

**Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Financial Statements
For the three and six months period ended June 30,
2006
(Unaudited – Prepared by Management)**

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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 June 30, 2006 and the consolidated interim statements of earnings, retained earnings and cash flows for the three and six months 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
August 8, 2006

“ signed ”

Christopher L. Shelton
Chief Financial Officer
Calgary, Alberta
August 8, 2006

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

	June 30, 2006 Unaudited	December 31, 2005 Audited
Assets		
Current		
Cash and cash equivalents (Note 2(b))	\$ 9,444,600	\$ 2,486,540
Accounts receivable	223,199	114,182
Prepaid expenses and deposits	25,967	61,943
	9,693,766	2,662,665
Equipment (Note 3)	263,107	94,765
Other assets (Note 4)	118,615	74,376
	\$ 10,075,488	\$ 2,831,806
Liabilities and Shareholders Equity		
Current		
Accounts payable and accrued liabilities	\$ 343,099	\$ 321,337
Shareholders' equity		
Equity instruments (Note 5)	17,084,613	7,460,930
Contributed surplus (Note 11)	720,438	583,250
Deficit	(8,072,662)	(5,533,711)
	9,732,389	2,510,469
	\$ 10,075,488	\$ 2,831,806

Going Concern (Note 1)

Commitments (Note 9)

Approved on behalf of the Board:

_____ Ronald D. Johnston, 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 month period ended		For the six month period ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue	\$ 144,188	\$ 30,641	\$ 259,234	\$ 43,815
Costs of sales	<u>24,684</u>	48,588	<u>63,783</u>	73,996
Gross margin	<u>119,504</u>	(17,947)	<u>195,451</u>	(30,181)
Expenses:				
Amortization	\$ 33,582	\$ 10,381	\$ 61,340	\$ 19,233
Business development	414,679	28,281	714,425	56,733
General and administrative	374,428	144,845	786,227	296,258
Sales and marketing	145,401	117,400	243,942	252,243
Stock based compensation	111,986	23,841	195,706	38,662
Technology and product development, net	494,848	169,988	847,216	339,768
	<u>1,574,924</u>	494,736	<u>2,848,856</u>	1,002,897
Loss from operations	<u>(1,455,420)</u>	(512,683)	<u>(2,653,405)</u>	(1,033,078)
Other income:				
Interest income	87,409	6,844	114,454	15,218
Net loss for the period	<u>(1,368,011)</u>	(505,839)	<u>(2,538,951)</u>	(1,017,860)
Deficit, beginning of the period	<u>(6,704,651)</u>	(3,897,566)	<u>(5,533,711)</u>	(3,385,545)
Deficit, end of period	\$ <u>(8,072,662)</u>	\$ (4,403,405)	\$ <u>(8,072,662)</u>	\$ (4,403,405)
Basic and diluted loss per share				
	\$ (0.03)	\$ (0.01)	\$ (0.06)	(0.03)
Weighted average number of shares – basic	52,821,170	37,555,466	45,453,829	37,196,527

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 month period ended		For the six month period ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash flows from operating activities				
Net loss for the period	\$ (1,368,011)	\$ (505,839)	\$ (2,538,951)	\$ (1,017,860)
Items not involving cash:				
Stock based compensation	111,986	23,841	195,706	38,662
Amortization	33,582	10,381	61,340	19,233
	<u>(1,222,443)</u>	<u>(471,617)</u>	<u>(2,281,905)</u>	<u>(959,965)</u>
Changes in non-cash working capital:				
Accounts receivable	(123,472)	11,667	(109,017)	(33,104)
Prepaid expenses and advances	90,283	10,598	35,976	13,012
Accounts payable and accrued liabilities	(64,523)	17,436	21,762	(3,711)
Amount due to a related party	-	-	-	-
	<u>(1,320,155)</u>	<u>(431,916)</u>	<u>(2,333,184)</u>	<u>(983,768)</u>
Cash flows from financing activities				
Issuance of common shares (net of share issue costs)	185,386	2,538,112	9,565,165	2,538,112
Advances payable	-	-	-	-
Advances under convertible debenture	-	-	-	-
	<u>185,386</u>	<u>2,538,112</u>	<u>9,565,165</u>	<u>2,538,112</u>
Cash flows from investing activities				
Acquisition of equipment	(153,437)	(6,788)	(216,365)	(28,843)
Acquisition of other assets	(27,971)	(2,969)	(57,556)	(27,031)
	<u>(181,408)</u>	<u>(9,757)</u>	<u>(273,921)</u>	<u>(55,874)</u>
Increase (decrease) in cash and cash equivalents	(1,316,177)	2,096,439	6,958,060	1,498,470
Cash and cash equivalents, beginning of period	<u>10,760,777</u>	<u>1,234,604</u>	<u>2,486,540</u>	<u>1,832,573</u>
Cash and cash equivalents, end of period	\$ 9,444,600	\$ 3,331,043	\$ 9,444,600	\$ 3,331,043

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)

June 30, 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 June 30, 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.
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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 June 30, 2006, the Company has not recovered cumulative costs of approximately \$3.8 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 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.

(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.
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June 30, 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.
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June 30, 2006

3. Equipment

June 30, 2006 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Computer hardware and software	\$ 314,607	\$ 91,227	\$ 223,380
Office furniture and equipment	41,960	2,233	39,727
	\$ 356,567	\$ 93,460	\$ 263,107

December 31, 2005 (Audited)			
	Cost	Accumulated Amortization	Net book value
Computer hardware and software	\$ 138,760	\$ 44,990	\$ 93,770
Office furniture and equipment	1,442	447	995
	\$ 140,202	\$ 45,437	\$ 94,765

4. Other Assets

June 30, 2006 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 153,993	\$ 35,378	\$ 118,615

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

Call Genie Inc.
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June 30, 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 (Note 11)		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		(754,648)
Shares issued on exercise of options/warrants	800,535	319,813
Add amount allocated to expired warrants	-	72,406
Fair value of options/warrants exercised (Note 11)		58,518
Balance June 30, 2006	53,217,074	\$ 17,084,613

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Notes to Consolidated Financial Statements
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June 30, 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)
Less Warrants exercised			(296,345)	
Balance, June 30, 2006	\$0.225	4.13 years	4,063,690	\$ -
Total equity instruments				<u>\$ 17,084,613</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.
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June 30, 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 3,990,000 stock options to its employees as at June 30, 2006 at a price ranging from \$0.30 to \$1.60 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 June 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:

	6 months ended June 30, 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	\$0.86 per share	\$0.21 per share

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June 30, 2006

5. Equity Instruments (cont'd)

For the three months ended June 30, 2006, \$111,986 (2005 - \$23,841) 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 June 30, 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	815,000	\$0.50 - \$1.60	4.64 years	\$0.86
Consultant options exercised	(150,000)	\$0.50	-	\$0.30
Consultant options expired	(50,000)	\$0.50	-	\$0.30
Subtotal, June 30, 2006	3,990,000	\$0.30 - \$1.60	3.78 years	\$0.55
<u>Agents:</u>				
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, June 30, 2006	-	-	-	-
Balance, June 30, 2006	3,990,000	\$0.30 - \$1.60	3.78 years	\$0.55

¹⁾WA – weighted average

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June 30, 2006

5. Equity Instruments (cont'd)

The following table summarizes information about the employee and consultant stock options outstanding at June 30, 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	2.42 years	300,000	.
1,150,000	\$0.45	3.19 years	383,333	
1,200,000	\$0.50	3.92 years	400,000	
500,000	\$0.50	4.17 years	-	
25,000	\$0.50	4.21 years	-	
25,000	\$0.50	4.50 years	-	
45,000	\$0.54	4.50 years		
250,000	\$0.55	4.50 years		
75,000	\$0.58	4.58 years		
225,000	\$0.94	4.67 years		
50,000	\$1.60	4.75 years		
90,000	\$1.33	4.83 years		
55,000	\$1.30	4.92 years		
3,990,000		3.78 years	1,033,333	\$0.43

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 \$182,951 (2005 - \$117,750) 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 \$33,491 (2005 - \$4,246) 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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June 30, 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	\$ (863,243)	\$ (730,376)
Stock-based compensation	66,540	82,531
Change in rate	-	47,516
Other permanent differences	4,793	4,710
Change in valuation allowance	801,496	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.

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8. Income Taxes (cont'd)

As at June 30, 2006, subject to confirmation from the income tax authorities, the Company has \$7,418,129 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	2,391,477
	<u>\$ 7,418,129</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	\$ 59,283
2007	\$ 118,687
2008	\$ 118,687
2009	\$ 118,687
2010	\$ 118,687
2011	\$ 19,848

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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))	<u>(58,293)</u>
Balance, December 31, 2005	<u>\$ 583,250</u>
Value assigned for options (Note 5 (c)(i))	<u>195,706</u>
Value of options exercised during the year (Note 5 (c)(ii))	<u>(58,518)</u>
Balance, June 30, 2006	<u>\$ 720,438</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 June 30, 2006 all of the Company's cash was held at one financial institution.

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13. Economic Dependence

At June 30, 2006, the company earned the majority 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.

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Technology and Product Development Expenses

Breakdown by major category:

For the six months ended June 30	2006	2005	Cumulative Since inception
Consulting fees	\$ 58,608	\$ 4,050	\$ 857,107
Salaries and benefits	708,646	327,514	1,653,548
Travel expenses	25,599	2,828	59,394
Training and development	9,901	790	33,560
3 rd Party mapping data	15,000		15,000
Product development	-	4,586	27,364
Application hosting and telecommunications	22,059		56,465
Miscellaneous costs	7,404		11,674
Website development	-		9,785
Government grant	-	-	(225,327)
	<u>\$ 847,217</u>	<u>\$ 339,768</u>	<u>\$ 2,498,570</u>

Sales and Marketing Expenses

Breakdown by major category:

For the six months ended June 30	2006	2005	Cumulative Since inception
Consulting fees	\$ 7,000	\$ 171,540	\$ 280,791
Salaries and benefits	182,550	50,742	323,442
Travel expenses	38,645	23,488	109,137
Telecommunications	3,562	2,254	7,728
Advertising	10,000	1,879	21,475
Miscellaneous	-	-	2,234
Office supplies	2,184	2,340	7,345
	<u>\$ 243,941</u>	<u>\$ 252,243</u>	<u>\$ 752,152</u>

Business Development Expenses

Breakdown by major category:

For the six months ended June 30	2006	2005	Cumulative Since inception
Consulting fees	\$ 178,025	\$ 44,169	\$ 274,488
Salaries and benefits	293,867	-	357,384
Travel expenses	153,814	4,604	193,737
Conferences	62,339	7,000	94,229
Telecommunications	7,892	-	11,383
Office	6,570	960	10,391
Presentation materials	11,918	-	16,766
	<u>\$ 714,425</u>	<u>\$ 56,733</u>	<u>\$ 958,378</u>

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General and Administrative Expenses

Breakdown by major category:

For the six months ended June 30	2006	2005	Cumulative since inception
Consulting fees	\$ 107,488	\$ 72,687	\$ 1,346,822
Salaries and benefits	219,196	70,524	479,969
Consumer and merchant research	-	-	37,043
Agency and filing fees	13,871	13,737	46,655
Recruitment and relocation	112,365	-	163,790
Insurance	12,459	9,390	36,899
Telecommunications	15,760	8,193	49,984
Shareholder communication	43,111	21,700	91,768
Office supplies	16,231	9,947	94,963
Office rent	46,549	24,390	205,988
Professional fees	161,586	32,770	528,855
Travel expenses	33,815	27,275	192,880
Education and training	2,430	2,839	15,716
Entertainment and promotion	1,365	2,806	36,000
	\$ 786,226	\$ 296,258	\$ 3,327,332