

**Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Financial Statements
For the years ended December 31, 2005
and 2004**

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Auditors' Report

To the Shareholders of Call Genie Inc.

We have audited the consolidated balance sheets of Call Genie Inc. as at December 31, 2005 and 2004, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

"signed BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
March 20, 2006

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Balance Sheets

As at December 31	2005	2004
Assets		
Current		
Cash and cash equivalents (Note 2(b))	\$ 2,486,540	\$ 1,832,573
Accounts receivable	114,182	20,009
Prepaid expenses and deposits	61,943	23,334
	2,662,665	1,875,916
Equipment (Note 3)	94,765	49,033
Other assets (Note 4)	74,376	47,558
	\$ 2,831,806	\$ 1,972,507
Liabilities and Shareholders Equity		
Current		
Accounts payable and accrued liabilities	\$ 321,337	\$ 199,114
Shareholders' equity		
Equity instruments (Note 6)	7,460,930	4,760,134
Contributed surplus (Note 13)	583,250	398,804
Deficit	(5,533,711)	(3,385,545)
	2,510,469	1,773,393
	\$ 2,831,806	\$ 1,972,507

Going Concern (Note 1)

Commitments (Note 11)

Subsequent Events (Note 16)

Approved on behalf of the Board:

_____ "SIGNED" Richard W. DeVries, Director

_____ "SIGNED" Ronald D. Johnston, Director



Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit

For the year ended December 31	2005		2004	Cumulative since inception
Revenue	\$ 190,378	\$ -	\$ -	190,378
Costs of sales	165,742	-	-	165,742
Gross margin	24,636	-	-	24,636
Expenses:				
Amortization	46,172	18,628	18,628	67,498
Business development	227,605	16,348	16,348	243,953
General and administrative	730,692	705,138	705,138	2,541,106
Interest	-	23,653	23,653	29,520
Sales and marketing	401,668	106,543	106,543	508,211
Stock based compensation	242,739	283,224	283,224	581,556
Technology and product development, net (Note 5)	574,314	756,088	756,088	1,651,353
	2,223,190	1,909,622	1,909,622	5,623,197
Loss from operations	(2,198,554)	(1,909,622)	(1,909,622)	(5,598,561)
Other income:				
Interest income	50,388	14,462	14,462	64,850
Net loss for the year	(2,148,166)	(1,895,160)	(1,895,160)	(5,533,711)
Deficit, beginning of the year	(3,385,545)	(1,490,385)	(1,490,385)	-
Deficit, end of year	\$ (5,533,711)	\$ (3,385,545)	\$ (3,385,545)	\$ (5,533,711)
<hr/>				
Basic and diluted loss per share	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.07)
Weighted average number of shares – basic	39,786,471	27,028,219	27,028,219	27,028,219

The accompanying notes are an integral part of these consolidated financial statements.

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows

For the year ended December 31	2005	2004	Cumulative since inception
Cash flows from operating activities			
Net loss for the year	\$ (2,148,166)	\$ (1,895,160)	\$ (5,533,711)
Items not involving cash:			
Interest on convertible debenture	-	23,653	24,924
Issuance of common shares for services	-	-	112,500
Stock based compensation	242,739	283,224	581,556
Amortization	46,173	18,628	67,499
	<u>(1,859,254)</u>	<u>(1,569,655)</u>	<u>(4,747,232)</u>
Changes in non-cash working capital:			
Accounts receivable	(94,173)	8,186	(114,182)
Advances receivable	-	157,159	155,659
Prepaid expenses and advances	(38,609)	(21,834)	(60,443)
Accounts payable and accrued liabilities	122,223	22,612	322,942
Amount due to related parties	-	(122,140)	300,000
	<u>(1,869,813)</u>	<u>(1,525,672)</u>	<u>(4,143,256)</u>
Cash flows from financing activities			
Issuance of common shares (net of share issue costs)	2,642,503	54,018	3,195,744
Concurrent financing related to RTO (net of issue costs)	-	1,707,206	1,707,206
Advances under convertible debenture	-	260,000	605,000
	<u>2,642,503</u>	<u>2,021,224</u>	<u>5,507,950</u>
Cash flows from investing activities			
Acquisition of GRD, net cash acquired	-	1,386,900	1,386,900
Business combination costs	-	(28,414)	(28,414)
Acquisition of equipment	(76,254)	(48,684)	(140,204)
Acquisition of other assets	(42,469)	(45,650)	(96,436)
	<u>(118,723)</u>	<u>1,264,152</u>	<u>1,121,846</u>
Increase in cash and cash equivalents	653,967	1,759,704	2,486,540
Cash and cash equivalents, beginning of year	1,832,573	72,869	-
Cash and cash equivalents, end of year	\$ 2,486,540	\$ 1,832,573	\$ 2,486,540

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements

December 31, 2005

1. Nature of Operations and Going Concern

Call Genie Inc. ("the Company") or ("CGI") was incorporated under the laws of Canada on October 17, 2000 and was continued into Alberta on February 5, 2003. On August 17, 2004 the Company amalgamated with GRD Enterprises Inc. ("GRD") with CGI being the surviving entity.

The Company is a development stage enterprise involved in developing enhanced voice directory systems to be used in commercial applications. The Company has not yet determined the ultimate economic viability of the products under development. The Company has launched the enhanced voice directory service in Canada. All costs incurred to date have been recorded as technology and development expense. The Company has started to earn revenue pursuant to the agreement with a directory service provider as a result of the commercial launch.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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. Because the Company has derived limited revenue from its technology development projects, its ability to continue operations is uncertain and dependent upon the successful completion of technical and market development of such technology and achieving profitable operations. Additional financing may also be required. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and liabilities that might be necessary should the Company be unable to continue in business.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include its subsidiaries Call Genie (Ontario) Inc. since its date of incorporation September 11, 2003 and Call Genie (USA) Inc., which is inactive, since its date of incorporation October 7, 2003. All material intercompany transactions have been eliminated.

(b) Cash and cash equivalents

Included in cash and cash equivalents are bank balances and cashable short term investments cashable after 30 days. At December 31, 2005, the Company held cashable guaranteed investment certificates (GIC's) bearing interest rates of 2.25% with maturity terms of June 19, 2006 to July 5, 2006. All of these GIC's are cashable before maturity without penalty and have been treated as cash equivalents.

(c) Technology and product development costs

Technology and product development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. There have been no development costs capitalized to date.

December 31, 2005

2. Significant Accounting Policies (cont'd)

(d) Revenue recognition

The Company currently sells its services through an exclusive joint operating agreement for Canadian markets with a directory service provider. This contract expires December 23, 2008 and will be automatically renewed for successive two year periods unless either party terminates the agreement in accordance with the agreement. Revenues are earned through the sale of directory advertising. Advertising revenues are generally billed, in accordance with the contractual terms with the advertisers, and recognized on a monthly basis over the estimated life of the directory advertising, not exceeding twelve months, commencing with the month the service went into operation. The Company is entitled to and records 100% of the monthly amounts billed to the directory advertiser, net of certain direct costs of the directory service provider, until payout of certain operating and development costs incurred on a cumulative basis have been recovered by the Company. As of December 31, 2005, the management estimates that the Company has not recovered cumulative costs of approximately \$3.1 million, which is subject to final approval by the directory service provider. After payout of the above, the directory service provider is entitled to recover certain marketing costs, these costs will be recorded as a liability of the Company when it is more likely than not, that they will be recovered from project profits. After all costs above are recovered the Company will record its ongoing current monthly operating and development costs recoverable under the joint operating agreement and its share of net profit as revenue as agreed with the directory service provider.

The Company makes a provision for bad debts and cancellations of contracts using management's best estimate. The provision is netted against accounts receivable and revenue. The provision is reviewed on a regular basis by management.

(e) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service which includes telephony costs, hosting, network, tuning and other third party charges.

(f) Equipment

Equipment is recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of the assets.

The following is a summary of estimated useful lives of the assets:

Office furniture and equipment	5 years
Computer hardware	3 years
Computer software	1 year

(g) Other assets

The costs of acquiring and applying for patents, trademarks and licensed technology are capitalized and amortized on a straight-line basis over their estimated useful lives of five years. Amortization will be recorded upon commencement of product testing.

The costs of acquiring and applying for patents, trademarks and licensed technology costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. Management measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements

December 31, 2005

2. Significant Accounting Policies (cont'd)

(h) Financial instruments

The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(i) Future income taxes

Income taxes are accounted for using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the year that includes the enactment date. Future income tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

(j) Earnings per share

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

(k) Stock based compensation

The Company has a stock-based compensation plan as described in Note 6(c). The Company accounts for its stock-based compensation programs using the fair value method. Under this method, stock based compensation expense related to these programs is recorded in the statement of earnings and retained earnings with the corresponding amount increasing contributed surplus over the vesting period.

(l) Measurement uncertainty

The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates of profitability, cash flows and other relevant assumptions for the amounts recorded for the amortization of property and equipment and intangible assets and the valuation of property and equipment, intangible assets, the recognition of future tax assets, the estimated value of stock-based compensation and the estimate of operating and development costs incurred to be reimbursed under the Company's agreement with the directory service provider. By their very nature, these estimates are subject to measurement uncertainty and the effect of changes on the financial statements of future periods could be material. The effect on the financial statements resulting from a revision in estimates, if any, will be accounted for prospectively.

Call Genie Inc.
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Notes to Consolidated Financial Statements

December 31, 2005

3. Equipment

December 31, 2005			
	Cost	Accumulated Amortization	Net book value
Computer hardware	\$ 138,760	\$ 44,990	\$ 93,770
Office furniture and equipment	1,442	447	995
	\$ 140,202	\$ 45,437	\$ 94,765
December 31, 2004			
	Cost	Accumulated Amortization	Net book value
Computer hardware	\$ 62,506	\$ 14,717	\$ 47,789
Office furniture and equipment	1,442	198	1,244
	\$ 63,948	\$ 14,915	\$ 49,033

4. Other Assets

December 31, 2005			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 96,437	\$ 22,061	\$ 74,376
December 31, 2004			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 53,968	\$ 6,410	\$ 47,558

The company has given the directory service provider exclusive use of their trademarks, patents and technology for the term of the agreement, in the territory covered by the agreement for no additional cost.

5. Technology and Product Development

During the current year the Company recorded the benefit of receiving a cash refund of \$225,327 (2004 - \$Nil) under the Scientific Research and Experimental Development ("SR&ED") Program. The costs related to this tax credit refund covered the period from March 2003 to August 2004. The refund received has been netted against the related technology and development costs in the current period as no previous reasonable assurance existed,

Call Genie Inc.
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Notes to Consolidated Financial Statements

December 31, 2005

6. Equity Instruments

(a) Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value, non cumulative, redeemable, and non voting

(b) Issued and outstanding common shares

	Number of Shares	Amount
Balance, December 31, 2000 and 2001 (i)	4,520,000	\$ 4,520
Issued for debt (ii)	681,692	469,500
Balance, December 31, 2002	5,201,692	\$ 474,020
Private placement (iii)	666,667	100,000
Issued for conversion of debenture (iv)	375,141	56,271
Private placement (v)	634,010	190,203
Private placement (vi)	150,000	45,000
Issued for services	112,500	112,500
Share issue costs on private placement	-	(10,000)
Balance, December 31, 2003	7,140,010	\$ 967,994
Shares issued on conversion of debt (vii)	1,927,490	578,247
Subtotal before business combination	9,067,500	1,546,241
Adjustment for business combination RTO (Note 8)	15,641,639	-
Shares issued on acquisition (Note 8)	7,500,000	1,512,656
Shares issued on concurrent financing (viii)	4,444,400	1,999,980
Less amount allocated to warrants	-	(72,406)
Share issue costs on concurrent financing (\$59,987 relates to agents options granted Note 6(c) (i))	-	(352,761)
Shares issued on exercise of options	180,060	54,018
Balance December 31, 2004	36,833,599	\$ 4,687,728
Shares issued on private placement (ix)	5,000,000	2,500,000
Share issue costs		(36,879)
Shares issued on exercise of agent options	582,940	179,382
Fair value of agent options exercised (Note13)		58,293
Balance December 31, 2005	42,416,539	\$ 7,388,524

Call Genie Inc.
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Notes to Consolidated Financial Statements

December 31, 2005

6. Equity Instruments (cont'd)

Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	WA ⁽¹⁾ Remaining Life	Number of Warrants	Amount
Balance, December 31, 2004 and December 31, 2005	\$0.225 – 0.90	2.80 years	6,582,235	\$ 72,406
Total equity instruments				<u>\$ 7,460,930</u>

⁽¹⁾WA – weighted average

- (i) During 2000, the Company issued 4,520,000 common shares to various directors, officers and consultants at a price of \$0.001 each for proceeds of \$4,520.
- (ii) On October 31, 2002, the Company issued 409,015 common shares at a price \$0.73 and 272,677 common shares at a price of \$0.62 for net proceeds of \$469,500 in settlement of the Company's outstanding indebtedness.
- (iii) On June 30, 2003, the Company completed a private placement of 666,667 common shares at a price of \$0.15 each for gross proceeds of \$100,000 and share issuance costs of \$10,000.
- (iv) In April 2003, the Company issued 375,141 common shares at a price of \$0.15 each upon the conversion of a debenture for \$55,000 plus accrued interest of \$1,271.
- (v) On June 30, 2003 and September 30, 2003, the Company completed a private placement of 634,010 common shares at a price of \$0.30 each for proceeds of \$190,203.
- (vi) On December 15, 2003, the Company issued an additional 150,000 shares pursuant to the financing underway in September 2003 at a price of \$0.30 each for net proceeds of \$45,000.
- (vii) On May 28, 2004, the Company issued 1,927,490 shares upon the conversion of the Convertible Debenture in the amount of \$578,247, principal and accrued interest, at \$0.30 per share (Note 5).
- (viii) On August 17, 2004, the Company issued 4,444,400 common shares as a result of an offering of 4,444,400 Units using a short form offering document, at a price of \$0.45 per unit. Each Unit consisted of one common share and one-half of one share purchase warrant (Note 6 (c) (i)).
- (ix) On June 16 and June 22, 2005 the Company issued 5,000,000 common shares, in aggregate, as a result of a private placement, at a price of \$0.50 per share, for net proceeds of \$2,463,121.

Call Genie Inc.
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Notes to Consolidated Financial Statements

December 31, 2005

6. Equity Instruments (cont'd)

- (x) The Company had issued, with an effective date of September 30, 2003, 1,600,000 warrants (4,360,035 post business combination), which were priced at \$0.50 each and the warrant holder is entitled to acquire for each warrant, on or after March 1, 2005 and before March 1, 2010, one common share of the Company. The warrants were issued to officers of the Company and would be cancelled upon voluntary resignation or termination for cause of the officer prior to March 1, 2005. Upon the completion of the business combination, these warrants were repriced to \$0.225 each (pre business combination price \$0.613) and the cancellation clause was removed.

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. As a result of the accelerated vesting as described above, the full value was recognized as at December 31, 2004. The fair value of each warrant was determined at the grant date using the Black-Scholes model assuming a risk-free interest rate of 3% and an expected volatility rate of 100%, dividend rate of 0% and expected life of 5 years.

For the year ended December 31, 2005, Nil (2004 - \$263,463) has been recorded as stock based compensation related to these compensation warrants with the corresponding amount charged to contributed surplus.

- (xi) As part of the concurrent financing, equity participants received one common share and a one-half of one share purchase warrant. Each full share purchase warrant, (up to 2,222,200) will entitle the holder to acquire one common share at an exercise price of \$0.90 until February 2006. Subsequent to year end, all of the share purchase warrants expired without being exercised.

As at December 31, 2004, \$72,406 of the total proceeds has been attributed to the warrants. The fair value was determined using the Black-Scholes model assuming a risk-free interest rate of 3% and an expected volatility rate of 55%, a dividend rate of 0% and expected life of 18 months.

(c) Options

The Company has a stock option plan which may be granted to its directors, officers and employees and consultants. The aggregate number of shares reserved for issuance under the Plan is up to 10% of the number of outstanding common shares. The Company has granted 3,375,000 stock options to its employees as at December 31, 2005 at a price ranging from \$0.30 to \$0.75 per share, exercisable ranging from every three months to once a year for a period of three years. The options have a life of five years and have expire dates ranging September 1, 2009 to December 1, 2010.

- (i) The Company has also reserved an additional non-transferable option, to acquire up to 10% of the units placed (up to 444,440 units) in the concurrent financing at a price of \$0.45 per unit, to be granted to the Agent's for services rendered. If exercised, this would result in up to 444,440 shares. The non-transferable option has an expiry date February 2006. Furthermore, since each unit has one-half a warrant attached to it, the Agent's will also have the option to additionally acquire up to 222,220 shares which may be exercised at the price of \$0.90 per share.

As at December 31, 2004, \$59,987 has been included in the share issue costs, with the corresponding amount charged to contributed surplus for the options and warrants issued to the agent above. The fair value was determined using the Black-Scholes model assuming a risk-free interest rate of 3% and an expected volatility rate of 55%, dividend rate of 0% and expected life of eighteen months.

