VoodooVox Inc. (formerly Call Genie Inc.)
Consolidated Financial Statements
For the years ended December 31, 2011 and 2010

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Independent Auditors' Report

To the Shareholders of VoodooVox Inc. (formerly Call Genie Inc.)

We have audited the accompanying consolidated financial statements of **VoodooVox Inc. (formerly Call Genie Inc.)**, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **VoodooVox Inc. (formerly Call Genie Inc.)** as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the Company has accumulated a deficit amounting to $79,242,000 for the period from incorporation to December 31, 2011 and as of that date has a working capital deficiency of $5,498,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Toronto, Canada
March 30, 2012

/s/ Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

VoodooVox Inc. (formerly Call Genie Inc.)
Consolidated Statements of Operations and Comprehensive Loss

(In thousands of Canadian dollars, except share data)

Years ended December 31	Note	**2011**	2010
Operating revenue		**6,203**	4,206
Operating expenses:			
Network and data costs		**(312)**	(619)
Labour costs		**(4,427)**	(5,999)
Other operating costs	9	**(2,258)**	(2,415)
Amortization		**(971)**	(1,470)
Impairment of intangible asset	5	**-**	(1,107)
Gain on settlement of rights obligation	6	**-**	447
Operating income		**(1,765)**	(6,957)
Loss attributed to debt conversion incentive program	7(h)	**(8,565)**	-
Interest and accretion on debentures	9	**(3,087)**	(1,611)
Income before income taxes		**(13,417)**	(8,568)
Recovery of income taxes	10	**259**	4
Net loss and comprehensive loss for the period		**(13,158)**	(8,564)
Earnings per share			
Basic and diluted loss per share		**$ (0.14)**	$ (0.10)
Weighted average number of shares outstanding – basic and diluted		**93,008,892**	84,630,000

VoodooVox Inc. (formerly Call Genie Inc.)
Consolidated Statements of Financial Position

(In thousands of Canadian dollars, except share data)
(See Continuance of Operations – Note 1)

As at	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets:				
Cash and cash equivalents	3	**382**	380	3,447
Accounts receivable		**682**	1,697	1,732
Prepaid expenses and deposits		**117**	128	241
		1,181	2,205	5,420
Non-current assets:				
Restricted cash		**-**	-	122
Property and equipment	4	**105**	228	603
Goodwill	16	**2,281**	2,211	2,211
Intangible assets	5	**2,933**	3,226	5,411
		6,500	7,870	13,767
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	9	**1,404**	1,618	1,973
Current portion of deferred revenue		**317**	2,987	3,187
Current portion of debentures	7	**4,491**	1,276	-
Current portion of other liabilities	6	**172**	342	21
Income taxes payable		**295**	561	561
		6,679	6,784	5,742
Non-current liabilities:				
Deferred revenue		**-**	387	1,511
Debentures	7	**3,424**	7,324	5,028
Other liabilities	6	**32**	82	879
		10,135	14,577	13,160
Shareholders' equity (deficiency):				
Share capital		**61,699**	51,786	51,183
Contributed surplus		**13,908**	7,591	6,944
Deficit		**(79,242)**	(66,084)	(57,520)
		(3,635)	(6,707)	607
		6,500	7,870	13,767

These consolidated financial statements are authorized for issue by the Board of Directors on March 29, 2012. They are signed on the Company's behalf by:

"signed" Director — Richard DeVries

"signed" Director — S. Graeme Ross

VoodooVox Inc. (formerly Call Genie Inc.)
Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars, except share data)

	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		-	-	-	(13,158)	(13,158)
Employee stock purchase plan	8(b)	331,928	34	-	-	34
Shares for rent agreement	8(b)	1,826,692	240	-	-	240
Options exercised	8(e)	328,334	43	(18)	-	25
Warrants exercised	8(c)	1,040,000	310	(97)	-	213
Equity component on debentures	7(g) 8(d)	-	-	1,350	-	1,350
Broker shares	7(g)	150,000	25	-	-	25
Debentures converted	7(h)	44,427,681	7,897	4,786	-	12,683
Shares issued in private placement	8(b)	12,000,000	1,200	-	-	1,200
Share issue costs	8(b)	500,000	(121)	-	-	(121)
Shares issued on acquisition	16	3,000,000	285	47	-	332
Stock-based compensation	8(e)	-	-	249	-	249
Balance at December 31, 2011		**151,836,882**	**61,699**	**13,908**	**(79,242)**	**(3,635)**

	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		-	-	-	(8,564)	(8,564)
Employee stock purchase plan	8(b)	180,199	23	-	-	23
Shares for rent agreement	8(b)	2,891,865	360	-		360
Options exercised	8(e)	52,500	7	-		7
Shares on debentures	7(e)	2,117,000	213	-		213
Warrants on debentures	7(c)(e)8(d)	-	-	290		290
Extension of warrants	8(c)	-	-	45		45
Equity component on debentures	7(c)	-	-	2		2
Stock-based compensation	8(e)	-	-	310	-	310
Balance at December 31, 2010		88,232,247	51,786	7,591	(66,084)	(6,707)

VoodooVox Inc. (formerly Call Genie Inc.)
Consolidated Statements of Cash Flows

(In thousands of Canadian dollars, except share data)

For the years ended December 31	Note	**2011**	2010
Cash flows from operating activities:			
Loss before income taxes for the period		**(13,417)**	(8,568)
Adjustments for:			
Stock-based compensation	8(e)	**249**	291
Amortization of property, equipment and intangible assets		**971**	1,470
Shares for rent agreement	8(b)	**240**	360
Interest on debentures		**1,676**	904
Accretion on debentures		**1,411**	642
Amortization of lease inducement		**21**	21
Impairment of intangible assets		**-**	1,107
Gain on settlement of debt		**-**	(447)
Loss attributed to debt conversion incentive program	7(h)	**8,565**	-
Income tax recovered		**6**	4
		(278)	(4,216)
Changes in non-cash working capital balances:			
Accounts receivable		**1,066**	35
Prepaid expenses and deposits		**11**	113
Accounts payable and accrued liabilities		**(727)**	(563)
Deferred revenue		**(3,057)**	(1,323)
		(2,985)	(5,954)
Cash flows from financing activities:			
Issuance of common shares, net of issuance costs		**1,317**	164
Proceeds from debt issuance, net of issuance costs		**4,804**	3,291
Restricted cash held for interest payments		**-**	122
Extension of founder’s warrants		**-**	45
Repayment of debentures		**(1,500)**	-
Interest paid		**(1,517)**	(718)
		3,104	2,904
Cash flows from investing activities:			
Purchase of property and equipment		**(7)**	(10)
Purchase of intangible assets		**-**	(7)
Purchase of investments	9	**(350)**	-
Sale of investments	9	**350**	-
Upsnap acquisition	16	**(110)**	-
		(117)	(17)
Net increase (decrease) in cash and cash equivalents		**2**	(3,067)
Cash and cash equivalents, beginning of year		**380**	3,447
Cash and cash equivalents, end of year		**382**	380

1. Nature of Operations and Continuance of Operations

VoodooVox Inc. (formerly Call Genie Inc.) (the "Company" or "VVX") was incorporated under the laws of Canada on October 17, 2000 and was continued into Alberta on February 5, 2003. The Company is domiciled in Canada and the head office is located at 325 Milner Ave., Toronto, Ontario, Canada. On August 17, 2004, the Company amalgamated with GRD Enterprises Inc. with VVX being the surviving entity.

The Company is a 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. VVX created its 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 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 December 31, 2011, has accumulated a deficit amounting to $79,242. The Company has a working capital deficiency of $5,498 at December 31, 2011.

The Company's future operations are dependent upon its ability to secure additional funds or secure sales contracts (or both), which provide the Company with adequate funds to cover the cash flows projected for the fiscal 2012 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. It is not possible to predict whether the Company will be successful in securing new contracts or securing additional financing. These factors raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee. These are the Company's first annual consolidated financial statements presented in accordance with IFRS. Previously, the Company prepared financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The adoption of IFRS resulted in changes to the Company's 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 application of certain mandatory exceptions and optional exceptions as required or permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The effect of the transition from Canadian GAAP to IFRS is discussed in Note 15.

2. Summary of Significant Accounting Policies (continued)

(b) Basis of preparation
The Company prepares its financial statements on a historical cost basis, except for certain financial instruments measured at fair value as described in the accounting policies below.

(c) Principals of consolidation
The 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 judgments
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:

Arrangements with multiple deliverables
In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on its relative fair value. Determining the fair value of each deliverable can require complex estimates due to the nature of the services provided. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis after considering volume discounts where appropriate.

Contract accounting
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. The Company uses input measures (e.g., costs incurred) to estimate the amount of revenue to recognize.

Asset impairment
The process of testing for impairment begins with the identification of the appropriate asset or cash-generating unit (“CGU”) 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 estimated 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 Company is considered a single CGU and 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. The Company performed its annual impairment test as at October 1st.

Useful lives of property and equipment and finite-life intangible assets
Property and equipment and finite-life intangible assets represent a significant proportion of our total assets. Changes in technology or our intended use of these assets as well as changes in business prospects or economic and industry factors may cause the estimated useful lives of these assets to change. We review estimates of the useful lives of property and equipment and finite-life intangible assets on an annual basis and adjust depreciation or amortization on a prospective basis, if necessary.

2. Summary of Significant Accounting Policies (continued)

Income taxes
The calculation of income taxes requires judgment 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.

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment 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.

Business combinations
The amount of goodwill initially recognized as a result of a business combination and the determination of the fair value of the identifiable assets acquired and the liabilities assumed is based, to a considerable extent, on management's judgement.

Convertible Debentures
Convertible debentures are accounted for in accordance with their substance and are presented in their component parts of debt and equity. The Company estimates the fair value of the debt component of convertible debentures by calculating the discounted cash flows of the debenture using an effective interest rate of a similar instrument but without the conversion feature. Similar instruments may have certain features that, while similar, may differ, such as the term, amount, security, and credit risk, and therefore management are required to exercise significant judgement in determining an appropriate discount rate.

(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 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.

2. Summary of Significant Accounting Policies (continued)

(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 that 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

(i) Leases
Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and rewards of ownership of a 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 amortized 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 is 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.

(j) 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.

2. Summary of Significant Accounting Policies (continued)

(k) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and less any recognized impairment loss. The Company reviews the estimated useful lives 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:

Acquired technology	5-7 years
Customer lists	7 years
Rights license	3 years
Software licenses	1 year

The Company does not hold any indefinite life intangible assets.

(l) 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 CGU 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 estimated 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 pre-tax 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.

(m) 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 a CGU or group of CGUs 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 CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Goodwill impairment is assessed based on the comparison of the recoverable amount of the asset to its carrying value. The recoverable amount is the higher of a CGU's or group of CGUs' fair value less costs to sell and value in use. In assessing value in use, the estimated pre-tax 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.

(n) Income taxes

Income tax expense comprises current and deferred taxes. Tax expense is recognized in the consolidated statement of operations and comprehensive loss, 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.

2. Summary of Significant Accounting Policies (continued)

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 consolidated statement of financial position and their corresponding tax basis, or from the carryforward 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 consolidated statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized.

(o) 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 are distributed in conjunction with 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 debt portion related to the principal amount of debt converted is recognized as a change to shareholders' equity (deficiency).

(p) Earnings per share
Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share consider the dilutive effect 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 year when the Company incurs a loss, diluted earnings per share do not differ from basic earnings per share.

(q) 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 the provision of software licenses, implementation services and post-contract support, and (iii) services. Revenue from these arrangements is recognized when earned, specifically when all the following conditions are met: software licenses are delivered and services are provided (or either of them), 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 standalone 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.

2. Summary of Significant Accounting Policies (continued)

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.

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.

Hosting arrangements
The Company enters into hosting arrangements under which 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 fees for implementation or set-up 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.

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.

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

2. Summary of Significant Accounting Policies (continued)

(s) 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.

(t) Segment reporting
The Company operates a single reportable operating segment.

(u) Future changes to accounting standards

IFRS 7, Financial Instruments: Disclosures
In October 2010, the IASB amended IFRS 7, Financial Instruments: Disclosures. This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with, an entity's continuing involvement in derecognized financial assets. The amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2012. The Company is assessing the impact of this amended standard on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements
In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10, which replaces the consolidation requirements of SIC-12, Consolidation - Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements, establishes principals for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. 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.

IFRS 12, Disclosure of Interests in Other Entities
In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 establishes new and comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. 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.

IFRS 13, Fair Value Measurement
In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 replaces the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. 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.

2. Summary of Significant Accounting Policies (continued)

IAS 1, Presentation of Financial Statements
In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. This amendment requires an entity to separately present the items of other comprehensive income as items that may or may not be reclassified to profit and loss. This amended 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 amended standard on its consolidated financial statements.

IAS 27, Separate Financial Statements
In May 2011, the IASB amended IAS 27, Separate Financial Statements ("IAS 27"). This amendment removes the requirements for consolidated financial statements from IAS 27, and moves it over to IFRS 10. The amendment mandates that when a company prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are to be accounted for using either the cost method or in accordance with IFRS 9, Financial Instruments ("IFRS 9"). In addition, this amendment determines the treatment for recognizing dividends, the treatment of certain group reorganizations and some disclosure requirements. This amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this amended standard on its consolidated financial statements.

IFRS 9, Financial Instruments
In October 2010, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principals 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, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

(In thousands of Canadian dollars, except share data)

3. Cash and Cash Equivalents

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Business and savings accounts	**372**	370	3,344
Cashable guaranteed investment certificates	**10**	10	103
	382	380	3,447

4. Property and Equipment

Year ended December 31, 2011	**Computer Hardware**	**Furniture and Fixtures**	**Leasehold Improvements**	**Total**
Cost				
January 1, 2011	**1,128**	**411**	**111**	**1,650**
Additions	**7**	**-**	**-**	**7**
Acquisition	**33**	**-**	**-**	**33**
December 31, 2011	**1,168**	**411**	**111**	**1,690**
Accumulated Amortization				
January 1, 2011	**1,057**	**309**	**56**	**1,422**
Amortization for the year	**72**	**69**	**22**	**163**
December 31, 2011	**1,129**	**378**	**78**	**1,585**
Net Carrying Amount				
At January 1, 2011	**71**	**102**	**55**	**228**
At December 31, 2011	**39**	**33**	**33**	**105**

Year ended December 31, 2010	**Computer Hardware**	**Furniture and Fixtures**	**Leasehold Improvements**	**Total**
Cost				
January 1, 2010	1,428	415	111	1,954
Additions	10	-	-	10
Disposals	(310)	(4)	-	(314)
December 31, 2010	1,128	411	111	1,650
Accumulated Amortization				
January 1, 2010	1,083	235	33	1,351
Amortization for the year	284	78	23	385
Disposals	(310)	(4)	-	(314)
December 31, 2010	1,057	309	56	1,422
Net Carrying Amount				
At January 1, 2010	345	180	78	603
At December 31, 2010	71	102	55	228

(In thousands of Canadian dollars, except share data)

5. Intangible Assets

Year ended December 31, 2011	Acquired Technology	Customer Lists	Software Licenses	Total
Cost				
January 1, 2011	**5,218**	**358**	**295**	**5,871**
Acquisition	**515**	**-**	**-**	**515**
December 31, 2011	**5,733**	**358**	**295**	**6,386**
Accumulated Amortization				
January 1, 2011	**2,199**	**152**	**294**	**2,645**
Amortization for the year	**756**	**51**	**1**	**808**
December 31, 2011	**2,955**	**203**	**295**	**3,453**
Net Carrying Amount				
At January 1, 2011	**3,019**	**206**	**1**	**3,226**
At December 31, 2011	**2,778**	**155**	**-**	**2,933**

Year ended December 31, 2010	Acquired Technology	Customer Lists	Software Licenses	Rights License	Total
Cost					
January 1, 2010	5,218	358	782	1,561	7,919
Additions	-	-	7	-	7
Disposals	-	-	(494)	(1,561)	(2,055)
December 31, 2010	5,218	358	295	-	5,871
Accumulated Amortization					
January 1, 2010	1,454	101	759	194	2,508
Amortization for the year	745	51	29	260	1,085
Disposals	-	-	(494)	(1,561)	(2,055)
Impairment	-	-	-	1,107	1,107
December 31, 2010	2,199	152	294	-	2,645
Net Carrying Amount					
At January 1, 2010	3,764	257	23	1,367	5,411
At December 31, 2010	3,019	206	1	-	3,226

In June 2010, the Company determined that a change in circumstances specific to the rights license indicated that its carrying amount may not be recoverable. In accordance with its accounting policy, the Company performed an impairment test as at June 30, 2010 and recognized a write-down of its rights license asset of $1,107.

(In thousands of Canadian dollars, except share data)

6. Other Liabilities

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Lease inducements	**68**	103	124
Deferred salaries	**136**	321	373
Rights license payable	**-**	-	403
	204	424	900
Current portion	**(172)**	(342)	(21)
	32	82	879

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

7. Debentures

As at	Conversion Price (cents)	Principal Amount	Rate of Interest	**Dec 31, 2011**	Dec 31, 2010	Jan 1, 2010
May 2012 Convertible Debentures (a)	50	475	10.0%	**455**	2,145	1,969
Oct 2012 Convertible Debenture (b)	50	2,090	12.0%	**1,917**	3,326	3,059
Aug 2012 Convertible Debenture (c)	10	1,175	15.0%	**983**	1,053	-
Aug 2012 Debenture (d)	-	875	17.5%	**843**	800	-
May 2011 Debenture (e)	-	-	10.0%	**-**	1,276	-
Feb 2012 Debenture (f)	-	300	12.0%	**293**	-	-
Mar 2015 Convertible Debenture (g)	25	5,000	12.0%	**3,424**	-	-
				7,915	8,600	5,028
Current portion				**(4,491)**	(1,276)	-
				3,424	7,324	5,028

All of the Company's 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 Chairman of the Board of the Company

7. Debentures (continued)

(a) Effective June 26, 2009, the Company completed a private placement of 2,465 units of non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of $2,465 (the "May 2012 Convertible Debentures"). The debentures bear interest at a rate of 10% per annum, payable semi-annually on October 31 and April 30, and mature on May 30, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of 50.0 cents per share.

These debentures have characteristics of both debt and equity. Accordingly, $1,887 of the fair value was ascribed to the debt component and $513 was ascribed to the equity component, net of financing costs. Fair value was determined by reference to similar debt instruments and market transactions. The Company incurred financing costs of $65 in connection with this placement of convertible debentures. These have been pro-rated against the debt and equity components.

As part of this debt issuance, the Company issued 591,600 warrants. A total of 360,000 warrants were exercised during 2011 and the remainder expired unexercised on June 26, 2011.

(b) In the fourth quarter of 2009, the Company completed a private placement of 4,000 units of non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of $4,000 (the "Oct 2012 Convertible Debentures"). The debentures bear interest at a rate of 12% per annum, payable semi-annually on October 31 and April 30, and mature on October 31, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of 50.0 cents per share. The debentures are not redeemable by the Company prior to maturity.

These debentures have characteristics of both debt and equity. Accordingly, $3,035 of the fair value was ascribed to the debt component and $800 was ascribed to the equity component, net of financing costs. Fair value was determined by reference to similar debt instruments and market transactions. The Company incurred financing costs of $165 in connection with this placement of convertible debentures. These have been pro-rated against the debt and equity components.

As part of this debt issuance, the Company issued 1,920,000 warrants. A total of 480,000 warrants were exercised in 2011 and the remainder expired on November 6, 2011. In addition, the Company issued 90 broker warrants that expired on December 23, 2011.

(c) Effective August 12, 2010, the Company completed a brokered private placement of 1,625 units of non-redeemable, secured convertible debentures, in denominations of one thousand dollars, in the aggregate principal amount of $1,625 (the "Aug 2012 Convertible Debentures"). The convertible debentures bear interest at a rate of 15% per annum, payable semi-annually on February 28 and August 31, and mature on August 12, 2012. Holders may convert principal and accrued but unpaid interest under their debentures into common shares of the Company at any time prior to their maturity at a conversion price of 10.0 cents per share.

These debentures have characteristics of both debt and equity. Accordingly, $965 of the fair value was ascribed to the debt component and $170 was ascribed to the equity component, net of financing costs. Fair value was determined by reference to similar debt instruments and market transactions. The Company incurred financing costs of $489 in connection with this placement of convertible debentures. These have been pro-rated against the debt and equity components.

7. Debentures (continued)

As part of this debt issuance, the Company issued 3,250,000 warrants. Each warrant holder is entitled to acquire one common share of the Company for each warrant at a price of 12.0 cents per share until August 12, 2014. The fair value of each warrant of 7.4 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 2.3%, an expected volatility of 115% and an expected life of 4.0 years. Of the $170 that was ascribed to the equity component of the debentures, $168 was allocated to these warrants and $2 was allocated to contributed surplus in 2010. A total of 200,000 warrants were exercised in 2011 and the remainder remain outstanding.

(d) Effective August 12, 2010, the Company completed a non-brokered private placement of 875 units of debentures primarily with related parties, in denominations of one thousand dollars, in the aggregate principal amount of $875 (the “Aug 2012 Debentures”). The debentures bear interest at a rate of 17.5% per annum, payable monthly, and mature on August 12, 2012. The Company has the option to repay the debt prior to maturity without penalty. The Company incurred financing costs of $89 in connection with this placement of debentures.

(e) Effective November 5, 2010, the Company completed a brokered private placement of 1,500 units of debentures, in denominations of one thousand dollars, in the aggregate principal amount of $1,500 (the “May 2011 Debentures”). The debentures bear interest at a rate of 10% per annum, payable at maturity, and mature on May 5, 2011. The Company has the option to repay the debt prior to maturity without penalty.

As part of this debt issuance, the Company issued 1,500,000 common shares to the debenture holders and 617,000 common shares to agents for commissions and fees related to the debt issuance. Accordingly, $1,180 of fair value was ascribed to the debt issuance and $146 was ascribed to the share issuance, net of issuance costs. The Company incurred financing costs of $174, of which $98 was paid in cash and the remainder paid through the issuance of 617,000 common shares and 100,000 warrants. The warrant holder is entitled to acquire one common share of the Company for each warrant at a price of 11.0 cents per share until November 5, 2014. The fair value of each warrant of 8.3 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.8%, an expected volatility of 114% and an expected life of 4.0 years. An amount of $8 was allocated to contributed surplus in 2010. These costs have been pro-rated against the debt and equity components. On March 2, 2011, the Company repaid this debt without penalty.

(f) Effective February 14, 2011, the Company completed non-brokered private placement of 300 units of debentures, in denominations of one thousand dollars, in the aggregate principal amount of $300 (the “Feb 2012 Debentures”). The debentures bear interest at a rate of 12% per annum, payable monthly, and mature on February 14, 2012. The Company has the option to repay the debt prior to maturity without penalty. The Company incurred financing costs of $50 in connection with the debentures.

(g) 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 “Mar 2015 Convertible Debentures”). The debentures bear interest at a rate of 12% per annum, payable semi-annually on March 2 and September 2, 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.

7. Debentures (continued)

These debentures have characteristics of both debt and equity. Accordingly, $3,179 of the fair value was ascribed to the debt component and $1,102 was ascribed to the equity component, net of financing costs. Fair value was determined by reference to similar debt instruments and market transactions. The Company incurred financing costs of $719 in connection with this placement of convertible debentures, of which $446 was paid in cash, $25 was paid through the issuance of 150,000 common shares, and the remainder was paid through the issuance of 500 broker warrants. These costs have been pro-rated against the debt and equity components.

Concurrent with this placement, the Company redeemed the May 2011 Debentures.

(h) On December 29, 2011, the shareholders and directors of the Corporation approved an incentive program in an effort to encourage holders of outstanding debentures to convert outstanding principal and interest into common shares. To promote the conversion of the principal amount of debentures and the accrued but unpaid interest thereon, management and directors of the Company offered debentures holders the following options:

i. For the May 2012 Convertible Debentures the Company offered to amend the conversion price from 50.0 cents to 10.0 cents. The Company converted $1,990 aggregate principal convertible debentures with a carrying value on conversion of $1,907 and allocated $382 from contributed surplus to share capital.

ii. For the Oct 2012 Convertible Debentures, the Company offered to amend the conversion price from 50.0 cents to 10.0 cents. The Company converted $1,910 aggregate principal convertible debentures with a carrying value on conversion of $1,741 and allocated $276 from contributed surplus to share capital.

iii. For the Aug 2012 Convertible Debentures, the Company offered to issue 5,000 share purchase warrants for each one thousand dollars converted, each warrant entitling the holder to purchase one common share, at any time and from time to time until December 31, 2013, at an exercise price of 12.0 cents per common share. The Company converted $450 aggregate principal convertible debentures with a carrying value on conversion of $376 and allocated $1 from contributed surplus to share capital. Subsequent to the year end, the Company converted an additional $5 of principal. In connection with the conversion, the Company issued 2,275,000 warrants.

iv. For the Mar 2015 Convertible Debentures, the Company amended the conversion price from 25.0 cents to 10.0 cents. Subsequent to the year end, the Company converted $2,320 aggregate principal convertible debentures and $92 accrued interest in exchange for 24,115,286 common shares.

The Company recorded a loss of $8,565 in the consolidated statement of operations and comprehensive loss on the offer to amend the terms of its convertible debt in accordance with guidance under IAS 32, Financial Instruments Presentation.

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 established an employee stock purchase plan for the benefit of all eligible employees. Under the plan, common shares of the Company may be purchased at three-month intervals at 85% of the weighted average trading price of such shares for the applicable three-month period. Employees may contribute from 3% to 20% of their gross base salary. During the year ended December 31, 2011, the Company issued 331,928 common shares at an average price of 10.3 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 is required to subscribe for a number of 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 (as reported by the TSX Venture Exchange). The agreement commenced on July 1, 2009 and ends on September 30, 2012. During the year ended December 31, 2011, the Company issued 1,826,692 common shares with a value of $240.

(iii) On October 25, 2011, the Company completed a brokered private placement involving the distribution of 12,000,000 units (“Units”), at a price of $0.10 per Unit, for aggregate gross proceeds of $1.2 million. Each Unit consisted of one common share of the Company and a ½ warrant (“Warrant”). Each whole Warrant entitles the holder to acquire one common share of the Company, at an exercise price of $0.12, at any time and from time to time until expiry on October 25, 2014. The Company incurred cash costs of $121 and issued 500,000 Units to the broker. The Units were converted to 12,500,000 common shares and 6,250,000 warrants.

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (continued)

(c) Issued and outstanding warrants

	Weighted Average Exercise Price (cents)	Number
Outstanding, January 1, 2010	22.5	6,422,006
Issued in connection with convertible debentures (Note 7(c))	12.0	3,250,000
Issued in connection with debentures (Note 7(e))	11.0	100,000
Expired (i)	22.5	(3,910,406)
Extended (i)	22.5	2,888,523
Outstanding, December 31, 2010	18.5	8,750,123
Issued in connection with share issuance (Note 8(b)(iii))	12.0	6,250,000
Expired (Note 7(a)(b))	23.0	(1,671,600)
Exercised (Note 7(a)(b)(c))	20.5	(1,040,000)
Outstanding, December 31, 2011	**14.6**	**12,288,523**

(i) On August 17, 2004, the Company completed the reverse takeover of a public company, GRD. Upon the completion of this business combination, 4,360,035 previously issued warrants were repriced to 22.5 cents each (pre-business combination price 61.0 cents), of which 3,910,406 remained outstanding at January 1, 2010. Each warrant holder is entitled to acquire one common share of the Company for each warrant. On August 16, 2010, the Company reached agreement with the holders of 2,888,523 warrants to extend the expiry date to February 28, 2012. In consideration for the extension of the warrants, the warrant holders paid 1.6 cents per warrant as an extension fee, for a gross aggregate amount of $45. As at December 31, 2011, 2,888,523 warrants remained unexercised.

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (continued)

(d) Issued and outstanding broker warrants

	Weighted Average Exercise Price	Number
Outstanding, January 1, 2010	$ 1	90.00
Granted (i)	1	137.25
Outstanding, December 31, 2010	1	227.25
Granted (ii)	1	500.00
Expired (Note 7(b))	1	(90.00)
Outstanding, December 31, 2011	**$ 1**	**637.25**

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

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

a. The value of the equity conversion feature of the debenture wherein 137.25 debentures can be exchanged for 1,372,500 common shares of the Company. The fair value of the conversion feature of 6.8 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 1.6%, an expected volatility of 127%, an effective exercise price of 10.0 cents per share and an expected life of 2.4 years.

b. The value of 274,500 warrants issued with the 137.25 debentures. The fair value of each warrant of 7.4 cents is the same as calculated above and was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 2.3%, an expected volatility of 115%, an effective exercise price of 12.0 cents per share and an expected life of 4.0 years.

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

(ii) As part of the March 2, 2011 brokered private placement (Note 7(d)), the Company issued 500 broker warrants, each warrant entitling the holder to acquire one thousand dollars principal amount secured convertible debenture. Holders may convert principal into common shares of the Company at any time prior to March 2, 2015 at a conversion price of 25.0 cents per share.

The fair value of each broker warrant of 12.4 cents was estimated using the Black-Scholes option valuation model assuming a risk-free interest rate of 2.3%, an expected volatility of 119% and an expected life of 4.0 years. An amount of $248 was allocated to contributed surplus in 2011.

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (continued)

(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 32,447,250 stock options to its employees, officers and directors. As at December 31, 2011, 12,735,000 stock options remain outstanding at prices ranging from 6.5 cents to 50.0 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 July 2, 2013 to December 2, 2016.

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. Expected volatilities are based on the historical volatility of VVX's share price. 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	2010
Risk-free rate	1.6%	1.4%
Expected dividend yield	0.0%	0.0%
Expected volatility rate	121%	119%
Expected option life	3 years	3 years
Fair value (cents per share)	10.7	10.2

During the year ended December 31, 2011, $249 (2010 - $291) was included in labour costs as stock-based compensation related to options with the corresponding amount charged to contributed surplus.

(In thousands of Canadian dollars, except share data)

8. Equity Instruments (continued)

The following table sets out information concerning stock options issued to employees, consultants, directors and officers that were outstanding at December 31, 2011:

	Weighted Average Exercise Price (cents)	Number of Options
Outstanding, January 1, 2010	12.2	11,260,000
Granted	15.4	4,691,250
Exercised	7.5	(52,500)
Forfeited	17.2	(3,670,000)
Outstanding, December 31, 2011	11.9	12,228,750
Granted	14.3	3,105,000
Exercised	7.9	(328,334)
Forfeited	20.7	(2,270,416)
Outstanding, December 31, 2011	**11.4**	**12,735,000**

The weighted average share price for options exercised was 17.0 cents.

The following table summarizes information about the stock options outstanding at December 31, 2011:

Range of Exercise Prices per Share (cents)	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (cents)	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price (cents)
0 to 10	7,127,500	2.36	8	6,560,834	2.18	8
10 to 20	5,525,000	3.56	15	2,601,667	3.10	15
20 to 50	82,500	1.65	28	82,500	1.65	28
	12,735,000	**2.88**	**11**	**9,245,001**	**2.43**	**10**

(In thousands of Canadian dollars, except share data)

9. Related Party Transactions

The Company had the following related party transactions:

(a) Included in other operating costs for the year ended December 31, 2011 are $220 (2010 - $226) 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 at December 31, 2011 is $112 (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 year ended December 31, 2011, the Company made interest payments on debentures of $182 (2010 - $66) to directors, senior management and management contractors of the Company.

(d) During the year, the Company purchased an investment in one of the Company's customers for $350 from a director and subsequently sold a portion of the investment to the same director for $350.

(e) During the year, the Company received $25 for a licensing agreement from a customer over which a director of the Company exerts significant influence.

All the related party transactions have been measured at the exchange amounts.

Key management personnel compensation

Compensation	December 31, 2011	December 31, 2010
Salaries	1,042	975
Stock-based compensation	96	140
	1,138	1,115

The key management includes the senior officers of the Company.

(In thousands of Canadian dollars, except share data)

10. Income Taxes

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

	December 31, 2011	December 31, 2010
Combined statutory tax rates	**28.0%**	28.0%
Expected income tax recovery at statutory tax rates	**$ 3,757**	$ 2,392
Permanent differences	**(2,783)**	(74)
Change in tax rates	**(106)**	(408)
Resolution of uncertain tax positions	**266**	4
Unrecognized deferred tax assets	**(875)**	(1,910)
Recovery of income taxes	**$ 259**	$ 4

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

	December 31, 2011	December 31, 2010	January 1, 2010
Property and equipment and other assets	**$ 1,856**	$ 1,761	$ 775
Share issuance costs	**236**	243	219
Unused tax loss carryforwards	**14,350**	13,563	12,208
Unrecognized deferred income tax assets	**$ 16,442**	$ 15,567	$ 13,202

As at December 31, 2011, subject to confirmation from the respective income tax authorities, the Company has a total of $55,807 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	6,458
2031	3,217
	$ 55,807

For Canadian tax purposes, the Company has non-capital losses of $54,281 and for U.S. tax purposes, the Company has net operating losses of $1,526 that have a 15-year carryforward period.

(In thousands of Canadian dollars, except share data)

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. There are no lease commitments after 2013. Future minimum annual lease payments over the next two years are as follows:

	Facilities	Equipment	Total
2012	$ 652	$ 1	$ 653
2013	$ 200	$ -	$ 200

The Company paid operating lease costs of $644 for the year ended December 31, 2011 (2010 - $667).

(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 matter. The required provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

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

(In thousands of Canadian dollars, except share data)

12. Financial Instruments and Risk Management

Classification of financial instruments

Upon initial recognition, all financial instruments are recorded on the statement of consolidated financial position at their fair value. After initial recognition, the financial instruments are measured at their fair value, 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		**December 31, 2011**		December 31, 2010		January 1, 2010
Cash and cash equivalents and restricted cash	Held-for-trading	Fair value	**$**	**382**	$	380	$	3,569
Accounts receivable	Trade and other receivables	Amortized cost	**$**	**682**	$	1,697	$	1,732
Investments	Available for sale	Cost	**$**	**-**	$	-	$	-
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	**$**	**1,404**	$	1,618	$	1,973
Other liabilities and income tax provision	Other financial liabilities	Amortized cost	**$**	**499**	$	985	$	1,461
Debentures	Other financial liabilities	Amortized cost	**$**	**7,915**	$	8,600	$	5,028

Held-for-trading

The Company has classified its cash and cash equivalents, restricted cash and investment 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 December 31, 2011, the Company held $10 (December 31, 2010 - $10) of cashable guaranteed investment certificates bearing a weighted average interest rate of 0.75% (December 31, 2010 - 0.3%).

Loans and receivables

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

(In thousands of Canadian dollars, except share data)

12. Financial Instruments and Risk Management (continued)

Available for sale investments

The Company acquired a net 385,000 common shares of a private company. The net cash flows were nil (see Note 9(d)). The common shares have been initially accounted for at exchange amount and subsequently measured at cost as the shares do not have a quoted market price in an active market and fair value cannot be reliably measured.

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 years ended December 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.

Financial risk management

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

Credit risk

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

At December 31, 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. Any amounts not provided for are considered fully collectible. For the year ended December 31, 2011, the Company earned 39% of its revenue from a directory publisher and 12% of its revenue from a carrier. For the year ended December 31, 2010, the Company earned 24% of its revenue from one customer as a result of the completion of a workstation solution, and 18% from a separate directory publisher.

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

	December 31, 2011	December 31, 2010	January 1, 2010
Current	**$ 369**	$ 257	$ 279
31 to 60 days	**165**	210	405
61 to 90 days	**54**	66	22
Over 90 days	**111**	1,164	1,040
Less: allowance for doubtful accounts	**(17)**	-	(14)
Total accounts receivable, net	**$ 682**	$ 1,697	$ 1,732

(In thousands of Canadian dollars, except share data)

12. Financial Instruments and Risk Management (continued)

Liquidity risk

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

The contractual maturities of the Company's financial liabilities, including interest charges, as at December 31, 2011 are as follows:

	2012	2013	2014	2015
Accounts payable and accrued liabilities	$ 1,403	$ -	$ -	$ -
Other Liabilities	499	-	-	-
Debentures – non-convertible	-	-	-	-
Debentures – convertible	4,915	-	-	5,000
Interest	1,145	600	600	298
	$ 7,962	$ 600	$ 600	$ 5,298

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 December 31, 2011, approximately 56% of revenue and 3% 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 December 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 5.6%, increasing costs by 0.3% and increasing income from operations by 3.7%. 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 effect on the Company's results of financial performance.

12. Financial Instruments and Risk Management (continued)

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 0.75% to 1.0%. A 50 basis points change in interest rates would have no significant effect per quarter based on December 31, 2011 financial asset balances.

For the years ended December 31, 2011 and 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 value of the debentures, which are estimated by discounting their future cash flows at a rate of 22%, are $9,071 (December 31, 2010 – $9,877).

Financial assets and liabilities that are carried at fair value 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 and available for sale investments are classified at Level 3. There were no transfers between the levels during the year.

(In thousands of Canadian dollars, except share data)

13. Capital Management

The Company's objective when managing capital is to ensure that it has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns for shareholders and benefits to other stakeholders. The capital structure of the Company consists of share capital and debentures. At December 31, 2011, the Company has share capital of $57,920 (2010 - $51,786) and debentures of $7,915 (2010 - $8,600).

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

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

14. Segmented Information

Operating segment

The Company operates in the sale and service of software and hosting solutions segment 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:

	December 31, 2011	December 31, 2010
Voice	**$ 3,531**	$ 1,291
SMS Data	**1,194**	382
Workstations	**1,478**	2,533
Total	**$ 6,203**	$ 4,206

Geographic information

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

	December 31, 2011	December 31, 2010
North America	**$ 3,949**	$ 1,553
Rest of world	**2,254**	2,653
Total	**$ 6,203**	$ 4,206

Substantially all of the Company's non-current assets are located in North America.

(In thousands of Canadian dollars, except share data)

15. Transition to IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010.

First-Time Adoption Elections
Most adjustments required on transition to IFRS were 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 ("IFRS 3") 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 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 December 31, 2010
Total shareholders' equity reported under previous Canadian GAAP	652	(6,720)
Change in functional currency	(45)	13
Total shareholders' equity under IFRS	607	(6,707)

Reconciliation of Total Loss and Comprehensive Loss
Total net loss and comprehensive loss for the year ended December 31, under previous Canadian GAAP are reconciled to the amounts reported under IFRS below.

	Year Ended December 31, 2010
Net loss reported under previous Canadian GAAP	(8,543)
Change in functional currency	(21)
Net loss under IFRS	(8,564)

15. Transition to IFRS (continued)

	Year Ended December 31, 2010
Comprehensive loss reported under previous Canadian GAAP	(8,622)
Change in functional currency	58
Comprehensive loss under IFRS	(8,564)

Reconciliation of the Consolidated Statements of Cash Flows

There were no material changes to the consolidated 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.

(In thousands of Canadian dollars, except share data)

16. Business Combination

On October 25, 2011, the Company acquired the assets of UpSNAP Services, LLC ("UpSNAP"). In consideration, the Company issued 3,000,000 common shares and paid USD $125. In addition, subject to performance conditions, a principal of UpSNAP may receive 500,000 additional common shares and USD $125 after nine months. Based in Charlotte, North Carolina, UpSNAP is a direct response advertising network on mobile phones in the United States and a pioneer in the pay-per-call industry. The acquisition was accounted for using the acquisition method in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective October 25, 2011 and has contributed incremental revenue of $130 and operating income of $(76) for the year ended December 31, 2011. The Company's consolidated operating revenues and net loss for the year ended December 31, 2011 would have been $6,640 and $13,286, respectively, had the UpSNAP acquisition occurred on January 1, 2011.

The final fair values of the assets acquired and liabilities assumed in the acquisition are as follows:

Fair value of consideration transferred	**586**
Current assets (including cash acquired of $17)	**68**
Property and equipment	**33**
Acquired technology	**515**
Current liabilities	**(100)**
Fair value of net identifiable assets acquired	**516**
Goodwill	**70**

Goodwill represents intangible assets that do not qualify for separate recognition and is deductible for tax purposes. The acquired technology is being amortized over a period of five years.

17. Subsequent Events

(i) On January 6, 2012, the Company acquired the assets and business operations from a Delaware company then operating as VoodooVox, Inc. ("**Old VoodooVox**"). Old VoodooVox, located in Massachusetts, provided real-time demographic information on phone calls and mobile ad traffic. Working with proprietary information developed by Old VoodooVox and data provided by third party aggregators, the acquired assets enable companies to gain valuable insight into their call volume and mobile game/application activity. In consideration, the Company issued 11,250,000 common shares and agreed to pay contingent consideration of USD $1,800 in cash over a period of time subject to performance conditions. The assets and liabilities acquired include current assets of $467, current liabilities of $287, property and equipment of $37, and intangible assets of $882 with the residual being goodwill. Management has not finalized the allocation of the purchase consideration especially with regard to the fair value of contingent consideration and the intangible assets.

(ii) Effective March 15, 2012, the Company completed a non-brokered private placement of 1,000 units of debenture, in denominations of one thousand dollars, in the aggregate principal amount of $1,000. The debentures bear interest at a rate of 15.0% per annum, payable semi-annually, and mature on March 15, 2013. The Company incurred financing costs of $14 in connection with this placement of debentures.