



Call Genie Inc.
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MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (“MD&A”) for Call Genie Inc. (“CG” or the “Company”) should be read in conjunction with CG’s 2004 audited financial statements for the year ended December 31, 2004 and December 31, 2003 and the accompanying notes. CG’s audited year end financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The information in this MD&A is current to February 24, 2005, unless otherwise noted.

FORWARD LOOKING STATEMENTS

Certain statements regarding CG contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although CG believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. CG's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

BUSINESS OVERVIEW

CG is a developer of voice technology applications, specializing in building comprehensive interactive speech recognition solutions for the directory services industry. The Company offers customized, location-based, enhanced voice directory solutions that allow consumers to locate, obtain information and connect with businesses. CG takes leading technologies from both the Internet and telephony worlds and integrates them with CG’s proprietary processes to deliver a unique voice-web solution.



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ANNUAL RESULTS OF OPERATIONS

Selected Statements of Operations Data for Fiscal 2002 to 2004:

	Fiscal Year Ended December 31		
	2004	2003	2002
Net Sales	\$ -	\$ -	\$ -
Net Loss	\$ (1,895,160)	\$ (925,024)	\$ (145,948)
Net Loss per Share	\$ (0.07)	\$ (0.15)	\$ (0.03)

Overall

The Company's loss for the year ended December 31, 2004 was \$1.9 million or \$0.07 per share, up 104% from the prior year loss of \$ 0.9 million, or \$0.15 per share. The increased loss for the year was primarily the result of increased technology and product development costs (\$0.5 million), increased general and administrative costs (\$0.1 million), increased sales and marketing (\$0.1 million) and increased stock based compensation (\$0.2 million).

Expenses

The expenses for the year ended December 31, 2004 increased to \$1,909,622 from \$925,024 for the year ended December 31, 2003.

Technology and Product Development

Technology and product development costs increased by \$476,559 for the year ended December 31, 2004, compared to the same period of 2003.

The increases were primarily due to increased personnel engaged in developing the product software and processes, readying and deploying the technology for two pilot programs and preparing the product for commercial launch in 2005. Personnel costs increased by \$412,876 for the year ended December 31, 2004, compared to the same period of 2003. Additional costs have also been incurred in initially setting up the voice platform with the local telephone service provider and voice talent recording for the voice directory service. These costs increased by \$46,951 for the year ended December 31, 2004, compared to the same period of 2003.



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Sales and Marketing

Sales costs of \$106,543 were incurred for the year ended December 31, 2004 compared to \$nil for the same period of 2003. The increase in costs was related to salaries and consulting fees paid to sales consultants to conduct a merchant sales test for the Greater Toronto Area (“GTA”) and plan the sales strategy, training and execution for the commercial launch in 2005.

Business Development

Business development costs of \$16,349 were incurred for the year ended December 31, 2004 compared to \$nil for the same period of 2003. The increase in costs was related to external costs for attending and presenting at a yellow pages industry conference in the United States and distributing information to key industry players.

General and Administration

General and administration costs increased by \$123,801 for the year ended December 31, 2004, compared to the same period of 2003. The increases were primarily due to increased personnel engaged in financing, strategizing and leading the company into an operating phase. Personnel costs increased by \$179,494 for the year ended December 31, 2004, compared to the same period of 2003. Significant costs were also incurred in performing both consumer and merchant research. Research costs increased by \$37,043 for the year ended December 31, 2004, compared to the same period of 2003. Professional fees decreased by \$179,156 as a result of the savings realized by not having to negotiate significant legal documents with a new business partner during the year ended December 31, 2004. Agency fees and shareholder communication costs related to the operating of a public company caused increased by \$13,324 for the year ended December 31, 2004, compared to the same period of 2003.

Office rent and travel expenses increased in relation to the additional personnel requirements and the additional travel to implement a pilot project in the Toronto market and the preparation for commercial launch in 2005. Office rent and travel costs increased by \$50,402 for the year ended December 31, 2004, compared to the same period of 2003.



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Interest

Interest expense of \$23,653 was incurred by CG on a convertible debenture for the year ended December 31, 2004 compared to \$5,867 for the year ended December 31, 2003. The debenture was converted into equity in May, 2004.

Stock based compensation

Stock based compensation expense for the year ended December 31, 2004 was \$283,224, and was comprised of (i) the write off of the balance of the stock based compensation related to the change in the vesting terms of warrants on the business combination and, (ii) the stock based compensation related to the granting of options to employees effective September 1, 2004. The stock based compensation for the year ended December 31, 2003 was \$55,593.

Interest Income

CG earned interest income of \$14,462 on cash and term deposits for the year ended December 31, 2004 compared to \$nil for the year ended December 31, 2003. The increase in interest income was as a result of having cash on hand from the closing of the business combination and concurrent financing in August, 2004.

Related Party Transactions

The Company had incurred rent charges from a corporation controlled by a shareholder. Effective October, 2004, the Company secured a sublease arrangement with a third party.

The operations of the Company were previously and partially funded by a convertible debenture from a corporate shareholder. These funds and the accrued interest were converted to equity in May, 2004.

Payments for technology and product development and general and administrative work were paid to consultants who were shareholders of the Company. Effective September 1, 2004, the majority of these consultants were hired as full time employees. See Note 7 to the Financial Statements.

Critical Accounting Policies and Estimates

Financial statement presentation requires that the Company use estimates and assumptions that affect the reported amounts of assets and liabilities as well as expenses. The Company's accounting policies are described in Note 2 to the Financial Statements.



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CG prepares its consolidated financial statements in Canadian dollars and in accordance with accounting principles generally accepted in Canada.

There were no changes in accounting policies or significant estimates during the year, other than the estimates used for stock based compensation. Since the Company is now publicly traded, it has a basis for evaluating the expected volatility rate. The Company has used a volatility rate of 55%.

SUMMARY OF QUARTERLY RESULTS

	For the Quarters Ended							
	Mar 31 2003	Jun 30 2003	Sep 30 2003	Dec 31 2003	Mar 31 2004	Jun 30 2004	Sep 30 2004	Dec 31 2004
Expenses								
Technology and product development	\$ 37,000	\$ 37,476	\$ 61,371	\$ 143,683	\$ 164,453	\$ 177,907	\$ 196,418	\$ 217,310
Sales and marketing	-	-	-	-	-	-	26,921	79,622
Business development	-	-	-	-	-	-	12,191	4,157
General and administrative	24,293	120,516	110,591	325,872	199,937	155,713	187,174	162,314
Interest	-	-	64	5,867	13,191	10,460	-	2
Stock based compensation	-	-	-	55,593	56,457	56,456	155,490	14,821
Amortization	-	-	1,564	1,134	2,711	3,543	5,012	7,362
	61,293	157,992	173,590	532,149	436,749	404,079	583,206	485,588
Other income								
Interest income	-	-	-	-	-	-	4,409	10,053
Net loss for the period	\$ (61,293)	\$ (157,992)	\$ (173,590)	\$ (532,149)	\$ (436,749)	\$ (404,079)	\$ (578,797)	\$ (475,535)
Loss per share	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.08)	\$ (0.06)	\$ (0.05)	\$ (0.02)	\$ (0.02)

Overall

The Company's loss in the fourth quarter of 2004 was \$475,535, compared to a loss of \$532,149 in the fourth quarter of 2003. The technology costs increased by \$73,627, due primarily to increased personnel costs of \$53,320 and costs in initially setting up the voice platform and voice talent costs of \$19,146. Sales and marketing costs increased by \$79,622, due primarily to salaries and consulting fees paid to sales consultants to conduct a merchant sales test for the Toronto market and plan the sales strategy, training and execution for the commercial launch in 2005. General and administrative costs decreased by \$163,558 due primarily to the savings of \$201,816 realized by not having to negotiate significant legal documents with a new business partner. Costs for personnel increased by \$21,083 and other related costs for office rent, insurance, and telecommunications increased by \$12,612. There



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was also a reduction in stock based compensation in the amount of \$40,772 as the cost related to the warrants was fully realized by the end of the third quarter of 2004.

FINANCIAL CONDITION

Selected data on financial position	As at December 31		
	2004	2003	2002
Cash and cash equivalents	\$ 1,832,573	\$ 72,869	\$ 1,327
Net working capital	\$ 1,676,802	\$ (197,683)	\$ (91,770)
Total assets	\$ 1,972,507	\$ 123,449	\$ 2,559
Total long-term liabilities	\$ -	\$ 290,000	\$ -
Total liabilities	\$ 199,114	\$ 590,247	\$ 93,900
Shareholders' equity	\$ 1,773,393	\$ (466,798)	\$ (91,341)

Outstanding Share Capital

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 36,833,599 common shares were outstanding at December 31, 2004. Further information on CG's outstanding share capital is provided in Note 8 to the Financial Statements.

Business Combination

On August 17, 2004, the Company completed the business combination with GRD Enterprises Inc. ("GRD"), whereby GRD acquired all of the issued and outstanding shares of CG (and the warrants to purchase CG shares outstanding at closing). As consideration to the shareholders (and the warrant holders) of CG, GRD issued 24,709,139 common shares of its capital stock (and reserved for issuance 4,360,035 common shares upon the exercise of warrants) at a price of \$0.30 per share. The transaction received regulatory approval.

Legally, GRD would have been the parent of CG. However, as a result of the share exchange described above, control of the continuing entity was passed to the former shareholders of CG. This type of exchange is referred to as a "reverse take-over" in which CG was deemed the acquirer for accounting purposes.



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Concurrent Financing

In conjunction with the business combination detailed above, GRD and CG entered into a financing engagement letter with First Associates Investments Inc. dated May 19, 2004 to sell 4,444,400 units of the Company on a best efforts basis. The offering closed on August 17, 2004, immediately after the above business combination, and raised gross proceeds of \$1,999,980 (net proceeds \$1,707,207) through the unit offering. Each unit was comprised of one common share in the capital of the Company and one-half of a share purchase warrant. Each full warrant entitled the holder to purchase one common share of CG at a price of \$0.90 per share for a period of 18 months from the closing date. The Agents received an option to acquire up to 10% of the units placed at the unit offering price, exercisable for a period of 18 months from the closing date.

Comparison of Use of Proceeds from Filing Statement:

Uses	Amount	Adjusted to December 31, 2004	Actual	Variance
Operating losses	\$ 1,480,000	\$ 1,443,000	(a) \$ 1,001,000	\$ 442,000
Financing expenses related to the offering	\$ 300,000	\$ 300,000	\$ 293,000	\$ 7,000
Costs associated with the Transaction	\$ 125,000	\$ 125,000	\$ 130,000	\$ (5,000)
Capital expenditures	\$ 60,000	\$ 50,000	\$ 33,000	\$ 17,000
Other assets	\$ -	\$ -	\$ 30,000	\$ (30,000)

(a) Excludes amount for Stock Based Compensation.

The above table summarizes the variances of how the Company was projected to use the proceeds from the concurrent financing and business combination per the Filing Statement dated June 22, 2004 and how the Company actually spent the funds. The operating expenses were less than projected as the Company saved \$98,000 by deferring business development initiatives and spending less money on sales and marketing as the product launch was deferred to early 2005. The company also saved \$145,000 in general and administrative costs and \$307,000 in technology costs. The savings in technology costs were mainly due to \$120,000 budgeted for tuning services as the Company developed its own software to tune the system as well as other related hosting and platform charges that were deferred or reduced as the launch moved to early 2005. The Company had projected revenue of \$109,000 in 2004; however this did not arise as the product launch was deferred until early 2005.



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LIQUIDITY AND CAPITAL RESOURCES

Assets

CG's total asset base as at December 31, 2004 was \$1,972,507, up by 1,497% from the balance at December 31, 2003, mainly due to an increase in cash and cash equivalents, prepaid expenses, equipment and other assets. Cash increased as a result of the reverse takeover of GRD and the concurrent financing aggregating a net \$3,094,106. Prepaid expenses, equipment and other assets were attributable to increased activity by the Company.

Working Capital

At December 31, 2004, the Company had a positive working capital of \$1,676,802. The Company may be dependent on further financings, including the exercise of share purchase warrants and agent's options or future equity or debt financings in order to satisfy its ongoing growth activities. See Business Risks and Uncertainties outlined below. Working capital has improved as a result of the business combination and concurrent financing that took place in August, 2004.

Cash and cash equivalents

At December 31, 2004, the cash position of the Company was \$1,832,573 compared with \$72,869 at December 31, 2003. The cash position has improved as a result of the business combination and concurrent financing that took place in August, 2004.

OUTLOOK

On January 5, 2005, Yellow Pages Group Co. ("YPG") and CG announced the successful completion of testing and the readying for commercial launch of its Enhanced Voice Directory Service ("EVD Service") in the Greater Toronto Area ("GTA"). The EVD Service is an interactive voice recognition based service that provides access to the most popular consumer categories associated with YPG's print and on-line directories.

The EVD Service is designed to enable consumers to search for, locate and retrieve location sensitive information concerning everyday products and services, using their mobile or landline telephones, and complete their searches by auto-connecting through to merchants. According to the New Jersey-based Kelsey Group, a leading provider of strategic research and analysis on the yellow pages industry, the launch of this CG/YPG offering will mark the first time that a service of this nature has been offered anywhere in the world.



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With the EVD Service, ready-to-spend consumers and merchants are brought together through a combination of voice recognition and text-to-speech technologies and CG's proprietary processes. To access the EVD Service, consumers will call a toll free number and speak to "Genie", an automated attendant, who will determine their needs and location, then provide information to the caller respecting merchants in close proximity that can supply the requested product or service. There is no additional charge for a consumer to access the EVD Service and, since inception of the Yellow Pages directories project (including the pilot project phase), some 14,000 calls have been made to the service.

The EVD Service was introduced on a commercial basis in the GTA in January, 2005. CG and YPG plan to continue the commercial introduction of the EVD Service through a scaled rollout. The goal is to prove out the concept in a live commercial environment to ensure: (i) merchant adoption through appropriate pricing parameters, sales methods and content presentation; (ii) consumer use by determining the optimal and cost effective methods to generate awareness of the service and drive calls; and (iii) service readiness in that the technology and platform provides a good and consistent consumer and merchant experience.

In February 2005, YPG's advertising consultants developed a branding and messaging strategy for the EVD Service. Management of CG believes that the EVD Service will gain traction and credibility quicker if the service is more closely aligned and associated with the YPG trademarks that have helped create a well known and highly trusted brand. This "borrow to build" strategy is intended to allow a more focused and cost effective message than trying to establish a new Call Genie-focused brand in the marketplace. As a result, the EVD Service was introduced as "HelloYellow™-Powered by Call Genie™". In connection with the launch, the branding was unveiled: "Hello Yellow™: the Yellow Pages Directory That Travels With You™", which includes the famous Yellow Pages walking fingers. The "HelloYellow™" EVD Service will be accessed by calling "310-YELO", a catchy, easy to remember number that is a toll free call from anywhere in the service area.



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The Yellow Pages Directory that travels with you

Initially, merchant sales will be the responsibility of a dedicated sales force assembled by CG. The decision by SuperPages, Western Canada's largest directories publisher, to close down its print directory business in Eastern Canada assisted CG in its efforts to retain qualified sales personnel. CG has engaged twelve former SuperPages sales personnel for the Toronto market, who are the nucleus of the fourteen person CG sales force in the GTA. In addition, YPG's largest Certified Marketing Representative ("CMR") firm has requested the right to represent and sell listings for the "HelloYellow" EVD Service. CMR's represent large national advertisers and endeavor to identify industry trends and utilize directional advertising mediums to reach the demographic that their clients target. CG anticipates the CMR will commence selling listings in March, 2005. Presently, the "Hello Yellow" EVD Service is priced to merchants at between \$69 and \$149 per month per listing per YPG directory coverage area, with a 25% discount offered for the first year and a further 10% discount for prepayment of an annual contract. The credit confirmation, billing and collections will be handled by YPG.

During the initial rollout of the EVD Service, CG and YPG expect to promote consumer use utilizing those media assets of YPG that can be quickly configured to reflect the "HelloYellow" brand, including, it is anticipated, Internet sites such as Canada411.com and YellowPages.ca. YPG has arranged with Bell Canada for the advertising of "HelloYellow" through the Vista Screenphone network in the GTA. In addition, the mobile browsers on Bell Mobility phones will be embedded with links to the service. To make it easy for consumers, #YELO (#9356) has been activated with Bell Mobility and new location finding technologies, which enable the service to automatically locate the caller, have been enabled. Following successful commercial launch, advertising, information and operating instructions together with re-occurring reminder ads will be featured in new releases of the Yellow Pages print directories. CG and YPG are also assessing other YPG and external marketing assets that will be required to be utilized to promote consumer use of the "HelloYellow" EVD Service.



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The “HelloYellow” EVD Service for the GTA now covers some 527 category headings focused on business to consumer content. The location search capability for the EVD Service covers 523 neighborhoods, 264 landmarks and over 4,500 intersections. The database includes over 80,000 businesses, representing over 272,000 business listings. The database has also been expanded to include Hamilton, Burlington, Milton-Campbellville, Oshawa, Whitby, Pickering-Ajax, Newmarket and Aurora. This coverage represents seventeen print phone books serving an area of some six million people (including most of the “Golden Horseshoe”). An order processing module is being introduced which enables non technical personnel to enter orders into the YPG system. It is anticipated that the merchant self management module will be introduced in the next quarter. The tuning results of the Calgary and Toronto pilots have been loaded into the system, resulting in increased recognition rates and improved grammar development. The “voice user interface” was updated to better support new users, better accommodate experienced users and enhance the overall consumer experience. The application is now hosted in a Bell Sympatico 24/7 monitored environment with the redundancies required for a carrier grade deployment.

The scaled ramp-up is intended to assist in configuring the EVD Service in the commercial environment. By increasing commercial call volume in a managed fashion, it is anticipated that major issues can be identified and addressed at minimal call volume levels and improvements to usability and consumer experience implemented prior to the heavy usage expected as consumer awareness increases. The improvement cycle, however, is ongoing as the technology has been purpose built by CG to be constantly dynamic as the tuning results from the transcription process are loaded on a regular basis.

As the “HelloYellow” EVD Service is more fully proved out in the commercial context, CG and YPG anticipate that further assets will be dedicated to the rollout and strategic partnerships implemented that promote consumer usage and awareness. YPG and CG will continue to review the progress of the EVD Service to determine that the goals for merchants, users and technology are being met.

Assuming successful commercial launch and proof of concept in the GTA, the agreement between CG and YPG contemplates that the “HelloYellow” service will be expanded to other urban centers in Ontario and Quebec.

BUSINESS RISKS AND UNCERTAINTIES

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



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Substantial Capital Requirements; Liquidity

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

No Record of Profit

CG has incurred significant losses to date, and there can be no assurance that the future business activities of CG will be profitable. Since its organization, CG has incurred costs to develop and enhance its technology, to establish strategic relationships and to build an administrative organization. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$1,895,160 for the year ended December 31, 2004, \$925,024 for the year ended December 31, 2003 and \$145,948 for the year ended December 31, 2002. CG's ability to operate profitably and generate positive cash-flow in the future will be affected by a variety of factors (including its ability to further develop and test the EVD Service technology on schedule and on budget, the pace of its entry into its target markets, the time and expense required for the roll-out of the EVD Service, its success in marketing such service to consumers and merchants, the intensity of the competition experienced by CG and the availability of additional capital to pursue its business plans, including development of new services). An inability to generate sufficient funds from operations will have a materially adverse affect on CG's business, results of operations and financial condition.

Developing Market

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

Stage of Development

CG's prospects are subject to all of the risks inherent in a new business.



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CG commenced limited operations in 2000, but was essentially dormant until 2003. CG has yet to fully commercialize and achieve proof of concept for any services. To date, CG has completed two pilot projects and made the EVD Service commercially available in the Greater Toronto Area commencing in January 2005 to continue to work towards proof of concept. There can be no assurance that such initiatives will yield the desired or required results. Any failure to achieve the desired or required results during the commercialization phase may have a material adverse effect on CG's business, results of operations and financial condition.

There can be no assurance that CG will be successful in addressing the challenges to which it will be exposed. If CG is not successful in addressing such challenges, CG's business, results of operations and financial condition could be materially adversely affected.

Reliance on Others Generally and Yellow Pages Group Co. in Particular

CG's principal business (the provision of the EVD Service) and its business model will be dependant on CG's ability to secure contracts with directory service providers and to obtain access to databases owned and maintained by such directory service providers. Given the industry concentration and limited number of directory services providers of significant size and scope in North America, CG will be reliant on a small number of business relationships for its future revenue. For instance, there are only two significant directory service providers in Canada.

CG will seek to reduce this risk by entering into long-term contracts with certain directory service providers. However, any disruption in CG's relationships with directory service providers, or an inability to secure new business relationships with directory service providers could materially adversely affect CG's business, results of operations and financial condition.

To date, CG has only entered into a long-term contract with one directory service provider, Yellow Pages Group Co. CG's future success will be dependant upon this contract remaining in full force and effect, Yellow Pages Group Co.'s compliance therewith and CG's ability to perform thereunder, including achieving successful proof of concept and commercial launch of the EVD Service. Any disruption of the relationship with Yellow Pages Group Co. (through termination of the contract or otherwise) or any interruption of the business of Yellow Pages Group Co. (such as any disruption in its labour relations with its unionized general sales force) may have a material adverse effect on CG's business, results of operations and financial condition.



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Third Party Technology

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

Rapid Technological Change

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

Competition

CG expects to face significant competition from other organizations and there can be no assurance that CG will be able to compete effectively in its target markets.

In addition, new technologies may emerge that are competitive with the EVD Service technology. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring and any such change could have a material adverse impact on CG. CG expects that competition will intensify in the future, as the EVD Service and the opportunities presented thereby become better known.



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Need for Research and Development

To achieve its business objectives and obtain market share and profitability, CG will need to continually research, develop and refine the EVD Service and the technology underlying it as well as create new technologies and offer new services. Many factors

may limit CG's ability to develop and refine the technology or to create or negotiate access to new technologies. CG may also be exposed to marketplace resistance to new technology and services. Any failure of CG to develop or refine the EVD Service and the underlying technology, or create new technologies or offer new services could have a material adverse effect on CG's business, results of operations and financial condition.

Defects and Liability

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

Patents and Other Intellectual Property

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

CG's success will be largely dependent upon its ability to protect its proprietary technology. CG relies upon copyrights, trademarks and trade secrets to protect its intellectual property. Where appropriate, CG also enters into non-disclosure agreements with persons to whom it reveals proprietary information. Any failure of CG to protect its



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intellectual property could have a material adverse effect on CG's business, results of operations and financial condition.

CG may have to engage in litigation in the future to enforce or protect its intellectual property rights or to defend against claims of invalidity and CG may incur substantial costs as a result. Any claims or litigation initiated by CG to protect its proprietary technology could result in significant expense to CG and diversion of the efforts of CG's

technical and management resources, whether or not the claims or litigation are determined in favor of CG.

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

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

Personnel Resources

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

Potential Fluctuations in Quarterly Operating Results

CG is expected to be exposed to significant fluctuations in quarterly operating results caused by many factors, including changes in the demand for the EVD Services, the introduction of competing technologies, market acceptance of such enhancements or services, delays in the introduction of such enhancements or services, changes in CG's



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pricing policies or those of its competitors, the mix of services sold, foreign currency exchange rates and general economic conditions.

Government Regulation

The directory services business is largely unregulated at this time (apart from federal, provincial, state and local laws and regulations applicable to businesses in general and respecting the gathering and use of personal information). However, there can be no

assurance that this business will not become subject to significant regulatory intervention in the future.

Costs Associated with Compliance with Securities Laws

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

Risk of Future Terrorist Attacks or Related Disasters

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

The reader is directed to CG's website at www.callgenie.ca.