

**Call Genie Inc.
Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2011 and 2010
(unaudited – prepared by Management)**

Contents

Notice to Reader	2
Condensed Interim Consolidated Financial Statements	
Consolidated Statements of Operations and Comprehensive Loss	3
Consolidated Statements of Financial Position	4
Consolidated Statements of Change in Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-27

NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated statement of financial position of Call Genie Inc. as at March 31, 2011 and the condensed interim consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the three months ended March 31, 2011 and 2010 are the responsibility of the Company's management.

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

The condensed interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

“ signed ”

Michael E. Durance
Chief Executive Officer
Toronto, Canada
June 10, 2011

“ signed ”

Christopher L. Shelton
Chief Financial Officer
Toronto, Canada
June 10, 2011

Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)(unaudited)

For the three months ended March 31	Note	2011	2010
Revenue		\$ 1,090	\$ 592
Operating costs:			
Network and data costs		(45)	(169)
Labour costs		(1,143)	(2,099)
Other operating costs		(545)	(653)
EBITDA (Earnings before interest, taxes, depreciation and amortization)		(643)	(2,329)
Amortization		(261)	(443)
Interest and accretion on debentures		(798)	(302)
Other financing income (expense)		(3)	36
Loss before income taxes		(1,705)	(3,038)
Recovery of income taxes	10	8	4
Net loss and comprehensive loss for the period		\$ (1,697)	\$ (3,034)
Basic and diluted loss per share		\$ (0.02)	\$ (0.04)
Weighted average number of shares outstanding – basic and diluted		88,777,388	83,035,438

Call Genie Inc.
Consolidated Statements of Financial Position

(In thousands of Canadian dollars, except share data)(unaudited)

As at	Note	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets:				
Cash and cash equivalents	3	\$ 2,746	\$ 380	\$ 3,447
Accounts receivable	12	1,472	1,697	1,732
Prepaid expenses and deposits		132	128	241
		4,350	2,205	5,420
Non-current assets:				
Restricted cash		-	-	122
Property and equipment	4	170	228	603
Goodwill		2,211	2,211	2,211
Intangible assets	5	3,025	3,226	5,411
		\$ 9,756	\$ 7,870	\$ 13,767
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	12	\$ 1,723	\$ 1,618	\$ 1,973
Current portion of deferred revenue		2,498	2,987	3,187
Current portion of debentures	7	253	1,276	-
Current portion of other liabilities	6	219	342	21
Income tax provision		548	561	561
		5,241	6,784	5,742
Non-current liabilities:				
Deferred revenue		346	387	1,511
Debentures	7	10,906	7,324	5,028
Other liabilities	6	58	82	879
		16,551	14,577	13,160
Shareholders' equity (deficiency):				
Share capital		52,183	51,786	51,183
Contributed surplus		8,803	7,591	6,944
Deficit		(67,781)	(66,084)	(57,520)
		(6,795)	(6,707)	607
		\$ 9,756	\$ 7,870	\$ 13,767

These condensed interim consolidated financial statements are authorized for issue by the Board of Directors on June 8, 2011. They are signed on the Company's behalf by:

“signed” Director
Richard DeVries

“signed” Director
S. Graeme Ross

Call Genie Inc.
Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars, except share data)(unaudited)

	Note	Common shares	Share capital	Contributed surplus	Deficit	Shareholders' deficit
Balance at January 1, 2011		88,232,247	\$ 51,786	\$ 7,591	\$ (66,084)	\$ (6,707)
Net loss for the period		-	-	-	(1,697)	(1,697)
Employee stock purchase plan	8(b)(i)	8,853	1	-	-	1
Shares for rent agreement	8(b)(ii)	414,141	60	-	-	60
Options exercised	8(e)(i)	5,000	1	-	-	1
Warrants exercised	8(c)	1,040,000	310	(97)	-	213
Equity component on debentures	7	-	-	1,166	-	1,166
Broker shares	7	150,000	25	-	-	25
Stock based compensation	8(e)	-	-	143	-	143
Balance at March 31, 2011		89,850,241	\$ 52,183	\$ 8,803	\$ (67,781)	\$ (6,795)
	Note	Common shares	Share capital	Contributed surplus	Deficit	Shareholders' deficit
Balance at January 1, 2010		82,990,683	\$ 51,183	\$ 6,944	\$ (57,520)	\$ 607
Net loss for the period		-	-	-	(3,034)	(3,034)
Employee stock purchase plan		57,542	9	-	-	9
Stock based compensation	8(e)	-	-	125	-	125
Balance at March 31, 2010		83,048,225	\$ 51,192	\$ 7,069	\$ (60,554)	\$ (2,293)

Call Genie Inc.
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except share data)(unaudited)

For the three months ended March 31	Note	2011	2010
Cash flows from operating activities:			
Loss before income taxes for the period		\$ (1,705)	\$ (3,038)
Adjustments for:			
Stock-based compensation	8(e)	143	125
Amortization of property, equipment and intangible assets		261	425
Shares for rent agreement	8b(ii)	60	-
Interest on debenture		352	179
Accretion on debentures		446	103
Amortization of lease inducement	6	(9)	(5)
		<u>(452)</u>	<u>(2,211)</u>
Changes in non-cash working capital balances:			
Accounts receivable		225	59
Prepaid expenses and deposits		(4)	13
Accounts payable and accrued liabilities		(22)	(120)
Deferred revenue		(530)	(6)
Deferred salary payable		(140)	(66)
Income tax provision		(13)	-
Income taxes recovered		8	4
		<u>(928)</u>	<u>(2,327)</u>
Cash flows from financing activities:			
Issuance of common shares, net of issuance costs		214	9
Proceeds from debt issuance, net of issuance costs		4,805	-
Redemption of debentures	7	(1,500)	-
Interest paid		(223)	-
		<u>3,296</u>	<u>9</u>
Cash flows from investing activities:			
Purchase of property and equipment	4	(2)	(11)
Acquisition of intangible assets	5	-	(2)
		<u>(2)</u>	<u>(13)</u>
Net increase (decrease) in cash and cash equivalents		2,366	(2,331)
Cash and cash equivalents, beginning of period		<u>380</u>	<u>3,447</u>
Cash and cash equivalents, end of period		\$ 2,746	\$ 1,116

1. Nature of Operations and Continuance of Operations

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.

The condensed interim consolidated financial statements have been prepared 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 March 31, 2011, has accumulated a deficit amounting to \$67,781. The Company has a working capital deficiency of \$891.

On March 2, 2011, the Company issued \$5,000 in convertible debentures (Note 7). 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

(a) Statement of compliance and conversion to International Financial Reporting Standards

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), using policies consistent with International Financial Reporting Standards ("IFRS") and using the policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

These are the Company's first quarterly condensed interim consolidated financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010. The notes presented in these condensed interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company's annual audited financial statements; thus, these interim consolidated financial statements are referred to as condensed.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

2. Summary of Significant Accounting Policies (cont'd)**(b) Basis of preparation**

The Company prepares its financial statements on a historical cost basis, except for certain financial instruments measured at fair values as described in the accounting policies below.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the "Transition Date") except for the applications of certain mandatory exceptions and optional exceptions as required or permitted by IFRS 1, First Time Adoption of International Financial Reporting Standards. The impact of the transition from Canadian GAAP to IFRS is explained in Note 15.

(c) Principles of consolidation

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

(d) Use of estimates and key judgements

The preparation of financial statements in accordance with IFRS 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 include but are not limited to the following:

- (i) The carrying value of property and equipment, intangible assets, and goodwill which are included in the consolidated statements of financial position;
- (ii) The allocation of cash receipts between revenues, which are included in operations, and deferred revenues, which are included in the consolidated statements of financial position;
- (iii) The provision for the income tax expense which is included in operations and the composition of deferred income tax assets and liabilities; and
- (iv) The inputs used in accounting for stock-based compensation expense in operations and in accounting for warrants issued in conjunction with convertible debentures which is included in equity.

Asset impairment

The impairment process begins with the identification of the appropriate asset or cash generating unit for purposes of impairment testing. Identification and measurement of impairment is based on the asset's recoverable amount, which is the higher of its fair value less costs to sell and value in use. Value in use is generally based on an estimate of discounted future cash flows using an appropriate discount rate. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The fair value of the Company as a whole is based on the market capitalization of the Company's shares using an appropriate control premium.

Income taxes

The calculation of income taxes requires judgement in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company's tax filings are also subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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

Deferred tax assets and liabilities require management's judgement in determining the amounts to be recognized. In particular, judgement is required when assessing the timing of reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is more likely than not to be realized, is estimated with consideration given to the timing, sources and amounts of future taxable profit.

Stock based compensation

Determining the fair value of equity-settled stock-based compensation awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of the Company's stock and expected dividends. In addition, judgment is required to estimate the number of stock-based awards that are expected to be forfeited.

(e) Translation of foreign currencies

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates ("the functional currency"). The condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and all of its subsidiaries.

Foreign currency transactions are generally translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at period-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in operations in the period in which they arise.

(f) Classification of financial instruments

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, trade and other 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 trade and other 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.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits which are readily convertible into a known amount of cash.

(h) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization and any recognized impairment loss. The Company reviews the estimated useful lives of property and equipment on an annual basis and adjusts amortization on a prospective basis, if needed. 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

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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

Borrowing costs are capitalized to qualifying assets that take in excess of one year to build or develop using the Company's weighted average cost of borrowing.

(j) Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and rewards of ownership of property to the Company are accounted for as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Equipment acquired under a finance lease is depreciated over the shorter of the period of expected use on the same basis as other similar property and equipment and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are expensed to operations on a straight line basis over the term of the lease.

(k) 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.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortization less any recognized impairment loss. The Company reviews the estimated useful lives on an annual basis and adjusts depreciation and amortization on a prospective basis, if needed. 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.

(m) 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 any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(n) 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 in the fourth quarter. 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 is allocated to cash-generating units ("CGU") or groups of cash-generating units for the purpose of impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill impairment is assessed based on the comparison of recoverable amount of the asset to its carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU for which the estimates of future cash flows have not been adjusted.

(o) Income taxes

Income tax expense comprises current and deferred taxes. Tax expense is recognized in the statement of operations, except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

A current or long-term tax asset or liability is the estimated tax receivable or payable on taxable earnings for the current and past periods, inclusive of any possible effect that could arise from a review by the tax authorities.

A deferred tax asset or liability is tax recoverable or payable in future periods as a result of past transactions or events. The Company uses the liability method to account for deferred tax assets or liabilities, which arise from temporary differences between the carrying amount of assets and liabilities recognized in the statement of financial position and their corresponding tax basis, or from the carry forward of unused tax losses and credits. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized.

(p) 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 is measured at 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 difference between the face value of the debentures and the debt component value is allocated to the equity component. When the convertible debentures include warrants, the fair value of the warrants is estimated using the Black-Scholes option valuation model.

Financing costs are allocated proportionally to the debt 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.

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

(q) 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 period. 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. As the effect of all outstanding stock options, warrants and convertible debentures is anti-dilutive during a period when the Company incurs a loss, diluted earnings per share does not differ from basic earnings per share.

(r) 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 can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company offers certain products and services as part of multiple deliverable arrangements. The Company divides multiple deliverable arrangements into separate units of accounting. Components of multiple deliverable arrangements are separately accounted for provided the delivered elements have stand-alone value to the customers and the fair value of any undelivered elements can be objectively and reliably determined. Consideration for these units is measured and allocated amongst the accounting units based upon their fair values and the Company's relevant revenue recognition policies are applied to them.

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.

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, such as license fees, implementation fees, and maintenance fees, occurring at different points in time and/or over different periods of time. Revenue recognition for these arrangements is determined based on an evaluation of the individual elements of the arrangements.

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

Services

The Company also enters into annual standalone renewals of maintenance and support after the initial contract has been completed. The Company recognizes these revenues ratably over the term of the contract. 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.

(s) Network and data charges

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

(t) 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.

(u) Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method, based on the number of stock options that are expected to vest. Under this method, stock-based compensation expense related to these programs is charged to operations with the corresponding amount increasing contributed surplus over the vesting period. On the exercise of options, consideration received and the related accumulated contributed surplus is credited to share capital. Compensation expense is adjusted for subsequent changes in management's estimate of the number of stock options that are expected to vest.

(v) EBITDA

The Company defines EBITDA as operating revenues less operating costs, as shown in the consolidated statements of operations. EBITDA is used to evaluate the performance of the business as it reflects ongoing profitability. EBITDA is referred to as an additional GAAP measure because it is displayed on the face of the statements of operations.

(w) Segment reporting

The Company operates a single reportable operating segment.

(x) Future changes to accounting standards

In October 2010, the International Accounting Standards Board issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

3. Cash and Cash Equivalents

As at	March 31, 2011	December 31, 2010	January 1, 2010
Business and savings accounts	536	370	3,344
Cashable Guaranteed Investment Certificates	2,210	10	103
	2,746	380	3,447

4. Property and Equipment

As at	March 31, 2011		December 31, 2010	January 1, 2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	1,153	1,116	37	346
Furniture and fixtures	385	302	83	179
Leasehold improvements	111	61	50	78
	1,649	1,479	170	603

5. Intangible Assets

As at	March 31, 2011		December 31, 2010	January 1, 2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	5,218	2,386	2,832	3,764
Customer lists	358	165	193	257
Rights license	1,561	1,561	-	1,367
Software licenses	291	291	-	23
	7,428	4,403	3,025	5,411

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

6. Other Liabilities

As at	March 31, 2011	December 31, 2010	January 1, 2010
Lease inducements	94	103	124
Deferred salaries	183	321	373
Rights license payable	-	-	403
	277	424	900
Current portion	(219)	(342)	(21)
	58	82	879

7. Debentures

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 maturing on May 5, 2011 for \$1,500. The Company incurred financing costs of \$471 of which \$445 was paid in cash and \$26 through the issuance of 150,000 common shares.

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, debentures that mature on August 12, 2012 are secured by certain assets owned by a company controlled by the Company's Chairman of the Board.

As at	Conversion Price (cents)	Principal Amount	Rate of Interest	Maturity	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Convertible debenture	50	2,465	10.0%	May 30, 2012	2,195	2,145	1,969
Convertible debenture	50	4,000	12.0%	Oct 31, 2012	3,400	3,326	3,059
Convertible debenture	10	1,625	15.0%	Aug 12, 2012	1,116	1,053	-
Debenture	-	875	17.5%	Aug 12, 2012	810	800	-
Debenture	-	1,500	10.0%	May 5, 2011	-	1,276	-
Debenture	-	300	12.0%	Feb 14, 2012	253	-	-
Convertible debenture	25	5,000	12.0%	May 2, 2015	3,385	-	-
					11,159	8,600	5,028
Current portion					(253)	(1,276)	-
					10,906	7,324	5,028

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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 three months ended March 31, 2011, the Company issued 8,853 common shares at an average price of 11.9 cents per share.

(ii) The Company has 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. During the three months ended March 31, 2011, the Company issued 414,141 common shares with a value of \$60.

c) Issued and outstanding warrants

	Weighted Average Exercise Price (cents)	Number
Outstanding, January 1, 2011	18.5	8,750,123
Exercised	20.5	(1,040,000)
Outstanding, March 31, 2011	18.2	7,710,123

d) Issued and outstanding broker warrants

	Weighted Average Exercise Price	Number
Outstanding, January 1, 2011 and March 31, 2011	\$ 1	227.25

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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 30,592,250 stock options to its employees, officers and directors. As at March 31, 2011, 13,181,250 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:

	2011
Risk-free rate	1.6%
Expected dividend yield	0.0%
Expected volatility rate	120%
Expected option life	60%
Fair value (cents per share)	12.2

During the three month period ended March 31, 2011, \$143 (2010 - \$125) was included in labour costs 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 March 31, 2011:

	Weighted Average Exercise Price (cents)	Number of Options
Outstanding, January 1, 2011	11.9	12,228,750
Granted	14.9	1,230,000
Exercised	7.5	(5,000)
Forfeited	49.8	(272,500)
Outstanding, March 31, 2011	11.4	13,181,250
Exercisable, March 31, 2011	9.9	9,337,074

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

9. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in other operating costs for the three months ended March 31, 2011 are \$59 (2010 - \$73) 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 \$53 (December 31, 2010 - \$115) 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) For the three months ended March 31, 2011, the Company made interest payments on convertible debentures of \$37 (2010 – nil) to directors, senior management and management contractors of the Company.

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

Key management personnel compensation

Compensation	Three months ended March 31, 2011	Three months ended March 31, 2010
Salaries	266	299
Stock-based compensation	6	72
	<u>272</u>	<u>371</u>

10. Income Taxes

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Combined statutory tax rates	<u>28.0%</u>	<u>28.0%</u>
Expected income tax recovery at statutory tax rates	\$ 477	\$ 850
Permanent differences	(164)	(44)
Change in tax rates	(47)	55
Change in tax reserves	13	4
Unrecognized tax losses	(271)	(861)
Recovery of income taxes	<u>\$ 8</u>	<u>\$ 4</u>

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

10. Income Taxes (cont'd)

The difference between the effective rate and the actual rate is attributable to the fact that no deferred 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.

Deferred 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. Deferred income tax assets are calculated and, as their realization is not considered likely, a valuation allowance is provided.

Significant components of the deferred income tax assets that have not been recognized include the following:

	March 31, 2011	December 31, 2010	January 1, 2010
Property and equipment and other assets	\$ 1,825	\$ 1,761	\$ 775
Share issuance costs	243	243	219
Unused tax loss carryforwards	13,770	13,563	12,208
Deferred income tax assets	\$ 15,838	\$ 15,567	\$ 13,202
Reserve for future income tax assessments	\$ 582	\$ 595	\$ 595

As at March 31, 2010, subject to confirmation from the respective income tax authorities, the Company has a total of \$53,471 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
2031	854
	<u>\$ 53,471</u>

For Canadian tax purposes, the Company has non-capital losses of \$51,997 and for U.S. tax purposes, the Company has net operating losses of \$1,474 that have a 15-year carry forward period.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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	\$ 564	\$ 14	\$ 578
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.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

12. Financial Instruments and Risk Management

Classification of financial instruments

Upon initial recognition, all financial instruments are recorded on the statement of financial position 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 operations for the period. 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	March 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents and restricted cash	Held-for-trading	Fair value	\$ 2,746	\$ 380	\$ 3,447
Accounts receivable	Trade and other receivables	Amortized cost	\$ 1,472	\$ 1,697	\$ 1,732
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 1,723	\$ 1,618	\$ 1,973
Other liabilities and income tax provision	Other financial liabilities	Amortized cost	\$ 825	\$ 985	\$ 1,461
Debentures	Other financial liabilities	Amortized cost	\$ 11,159	\$ 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 period. As at March 31, 2011, the Company held \$2,210 (December 31, 2010 - \$10) of cashable guaranteed investment certificates bearing a weighted average interest rate of 1.0% (December 31, 2010 - 0.3%).

Loans and receivables

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

Other financial liabilities

Accounts payable and accrued liabilities, other liabilities, income tax provision and debentures are classified as other financial liabilities and are measured at amortized cost.

For the periods ended March 31, 2011 and December 31, 2010, the Company did not utilize derivative instruments. The Company has no derivatives embedded in its financial or non-financial contracts.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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 March 31, 2011, primarily all of the Company's cash and cash equivalents were held at one financial institution.

The Company, in the normal course of business, is exposed to credit risk from its customers. The accounts receivable are subject to normal credit risks. At March 31, 2011, the Company had \$911 (December 31, 2010 - \$911) receivable from a Canadian customer that was outstanding for over 90 days. The Company collected this amount subsequent to the period end. Any amounts not provided for are considered fully collectible. For the three month period ended March 31, 2011, the Company earned 49% of its revenue from a directory publisher. Otherwise, the Company earned no more than 8% of its revenue from one single customer. For the three month period ended March 31, 2010, the Company earned no more than 14% of its revenue from one single customer.

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

	March 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 251	\$ 257	\$ 279
31 to 60 days	20	210	405
61 to 90 days	34	66	22
Over 90 days	1,167	1,164	1,040
Less: allowance for doubtful accounts	-	-	(14)
Total accounts receivable, net	\$ 1,472	\$ 1,697	\$ 1,732

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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 March 31, 2011 are as follows:

	Financial Liabilities
2011	\$ 3,781
2012	10,877
2013	600
2014	600
2015	5,300
	<u>\$ 21,158</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 period ended March 31, 2011, approximately 68% of revenue and 0% 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 inflows, as at March 31, 2011, an increase in the value of the U.S. dollar versus the Canadian dollar of 10% would, everything else being equal, have an effect of increasing revenue by 6.8% and increasing the income from operations by 4.3%. A decrease in the value of the U.S. dollar would result in 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.

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 0.85% to 1.0%. A 50 basis points change in interest rates would have no significant impact per quarter based on March 31, 2011 financial asset balances.

For the periods ended March 31, 2011 and December 31, 2010, 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 \$14,213 (December 31, 2010 – \$9,877).

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 statements of financial position at fair value are classified as Level 1. There are no financial instruments valued according to Level 2 or Level 3.

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

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 share capital and debentures.

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

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

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:

	March 31, 2011	March 31, 2010
Voice	\$ 645	\$ 147
SMS Data	90	93
Workstations	355	352
Total	\$ 1,090	\$ 592

Geographic information

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

	March 31, 2011	March 31, 2010
North America	\$ 695	\$ 209
Rest of world	395	383
Total	\$ 1,090	\$ 592

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

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

15. Transition to IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. The Company's financial statements for the year ending December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS and these unaudited condensed interim consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements.

First-Time Adoption Elections

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the Transition Date. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. The Company elected to make the following IFRS 1 optional exemptions:

- (i) To apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;
- (ii) To apply the requirements of IFRS 2, Share-based Payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- (iii) To transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arose on adoption of IFRS.

Reconciliation of Equity

Total equity at January 1, 2010, March 31, 2010 and December 31, 2010 under previous Canadian GAAP is reconciled to the amounts reported under IFRS below. All amounts are after tax.

	At January 1, 2010	At March 31, 2010	At December 31, 2010
Total shareholders' equity reported under previous Canadian GAAP	652	(2,293)	(6,720)
Change in functional currency	(45)	-	13
Total shareholders' equity under IFRS	<u>607</u>	<u>(2,293)</u>	<u>(6,707)</u>

Reconciliation of Total Loss and Comprehensive Loss

Total net loss and comprehensive loss for the three months ended March 31, 2010 and the year ended December 31, 2010 under previous Canadian GAAP are reconciled to the amounts reported under IFRS below.

	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Net loss reported under previous Canadian GAAP	(3,036)	(8,543)
Change in functional currency	2	(21)
Net loss under IFRS	<u>(3,034)</u>	<u>(8,564)</u>

March 31, 2011 and 2010

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars, except share data)(unaudited)

15. Transition to IFRS (cont'd)

Note	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Comprehensive loss reported under previous Canadian GAAP	(3,079)	(8,622)
Change in functional currency	45	58
Comprehensive loss under IFRS	(3,034)	(8,564)

Reconciliation of the Statements of Cash Flows

There were no material changes to the statements of cash flows on adoption of IFRS.

Notes to Reconciliations

IFRS requires that the functional currency of each entity be determined separately. The Company has determined that as at the Transition Date the Canadian dollar was the functional currency of all entities. As a result, all foreign exchange translation differences as of the Transition Date are recorded through operations. Under Canadian GAAP, the Company's subsidiary in Denmark was defined as a self-sustaining foreign operation and cumulative foreign exchange translation differences arising on consolidation were recorded in a separate component of equity. In accordance with IFRS 1 optional exemptions, the Company elected to transfer these cumulative foreign exchange translation differences to deficit at the Transition Date.