

**Call Genie Inc.  
(A Development Stage Enterprise)  
Consolidated Financial Statements  
For the years ended December 31, 2006 and 2005**

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**Auditors' Report**

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**To the Shareholders of  
Call Genie Inc.**

We have audited the consolidated balance sheets of Call Genie Inc. as at December 31, 2006 and 2005, and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Signed "BDO Dunwoody LLP"*

**Chartered Accountants**

Calgary, Alberta  
February 16, 2007

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

<b>As at December 31</b>	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 2(b))	\$ 5,930,024	\$ 2,486,540
Accounts receivable and interest receivable	422,719	114,182
Prepaid expenses and deposits	95,284	61,943
	<b>6,448,027</b>	<b>2,662,665</b>
<b>Equipment (Note 3)</b>	<b>398,520</b>	<b>94,765</b>
<b>Other assets (Note 4)</b>	<b>115,212</b>	<b>74,376</b>
	<b>\$ 6,961,759</b>	<b>\$ 2,831,806</b>

**Liabilities and Shareholders Equity**

**Current**

Accounts payable and accrued liabilities	\$ 578,757	\$ 321,337
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**Shareholders' equity**

Equity instruments (Note 5)	16,497,161	7,460,930
Contributed surplus (Note 12)	1,870,614	583,250
Deficit	(11,984,773)	(5,533,711)
	<b>6,383,002</b>	<b>2,510,469</b>
	<b>\$ 6,961,759</b>	<b>\$ 2,831,806</b>

**Going Concern (Note 1)**

**Commitments (Note 10)**

**Subsequent Events (Note 15)**

Approved on behalf of the Board:

\_\_\_\_\_"signed"\_\_\_\_\_  
Richard W. DeVries, Director

\_\_\_\_\_"signed"\_\_\_\_\_  
S. Graeme Ross, Director

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

<b>For the year ended December 31</b>	<b>2006</b>	<b>2005</b>	<b>Cumulative since inception</b>
<b>Revenue</b>	<b>\$ 698,246</b>	<b>\$ 190,378</b>	<b>\$ 888,624</b>
<b>Costs of sales</b>	<b>369,428</b>	<b>165,742</b>	<b>535,170</b>
<b>Gross margin</b>	<b>328,818</b>	<b>24,636</b>	<b>353,454</b>
<b>Expenses:</b>			
Business development	<b>1,728,481</b>	<b>227,605</b>	<b>1,972,434</b>
Sales and marketing	<b>661,526</b>	<b>401,668</b>	<b>1,169,737</b>
	<b>2,390,007</b>	<b>629,273</b>	<b>3,142,171</b>
Technology and product development, net (Note 8)	<b>1,985,408</b>	<b>574,314</b>	<b>3,636,761</b>
General and administrative	<b>1,734,945</b>	<b>730,692</b>	<b>4,276,051</b>
Amortization	<b>179,380</b>	<b>46,172</b>	<b>246,878</b>
Stock based compensation	<b>759,474</b>	<b>242,739</b>	<b>1,220,326</b>
Interest	<b>-</b>	<b>-</b>	<b>29,520</b>
	<b>7,049,214</b>	<b>2,223,190</b>	<b>12,551,707</b>
Loss from operations	<b>(6,720,396)</b>	<b>(2,198,554)</b>	<b>(12,198,253)</b>
<b>Other income:</b>			
Interest income	<b>269,334</b>	<b>50,388</b>	<b>334,184</b>
<b>Net loss for the year</b>	<b>(6,451,062)</b>	<b>(2,148,166)</b>	<b>(11,864,069)</b>
Deficit, beginning of the year	<b>(5,533,711)</b>	<b>(3,385,545)</b>	<b>-</b>
<b>Deficit, end of year</b>	<b>\$ (11,984,773)</b>	<b>\$ (5,533,711)</b>	<b>\$ (11,864,069)</b>
<b>Basic and diluted loss per share</b>			
<b>Weighted average number of shares – basic</b>	<b>\$ (0.13)</b>	<b>\$ (0.05)</b>	
	<b>50,842,970</b>	<b>39,786,471</b>	

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

<b>For the year ended December 31</b>	<b>2006</b>	<b>2005</b>	Cumulative since inception
<b>Cash flows from operating activities</b>			
Net loss for the year	\$ (6,330,358)	\$ (2,148,166)	\$ (11,864,069)
Items not involving cash:			
Interest on convertible debenture	-	-	24,924
Issuance of common shares for services	-	-	112,500
Stock based compensation	638,770	242,739	1,220,326
Amortization	179,380	46,173	246,879
	<u>(5,512,208)</u>	<u>(1,859,254)</u>	<u>(10,259,440)</u>
Changes in non-cash working capital:			
Accounts receivable	(308,537)	(94,173)	(422,719)
Advances receivable	-	-	155,659
Prepaid expenses and advances	(33,341)	(38,609)	(93,784)
Accounts payable and accrued liabilities	257,420	122,223	580,362
Amount due to related parties	-	-	300,000
	<u>(5,596,666)</u>	<u>(1,869,813)</u>	<u>(9,739,922)</u>
<b>Cash flows from financing activities</b>			
Issuance of common shares (net of share issue costs)	9,564,121	2,642,503	12,759,865
Concurrent financing related to RTO (net of issue costs)	-	-	1,707,206
Advances of convertible debenture	-	-	605,000
	<u>9,564,121</u>	<u>2,642,503</u>	<u>15,072,071</u>
<b>Cash flows from investing activities</b>			
Acquisition of GRD, net cash acquired	-	-	1,386,900
Business combination costs	-	-	(28,414)
Acquisition of equipment	(454,114)	(76,254)	(594,316)
Acquisition of other assets	(69,857)	(42,469)	(166,295)
	<u>(523,971)</u>	<u>(118,723)</u>	<u>597,875</u>
<b>Increase in cash and cash equivalents</b>	<b>3,443,484</b>	<b>653,967</b>	<b>5,930,024</b>
Cash and cash equivalents, beginning of year	2,486,540	1,832,573	-
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,930,024</b>	<b>\$ 2,486,540</b>	<b>\$ 5,930,024</b>

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

**December 31, 2006 and 2005**

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**1. Nature of Operations and Going Concern**

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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 product 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 and these adjustments may be material.

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**2. Significant Accounting Policies**

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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. since its date of incorporation October 7, 2003. All material intercompany transactions have been eliminated. The Call Genie USA, Inc. operations are insignificant and do not meet the requirements for segmented reporting.

(b) Cash and cash equivalents

Included in cash and cash equivalents are bank balances and short term investments cashable after 30 days. At December 31, 2006, the Company held cashable guaranteed investment certificates (GIC's) bearing interest rates of 4.00% 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.

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

**December 31, 2006 and 2005**

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**2. Significant Accounting Policies (cont'd)**

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(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 December 31, 2006, the Company has not recovered cumulative costs of approximately \$4.6 million. After payout of this amount, 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 incurred. After all costs as described are recovered the Company will record its ongoing monthly operating and development costs recoverable under the joint operating agreement and its share of 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 as its collectibility is uncertain. 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 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.

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

**December 31, 2006 and 2005**

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**2. Significant Accounting Policies (cont'd)**

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(i) Future income taxes

Income taxes are accounted for using the asset and 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 operations with the corresponding amount increasing contributed surplus over the vesting period.

Transactions to acquire goods or services by granting equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments, whichever is more reliably measured. The costs are recognized on the same basis as if the Company had paid cash for the goods and services.

(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, 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.

(m) Foreign Currency Translation

The Company's foreign subsidiary is an integrated foreign operation and is translated using the temporal method. Income and expense transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect and non-monetary items are translated at historical exchange rates. The resulting translation gain or loss is recognized in the determination of income.

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

**December 31, 2006 and 2005**

**3. Equipment**

December 31, 2006			
	Cost	Accumulated Amortization	Net book value
Computer hardware and software	\$ 462,408	\$ 187,328	\$ 275,080
Office furniture and equipment	131,831	8,391	123,440
	\$ 594,239	\$ 195,719	\$ 398,520
December 31, 2005			
	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**

December 31, 2006			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 166,294	\$ 51,082	\$ 115,212
December 31, 2005			
	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**

**December 31, 2006 and 2005**

**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 (5c(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 12)		58,293
<b>Balance December 31, 2005</b>	<b>42,416,539</b>	<b>\$ 7,388,524</b>
Shares issued on private placement (x)	<b>10,000,000</b>	<b>10,000,000</b>
Share issue costs (xiii)		<b>(1,342,100)</b>
Shares issued on exercise of options/warrants	<b>800,535</b>	<b>319,813</b>
Add amount allocated to expired warrants	-	<b>72,406</b>
Fair value of options/warrants exercised (Note 12)		<b>58,518</b>
<b>Balance December 31, 2006</b>	<b>53,217,074</b>	<b>\$ 16,497,161</b>

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

**December 31, 2006 and 2005**

**5. Equity Instruments (cont'd)**

Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	WA <sup>(1)</sup> 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
Warrants issued on private placement (xiii)	\$1.00	1.22 years	600,000	-
Less Warrants expired			(2,222,200)	(72,406)
Less Warrants exercised			(296,345)	-
<b>Balance, December 31, 2006</b>	<b>\$0.225</b>	<b>2.91 years</b>	<b>4,663,690</b>	<b>\$ -</b>

<sup>(1)</sup>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 5b).
- (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.

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**Call Genie Inc.**  
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**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

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**5. Equity Instruments (cont'd)**

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- (x) On March 21, 2006 the Company issued 10,000,000 common shares, in aggregate, as a result of a private placement, at a price of \$1.00 per share, for net proceeds of \$9,244,308.
- (xi) 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.
- (xii) As part of the concurrent financing on August 17, 2004, 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. As at December 31, 2006, \$72,406 of the total proceeds attributed to the warrants were reclassified to Share Capital
- (xiii) As part of the private placement on March 21, 2006, the Company issued 600,000 broker warrants, priced at \$1.00, to the underwriters of the private placement. The warrants expire on March 21, 2008.

The fair value of the warrants of \$586,408 were recorded in the share issue costs and credited to contributed surplus for broker warrants issued in connection with this placement. The fair value of the broker warrants used to calculate compensation expenses has been estimated using the Black Scholes option pricing model assuming a risk-free interest rate of 4.0% and an expected volatility of 97% and expected life of 2 years and have a grant date fair value of \$0.98.

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

**December 31, 2006 and 2005**

**5. Equity Instruments (cont'd)**

(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 4,507,500 stock options to its employees as at December 31, 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 expiry dates ranging September 1, 2009 to December 1, 2011.

- (i) As part of the concurrent financing on August 17, 2004, the Company also reserved an additional non-transferable option, to acquire up to 10% of the units placed (up to 444,440 units) in the concurrent financing at a price of \$0.45 per unit, to be granted to the Agent's for services rendered. If exercised, this would result in up to 444,440 shares. These non-transferable options expired unexercised in February 2006.

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

- (ii) 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:

	<b>12 months ended December 31, 2006</b>	<b>12 months ended December 31, 2005</b>
Risk Free Rate	<b>4.0%</b>	<b>3% - 4.0%</b>
Dividend Yield	<b>0.0%</b>	<b>0.0%</b>
Volatility Rate	<b>97.0%</b>	<b>69.0% - 83.0%</b>
Expected Option Life	<b>5 years</b>	<b>5 years</b>
Weighted Average Fair Value at Grant Date	<b>\$0.50 per share</b>	<b>\$0.21 per share</b>

For the year ended December 31, 2006, \$638,770 (2005 - \$242,739) has been recorded as stock based compensation related to options with the corresponding amount charged to contributed surplus.

**Call Genie Inc.**  
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**Notes to Consolidated Financial Statements**

**December 31, 2006 and 2005**

**5. Equity Instruments (cont'd)**

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

<u>Options</u>	Number of Options	Option Exercise Price Range	WA <sup>(1)</sup> Remaining Life	Weighted Average Exercise Price
<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:				
Directors options exercised	(150,000)	\$0.30	-	\$0.30
Directors 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
<b>Options granted to employees and directors</b>	<b>1,332,500</b>	<b>\$0.50 - \$1.60</b>	<b>4.33 years</b>	<b>\$0.88</b>
<b>Consultant options exercised</b>	<b>(150,000)</b>	<b>\$0.50 - \$0.75</b>	-	<b>\$0.30</b>
<b>Consultant options expired</b>	<b>(50,000)</b>	<b>\$0.50 - \$0.75</b>	-	<b>\$0.30</b>
<b>Subtotal, December 31, 2006</b>	<b>4,507,500</b>	<b>\$0.30 - \$1.60</b>	<b>3.43 years</b>	<b>\$0.59</b>
<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	-	<b>\$0.31</b>
Subtotal, December 31, 2005	636,660	\$0.45 - \$0.90	0.13 years	\$0.61
<b>Less:</b>				
<b>Agents options exercised</b>	<b>(354,190)</b>	<b>\$0.45</b>	-	<b>\$0.31</b>
<b>Agents options expired</b>	<b>(282,470)</b>	<b>\$0.45 - \$0.90</b>	-	<b>\$0.31</b>
<b>Subtotal, December 31, 2006</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance, December 31, 2006</b>	<b>4,507,500</b>	<b>\$0.30 - \$1.60</b>	<b>3.43 years</b>	<b>\$0.59</b>

<sup>1)</sup>WA – weighted average

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**5. Equity Instruments (cont'd)**

The following table summarizes information about the employee and consultant stock options outstanding at December 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	1.92 years	300,000	.
1,150,000	\$0.45	2.67 years	766,672	
1,200,000	\$0.50	3.43 years	400,000	
500,000	\$0.50	3.67 years	166,667	
25,000	\$0.50	3.92 years	8,334	
25,000	\$0.50	4.00 years		
45,000	\$0.54	4.00 years		
250,000	\$0.55	4.00 years		
75,000	\$0.58	4.08 years		
225,000	\$0.94	4.17 years		
50,000	\$1.60	4.25 years		
90,000	\$1.33	4.33 years		
55,000	\$1.30	4.42 years		
55,000	\$1.25	4.50 years		
10,000	\$0.90	4.58 years		
302,500	\$0.94	4.58 years	100,000	
30,000	\$0.80	4.67 years		
30,000	\$0.75	4.75 years		
50,000	\$0.75	4.83 years		
15,000	\$0.75	4.83 years		
25,000	\$0.71	4.92 years		
<b>4,507,500</b>		<b>3.43 years</b>	<b>1,741,673</b>	<b>\$0.59</b>

- d) The 1,670,000 Founders shares are held in escrow and will be released as to 10% thereof following acceptance of the Qualifying Transaction, as disclosed in Note 7, and as to 15% thereof on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> month anniversary dates following the initial release date of August 18, 2004. As at December 31, 2006, a total of 501,000 (2005 – 1,002,000) shares were held in escrow.

The 21,101,096 shares issued pursuant to the Qualifying Transaction, as disclosed in Note 7, are subject to an Escrow Agreement dated August 17, 2004 and will be released as to 5% each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup> and 24<sup>th</sup> month anniversary dates and 10% thereof on every 6<sup>th</sup> month anniversary. As of December 31, 2006 a total of 17,098,879 (2005 – 18,990,990) shares were held in escrow.

The 930,464 shares issued pursuant to the Qualifying Transaction, as disclosed in Note 7, are subject to and Escrow Agreement dated August 17, 2004 and will be released as to 10% at the time the transaction is finalized and 15% thereof on every 6<sup>th</sup> month anniversary. As at December 31, 2006 a total of 279,139 (2005 – 558,280) shares were held in escrow.

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**6. Related Party Transactions**

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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 \$254,690 (2005 - \$283,412) 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 \$64,465 (2005 - \$71,343) 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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**7. Business Combination**

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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>

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**8. Technology and Product Development**

During 2005, the Company recorded the benefit of receiving a cash refund of \$225,327 under the Scientific Research and Experimental Development ("SR&ED") Program. The cost related to this tax credit refund covered the period of March 2003 to August 2004. The refund received has been netted against the related technology and development costs in the 2005 as no previous reasonable assurance existed.

**9. 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	<b>33%</b>	34%
Expected income tax (recovery) at statutory rate	<b>\$ (2,096,595)</b>	\$ (730,376)
Stock-based compensation	<b>246,829</b>	82,531
Share issue costs	<b>(213,460)</b>	-
Change in rate	<b>56,757</b>	47,516
Other permanent differences	<b>71,071</b>	4,710
Change in valuation allowance	<b>1,935,398</b>	595,619
Actual income tax provision	<b>\$ -</b>	\$ -

Future income tax assets are calculated and if realization is not considered likely a valuation allowance is provided.

Significant components of this future income tax asset include the following:

	<u>2006</u>	<u>2005</u>
Property and equipment and other assets	<b>\$ (28,766)</b>	\$ (2,440)
Share issue costs	<b>277,226</b>	114,674
Unused tax losses carry forward	<b>3,555,170</b>	1,755,998
	<b>3,803,630</b>	1,868,232
Valuation allowance	<b>(3,803,630)</b>	(1,868,232)
<b>Future income tax asset</b>	<b>\$ -</b>	\$ -

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**9. Income Taxes (cont'd)**

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As at December 31, 2006, subject to confirmation from the income tax authorities, the Company has \$10,523,909 of non-capital losses that are available for carry forward to offset future taxable income expiring as follows:

	Non-Capital Losses
2007	\$ 216,958
2008	145,800
2009	925,878
2013	899,304
2014	611,406
2015	1,919,903
2016	5,804,665
	<u>\$ 10,523,914</u>

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**10. Commitments**

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Including a lease signed subsequent to year end (Note 14), the Company has leased approximately 19,223 square feet of office space. The terms of the leases terminate between March 1, 2011 and July 31, 2013. The Company has an option to renew each lease for an additional 5 year period.

The remaining annual lease commitments relating to these facilities are as follows:

2007	\$ 418,944
2008	\$ 515,089
2009	\$ 525,297
2010	\$ 527,631
2011	\$ 400,236
2012	\$ 193,060
2013	\$ 112,618

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**11. Indemnifications**

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(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.

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**12. Contributed Surplus**

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Balance December 31, 2003 for value assigned for warrants	\$ 55,593
Value assigned for options (Note 5 (c)(i))	79,748
Value assigned for warrants (Note 5 (b)(xi))	<u>263,463</u>
Balance, December 31, 2004	\$ 398,804
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	\$ 583,250
Value assigned for options (Note 5 (c)(i))	<b>759,474</b>
Value of options exercised during the year (Note 5 (c)(ii))	<b>(58,518)</b>
Value of agent warrants issued on March 21, 2006 (Note 5(b)(xiii))	<b>586,408</b>
Balance, December 31, 2006	<b><u>\$ 1,870,614</u></b>

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**Call Genie Inc.**  
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**13. Financial instruments**

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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. At December 31, 2006 all of the Company's cash was held at one financial institution. As such, the Company is exposed to a concentration of credit risk from these counterparties.

(b) Foreign Exchange Risk

The Company is subject to foreign exchange risk for amounts denominated in foreign currencies. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of the rates relative to the Canadian dollar. The Company does not actively manage this risk.

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**14. Economic Dependence**

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

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**15. Subsequent Events**

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(a) Subsequent to year end, the Company granted 1,257,500 stock options to employees and consultants under the Company's stock option plan with exercise prices ranging from \$0.68 to \$0.86 per share and expiring in 2012 vesting over 3 years.

(b) Subsequent to year end, the Company entered into a 6 and 1/3 year lease for approximately 7,000 square feet of office space in Toronto, Ontario. The lease commences on May 1, 2007 and is terminated on July 31, 2013 with a 5 year renewal option.

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**16. Comparative Figures**

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

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