



Call Genie Inc.
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MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (“MD&A”) for Call Genie Inc. (“CG” or the “Company”) should be read in conjunction with CG’s unaudited consolidated financial statements for the six months ended June 30, 2006 and the accompanying notes. CG’s period end financial statements and the accompanying notes have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The information in this MD&A is current to August 4, 2006, unless otherwise noted.

Management is responsible for the information disclosed herein and believes it has developed effective disclosure controls and procedures and that such controls are effective and operating as planned as of June 30, 2006. 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" constitutes forward looking information (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 expected 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; and (iv) expectations concerning the development of international business opportunities and the marketing of the EVD Service to directory services providers outside Canada. 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, in some cases, information received from or disseminated by third parties, 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". Accordingly, readers should not place undue reliance upon forward-looking information contained herein.



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Forward-looking information respecting the deployment of YPG media assets in support of the EVD Service (including the placement of information and user tips, together with reoccurring reminder ads, in new releases of Yellow Pages print directories) 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 relating to the expansion of the EVD service to urban centers in Western Canada and other geographic areas in Canada is based upon existing agreements between the Company and YPG, the existing business plan and budgets of the Company and YPG (all of which are subject to change) and advice received from representatives of YPG. Forward-looking information the development of the 411 directory assistance service and related information (including the deployment of such a service in various geographical areas and the timing thereof) is based upon the terms of arrangements negotiated with YPG and third-party telecommunications corporations, 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) and feedback received from the foregoing third-party telecommunications corporations. 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), and feedback received from directory services providers in various jurisdictions. Forward-looking information relating to sales cycles for the EVD service are based upon the Company's historical experiences with YPG, information sourced through discussions with other directory services providers and the experiences of senior management with the introduction of other technology products. 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



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(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.

SUMMARY OF QUARTERLY RESULTS

	For the Quarters Ended							
	Sep 30 2004	Dec 31 2004	Mar 31 2005	Jun 30 2005	Sept 30 2005	Dec 31 2005	Mar 31 2006	Jun 30 2006
Revenue	\$ -	\$ -	\$ 13,174	\$ 30,641	\$ 51,536	\$ 95,027	\$ 115,046	\$ 144,188
Cost of sales	-	-	25,408	48,588	43,415	48,331	39,099	24,684
Gross margin	-	-	(12,234)	(17,947)	8,121	46,696	75,947	119,504
Expenses								
Technology and product development, net	196,418	217,310	169,780	169,988	(6,600)	241,146	352,368	494,848
Sales and marketing	26,921	79,622	134,843	117,400	91,682	57,743	98,541	145,401
Business development	12,191	4,157	28,452	28,281	57,931	112,941	299,746	414,679
General and administrative	187,174	162,314	151,413	144,845	200,561	233,873	411,799	374,428
Interest	-	2	-	-	-	-	-	-
Stock based compensation	155,490	14,821	14,821	23,841	46,916	157,161	83,720	111,986
Amortization	5,012	7,362	8,852	10,381	12,076	14,863	27,758	33,582
	583,206	485,588	508,161	494,736	402,566	817,727	1,273,932	1,574,924
Loss from Operations	(583,206)	(485,588)	(520,395)	(512,683)	(394,445)	(771,031)	(1,197,985)	(1,455,420)
Other income								
Interest income	4,409	10,053	8,374	6,844	19,924	15,246	27,045	87,409
Net loss for the period	\$ (578,797)	\$ (475,535)	\$ (512,021)	\$ (505,839)	\$ (374,521)	\$ (755,785)	\$ (1,170,940)	\$ (1,368,011)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)



Overall

The Company's loss for the three months ended June 30, 2006 was \$1.4 million or \$0.03 per share, up 180% compared to a loss of \$ 0.5 million, or \$0.01 per share from the same period last year. The increased loss for the quarter was primarily the result of increased technology and product development costs (\$0.3 million), increased business development costs (\$0.4 million), increased general and administrative costs (\$0.2 million), and increased stock based compensation (\$0.1 million) offset by increased gross margin (\$0.1 million).

Revenues

Revenues for the three months ended June 30, 2006 increased to \$144,188 from \$30,641 in the three months ended June 30, 2005. Revenues for the six months ended June 30, 2006 increased to \$259,234 from \$43,815 in the six months ended June 30, 2005. The increase in revenue is attributable to an increase in the number of merchants subscribing for the HelloYellow service in the Greater Toronto Area ("GTA") through the Company's arrangement with Yellow Pages Group Co. ("YPG"), a directory service provider. The average number of merchants under contract in the second quarter of 2006 was 470 compared to 202 in the second quarter of 2005 which was the second quarter for sales of EVD listings to businesses in the GTA. In addition, revenues for the three months ended June 30, 2006 included a \$25,000 US non-refundable commitment fee related to an agreement to perform a trial of the EVD software.

Cost of Sales

The cost of sales for the three months ended June 31, 2006 decreased to \$24,684 from \$48,588 in the three months ended June 30, 2005. The cost of sales for the six month period ended June 30, 2006 decreased to \$63,783 from \$73,996 in the six months ended June 30, 2005. The decrease was the result of decreased direct costs incurred in the operation of the EVD Service, including telephony costs, hosting, network, voice recordings and other third party charges.

Expenses

Expenses for the three months ended June 30, 2006 increased to \$1,574,924 from \$494,736 for the three months ended June 30, 2005. The expenses for the six months ended June 30, 2006 increased to \$2,848,856 from \$1,002,897 for the six months ended June 30, 2005.

Technology and Product Development



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Technology and product development costs increased by \$324,860 and \$507,448 for the three and six month periods ended June 30, 2006, respectively, compared to the same periods of 2005.

The increase was primarily due to the increased number of individuals engaged in further developing the product software and processes. This includes product enhancements to support multiple customers and integration with 411 systems. Personnel costs consisting of employee salary and benefits and consulting fees increased \$278,846 and \$435,690 for the three and six month periods ended June 30, 2006, respectively, compared to the same periods for 2005.

Sales and Marketing

Sales costs of \$145,401 and \$243,941 were incurred for the three and six month periods ended June 30, 2006, respectively compared to \$117,400 and \$252,243 for the same periods in 2005. The increase in costs for the three month period ended June 30, 2006 was primarily attributable to an increase of salary and benefit costs of \$93,734 offset by the decreased fees paid to sales consultants of \$76,377. In the six months ended June 30, 2005, the Company retained sales consultants to sell EVD listings to businesses in the GTA. In September 2005, the Company began the transition of responsibility for sales of EVD listings to YPG. Therefore, similar costs related to the engagement of sales consultants were not incurred by the Company in 2006. Salary and benefit costs in 2006 relate to personnel engaged to train and assist the YPG sales force.

Business Development

Business development costs of \$414,679 and \$714,425 were incurred for the three and six month periods ended June 30, 2006, respectively, compared to \$28,281 and \$56,733 for the same periods in 2005. The increased period expenses of \$386,398 and \$657,692 are consistent with the Company's business plan, which involves the development of international business opportunities. At June 30, 2006, the business development team consisted of six professionals - a senior executive, three sales directors and two support personnel. Travel and conference fees for the six month period ended June 30, 2006 increased by \$204,549 as a result of attending, sponsoring and conducting meetings at yellow pages industry conferences in the United States and Rome, Italy.

General and Administration

General and administration costs increased by \$229,583 and \$489,968 for the three and six month periods ended June 30, 2006, respectively, compared to the same periods in 2005.



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The increases were primarily due to increased consulting fees, salaries and benefits of executive management, recruiting agency fees, as well as professional fees. Professional fees increased \$35,275 and \$128,816 for the three and six month periods ended June 30, 2006 primarily due to the amount of legal services required to prepare various agreements such as non-disclosure agreements and memorandums of understanding as part of the on-going business development process. In the second quarter of 2006, the Company continued hiring additional staff with the assistance of external recruiting agencies. Fees paid to these agencies amounted to \$58,362 compared to nil in the same period in 2005. Personnel costs consisting of consulting fees, salaries and benefits for executive management increased by \$98,439 and \$183,473 for the three and six month periods ended June 30, 2006. The variance is primarily due to the fact that in 2005 the Company's CEO and CFO were paid as consultants while in 2006 the Company's CEO and CFO are employed directly by the Company. In addition, the Company has hired a Director of Human Resources to assist in securing new employees to support the current business plan. Shareholder communication costs increased primarily due to the engagement of an investor relations firm in September 2005. The Company's relationship with the investor relation firm was terminated at the end of the second quarter of 2006.

Stock based compensation

Stock based compensation expense for the three months ended June 30, 2006 was \$111,986, compared to \$23,841 for 2005. Stock based compensation expense for the six months ended June 30, 2006 was \$195,706, compared to \$38,662 for 2005. The increase was due to the number of stock options granted. At June 30, 2006, the Company had granted 3,990,000 (2,650,000 at June 30, 2005) stock options to employees and consultants engaged to execute the Company's business plan.

Interest Income

CG earned interest income of \$87,409 from cashable guaranteed investment certificates (GIC's) for the three months ended June 30, 2006, compared to \$6,844 for the three months ended June 30, 2005. CG earned interest income of \$114,454 from cashable guaranteed investment certificates (GIC's) for the six months ended June 30, 2006, compared to \$15,218 for the six months ended June 30, 2005. The increase in interest income was the result of higher average excess cash available for investment in GICs in 2006 compared to 2005 as well as slightly higher interest rates in 2006 compared to 2005.

Net Earnings

As a result of the foregoing, CG's net loss for the second quarter of 2006 was \$1,368,011 which was \$682,172 higher than the net loss for the same period in 2005. The net loss for



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the six month period ended June 30, 2006 was \$2,538,951 which was \$1,521,091 higher than the net loss for the same period in 2005.

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.

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 had not recovered cumulative costs of approximately \$3.8 million. After payout of those costs, 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 such reimbursable costs 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.

Cost of sales

The Company includes in cost of sales direct costs incurred in the operation of the EVD Service, including telephony costs, hosting, network, tuning and other third party charges.

Estimates



There were no other significant estimates in the year other than the estimates used for stock based compensation. In 2006, the Company continues to use the Black-Scholes method with a volatility rate of 86% to calculate stock-based compensation.

COMPENSATION OF KEY OFFICERS AND DIRECTORS

Key Officers – Cash Remuneration

The following table sets out information concerning the compensation paid and payable to the officers noted below as at June 30, 2006 for the three months ended June 30, 2006.

Position	Name	Three Months Ended June 30, 2006
Chief Executive Officer	Michael Durance	\$67,000
Chief Financial Officer	Christopher Shelton	\$40,000

Compensation of Directors

No cash compensation was paid to directors, in their capacities as directors for the three months ended June 30, 2006.

FINANCIAL CONDITION

Selected data on financial position	As at June 30	As at December 31	As at June 30
	2006	2005	2005
Cash and cash equivalents	\$ 9,444,600	\$ 2,486,540	\$ 3,331,043
Net working capital	\$ 9,350,667	\$ 2,341,328	\$ 3,199,075
Total assets	\$ 10,075,488	\$ 2,831,806	\$ 3,527,710
Total long-term liabilities	\$ -	\$ -	\$ -
Total liabilities	\$ 343,099	\$ 321,337	\$ 195,403
Shareholders' equity	\$ 9,732,389	\$ 2,510,469	\$ 3,332,307

Outstanding Share Capital



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CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 53,217,074 common shares were outstanding at June 30, 2006, compared to 42,416,539 shares at December 31, 2005 and 42,083,569 shares at June 30, 2005. In March of 2006, the Company issued 10,000,000 common shares on a private placement basis, at a sale price of \$1.00 per share, for net proceeds of \$9,245,352. During the six months ended June 30, 2006, 504,190 options and 296,345 warrants were exercised, at a price ranging from \$0.225 to \$0.50 per share, for aggregate proceeds of \$319,813. Further information on CG's outstanding share capital is provided in Note 5 to the Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Assets

CG's total asset base as at June 30, 2006 was \$10,075,488, up \$6,547,778 from June 30, 2005, mainly due to an increase in cash and cash equivalents, and accounts receivable. Cash increased as a result of the March 2006 private placement financing, pursuant to which the Company sold 10 million common shares. Accounts receivable increased \$170,086 due to increased billings to YPG and accrued interest from cashable guaranteed investment certificates.

Working Capital

At June 30, 2006, the Company had a positive working capital of \$9,350,667. 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 June 30, 2006, the Company's cash and cash equivalents amounted to approximately \$9,444,600 compared with \$2,486,540 at December 31, 2005. The cash position has improved as a result of the equity financing completed by the Company in March, 2006.



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OUTLOOK

HelloYellow

The EVD Service is 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 merchants in 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. In the second quarter of 2006, the EVD Service was expanded to cover four additional Yellow Pages directories, which include London, Kitchener, and Guelph. It covers some 1,500 category headings focused on business to consumer content. The location search capability for the EVD Service covers 935 neighborhoods, 1,695 landmarks and over 5,464 intersections. The database includes over 213,000 businesses, representing over 500,000 business listings.

The YPG General Sales Force for the GTA and the expanded coverage areas, currently comprised of 168 sales representatives, has exclusive responsibility for sales of the “HelloYellow” service. CG is responsible for providing sales training, EVD Service training and in-house sales support to the YPG General Sale Force, together with sales and marketing collateral. YPG’s entire GTA sales force has received initial training and as at July 31, 2006 approximately 72% of the sales team had 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 has established 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.



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From the inception of the Yellow Pages directories project through July 31, 2006, approximately 143,000 information searches have been conducted utilizing the EVD Service. The average number of monthly calls has fluctuated, however call volume generally increases substantially during major advertising campaigns.

During the second quarter of 2006, an additional 40 merchants subscribed to the HelloYellow service, through YPG, of which 30 merchants received initial billings prior to June 30, 2006. The second quarter of 2006 also represented the second quarter in which merchants had the opportunity to renew their HelloYellow contracts. The renewal rate for the first six months of 2006 was approximately 56%. It should be noted that these initial customers did not receive the benefit of external marketing and promotion activities until the fourth quarter of 2005 resulting in limited visibility for the majority of the contract period. 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 and second quarter results, 470 merchants have been contracted and billed in the GTA, representing annualized contract value of approximately \$557,000.

In February 2006, CG reached an agreement with YPG to facilitate the expansion of the "HelloYellow" service into Alberta and British Columbia. Substantial planning discussions for trials of the EVD Service in Edmonton, Calgary, the Greater Vancouver Area, and Victoria have occurred. The expansion into western Canada is expected to occur in the fourth quarter of 2006. The agreement between CG and YPG also contemplates that the "HelloYellow" service may 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.



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In May 2006, CG released version EVD™ 4.5, which includes enhancements to increase usability and accuracy of its Voice User Interface. The release refined EVD grammars to accurately interpret requests for over 1,500 categories of merchants.

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. The business search feature is designed to enable TELUS 411 callers to undertake a localized search of the most popular business categories associated with the Yellow Pages™ 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. In February 2006, CG staff resumed the planning and implementation process with TELUS. Currently, TELUS and CG staff have completed an internal test of the EVD software and it is now deployed in GTA, London, Kitchener, Guelph, Calgary and Edmonton where it is being utilized by TELUS employees and a small number of select users as part of a phased approach to introduction. TELUS is currently working on the business case analysis and the implementation schedule for a production capable National Rollout.

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. The trial, extended until June 2006, is now complete.

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



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than the phone number of a specific business are not presently supported by directory assistance services.

In June 2006, CG entered into an arrangement with WHERE CanadaTM under which the two companies are offering an enhanced voice directory service powered by Yellow Pages directories. The service is promoted through WHERE magazine which is delivered to approximately 30,000 hotel rooms in the GTA each month. This service provides an effective and quick method for visitors to access relevant local information and is an additional source of call volume into the EVD system.

According to studies conducted by the Pierz Group, a provider of consulting services and forecasts for the Director Assistance/Directory Enquiry (411) information services market, 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 estimated that approximately 7% of the global directory service publishers' 2005 revenue was attributable from 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 grow 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. The Company has taken various steps to expand its capabilities from a Business Development perspective.

Business Development activities continued to increase during the second quarter of 2006. As at June 30, 2006, the Company's Business Development group consisted of six staff. The Company is in the process of hiring three additional sales directors – one for North America and two for Europe. 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 significant industry conferences including the annual Yellow Pages Association conference held in Orlando Florida in late April 2006. During this conference, Call Genie was awarded the Gold 2005 Industry Excellence Award for Marketing Innovation in the Associate Members category. The award recognizes Call Genie's success in pioneering the world's first voice-enabled category search of the Yellow Pages. Through these and other business development efforts, the Company is attempting to build a sales pipeline encompassing several continents.



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Discussions are ongoing with approximately 50 Yellow Page Providers, Directory Assistance Providers, and Online Service Providers around the world, which 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. The next step towards developing a contractual relationship is generally the signing of a memorandum of understanding that outlines the activities and responsibilities of the parties in relation to a trial of the EVD service within a limited geographical region. Trials are expected to last between six and nine months depending on the opportunity before a commercial contract could be finalized. However, the Company anticipates that sales cycles could be shortened by executive level contact and an interest by a customer to enter the market quickly.

On July 26, 2006, the Company announced that it had entered into two Memoranda of Understanding with subsidiaries of Verizon Inc., based in the United States for a trial of the EVD software. The trial, which is to be conducted in Pittsburgh, PA., brings together, Verizon Services Corp. (a 411 provider) and Verizon Directories Corp. (a Yellow Pages provider) and Call Genie's EVD software. Currently, a limited trial is underway with a full market trial expected to start in the fourth quarter of 2006. The trial has no commercial terms and is expected to be completed by the end of 2006.

The CG management hopes to begin an additional trial of EVD service prior to the end of 2006 and has negotiated the access to the geographic data for the entire United States of America. The Company has secured a non-refundable commitment fee to undertake such a trial. Overall, CG management believes it is now well positioned to take advantage of the international 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.



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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 administrative support systems. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$2,538,951 for the six months ended June 30, 2006, \$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 and in certain other areas in Southern Ontario. 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.



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

CG's principal business (the provision of the EVD Service) and the success of 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 is active 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 underlying technology and 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.



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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 is (and will continue to 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



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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.



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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 small number of large providers. Industry consolidation is ongoing 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.com.