

**Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Financial Statements
For the three month period ended March 31, 2006
(Unaudited – Prepared by Management)**

Contents

Notice to Reader	2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Deficit	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-18
Supplementary Information	19-20

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Call Genie Inc. and the accompanying consolidated interim balance sheets as at March 31, 2006 and the consolidated interim statements of earnings, retained earnings and cash flows for the three period then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, BDO Dunwoody LLP.

The consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

“ signed ”

Michael E. Durance
Chief Executive Officer
Toronto, Ontario
May 19, 2006

“ signed ”

Christopher L. Shelton
Chief Financial Officer
Calgary, Alberta
May 19, 2006

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Balance Sheets
(Unaudited – Prepared by Management)

	March 31, 2006 Unaudited	December 31, 2005 Audited
Assets		
Current		
Cash and cash equivalents (Note 2(b))	\$ 10,760,777	\$ 2,486,540
Accounts receivable	99,727	114,182
Prepaid expenses and deposits	116,250	61,943
	10,976,754	2,662,665
Equipment (Note 3)	136,090	94,765
Other assets (Note 4)	97,806	74,376
	\$ 11,210,650	\$ 2,831,806
Liabilities and Shareholders Equity		
Current		
Accounts payable and accrued liabilities	\$ 407,622	\$ 321,337
Shareholders' equity		
Equity instruments (Note 5)	16,834,940	7,460,930
Contributed surplus (Note 15)	672,739	583,250
Deficit	(6,704,651)	(5,533,711)
	10,803,028	2,510,469
	\$ 11,210,650	\$ 2,831,806

Going Concern (Note 1)

Commitments (Note 9)

Approved on behalf of the Board:

_____ Richard W. DeVries, Director

_____ S. Graeme Ross, Director

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

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit
(Unaudited – Prepared by Management)

For the three months ended March 31	2006	2005	Cumulative since inception
Revenue	\$ 115,046	\$ 13,174	\$ 305,424
Costs of sales	39,099	25,408	204,841
Gross margin	75,947	(12,234)	100,583
Expenses:			
Amortization	\$ 27,758	\$ 8,852	\$ 95,256
Business development	299,746	28,452	543,699
General and administrative	411,799	151,413	2,952,905
Interest	-	-	29,520
Sales and marketing	98,541	134,843	606,753
Stock based compensation	83,720	14,821	665,276
Technology and product development, net	352,368	169,780	2,003,720
	1,273,932	508,161	6,897,129
Loss from operations	(1,197,985)	(520,395)	(6,796,546)
Other income:			
Interest income	27,045	8,374	91,895
Net loss for the year	(1,170,940)	(512,021)	(6,704,651)
Deficit, beginning of the year	(5,533,711)	(3,385,545)	-
Deficit, end of year	\$ (6,704,651)	\$ (3,897,566)	\$ (6,704,651)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)	
Weighted average number of shares – basic	42,821,933	36,833,599	

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

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)

For the three months ended March 31	2006	2005	Cumulative since inception
Cash flows from operating activities			
Net loss for the period	\$ (1,170,940)	\$ (512,021)	\$ (6,704,651)
Items not involving cash:			
Interest on convertible debenture	-	-	24,924
Issuance of common shares for services	-	-	112,500
Stock based compensation	83,720	14,821	665,276
Amortization	27,758	8,852	95,256
	<u>(1,059,462)</u>	<u>(488,348)</u>	<u>(5,806,695)</u>
Changes in non-cash working capital:			
Accounts receivable	14,455	(44,771)	(99,727)
Advances receivable	-		155,659
Prepaid expenses and advances	(54,307)	2,414	(114,750)
Accounts payable and accrued liabilities	86,285	(21,147)	409,228
Amount due to related parties	-	-	300,000
	<u>(1,013,029)</u>	<u>(551,852)</u>	<u>(5,156,285)</u>
Cash flows from financing activities			
Issuance of common shares (net of share issue costs)	9,379,779	-	12,575,523
Concurrent financing related to RTO (net of issue costs)	-	-	1,707,206
Advances under convertible debenture	-	-	605,000
	<u>9,379,779</u>	<u>-</u>	<u>14,887,729</u>
Cash flows from investing activities			
Acquisition of GRD, net cash acquired	-	-	1,386,900
Business combination costs	-	-	(28,415)
Acquisition of equipment	(62,928)	(22,055)	(203,130)
Acquisition of other assets	(29,585)	(24,062)	(126,022)
	<u>(92,513)</u>	<u>(46,117)</u>	<u>1,029,333</u>
Increase in cash and cash equivalents	8,274,237	(597,969)	10,760,777
Cash and cash equivalents, beginning of year	2,486,540	1,832,573	-
Cash and cash equivalents, end of year	\$ 10,760,777	\$ 1,234,605	\$ 10,760,777

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

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

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 March 31, 2006, the Company held cashable guaranteed investment certificates (GIC’s) bearing interest rates of 3.75% with a maturity date of March 22, 2007. 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.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

2. Significant Accounting Policies (cont'd)

(d) Revenue recognition

The Company sells its services primarily through a joint operating agreement with a directory service provider. 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 March 31, 2006, the Company has not recovered cumulative costs of approximately \$3.4 million. 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 hardware	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.

(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.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

2. Significant Accounting Policies (cont'd)

(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 5(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, and the estimated value of stock-based compensation. 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.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

3. Equipment

March 31, 2006 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Computer hardware	\$ 185,077	\$ 66,037	\$ 119,040
Office furniture and equipment	18,053	1,003	17,050
	\$ 203,130	\$ 67,040	\$ 136,090

December 31, 2005 (Audited)			
	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

4. Other Assets

March 31, 2006 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 126,022	\$ 28,216	\$ 97,806

December 31, 2005 (Audited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 96,437	\$ 22,061	\$ 74,376

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

5. 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 7)	15,641,639	-
Shares issued on acquisition (Note 7)	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 5(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 (Note11)		58,293
Balance December 31, 2005	42,416,539	\$ 7,388,524
Shares issued on private placement (ix)	10,000,000	10,000,000
Share issue costs		(779,606)
Shares issued on exercise of agent options	354,190	159,386
Add amount allocated to expired warrants	-	72,406
Fair value of agent options exercised (Note11)		(5,770)
Balance March 31, 2006	52,770,729	\$ 16,834,940

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

5. 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
Less Warrants expired			(2,222,200)	(72,406)
Balance, March 31, 2006	\$0.225	4.38 years	4,360,035	\$ -
Total equity instruments				<u>\$ 16,834,940</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 5 (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.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

5. 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.

- (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. All of the share purchase warrants expired without being exercised.

(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 3,995,000 stock options to its employees as at March 31, 2006 at a price ranging from \$0.30 to \$0.94 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 March 1, 2011.

- (i) The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. The fair value of each option is determined at the grant date using the Black-Scholes model with the following assumptions:

	3 months ended March 31, 2006	12 months ended December 31, 2005 (audited)
Risk Free Rate	4.0%	3% - 4.0%
Dividend Yield	0.0%	0.0%
Volatility Rate	86.0%	69.0% - 83.0%
Expected Option Life	5 years	5 years
Weighted Average Fair Value at Grant Date	\$0.28 per share	\$0.21 per share

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

5. Equity Instruments (cont'd)

For the three months ended March 31, 2006, \$83,720 (2005 - \$14,821) has been recorded as stock based compensation related to options with the corresponding amount charged to contributed surplus.

(ii) The following table summarizes information about the stock options outstanding at March 31, 2006:

	Number of Options	Option Exercise Price Range	WA ⁽¹⁾ Remaining Life	Weighted Average Exercise Price
<u>Options</u>				
<i>Employees, directors and officers:</i>				
Balance, December 31, 2002	-	-		-
Options granted to directors on IPO	600,000	\$0.30	4.91 years	\$0.30
Balance, December 31, 2003	600,000	\$0.30	4.91 years	\$0.30
Options granted to employees	1,150,000	\$0.45	4.69 years	\$0.45
	1,750,000	\$0.30 - \$0.45	-	\$0.40
Less:				
Employee options exercised	(150,000)	\$0.30	-	\$0.30
Employee options expired	(150,000)	\$0.30	-	\$0.30
Balance, December 31, 2004	1,450,000	\$0.30 - \$0.45	4.53 years	\$0.42
Options granted to employees and consultants	1,925,000	\$0.50 - \$0.75	4.52 years	\$0.51
Balance, December 31, 2005	3,375,000	\$0.30 - \$0.75	4.09 years	\$0.47
Options granted to employees	620,000	\$0.50 - \$0.94	4.82 years	\$0.69
Subtotal, March 31, 2006	3,995,000	\$0.30 - \$0.94	3.99 years	\$0.50
<i>Agents:</i>				
Balance, December 31, 2002	-	-		-
Options granted to agents on IPO	583,000	\$0.30	1.44 years	\$0.30
Balance, December 31, 2003	583,000	\$0.30	1.44 years	\$0.30
Options issued to agents on concurrent financing	444,440	\$0.45	1.25 years	\$0.45
Option to acquire share purchase warrants	222,220	\$0.90	1.25 years	\$0.90
	1,249,660	\$0.30 - \$0.90	-	\$0.46
Less:				
Agents options exercised	(30,060)	\$0.30	-	\$0.30
Balance, December 31, 2004	1,219,600	\$0.30 - \$0.90	0.87 years	\$0.46
Less:				
Agents options exercised	(582,940)	\$0.30 - \$0.45	-	\$0.31
Subtotal, December 31, 2005	636,660	\$0.45 - \$0.90	0.13 years	\$0.61
Less:				
Agents options exercised	(354,190)	\$0.30 - \$0.45	-	\$0.31
Agents options expired	(282,470)	\$0.30 - \$0.45	-	\$0.31
Subtotal, March 31, 2006	-	-	-	-
Balance, March 31, 2006	3,995,000	\$0.30 - \$0.94	4.00 years	\$0.50

¹⁾WA – weighted average

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

5. Equity Instruments (cont'd)

The following table summarizes information about the employee and consultant stock options outstanding at March 31, 2006:

Options outstanding	Option price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
300,000	\$0.30	2.67 years	300,000	.
1,150,000	\$0.45	3.44 years	383,333	
1,200,000	\$0.50	4.17 years	-	
600,000	\$0.50	4.42 years	25,000	
25,000	\$0.50	4.46 years	-	
100,000	\$0.75	4.67 years	25,000	
25,000	\$0.50	4.75 years	-	
45,000	\$0.54	4.75 years		
250,000	\$0.55	4.75 years		
75,000	\$0.58	4.83 years		
225,000	\$0.94	4.92 years		
3,995,000		4.00 years	733,333	\$0.42

6. Related Party Transactions

The Company had the following related party transactions:

- (a) Included in technology and product development, business development, and general and administrative expenses in the normal course of operations are \$110,742 (2005 - \$58,875) of consulting services paid directly to officers of the Company or to companies controlled by officers of the Company.
- (b) During 2006, officers and directors of the Company subscribed for 168,000 (2005 - 420,000) common shares for total proceeds of \$168,000 (2005 - \$210,000) through a private placement.
- (c) Included in accounts payable and accrued liabilities is \$58,877 (2005 - \$6,828) due to various directors, officers and consultants of the Company all of which is for services rendered and reimbursement of expenses.

All the related party transactions have been recorded at the agreed upon exchange amounts.

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(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

7. Business Combination

On August 17, 2004, the Company completed the reverse takeover (“RTO”) of a public company GRD. Legally, GRD was the parent of CGI. However, as a result of the share exchange, control of the combined companies passed to the former shareholders of CGI. This type of share exchange deems CGI to be the acquirer for accounting purposes. Accordingly, the net assets of CGI are included in the balance sheet at book values and the deemed acquisition of GRD is accounted for by the purchase method with the net assets of GRD recorded at fair value at the date of acquisition.

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such case, the fair value of the net assets acquired is used.

The value of the 7,500,000 shares issued on acquisition was based on the fair value of the net assets acquired. (Note 5(b)). The fair value of the Company’s net assets was \$1,512,656, which approximated carrying values as all the assets acquired substantially were cash and short term receivables.

The total purchase price of \$1,512,656 has been allocated as follows:

Cash	\$ 1,386,900
Accounts receivable	157,159
Accounts payable	<u>(2,989)</u>
	1,541,070
Transaction costs	<u>(28,414)</u>
	<u>\$ 1,512,656</u>

8. Income Taxes

The effective tax rate of income tax varies from the statutory rate as follows:

	<u>2006</u>	<u>2005</u>
Combined tax rates	<u>34%</u>	<u>34%</u>
Expected income tax (recovery) at statutory rate	\$ (398,119)	\$ (730,376)
Stock-based compensation	28,464	82,531
Change in rate	-	47,516
Other permanent differences	4,590	4,710
Change in valuation allowance	365,065	595,619
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

The difference between the effective rate and the actual rate of nil% is attributable to the fact that no future tax asset has been recorded for available loss carry forwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

8. Income Taxes (cont'd)

The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	<u>2006</u>	<u>2005</u>
Property and equipment and other assets	\$ 6,268	\$ (2,440)
Share issue costs	364,928	114,674
Unused tax losses carry forward	<u>2,133,375</u>	<u>1,755,998</u>
	2,504,571	1,868,232
Valuation allowance	<u>(2,504,571)</u>	<u>(1,868,232)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

As at March 31, 2006, subject to confirmation from the income tax authorities, the Company has \$6,137,694 of non-capital losses that are available for carry forward to offset future taxable income expire as follows:

	Non-Capital Losses
2007	216,958
2008	145,800
2009	925,878
2013	982,992
2014	735,121
2015	2,019,903
2016	1,111,042
	<u>\$ 6,137,694</u>

9. Commitments

Effective January 23, 2006, the Company entered into a lease agreement for new premises. The terms of the lease commenced on March 1, 2006 and terminate on March 1, 2011.

The remaining annual lease commitments relating to this facility are as follows:

2006	\$ 88,955
2007	\$ 118,687
2008	\$ 118,687
2009	\$ 118,687
2010	\$ 118,687
2011	\$ 19,848

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

10. Indemnifications

(a) Directors and officers

Under the terms of the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

(b) Other

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

11. Contributed Surplus

Balance December 31, 2003 for value assigned for options (Note 5 (c)(ii))	\$ 55,593
Value assigned for options (Note 5 (c)(i))	79,748
Value assigned for warrants (Note 5 (b)(x))	263,463
Balance, December 31, 2004	<u>\$ 398,804</u>
Value assigned for options (Note 5 (c)(i))	242,739
Value of options exercised during the year (Note 5 (c)(ii))	(58,293)
Balance, December 31, 2005	<u>\$ 583,250</u>
Value assigned for options (Note 5 (c)(i))	83,720
Value of options exercised during the year (Note 5 (c)(ii))	5,769
Balance, March 31, 2006	<u>\$ 672,739</u>

12. Financial instruments

As disclosed in Note 2(h), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Credit Risk

All the Company's trade accounts receivable are from one directory service provider and as such, the Company is exposed a concentration of credit risk. At March 31, 2006 all of the Company's cash was held at one financial institution.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2006

13. Economic Dependence

At March 31, 2006, the company earned all of its revenues from one directory service provider.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Call Genie Inc.
(A Development Stage Enterprise)
Supplementary Information
(Unaudited – Prepared by Management)

March 31, 2006

Technology and Product Development Expenses

Breakdown by major category:

For the three months ended March 31	2006	2005	Cumulative Since inception
Consulting fees	\$ 36,965	\$ 1,500	\$ 835,464
Salaries and benefits	285,990	164,612	1,230,892
Travel expenses	12,892	1,412	46,687
Training and development	4,332	-	27,991
Product development	-	-	27,364
Application hosting and telecommunications	5,530	2,256	39,936
Miscellaneous costs	6,658	-	10,928
Website development	-	-	9,785
Government grant	-	-	(225,327)
	\$ 352,368	\$ 169,780	\$ 2,003,720

Sales and Marketing Expenses

Breakdown by major category:

For the three months ended March 31	2006	2005	Cumulative Since inception
Consulting fees	\$ 7,000	\$ 95,163	\$ 280,791
Salaries and benefits	64,302	27,227	205,194
Travel expenses	16,960	9,759	87,452
Telecommunications	1,450	1,060	5,616
Advertising	8,000	-	19,475
Miscellaneous	-	-	2,234
Office supplies	830	1,634	5,991
	\$ 98,541	\$ 134,843	\$ 606,753

Business Development Expenses

Breakdown by major category:

For the three months ended March 31	2006	2005	Cumulative Since inception
Consulting fees	\$ 72,190	\$ 21,412	\$ 168,653
Salaries and benefits	113,989	-	177,506
Travel expenses	63,096	2,905	103,019
Conferences	33,385	3,648	65,275
Telecommunications	3,083	-	6,574
Office	2,085	487	5,906
Presentation materials	11,918	-	16,766
	\$ 299,746	\$ 28,452	\$ 543,699

Call Genie Inc.
(A Development Stage Enterprise)
Supplementary Information
(Unaudited – Prepared by Management)

March 31, 2006

General and Administrative Expenses

Breakdown by major category:

For the three months ended March 31	2006	2005	Cumulative since inception
Consulting fees	\$ 75,500	\$ 36,375	\$ 1,314,834
Salaries and benefits	81,170	35,262	341,953
Consumer and merchant research	-	-	37,043
Agency and filing fees	11,218	10,722	44,002
Recruitment and relocation	54,003	-	105,428
Insurance	6,043	4,694	30,483
Telecommunications	3,245	4,713	37,469
Shareholder communication	21,749	2,695	70,406
Office supplies	10,322	4,532	89,054
Office rent	12,219	12,036	171,658
Professional fees	114,773	21,232	482,042
Travel expenses	19,705	15,394	178,770
Education and training	1,465	2,220	14,751
Entertainment and promotion	387	1,538	35,022
	\$ 411,799	\$ 151,413	\$ 2,952,905