should be read in conjunction with CG's audited consolidated financial statements and the accompanying notes as at and for the year ended December 31, 2010, which have been filed with certain securities regulatory authorities in Canada and may be accessed through the SEDAR website 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 annual 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 March 24th, 2011, 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 concerning 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 (under Call Genie's profile).

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 MD&A under the heading "Outlook" was approved by management and the Board of Directors of the Company on March 24, 2011. The forward-looking information includes the range of revenue that is expected to be reported for the 3 months ending June 30, 2011. 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 a 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, 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 range of revenue that is expected to be reported for the three 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, the ability of the Company to obtain the necessary documentation required under International Financial Reporting Standards ("IFRS") 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 IFRS or the Company's application of IFRS. **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 respecting the range of revenues that is expected to be reported for the quarter ended June 30, 2011 is based upon management's estimates of revenues to be derived from existing customer arrangements, the terms of the 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 generating between $1.4 and $1.9 million of revenue from performance-based arrangements with customers during the quarter, management 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 March 24, 2011, customer receipts to March 24, 2011, the Company's revenue recognition policy and management's understanding of IFRS;

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 internet to enable a "mobile ecosystem" that encompasses advertisers, advertising publications (*e.g.* internet yellow pages), network service providers and mobile users.

The Company's loss for the year ended December 31, 2010 was $8.5 million or $0.10 per share, a 31% improvement from the loss of $12.4 million or $0.15 per share reported for the preceding year. The reduced loss for the year was primarily the result of reduced expenditures in all areas of the Company's business. For the year ended December 31, 2010 (as compared to 2009), sales and marketing costs decreased $1.7 million, technology and product development costs decreased $1.8 million, and general and administrative costs decreased $0.7 million, a total decrease of $4.2 million. The improvement of the Company's loss was partially offset by a non-cash impairment charge of $1.1 million that affected an intangible asset and an increase in the interest expense on convertible debentures distributed by the Company of $1.3 million.

As at December 31, 2010, the Company had an unrestricted cash balance of $0.4 million and accounts receivable of $1.7 million. Approximately 54% of those receivables ($0.9 million) were attributable to one customer (Yellow Pages Group of Canada Co.("YPG")) who has disputed scheduled payments for maintenance and support services and reimbursement of technology expenditures previously incurred by the Company.

On March 2, 2011, the Company completed a brokered private placement involving the distribution of convertible debentures for gross aggregate proceeds of $5.0 million. Following the closing of that private placement, the Company repaid $1.5 million of indebtedness owing under debentures that were distributed by it in connection with the interim financing transaction completed on November 5, 2010. After repayment of the November 2010 debentures and payment of various costs associated with the private placement (including the agent's commission), the March 2011 debenture financing resulted in net additional cash resources of $3.0 million.

Cash flow used in operations was $6.7 million for the year ended December 31, 2010, which is $0.4 million less than the $7.1 million of cash flow used in operations for 2009. Deferred revenue at December 31, 2010 was $3.4 million, a decrease of $1.3 million from December 31, 2009.

In the fourth quarter of 2010, a yellow pages provider in the United States under contract with the Company commenced implementation of a new source of call volume on which the Company is paid a transaction fee. The Company has been informed that the rollout of the customer's implementation will be completed in April 2011. Including the anticipated transaction fees associated with this new call volume source, the Company estimates revenues of approximately $2.0 - $2.5 million for the second quarter of 2011. Until this implementation is completed, the Company will generate revenues primarily from implementation and maintenance fees and remain consistent with previously reported quarters. Due to the nature of performance based revenues, variability of potential results, and the historical pattern of delays in the commercialization efforts required to be undertaken by the Company's customers, the Company is not providing any financial guidance beyond the end of the second quarter of 2011.

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

KEY FINANCIAL METRICS in 000's (except share amounts)	**2010**	**2009**	**2008**
Cash and cash equivalents	$ 380	$ 3,447	$ 4,975
Amounts invoiced to customers	$ 2,920	$ 7,249	$ 4,782
Deferred revenue	$ 3,374	$ 4,698	$ 936
Revenue	$ 4,206	$ 3,487	$ 4,267
Net loss	$ (8,543)	$ (12,359)	$ (20,475)
Loss per share – basic and fully diluted	$ (0.10)	$ (0.15)	$ (0.25)
Common shares outstanding			
- Basic	88,232,247	82,990,683	81,880,116
- Fully diluted	140,261,310	113,825,889	87,256,355

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 internet to enable a "mobile ecosystem" that encompasses advertisers, advertising publications (*e.g.* internet yellow pages), network service providers and mobile users. Call Genie provides a range of tools and marketing solutions to advertisers and advertising aggregators designed to enable them to reach consumers through mobile devices and the mobile internet, 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 or 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 to date in achieving those priorities.

Strategic Priority	Current Status
Deliver solutions	• Solutions deployed in 12 countries; principally in Canada, the United States and Europe. • The account management function is focused on defining solutions rather than selling technology.
Focus on business models	• Commercial agreements entered into in connection with customer projects provide for performance-based compensation and generally lead to new revenue streams for the customer.
Take advantage of legacy business transitional window	• Solutions enable monetization of directory assistance calls, intercept calls and SMS.
Increase revenue through customer retention and relationship expansion	• Many solutions have been deployed and are in the early stages of performance based revenue generation.
Embrace partnerships in eco-system for sustainable differentiation	• Key business development team hired with strong industry contacts. • Established Mobile Marketing business relationships with mobile ad providers.
Secure additional financing	• Completed $4.0 million of financing in 2010 and $5.0 million in the first quarter of 2011. Continuing to pursue potential financing alternatives.

KEY PERFORMANCE DRIVERS

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

1) Usage Revenues from Existing Customers:

   The commercialization of previously announced customer relationships (Dex One, Verizon, and to a lesser degree Telus) 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. Management believes that Ad Network opportunities continue to hold potential as illustrated by the Company's various syndication agreements in the United States and the 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.

CAPABILITY TO DELIVER

Leadership

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 95 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 28 years of experience and has been with CG since June 1, 2005.

The Company has assembled an experienced executive team that includes Chet Chan, General Manager North America (formerly Senior VP of Client Services (hired in June 2007 with 21 years of experience)), Darren Logue, General Manager International (formerly VP of International Business Development (hired in September 2005 with 25 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.

Financing

At December 31, 2010, the Company had a cash balance of $0.4 million. The Company completed a $5.0 million convertible debenture financing on March 2, 2011 (see "Liquidity and Capital Resources"). Notwithstanding completion of the financing, the Company's future operations remain dependent upon its ability to 1) raise additional funds, 2) realize transaction revenues from existing contracts, or 3) secure new contracts that provide the Company with adequate funds to cover expenditures projected for the balance of 2011 (or a combination of the foregoing). If the Company does not generate sufficient funds from existing or new contracts and it is unable to raise additional financing, the Company will have to consider strategic alternatives, which may include, among other things, 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 year ended December 31, 2010 was $8.5 million or $0.10 per share, a 31% improvement from the loss of $12.4 million or $0.15 per share reported for the preceding year. The reduced loss for the year was primarily the result of reduced expenditures in all areas of the Company's business. For the year ended December 31, 2010 (as compared to 2009), sales and marketing costs decreased $1.7 million, technology and product development costs decreased $1.8 million, and general and administrative costs decreased $0.7 million, a total decrease of $4.2 million. The improvement of the Company's loss was partially offset by a non-cash impairment charge of $1.1 million that affected an intangible asset and an increase in the interest expense on convertible debentures distributed by the Company of $1.3 million.

Revenues

Revenues for the year ended December 31, 2010 increased to $4.2 million from $3.5 million for 2009, which is a 21% year-over-year increase. Revenues increased $0.3 million in North America and increased $0.4 million in Europe and the rest of the world. The following table sets out additional information concerning revenue by product line for the periods indicated.

In 000's	2010	2009	Variance	% change
Voice	1,291	893	398	44%
SMS Data	382	1,195	(813)	(68%)
Workstation	2,533	1,399	1,134	81%
Total	**4,206**	**3,487**	**719**	**21%**

The overall increase in revenues is primarily attributable to 1) increased revenue recognized upon the completion of the delivery of two workstation solutions and the substantial completion of a voice-related services contract, 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, certain fixed maintenance and implementation fees have been disputed by one of the Company's customers, YPG. 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 (claiming amounts owing pursuant to the agreement with the customer of $1.9 million plus damages of $1.0 million) and the customer has counter-claimed (claiming damages of $5.0 million). Management of the Company has consulted with legal counsel concerning this matter and believes that the counter claim filed by YPG is without merit. The resolution of this matter may have a material impact on reported financial results.

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 December 31, 2010 was $3.4 million compared to $4.7 million at December 31, 2009. Approximately 89% of the deferred revenue reported at December 31, 2010 is recorded as a current liability in accordance with GAAP.

<u>Cost of Sales</u>

For the year ended December 31, 2010, cost of sales decreased to $1.7 million from $2.0 million for 2009. The decrease was 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.

<u>Expenses</u>

Expenses for the year ended December 31, 2010, decreased to $9.9 million from $13.1 million for 2009. The decrease of $3.2 million was primarily due to lower staff levels in all operational areas of the business. The average level of staff resources was 36 for 2010 compared to 54 in 2009. The decrease in staff was principally attributable to increased efficiency and the cash conservation programs implemented by the Company.

Sales and Marketing

Sales and Marketing costs for the year ended December 31, 2010 were $1.8 million compared to $3.5 million for 2009. The 49% decrease of $1.7 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 2010, the Company maintained a sales and marketing team of 9 compared to 13 for 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 on-line service providers) while scaling back certain other marketing activities.

Technology and Product Development

For the year ended December 31, 2010, Technology and Product Development costs were $2.0 million compared to $3.8 million for 2009. The year-over-year decrease in expenditures of $1.8

million represents an approximate 47% decrease. The decrease was primarily due to increased efficiency and fewer staff members engaged in developing product software and processes. For the year of 2010, the Company maintained a research and development staff averaging 19 compared to an average of 30 for 2009.

General and Administrative

General and administrative costs for the year ended December 31, 2010 were $3.2 million compared to $3.9 million for 2009. The decrease of $0.7 million (or approximately 20%) was principally attributable to the Company's cash conservation program. The decrease consisted of 1) decreased staff related costs of $0.3 million, and 2) decreased maintenance, office rent, telephone charges and supplies of $0.4 million.

Stock Based Compensation

Stock based compensation expense for the year ended December 31, 2010 was $0.3 million compared to $0.3 million for 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 year ended December 31, 2010 was $1.6 million was attributable to the convertible debentures that were privately placed during 2009 and 2010. The comparable expense was $0.3 million for the year ended December 31, 2009 as the initial debentures were issued June 26, 2009 and represented the first debt instruments used by the Company to finance its operations.

Provision for Income Tax Expense

For the year ended December 31, 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. The comparable expense was $0.3 million for the year ended December 31, 2009.

Net Loss

The Company's net loss for the year ended December 31, 2010 was $8.5 million, which was $3.9 million lower than the net loss for the year of 2009 of $12.4 million.

SUMMARY OF QUARTERLY RESULTS

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

Unaudited (000's, except per share amounts)	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Q1 2010**	**Q2 2010**	**Q3 2010**	**Q4 2010**
Revenue	$862	$912	$954	$759	$592	$1,283	$1,273	$1,058
Cost of sales	577	474	499	523	562	462	343	309
Gross margin	285	438	455	236	30	821	930	749
Expenses								
Sales and marketing	930	966	947	660	668	469	316	356
Research and development	1,178	1,045	846	706	669	484	433	382
General and administrative	1,020	1,041	916	980	897	892	745	702
Stock based compensation	20	107	109	112	125	73	27	66
Amortization	365	332	310	525	443	437	303	287
Impairment of intangible asset	-	-	-	-	-	1,107	-	-
	3,513	3,491	3,128	2,983	2,802	3,462	1,824	1,793
Loss from operations	(3,228)	(3,053)	(2,673)	(2,747)	(2,772)	(2,641)	(894)	(1,044)
Other income/(expense)								
Interest income (expense)	4	-	(103)	(183)	(303)	(314)	(405)	(589)
Gain on settlement of debt								447
Foreign exchange gain (loss)	14	(79)	(28)	(3)	35	(58)	9	(18)
Income tax (expense)				(280)	4	-	-	-
Net loss for the period	(3,210)	(3,132)	(2,804)	(3,213)	(3,036)	(3,013)	(1,290)	(1,204)
Basic and diluted loss per share	$(0.04)	$(0.04)	$(0.03)	$(0.04)	$(0.04)	$(0.04)	$(0.01)	$(0.01)

The Company's loss for the three months ended December 31, 2010 was $1.2 million or $0.01 per share, an improvement of 63% from the loss of $3.2 million or $0.04 per share for the three months ended December 31, 2009. For the three months ended December 31, 2010 (as compared to the three months ended December 31, 2009), sales and marketing costs decreased $0.3 million, technology and product development costs decreased $0.3 million, and general and administrative costs decreased $0.3 million.

Revenues of $1.1 million for the three months ended December 31, 2010 increased $0.3 million over the revenues reported for the three months ended December 31, 2009. The revenues for the fourth quarter of 2010 consisted primarily of fixed maintenance and implementation fees. The following table sets out information concerning revenue by product line for the periods indicated.

(000's)	Three months ended December 31, 2010	Three months ended December 31, 2009	Variance	% change
Voice	414	169	245	144%
SMS Data	74	239	(165)	(69%)
Workstation	571	351	220	63%
Total	**1,059**	**759**	**300**	**40%**

Cost of sales for the three months ended December 31, 2010 decreased to $0.3 million compared to $0.5 million for the three months ended December 31, 2009. The decrease of $0.2 million was due to reduced staff resources required to support customer specific activities related to market trials and implementation of the Company's multiple product lines.

Expenses for the three months ended December 31, 2010, decreased to $1.8 million from $3.0 million for the three months ended December 31, 2009. The decrease of $1.2 million was primarily attributed to lower staff levels in all areas of the Company and cost savings associated with the support of fewer staff members.

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 in 000s's	2010	2009	2008
Cash and cash equivalents	$ 380	$ 3,447	$ 4,975
Working capital	$ (4,575)	$ (356)	$ 3,267
Total assets	$ 7,853	$ 13,846	$ 14,147
Total long-term liabilities	$ 7,793	$ 7,418	$ 392
Total liabilities	$ 14,573	$ 13,194	$ 2,892
Shareholders' equity	$ (6,720)	$ 652	$ 11,254

Cash and Cash Equivalents

At December 31, 2010, the Company's cash and cash equivalents amounted to approximately $0.4 million compared with $3.4 million at December 31, 2009. The $3.0 million decrease was primarily due to the $6.7 million of cash used to fund operations in 2010 partially offset by $3.6 in financing activities. Subsequent to December 31, 2010, the Company completed a convertible debenture financing that resulted in increased cash resources of $3.0 million after deducting financing costs (including commissions) and $1.5 million that was used to repay debentures distributed by the Company in November 2010.

Assets

CG's total asset base as at December 31, 2010 was $7.9 million, down from $13.8 million at December 31, 2009. The $5.9 million decrease was principally the result of the continuing operating losses incurred during 2010. Long-term assets, consisting primarily of capital assets, goodwill, and intangibles, decreased from $8.5 million at December 31, 2009 to $5.6 million as at December 31, 2010. The decrease was primarily the result of $1.5 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 December 31, 2010, the Company had a working capital deficit of $4.6 million compared to a working capital deficit of $0.4 million at December 31, 2009. The $4.2 million increase in the Company's deficit is primarily due to the decrease in cash and cash equivalents as noted above. At December 31, 2010, the Company's accounts receivable totaled $1.7 million. 54% of these receivables ($0.9 million) was attributable to one customer, YPG, who has disputed scheduled payments for maintenance and support services and reimbursement for previously delivered technology expenditures.

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 totaling $66.1 million since the Company began operating in 2000. As of December 31, 2010, the Company had a working capital deficit of $4.6 million and a cash balance of $0.4 million.

On March 2, 2011, the Company completed a brokered private placement involving the distribution of $5.0 million aggregate principal amount of secured convertible debentures. The debentures bear interest at a rate of 12% per annum and have a maturity date of March 2, 2015. At the option of the debenture holder, the principal amount of each debenture may be convertible into common shares of the Company at a conversion price of $0.25 per share.

Notwithstanding completion of the March 2011 debenture financing, the Company's future operations remain dependent upon its ability to 1) raise additional funds, 2) realize transaction revenues from existing contracts, or 3) secure new contracts that provide the Company with adequate funds to cover expenditures projected for the balance of 2011 (or a combination of the foregoing). If the Company does not generate sufficient funds from existing or new contracts and is unable to raise additional financing, the Company will have to consider strategic alternatives, which may include, among other things, 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 December 31, 2010, 88,232,237 common shares were outstanding compared to 82,990,683 common shares outstanding at December 31, 2009. The increase was due to the issuance of 180,199 common shares under the Company's employee share purchase plan in 2010, the issuance of 2,117,000 common shares in connection with the interim debenture financing completed in November 2010, the exercise of 52,500 stock options and the issuance of 2,891,855 common shares at an average price of $0.1264 per share, in satisfaction of 15 months of rent payments totaling $0.4 million.

As of December 31, 2010, the Company had 12,228,750 (11,260,000 at December 31, 2009) stock options outstanding with a weighted average exercise price of $0.12 and 8,750,123 (6,422,006 at December 31, 2009) warrants outstanding with an average exercise price of $0.19 ($0.225 at December 31, 2009). Under the convertible debentures distributed by the Company in 2009 and 2010, holders are entitled to convert the outstanding principal amount of their debentures and accrued interest into common shares at a conversion price of $0.50 and $0.10 per share respectively, subject to anti-dilution adjustments. 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. If the aggregate principal amount of the debentures distributed in 2010 were to be fully converted, at the $0.10 conversion price, an additional 16,250,000 common shares would be issued. In addition, if the broker warrants distributed in connection with the convertible debenture financing concluded in 2009 and 2010 were fully exercised, an additional 1,870,200 common shares would be issued and outstanding. Accordingly, the number of issued and issuable shares on a fully diluted basis was 140,261,310 at December 31, 2010 compared to 113,825,889 at December 31, 2009. Further information on CG's outstanding share capital is provided in Note 8 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 in 000's**				
	Total	**2011**	**2012**	**2013**	**After 3 years**
Long Term Debt	$ 8,965	-	$ 8,965	-	-
Interest on Long Term Debt	$ 2,198	$ 1,211	$ 987	-	-
Operating Leases	$ 1,600	$ 748	$ 652	$ 200	-
Other Short Term Obligations [(1)]	$ 1,500	$ 1,500	-	-	-
Total Contractual Obligations	$ 14,263	$ 3,459	$ 10,604	$ 200	-

(1) Amount was repaid on March 2, 2011 utilizing the proceeds from the $5.0 million convertible debenture financing that closed on March 2, 2011.

The Company did not have any "off-balance sheet" arrangements as of December 31, 2010. The Company did not have any commitments for capital expenditures as of December 31, 2010 nor any financing sources arranged but not yet used.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company recorded $0.2 million ($0.3 million 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. In 2010 and 2009, Directors and Officers of the Company purchased $0.9 million aggregate principle amount of non-convertible debt and $0.4 million aggregate principle amount of convertible debt respectively. During the year ended December 31, 2010, these Directors and Officers received $0.1 million of interest in accordance with the terms of the applicable debentures. In addition, the debentures issued in August 2010 are secured, in part, by a security interest in assets made available by the Chairman of the board of directors of the Company.

OUTLOOK

In the fourth quarter of 2010, a yellow pages provider in the United States under contract with the Company commenced implementation of a new source of call volume on which the Company is paid a transaction fee. The Company has been informed that the rollout of the customer's implementation will be completed in April 2011. Including the anticipated transaction fees associated with this new call volume source, the Company estimates revenues of approximately $2.0 - $2.5 million for the second quarter of 2011. Until this implementation is completed, the Company will generate revenues primarily from implementation and maintenance fees and remain consistent with previously reported quarters. Due to the nature of performance based revenues, variability of potential results, and the historical pattern of delays in the commercialization efforts required to be undertaken by the Company's customers, the Company is not providing any financial guidance beyond the end of the second quarter of 2011.

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 CG common shares 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 $8.5 million for the year ended December 31, 2010, $12.4 million for the year ended December 31, 2009, $20.5 million for the year ended December 31, 2008, $12.6 million for the year ended December 31, 2007, and $6.5 million 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 its 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.

Economic Dependence on One Customer

Revenues for the second quarter of 2011, and for the balance of 2011 and for a time thereafter, will depend, to a significant degree, on the results achieved by one customer in the United States of America who is in the process of implementing a service that utilizes the Company's technologies. Any disruption of the relationship with this customer (through nonperformance or termination of the applicable commercial agreements or otherwise) or any interruption of the business of this customer (such as any disruption in its labour relations with its unionized general sales force) may have a material adverse effect on CG's business, results of operations 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 (at all or 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.

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.

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 Company. These stakeholders include customers, potential customers, competitors, channel delivery partners, technology partners, and current or prospective employees. These stakeholders may ascribe a higher business risk to the Company due to its relatively low market capitalization, and any perception of higher risks that may have a material adverse effect on Call Genie's business, results and financial condition.

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 will 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 effect 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 be required 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 company 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 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 anticipated 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.

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 December 31, 2010, intangible assets of $3.2 million (2009 - $5.4 million) represented approximately 41% (2009 – 39%), of the Company's consolidated assets. Management of the Company determined, at December 31, 2010, that the fair value exceeded the carrying value of Company as principally determined by reference to its publically traded share price over a reasonable period of time prior to the date of the impairment test. Accordingly, no write down in the carrying value of such intangibles was required. However, 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 $1.1 million as at 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 September 30, 2010, the Company reported goodwill of $2.2 million. In accordance with its accounting policy, management tested goodwill for impairment on October 1, 2010 and concluded that no impairment existed. 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. At December 31, 2010, 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.

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 of 25%. 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. The difference between the face value of the debentures, the debt component value and the warrant component value is allocated to the equity component.

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 were adopted by the Company in 2010.

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.

Impact of adopting IFRS on Internal Controls over Financial Reporting

The Company determined that the current accounting system is adequate for the transition to IFRS. There was no need to maintain dual recordkeeping during 2010. The information required for the presentation of comparative financial information is available from the current system. Where necessary, the Company reconciled the differences between GAAP and IFRS using tools such as spreadsheets.

Impact of transition

The changes listed below are the key areas where changes in accounting policies under IFRS are expected to impact our consolidated financial statements. The individual amounts disclosed, which are estimates based on management's current expectations, are on a pre-tax basis and the tax impact of all changes are discussed on an overall basis. Additionally, we have highlighted various standards under IFRS where multiple acceptable alternatives are available and have identified the alternatives we have chosen in the context of our business. The list and comments are intended to highlight those areas for which we currently believe the impact to be most significant and should not be regarded as a complete list of estimated changes that will result from our transition to IFRS.

First-time adoption of International Financial Reporting Standards (IFRS 1)
Upon transition, an entity is required to apply IFRS on a retrospective basis. However, IFRS 1 has certain mandatory exceptions, as well as limited optional exemptions, in specific areas of certain standards that do not require retrospective application of IFRS. The following discusses the significant exemptions which we expect to apply in preparing our consolidated financial statements under IFRS:

- Business combinations previously accounted for under Canadian GAAP will not be restated. The Company will elect to apply the provisions of *IFRS 3 – Business Combinations* prospectively from the date of transition. As a result of this election our business combinations which occurred

prior to January 1, 2010, have a deemed cost equal to the carrying value in accordance with Canadian GAAP at December 31, 2009.
- The Company plans to use the net book value under Canadian GAAP as the deemed value under IFRS for its property and equipment.
- The Company will not restate cumulative translation differences from its foreign operations.

Revenue
Under Canadian GAAP, fees for multiple element arrangements are allocated to separate units of accounting based on reliable objective evidence of fair value for the undelivered elements with the residual amount allocated to the delivered elements known as the “residual method”. For certain arrangements, reliable objective evidence of fair value for the undelivered elements did not exist resulting in recognition of revenue rateably over the service period.

Under IFRS, fees for multiple element arrangements are allocated to the deliverables based on their fair value. Product elements are recognized upon delivery and service elements are recognized as the services are delivered. IFRS provides more flexibility in methods and evidence required to determine the fair value of the deliverables to allocate. Where reliable objective evidence does not exist, reference to third party prices or estimates of standalone price for the element may be used to assign a fair value requiring a greater degree of professional judgement. The Company assessed the revenue treatment for its ongoing contracts and determined that no additional revenue is required to be recognized as at January 1, 2010.

Impairment of assets
IFRS uses a one-step approach for both testing for and measurement of impairment of assets, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flow). Canadian GAAP however, uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. We do not expect the difference in methodologies to result in additional asset impairments upon transition to IFRS.

Additionally, under IFRS, assets are tested separately for impairment, and where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a cash-generating unit “CGU”. A CGU is the lowest level of assets that generate largely independent cash inflows. The CGU is a lower level than under Canadian GAAP. This lower level grouping could result in identification of impairment more frequently under IFRS, but of potentially smaller amounts. Except for goodwill, IFRS also requires reversal of impairments of long-lived assets where adverse circumstances have reversed. Under Canadian GAAP no reversals were permitted. The Company preliminarily assessed the carrying value of its assets in accordance with IAS 36 and found that no impairment losses are required to be recognized as at January 1, 2010.

Foreign currency translation
Under IFRS, each entity must determine its functional currency of the primary economic environment in which the entity operates. This assessment is made by first evaluating primary

indicators, which include: 1) currency which mainly influences sales prices; and 2) currency which mainly influences labour material and other costs. If these indicators are mixed, and the functional currency is not obvious, secondary indicators are evaluated to determine the functional currency. Based on the assessment of facts and circumstances, the Company has concluded that the Canadian dollar will continue to be the Company's functional currency and there is no impact due to the conversion to IFRS.

Property and Equipment
Under IFRS, significant property and equipment may be split into components, with each component depreciated over its estimated useful life. There is no significant opening balance sheet impact as a result of the componentization of property and equipment. In addition, the Company will retain property and equipment at historical cost upon transition, rather than taking the allowed election to recognize property, plant and equipment at fair value.

Presentation reclassifications
Certain balances in the consolidated balance sheet may be reclassified to conform to IFRS requirements. IFRS utilizes the concept of operating cycle, which requires the classification of assets and liabilities between current and non-current be based on the duration of the Company's contracts with its customers and suppliers.

At this time, as a result of the Company's analysis of its accounting policies under IFRS, the Company does not expect that the transition to IFRS will have a significant impact on its equity or net income. The Company will continue to review and assess its transition to IFRS. The impact of IFRS at transition will depend on the IFRS standards in effect on December 31, 2011. There can be no guarantee that the International Accounting Standards Board will not make further pronouncements and that the Canadian Accounting Standards Board will also not adopt further pronouncements before the consolidated financial statements for the year ended December 31, 2011 are prepared. Consequently, there can be no assurance that the standards used to prepare information in this section of our MD&A will not differ from those used to prepare the Consolidated Financial Statements for the year ended December 31, 2011, and that the effects described and quantified below will not change. We will continue to monitor changes in the IFRS standards and will adjust our transition plans accordingly.

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 annual 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 in 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 and will continue to work closely with its third party advisors.

The Company continues to direct available resources to assessing and improving 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 year ended December 31, 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 various 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.