

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 2005 audited financial statements for the year ended December 31, 2005 and December 31, 2004 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 March 20, 2006, unless otherwise noted.

Management is responsible for the information disclosed herein and believes it has developed effective disclosure controls and procedures and concludes that they are effective and operating as planned as of December 31, 2005. The Company’s Audit Committee and Board of Directors have reviewed and approved this MD&A.

FORWARD LOOKING STATEMENTS

Certain information set out in this Management Discussion and Analysis under the heading "Outlook" (including expectations concerning: (i) the deployment of YPG media assets to promote awareness of the EVD Service and use of such service; (ii) the percentage of contract revenue to accrue to the Company under the terms of the commercial agreements entered into with YPG; (iii) the development of the 411 directory assistance service, the timing of testing of such service, future utilization of that service by certain telecommunications companies and the impact of the use of such service on caller volume to the EVD Service; (iv) expectations concerning the development of international business opportunities and the marketing of the EVD Service to directory services providers outside Canada; and (v) the use of the net proceeds from the sale of common shares of the Company completed in March 2006) constitute forward-looking information. Readers should review the cautionary statement respecting forward-looking information that appears below.

The statements herein that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as “expect”, “may”, “anticipate” or “will” and similar expressions) include plans, expectations and opinions that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include such things as the Company's current stage of development, its reliance on third parties and third party technology, the existence of competition, the availability of financing to fund future operating and other

needs and the other risk factors noted below under the heading "Business Risks and Uncertainties". Forward-looking information respecting the deployment of YPG media assets in support of the EVD Service are based upon existing business plans and budgets (which are subject to change) and advice received from YPG with respect to marketing and promotional activities. Forward-looking information respecting the percentage of contract revenue anticipated to accrue to the Company under commercial agreements entered into with YPG are based upon the terms of such commercial agreements and expenditures made by Call Genie in support of the EVD technology and other expenditures for which the Company is entitled to recovery under the terms of such commercial agreements. Forward-looking information respecting the development of the 411 directory assistance service and related information is based upon the terms of an agreement entered into with YPG and a third-party telecommunications corporation, technical and business plans developed in relation to the 411 directory assistance service by the Company and others (which are subject to change), the existing business plan and budgets of the Company (which are subject to change). Forward-looking information respecting the development and timing of international business opportunities is based upon the Company's current business plan and budget (which are subject to change), feedback received from directory services providers in various jurisdictions. Forward-looking information respecting the anticipated use of the net proceeds generated from the sale of common shares of the Company in March 2006 are based upon the current business plan and budgets of the Company. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. The forward-looking statements of the Company contained in this MD&A 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 located within the coverage area. In addition, the Enhanced Voice Directory ("EVD") system developed by CG permits callers (including users of mobile phones) to connect through to identified merchants using only voice commands. CG utilizes third party technologies from both the Internet and telephony worlds and integrates them with CG's proprietary processes to deliver a unique voice-web solution.

ANNUAL RESULTS OF OPERATIONS

Selected Statements of Operations Data for Fiscal 2003 to 2005:

	Fiscal Year Ended December 31		
	2005	2004	2003
Revenue	\$ 190,378	\$ -	\$ -
Net Loss	\$ (2,148,166)	\$ (1,895,160)	\$ (925,024)
Net Loss per Share	\$ (0.05)	\$ (0.07)	\$ (0.15)

Overall

The Company's loss for the year ended December 31, 2005 was \$2.1 million or \$0.05 per share, up 13% from the prior year loss of \$ 1.9 million, or \$0.07 per share. The increased loss for the year was primarily the result of increased sales and marketing costs (\$0.3 million), increased business development costs (\$0.2 million) offset by a Scientific Research Tax Credit refund of technology and product development costs (\$0.2 million), and decreased stock based compensation (\$0.1 million).

Revenues

Revenues for the year ended December 31, 2005 increased to \$190,378 from \$nil in the year ended December 31, 2004. The increase in revenue is attributable to the start of the HelloYellow service in the Greater Toronto Area ("GTA") in the first quarter of 2005 and the sale of EVD listings to businesses in the GTA through the Company's arrangement with Yellow Pages Group Co. ("YPG"), a directory service provider.

Cost of Sales

The cost of sales for the year ended December 31, 2005 increased to \$165,742 from \$nil in the year ended December 31, 2004. The increase was the result of direct costs incurred in the operation of the EVD Service, including telephony costs, hosting, network, voice recordings and other third party charges.

Expenses

The expenses for the year ended December 31, 2005 increased to \$2,223,190 from \$1,909,622 for the year ended December 31, 2004.

Technology and Product Development

Technology and product development costs decreased by \$181,774 for the year ended December 31, 2005, compared to the same period of 2004.

The decrease was primarily due to the receipt of a grant under the Canadian Federal Government's Scientific Research and Experimental Development ("SR&ED") Program in the amount of \$225,327. Otherwise, technology and product development costs increased as a result of increased personnel engaged in further developing the product software and processes and in supporting the product launch. Personnel costs consisting of employee salary and benefits and consulting fees increased \$74,001 over the year ended December 31, 2004.

Sales and Marketing

Sales costs of \$401,668 were incurred for the year ended December 31, 2005 compared to \$106,543 for the same period of 2004. The increase in costs was related to salaries and travel costs, together with fees paid to sales consultants retained by the Company to sell EVD listings to businesses in the GTA and supervise the sales program. Sales of EVD listings are undertaken in the name of YPG and the Company is entitled to recover certain costs and share in profits generated from the sale of EVD listings under its agreement with YPG. The Company also incurred advertising costs in the amount of \$11,475 during the year ended December 31, 2005.

Business Development

Business development costs of \$227,605 were incurred for the year ended December 31, 2005 compared to \$16,349 in 2004. The increase of \$211,257 is primarily attributable to the hiring of a senior executive responsible for the business development and the engagement of a support person. Travel and conference fees also increased by \$50,433 for the year ended December 31, 2005 compared to 2004 as a result of attending, sponsoring and conducting meetings at yellow pages industry conferences in the United States.

General and Administration

General and administration costs increased by \$25,554 for the year ended December 31, 2005, compared to 2004. The increases were primarily due to increased professional fees, agency fees and shareholder communication costs related to the operation of a public company. These costs increased by \$64,706 for the year ended December 31, 2005, compared to the same period of 2004. Personnel costs associated with the engagement and relocation the Company's new Chief Executive Officer in 2005 amounted to \$175,328. No similar costs were incurred in 2004. These costs were offset by a deduction of consulting fees of \$188,680 due to the allocation of certain costs to specific functions of sales and business development. Insurance expense incurred for directors' and officers' insurance and

general business insurance increased \$14,744 for year ended December 31, 2005, compared to 2004. Consumer and Merchant research costs were not incurred in 2005 thereby decreasing general costs by \$37,043 for the year ended December 31, 2005, compared 2004.

Interest

Interest expense of \$nil was incurred by CG on a convertible debenture for the year ended December 31, 2005 compared to \$23,653 for the year ended December 31, 2004. Outstanding principal and accrued interest under the convertible debenture was converted into commons shares of the Company in May, 2004.

Stock based compensation

Stock based compensation expense for the year ended December 31, 2005 was \$242,739, compared to \$283,224 for 2004. The decrease was due to the elimination of the stock based compensation expense related to the acceleration of the vesting terms of warrants required by the terms of the business combination with GRD Enterprises Inc. ("GRD") in 2004. On August 17, 2004, the Company completed the reverse takeover of GRD, a public company. Legally, GRD was the parent of CG. However, as a result of the share exchange, control of the combined companies passed to the former shareholders of CG. This type of share exchange deems CG to be the acquirer for accounting purposes.

Interest Income

CG earned interest income of \$50,388 on cash, term deposits, and tax credits received for the year ended December 31, 2005, compared to \$16,348 for the year ended December 31, 2004. 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 and the private placement of common shares completed in June 2005.

Net Earnings

As a result of the foregoing, CG's net loss for the year ended December 31, 2005 was \$2,148,166 which was \$253,006 higher than the net loss for 2004.

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.

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

Technology and product development, net	164,453	177,907	196,418	217,310	169,780	169,988	(6,600)	241,146
Sales and marketing	-	-	26,921	79,622	134,843	117,400	91,682	57,743
Business development	-	-	12,191	4,157	28,452	28,281	57,931	112,941
General and administrative	199,937	155,713	187,174	162,314	151,413	144,845	200,561	233,873
Interest	13,191	10,460	-	2	-	-	-	-
Stock based compensation	56,457	56,456	155,490	14,821	14,821	23,841	46,916	157,161
Amortization	2,711	3,543	5,012	7,362	8,852	10,381	12,076	14,863
	<u>436,749</u>	<u>404,079</u>	<u>583,206</u>	<u>485,588</u>	<u>508,161</u>	<u>494,736</u>	<u>402,566</u>	<u>817,727</u>
Loss from Operations	(436,749)	(404,079)	(583,206)	(485,588)	(520,395)	(512,683)	(394,445)	(771,031)
Other income								
Interest income	-	-	4,409	10,053	8,374	6,844	19,924	15,246
Net loss for the period	<u>\$ (436,749)</u>	<u>\$ (404,079)</u>	<u>\$ (578,797)</u>	<u>\$ (475,535)</u>	<u>\$ (512,021)</u>	<u>(505,839)</u>	<u>(374,521)</u>	<u>(755,785)</u>
Loss per share	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

Overall

The Company's loss in the fourth quarter of 2005 was \$755,785, compared to a loss of \$475,535 in the fourth quarter of 2004.

The technology costs increased by \$23,836, due primarily to increased personnel costs. Sales and marketing costs decreased by \$21,879, due primarily to YPG's assumption of responsibility for the sale of EVD listings in the GTA. This cost decrease was offset by personnel costs required to plan the sales strategy, implement training and manage the YPG relationship. Business development costs increased \$108,784 primarily due to personnel costs required to implement an international market development strategy. General and administrative costs increased by \$71,559 due primarily to the professional fees, agency fees and shareholder communication costs related to the operation of a public company. There was also an increase in stock based compensation in the amount of \$142,340 which takes into account an adjustment for vesting periods and increasing volatility rates.

COMPENSATION OF OFFICERS AND DIRECTORS

Officers – Cash Remuneration

The following table sets out information concerning the compensation paid and payable to the Company's officers for the periods indicated.

Position	Name	Three Months Ended	Year Ended
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		December 31, 2005	December 31, 2005
Chief Executive Officer	Michael E. Durance	\$51,000	\$105,126
Executive Chairman	Neil D. Frizzell	\$21,375	\$85,500
Chief Financial Officer	Ian Hill	\$15,000	\$60,000
Senior Vice-President Business Development	Darren S. Logue	\$11,776	\$47,916
Vice President Corporate Development	Alex W. Blodgett	\$21,000	\$84,000
Vice President Account Management	Garry Bunkowsky	\$21,000	\$87,000
Vice President R&D	Chris Lugg	\$21,000	\$87,000
Vice President Alliances	Michael Sharp	\$21,000	\$87,000

Compensation of Directors

No cash compensation was paid to directors, in their capacities as directors for the year ended December 31, 2005.

FINANCIAL CONDITION

Selected data on financial position	As at December 31		
	2005	2004	2003
Cash and cash equivalents	\$ 2,486,540	\$ 1,832,573	\$ 72,869
Net working capital	\$ 2,341,328	\$ 1,676,802	\$ (197,683)
Total assets	\$ 2,831,806	\$ 1,972,507	\$ 123,449
Total long-term liabilities	\$ -	\$ -	\$ 290,000
Total liabilities	\$ 321,337	\$ 199,114	\$ 590,247
Shareholders' equity	\$ 2,510,469	\$ 1,773,393	\$ (466,798)

Outstanding Share Capital

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 42,416,539 common shares were outstanding at December 31, 2005, compared to 36,833,599 at December 31, 2004. In June 2005, the Company issued 5,000,000 common shares on a private placement basis, at a sale price of \$0.50 per share, for net proceeds of \$2,463,121. During the year ended December 31, 2005, 552,940 options (previously granted to agents retained in connection with financing transactions) were exercised, at a price of \$0.30 per share, for aggregate proceeds of \$165,882. In addition, 30,000 options (previously granted to agents retained in connection with financing transactions) were exercised, at a price of \$0.45 per share, for aggregate proceeds of \$13,500. Further information on CG's outstanding share capital is provided in Note 6 to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Assets

CG's total asset base as at December 31, 2005 was \$2,831,806, up by 44% from December 31, 2004, mainly due to an increase in cash and cash equivalents, and accounts receivable. Cash increased as a result of the \$2,463,121 raised through the June 2005 private placement financing, pursuant to which the Company sold 5 million common shares. Accounts receivable increased \$94,173 due to increased billings to YPG.

Working Capital

At December 31, 2005, the Company had a positive working capital of \$2,341,328. Subsequent to the year end, the Company issued an aggregate of 10 million common shares, by way of private placement, at a price of \$1.00 per share, for net proceeds of approximately \$9.3 million. The Company may be dependent on further financings, including future equity or debt financings in order to fund operations and other initiatives contemplated by the Company's business plan. See the information set out under the heading "Business Risks and Uncertainties" below.

Cash and cash equivalents

At December 31, 2005, the cash position of the Company was \$2,486,540 compared with \$1,832,573 at December 31, 2004. The cash position has improved as a result of the equity financing completed by the Company in June, 2005.

OUTLOOK

HelloYellow

The EVD Service is now commercially available in the GTA under the YPG brand "HelloYellow". It is accessed by dialing "310-YELO" (310-9356), a toll free call in the service area, or "#YELO" (#9356) on Bell Mobility, Rogers and Fido. Mobile browsers on major cellular carriers in the GTA are also embedded with links to the service. The EVD Service is an interactive voice recognition-based service that provides access to the most popular consumer categories associated with YPG's directories.

The "HelloYellow" Service for the GTA now encompasses seventeen Yellow Pages directories serving an area of some six million people from Oshawa on the east to Hamilton on the west and as far north as Newmarket. It covers some 553 category headings focused on business to consumer content. The location search capability for the EVD Service covers

529 neighborhoods, 277 landmarks and over 4,500 intersections. The database includes over 190,000 businesses, representing over 430,000 business listings.

The YPG General Sales Force, currently comprised of 168 sales representatives in the GTA, has exclusive responsibility for sales of the “HelloYellow” service. CG is responsible for providing sales training, EVD Service training and in-house sales support, together with sales and marketing collateral, to the YPG General Sales Force. YPG’s entire GTA sales force has received initial training and approximately 53% of the sales team has successfully sold one or more EVD listings to merchants in the GTA. The training and support process is on-going.

YPG continues to promote consumer use of the EVD Service by utilizing existing YPG media assets. YPG promotes the “HelloYellow” brand with both its print services and its on-line services. YPG is expected to place information and user tips, together with re-occurring reminder ads, in new releases of the Yellow Pages print directories in the service areas where the EVD Service is offered. YPG introduced a new website, www.helloyellow.ca, to promote the service, address FAQ’s and generate sales leads. Other internet sites such as Canada411.com, YellowPages.ca, and TorontoPlus.ca, which are among the most visited internet sites in Canada, have also featured “HelloYellow” co-promotions.

YPG continues to conduct external advertising campaigns in the GTA in an effort to promote the “HelloYellow” brand and to create awareness and usage of the “310-YELO” number. The existing media plan contemplates the use of radio advertising, billboards, commuter newsprint advertising and other promotional offers.

Since inception of the Yellow Pages directories project up to March 18, 2006, some 100,000 information searches have been made utilizing the EVD Service. The average number of monthly calls has fluctuated, but has generally risen since inception. Call volume increases during major advertising campaigns.

CG and senior HelloYellow management are currently working with YPG’s Certified Marketing Representatives (“CMR”) to present HelloYellow to their national account client base. 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. In February 2006, CG announced the introduction of Gino’s Pizza as customer of the “HelloYellow” EVD service.

During the fourth quarter of 2005, an additional 90 merchants subscribed to the HelloYellow service, through YPG, representing annualized contract values of approximately \$127,000, net of all discounts offered to early subscribers. The average net contract value was approximately \$1,400. These merchants represented both basic and higher value advertisers to YPG. The average contract value will be influenced by the pricing and discount decision, as well as the relative mix of basic to high value advertisers.

Overall, including previous periods combined with the fourth quarter results, 475 merchants have been contracted in the GTA, representing annualized contract value of approximately \$674,000.

Following YPG's purchase, in May, 2005, of Advertising Directory Solutions Holdings Inc. (the official directories publisher for TELUS), the combined business is the leading directory publisher in most major Canadian markets with a total of 337 directories and a circulation of approximately 28 million copies. YPG now also operates Canada's most visited online directories and is the leading provider in local on-line city sites.

In February, 2006 CG reached an agreement with YPG to facilitate the expansion of the "HelloYellow" service into Alberta and British Columbia. Initial planning discussions for trials of the EVD Service in Edmonton, Calgary and the Greater Vancouver Area are underway. The agreement between CG and YPG contemplates that the "HelloYellow" service will be further expanded to other urban centers in Ontario and Quebec.

Further development and improvement of the EVD Service is an ongoing process that is presently focused on the: (i) creation of tools to support the efficient commercial deployment of the HelloYellow service in other urban areas, (ii) enhancing usability based upon consumer and merchant feedback, (iii) development of sales tools and processes for the YPG General Sales Force, (iv) enhanced application scalability to support deployment in additional markets and/or with additional partners, (v) 411 directory assistance research and development relating to implementation, deployment, pilot parameters and test environments, (vi) expansion and enhancement of key success indicators/metrics, in an effort to the rapid determination of caller behavior and implementation of learnings, and (vii) creation of more robust and in-depth tuning and transcription tools together with the regular loading of the tuning results.

Directory Assistance – Canada

In June, 2005, CG announced that it had entered into an agreement with TELUS Communications Inc. (TELUS) and YPG to develop and implement a voice activated, business search feature for use in connection with the 411 directory assistance service offered by TELUS. Once successfully tested and launched, the business search feature will enable TELUS 411 callers to undertake a localized search of the most popular business categories associated with the Yellow PagesTM directories using only voice commands.

The development and testing of the TELUS customized service was delayed due to a labor dispute between TELUS and one of its unions. As a result of that labor dispute, many of the TELUS resources required to advance the project were diverted to cover service issues resulting from the strike. In February 2006, CG staff resumed the planning process with TELUS. The process includes detailed requirements gather and technical reviews that will form the basis of an implementation plan.

CG expects the planning to be completed by the middle of 2006. An initial trial in GTA is expected to commence later in 2006. Assuming positive GTA implementation results, TELUS may offer the customized EVD Service as a component of its 411 directory assistance service in all other markets where CG and YPG may launch the EVD Service in the future.

In December 2005, the Company, in conjunction with YPG and Rogers Telecom, began a project to test an enhanced 411 Directory Assistance Service offered by Rogers Home Phone (RHR). The pilot, offered to RHR 411 customers in Burlington and Oakville, encountered no substantial technical barriers or client care issues. Initial results indicate anywhere between ~ 10% - 13% of 411 callers chose a business category search over the standard 411 service offering. The test was not supported by any marketing or promotion by Rogers, YPG or CG.

If fully implemented, one or more 411 directory assistance arrangements would channel a subset of 411 callers into the EVD™ Service, where information concerning business listings and YPG merchants can be presented in response to caller inquiries. The majority of 411 callers use directory assistance to search for business listings. Most of those callers have a specific business name in mind, but may also be interested in other business listings within a particular geographic area. A number of other callers access 411 services to locate businesses within a particular category (restaurants, for example). The EVD Service is viewed as a means to enhance the directory assistance experience for callers by enabling a “Yellow Pages”™ directory type search using only voice commands, where knowing the name of the business is not a prerequisite. Inquiries involving requests for information other than the phone number of a specific business are not presently supported by directory assistance services.

According to studies done by the Pierz Group, there are over 370 million 411 calls made in Canada on an annual basis and approximately 35 million 411 calls are made annually in the GTA.

International Expansion

The Kelsey Group, an independent organization that provides analysis of the directory services industry, has estimate that approximately 7% of the global directory service publishers' 2005 revenue was attributable their digital directories (i.e. the internet). The remainder of the revenues was derived primarily from the print books. The Kelsey Group has estimated that by 2008, total revenue for the global directory services industry will to \$35B and the portion contributed by digital directories will increase to 23%.

The Company's existing business strategy is based on leveraging its innovative technology with prospective international customers around the world. The Company has taken various steps to expand its capabilities from a Business Development perspective, from a Research and Development perspective and from a Financing perspective.

Business Development activities increased in the second half of 2005 and 2006. In the first quarter of 2006 three additional team members have been engaged in the Company's Business Development group. In January 2006, Mr. Stephen Kendall was appointed Director of Sales for the Americas. In February 2006, Mr. Steve Hamrin was appointed Director of Business Development for Europe. Also in January, 2006, Mr. Paul Vos was hired as Director of Alliance and Partner Channels. The Company's Business Development staff has been tasked with responsibility to identify international expansion opportunities.

In the past six months, the business development focus has been on increasing the number of international sales leads. These activities have included attendance at two significant industry conferences including the Sixth Annual European Directories Marketplace Conference in Rome, Italy. At the Rome conference, the Company's Chief Executive Officer, Mr. Durance, was a featured speaker a presentation entitled "Emerging Models and Technologies Drive Tomorrow's Directory Assistance". Through these and other business development efforts, the Company is attempting to build a sales pipeline encompassing several continents simultaneously.

Discussion are ongoing with over 30 Yellow Page Providers and Directory Assistance Providers around the world, who represent potential customers for the Company. Currently, CG expects a long sales cycle that could extend beyond one year due to the nature of the business model. However, the Company anticipates that sales cycles could be shortened by executive level contact and an interest by the customer to enter the market quickly.

To further support the Company's business plan, CG hired two additional seasoned executives. In December 2005, CG hired Eric Fredine as Senior Vice President of Research and Development. In March of 2006, CG hired Chris Shelton as Chief Financial Officer replacing Ian Hill.

Mr. Fredine brings 20 years of experience in the telecommunications and information technology fields to Call Genie, which includes an executive level track record in product development and delivery utilizing a wide array of technology platforms and business processes. Mr. Fredine has served as Senior Vice President of SingleView Products and Services, an ADC telecommunication company. More recently, Mr. Fredine was Chief Technology Officer at BCE Emergis, where he reviewed a diverse range of services at varying maturity levels and identified opportunities to integrate and rationalize services to commercial success.

In furtherance of the Company's product development strategy, Mr. Fredine is focused on productizing the EVD software and systems. This includes 1) the ongoing development of a product model which assists the Company to scale to meet potential business development opportunities, 2) implementation of multi-lingual capabilities and 3) development of deployment tools which automate various implementation tasks. In addition, Mr. Fredine is responsible for identification of appropriate technology partnerships, which may add future capabilities to the Company.

Mr. Shelton brings 16 years of senior financial experience in all aspects of financial management and operations. His background includes the coordination and management of all financial activities in companies ranging from early-stage, entrepreneurial companies to a large multinational telecommunications firm. He has worked for both private and publicly-traded organizations. At ADC Telecommunications Ltd., as Vice President, Finance and Administration, Mr. Shelton directed the financial and administrative operations of the Asia-Pacific Software Systems Division. Prior to the ADC Telecommunications acquisition of Saville System Plc, Mr. Shelton was the Vice President of Treasury and a member of the finance group that led Saville's Initial Public Offering on the NASDAQ. Mr. Shelton commenced his career with Ernst & Young.

In February 2006, CG engaged National Bank Financial Inc. and GMP Securities to act as agents for purposes of an offering of 10 million Common Shares. On March 21, 2006, CG closed the private placement financing in which it raised \$10 million, netting approximately \$9.3 million to the CG after expenses. The Company expects to utilize the net proceeds of the Offering to support the ongoing effort to introduce its Enhanced Voice Directory technology into the United States and other international markets, to fund research and development initiatives and for general working capital purposes.

CG management believes it is now well positioned to take advantage of the global market opportunities.

BUSINESS RISKS AND UNCERTAINTIES

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

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 support systems. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$2,148,166 for the year ended December 31, 2005,

\$1,895,160 for the year ended December 31, 2004 and \$925,024 for the year ended December 31, 2003. 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-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 is underdeveloped and has not been precisely defined. As is typical in the case of a new evolving industry segment, the demand for the Company's services-is subject to a high level of uncertainty. If the markets for the 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.

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 on a national basis. To date, CG has only implemented the EVD Service commercially in the Greater Toronto Area. 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 on a national basis. 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.

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.

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 reputational 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 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 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 imposed on “reporting issuers” under applicable securities laws and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with public company status have escalated 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.

Risk of Industry Consolidation

CG's business customers may be classified as Yellow Pages Providers, Directory Assistance Providers and Telecommunication Service Providers. Each of these industries is characterized by a relatively number of large providers. Industry consolidation is in this group of providers. As a result, CG may have established working relationships with one provider undermined by a business combination with another provider. This could have a material adverse effect on CG's business, results of operations and financial conditions.

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