



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, 2007 and the accompanying notes. CG’s period end financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The information in this MD&A is current to August 8, 2007, 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, 2007. There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. 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) sources of call volume for the Yellowpages411 Service; (ii) sources of revenue from the deployment of the EVD Technology that are not dependent upon the number of merchants contracted for subscription fees; (iii) the deployment of YPG media assets to promote awareness of the EVD Service and use of such service; (iv) the timing of full roll-out of a combined EVD/directory assistance service with TELUS Communications Inc. (“TELUS”) and the effect of 411 directory assistance traffic on caller volume to the EVD Service; (v) the percentage of 411 directory assistance inquiries that may be channeled to the EVD Service following deployment of such service in connection with an existing directory assistance service; (vi) anticipate revenue associated with the amended and extended commercial agreements with YPG; (vii) the development of international business opportunities and the marketing of the EVD Service to directory services providers outside Canada; (viii) the time frames associated with trials of the EVD Service, timing of sales cycles, the anticipated commencement of trials of the EVD Service and anticipated commencement of revenues after a commercial contract is executed; and (ix) timing of a trial extension with Verizon Services Corp.; (x) business plan assumptions relating to the number of contracts expected to be entered into with customers for the implementation of the EVD Service prior to the end of 2007; (xi) the value of expanded service offerings including bundling with print and Internet, to YPG customers and the competitive advantage associated with the same; and (xii) the anticipated financial impact in the first 18 months, of arrangements associated with recent



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Company announcements. Readers should review the cautionary statement respecting forward-looking information that appears below.

Certain information set out in this Management Discussion and Analysis constitutes forward-looking information. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "hope", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. 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 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 and the forward-looking statements contained in this Management's Discussion and Analysis should not be considered or interpreted as guarantees of future outcomes or results.** Forward-looking information respecting the likely sources of call volume for the Yellowpages411 Service are based upon experiences to date with the EVD Service, discussions with representatives of YPG, the existing business plan for the HelloYellow Service (which is subject to change) and management's analysis of alternative means to increase call volume for the EVD Service. Forward-looking information respecting expected sources of revenue from the commercial deployment of the EVD Service is based upon experiences to date with the EVD Service, discussions with representatives of YPG, discussions with other potential customers and management's analysis of alternative means to diversify the revenue stream associated with the EVD Service. 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 deployment of the EVD Service in connection with the TELUS 411 directory assistance service and related information (including the timing thereof) is based upon the terms of the arrangements negotiated with YPG and TELUS, technical and business plans developed in relation to the 411 directory assistance service by the Company and others (which are subject to change), progress to date addressing technical integration issues, the existing business plan and budgets of the Company (which are subject to change) and advice received from YPG and TELUS. Forward-looking information respecting estimates of the percentage of 411 directory assistance calls that may be channeled to the EVD Service is based upon estimates of the initial results of a 411 directory assistance trial conducted with a Canadian provider of mobile telephone services during the first six months of 2006. Forward-looking information respecting the anticipated revenues under the amended



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and extended commercial agreements with YPG is based upon the terms of those agreements. 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), the status of current negotiations with a number of potential customers and feedback received from directory services providers and others in various jurisdictions. Forward-looking information relating to sales cycles for the EVD Service, the length of time required to complete trials of the EVD Service and the length of time after a commercial contract concludes until revenues are generated are based upon the Company's historical experiences with YPG and certain potential customers, information sourced through discussions with other directory services providers and other potential customers and the experiences of senior management with the introduction of other technology products. Forward-looking information relating to the timing of a further trial with Verizon Services Corp. is based upon the initial trial conducted with Verizon Services Corp., technology and other plans developed with Verizon Services Corp. as to the timing of certain critical events. Forward-looking information relating to business plan assumptions for the number of customers contracting with the Company by the end of 2007 is based on the experience of management to date in marketing the EVD Service to potential customers, the general indications of market acceptance of business category search as a viable offering within the directory assistance market and the status of ongoing negotiations with certain potential customers. Forward-looking information relating to the value of expanded service offerings, including bundling with print and Internet products, to YPG customers and the competitive advantage associated with the same are based upon management's assessment of the demand for such expanded service offerings and discussions with YPG. Forward-looking information relating to the anticipated financial impact, over the next six to 18 months, of arrangements associated with recent Company announcements is based upon the terms of the contracts negotiated with counterparties and management's estimates as to the time required to penetrate local markets. 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 such forward-looking statements should not be taken as guarantees of future outcomes. Subject to applicable securities laws, the Company 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.



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## BUSINESS OVERVIEW

CG is a developer of voice technology applications, specializing in building comprehensive interactive speech recognition solutions for the directory services industry. The Company offers customized, location-based, enhanced voice directory solutions that allow consumers to locate, obtain information and connect with businesses located within the coverage area. In addition, the Enhanced Voice Directory (“EVD”) system developed by CG permits callers (including users of mobile phones) to connect through to identified merchants using only voice commands. CG utilizes third party technologies from both the Internet and telephony worlds and integrates them with CG’s proprietary processes to deliver a unique voice-web solution.

## SUMMARY OF QUARTERLY RESULTS

	For the Quarters Ended							
	Sept 30 2005	Dec 31 2005	Mar 31 2006	Jun 30 2006	Sept 30 2006	Dec 31 2006	Mar 31 2007	June 30 2007
Revenue	\$ 51,536	\$ 95,027	\$ 115,046	\$ 144,188	\$ 177,841	\$ 261,171	\$ 293,363	\$ 353,356
Cost of sales	43,415	48,331	39,099	24,684	141,593	164,052	196,145	298,787
Gross margin	8,121	46,696	75,947	119,504	36,248	97,119	97,218	54,569
Expenses								
Technology and product development, net	(6,600)	241,146	352,368	494,848	519,896	618,296	699,600	727,634
Sales and marketing	91,682	57,743	98,541	145,401	219,917	197,667	343,534	328,158
Business development	57,931	112,941	299,746	414,679	415,485	598,571	514,807	663,407
General and administrative	200,561	233,873	411,799	374,428	418,941	529,777	681,502	808,403
Interest	-	-	-	-	-	-	-	-
Stock based compensation	46,916	157,161	83,720	111,986	147,077	416,691	191,611	486,973
Amortization	12,076	14,863	27,758	33,582	53,583	64,457	70,883	119,273
	402,566	817,727	1,273,932	1,574,924	1,774,899	2,425,459	2,501,937	3,133,848
Loss from Operations	(394,445)	(771,031)	(1,197,985)	(1,455,420)	(1,738,651)	(2,328,340)	(2,404,719)	(3,079,279)
Other income								
Interest income	19,924	15,246	27,045	87,409	85,870	69,010	51,283	205,994
Net loss for the period	(374,521)	(755,785)	(1,170,940)	(1,368,011)	(1,652,781)	(2,259,330)	(2,353,436)	(2,873,285)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.04)	\$ (0.04)



### Overall

The Company's loss for the three months ended June 30, 2007 was \$2.87 million or \$0.04 per share, up 100% compared to a loss of \$1.37 million, or \$0.03 per share from the same period last year. The increased loss for the period was primarily the result of increased investment in all areas of the business. Sales & marketing costs and business development costs increased \$0.43 million, technology and product development costs increased \$0.23 million, and general administrative costs increased \$ 0.43 million.

### Revenues

Revenues for the three months ended June 30, 2007 increased to \$353,356 from \$144,188 in the three months ended June 30, 2006. Revenues for the six months ended June 30, 2007 increased to \$646,719 from \$259,235 in the six months ended June 30, 2006. The increase in revenue is attributable to the amendment of the agreement with our Yellow Pages customer. In the three months ended June 30, 2007, the Company earned 90% revenue from YPPs and 10% from DAs. The Company earned revenue from multiple sources including consulting and implementation fees, merchant subscription fees, transactional processing fees and hosting fees.

### Cost of Sales

The cost of sales for the three months ended June 30, 2007 increased to \$298,787 from \$24,684 in the three months ended June 30, 2006. The cost of sales for the six month period ended June 30, 2007 increased to \$494,931 from \$63,783 in the six months ended June 30, 2006. Approximately 87% of the increase was due to the staff resources required to support customer specific activities related to market trials and implementations of the Company's EVD system. The remaining 13% of the increase was the result of increased direct costs incurred in the operation of the EVD Service, including telephony costs, hosting, network, voice recordings and other third party charges.

### Expenses

The expenses for the three months ended June 30, 2007 increased to \$3,133,848 from \$1,574,924 for the three months ended June 30, 2006. The expenses for the six months ended June 30, 2007 increased to \$5,635,786 from \$2,848,856 for the six months ended June 30, 2006. The increase in expense is due to the increase in staff resources in all operational areas of the business.



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### *Business Development and Sales & Marketing*

Combined Business Development and Sales & Marketing costs of \$991,565 were incurred for the three months ended June 30, 2007 compared to \$560,080 in 2006. The costs for the six months ended June 30, 2007 were \$1,849,907 compared to \$958,367 for the six months ended June 30, 2006. The increase of \$431,485 for the three months ended June 30, 2007 is primarily attributable to the number of individuals engaged either directly or on contract to undertake business development, account management or marketing activities. At June 30, 2007, the Company engaged 19 individuals (11 in business development, 6 in account management and 2 in marketing) compared to 10 individuals at June 30, 2006 (6 in business development and 4 in account management). Salaries, commissions and benefits for these individuals represent an increase of approximately \$370,000. Required travel for these personnel caused travel expenses to increase by approximately \$55,000 compared to the same period last year. Conference fees also increased by approximately \$20,000 for the three months ended June 30, 2007 compared to 2006 as a result of attending, sponsoring and conducting meetings at yellow pages and directory assistance industry conferences in the United States and Europe.

### *Technology and Product Development*

Technology and product development costs of \$727,634 increased by \$232,786 for the three months ended June 30, 2007, compared to \$494,848 for the same period of 2006. The costs for the six months ended June 30, 2007 were \$1,427,235 compared to \$847,216 for the six months ended June 30, 2006. At June 30, 2007, the Company allocated 32 resources to carry out further development of the product software and processes in support of the product launch compare to 20 at June 30, 2006. Personnel costs consisting of employee salary and benefits and consulting fees increased approximately \$220,000 over the same period last year.

### *General and Administration*

General and administration costs of \$808,403 increased by \$433,975 for the three months ended June 30, 2007, compared to \$374,428 for the same period in 2006. The costs for the six months ended June 30, 2007 were \$1,489,905 compared to \$786,227 for the six months ended June 30, 2006. The increases were consistent with the infrastructure costs required to execute on the Companies business plan. Primarily the increase was due to 1) increased salaries and benefits due to addition of new staff, 2) increased office rent and supplies due to opening of Toronto office and 3) increased recruiting fees associated with a recruitment drive near the end of the quarter, and 4) professional fees, agency fees and shareholder communication costs related to the operation of a public company due to additional financing activities related to private placement.



*Stock based compensation*

Stock based compensation expense for the three months ended June 30, 2007 was \$486,973 compared to \$111,986 for 2006. Stock based compensation expense for the six months ended June 30, 2007 was \$678,584 an increase of \$482,878 from \$195,706 for the six month period ended June 30, 2006. The expense calculated using the Black-Scholes method, recognizes the expense over the vesting period which results in a higher expense in the initial year an option is granted. The increase was due to the number and timing of options granted under the Company's stock option plan and warrants due to the private placement. In addition, the volatility rate increased to 97% in 2007 compared to 83% used in the first half of 2006.

Interest Income

CG earned interest income of \$205,994 on cash and term deposits received for the three months ended June 30, 2007, compared to \$87,409 for the three months ended June 30, 2006. The interest income for the six months ended June 30, 2007 was \$252,277, compared to \$114,454 for the same period in 2006. The increase in interest income was as a result of having cash on hand from the closing of the private placement of common shares completed in May 22, 2007.

Net Loss

As a result of the foregoing, CG's net loss for the three months ended June 30, 2007 was \$2,873,285 which was \$1,368,011 higher than the net loss for the same period in 2006. The net loss for the six month period ended June 30, 2007 was \$5,226,721 which was \$2,687,770 higher than the net loss for the same period in 2006.

**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, 2007 for the six months ended June 30, 2007.

Position	Name	Six Months Ended June 30, 2007
Chief Executive Officer	Michael E. Durance	\$150,000
Senior Vice-President of Business Development	Darren S. Logue	\$174,299
Senior Vice President of Research and Development	Eric Fredine	\$90,000



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Chief Financial Officer	Christopher Shelton	\$90,000
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### Compensation of Directors

No cash compensation was paid to directors, in their capacities as directors for the three and six months ended June 30, 2007.

### FINANCIAL CONDITION

Selected data on financial position	As at June 30	As at December 31	As at June 30
	2007	2006	2006
Cash and cash equivalents	\$ 29,794,673	\$ 5,930,024	\$ 9,444,600
Net working capital	\$ 29,866,110	\$ 5,869,270	\$ 9,350,667
Total assets	\$ 31,523,253	\$ 6,961,759	\$ 10,075,488
Total long-term liabilities	\$ -	\$ -	\$ -
Total liabilities	\$ 715,023	\$ 578,757	\$ 343,099
Shareholders' equity	\$ 30,808,230	\$ 6,383,002	\$ 9,732,389

### Outstanding Share Capital

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 76,852,146 common shares were outstanding at June 30, 2007, compared to 53,217,074 shares at December 31, 2006. During the six months ended June 30, 2007, 22,882,448 shares were added due to various private placements for total gross proceeds of \$30,000,000. During the six months ended June 30, 2007, 752,624 options and warrants were exercised, for aggregate proceeds of \$429,859. 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, 2007 was \$31.5 million, up \$24.5 million from December 31, 2006. Cash and cash equivalents increased \$23.9 million mainly due to private placements completed during the three months ended June 30, 2007. Accounts receivable increased approximately \$278,000 mainly due to increased interest earned. The increase was the result of higher interest rates from cashable guaranteed investment certificates applied to the higher cash balance.



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### *Working Capital*

At June 30, 2007, the Company had a positive working capital of \$29.9 million. The recent financing activities noted above have added approximately \$28.5 million to working capital. See the information set out under the heading “Business Risks and Uncertainties” below.

### *Cash and cash equivalents*

At June 30, 2007, the Company’s cash and cash equivalents amounted to approximately \$29.8 million compared with \$5.9 million at December 31, 2006. The increase was due to the recent financing activities noted above.

## **OUTLOOK**

### **Yellowpages411 (formerly known as HelloYellow)**

The EVD Service is commercially available in Canada in all major population centers in Ontario, Alberta and British Columbia under the YPG brand “YellowPages411”. It is accessed by dialing “310-YELO” (310-9356), a toll free call in the service area, or “#YELO” (#9356) on Bell Mobility, Rogers or 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 merchant information for the most popular consumer categories associated with YPG’s directories.

The coverage area of the YellowPages411 Service, initially confined to the GTA, expanded to other major centers in Ontario during the last half of 2006. In the first 60 days of 2007, the YellowPages411 Service expanded to major centers in Alberta and British Columbia. The YellowPages411 Service currently encompasses over 1,800 category headings focused on business to consumer content. At present, the location search capability built into the EVD Service covers 4,482 cities and towns, 3,134 neighborhoods, 9,621 landmarks and over 28,666 intersections in Canada. The database includes over 2,128,000 listings available for search.

Management of CG believes that the ultimate success of Yellowpages411 (and the EVD Service in general) is dependent upon the number of calls delivered to merchants through the Yellowpages411 Service. At the current time, the Company’s business plan contemplates that call volume will be derived from two primary sources: (i) promotion of a “vanity” number, such as 310-YELO, leading to direct calls to the YellowPages411 Service by persons wishing to undertake a business category search; and (ii) the integration of the Yellowpages411 service with directory assistance services offered by 411 providers -- as a



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result of which a subset of callers seeking directory assistance may be channeled to the Yellowpages411 service.

Since the inception of the Yellowpages411 Service, YPG and CG have relied on building customer awareness strictly through the use of a vanity number. However, management of CG is of the view that the sustainability of the Yellowpages411 Service is dependent upon the integration of Yellowpages411 with the directory assistance services offered by 411 providers in Canada and the increase in caller volume that is anticipated following such integration. At the current time, management of CG anticipates that 411 inquiries directed to the Yellowpages411 Service will ultimately result in a higher volume of calls to merchants who have acquired an EVD listing than calls made to a vanity number.

YPG continues to promote consumer use of the EVD Service by utilizing existing YPG media assets. YPG promotes the YellowPages411 brand through its print services and its on-line services. YPG places (and is expected to continue to place) information and user tips, together with re-occurring reminder ads, in new releases of the Yellow Pages print directories for the service areas where the EVD Service is offered. As well, YPG has established a website, [www.yellowpages411.ca](http://www.yellowpages411.ca), to promote the Service, address FAQ's and generate sales leads. Other internet sites such as [Canada411.com](http://Canada411.com), [YellowPages.ca](http://YellowPages.ca), and [TorontoPlus.ca](http://TorontoPlus.ca), which are among the most visited internet sites in Canada, have also featured YellowPages411 co-promotions.

From the inception of the YPG project through August 3, 2007, approximately 245,000 information searches were conducted utilizing the EVD Service. The average number of monthly calls has fluctuated; however, call volume has generally increased substantially during major advertising campaigns. To date, only limited advertising in support of the Yellowpages411 Service has occurred, which has been principally undertaken to confirm that consumers would use the Service if they were aware of its availability.

In mid July 2007, the Yellowpages411 Service was integrated with the TELUS 411-directory assistance service in western Canada and parts of eastern Canada. At this time, the EVD supported 411 directory assistance service offered by TELUS is available for landline calls. CG management expects that the rollout to the complete TELUS network including wireless and wholesale traffic will occur by the end of third quarter of 2007. Introduction of this integrated service may result in increased caller volume to the Yellowpages411 Service and may be a catalyst for increased merchant contracts. Initial indications are positive in that the service has been accessed by live consumers. However, given the short reporting period, it is too early to provide any indications of the level of customer adoption.

Based on the initial results from the 411-directory assistance trial with Rogers Telecom, which was conducted during the first six months of 2006, management of CG estimates that



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10% – 13% of 411 directory assistance calls may be channeled to the EVD Service, as callers chose a business category search over a standard 411 assistance inquiry.

Based upon third-party information, management of CG estimates that the TELUS service (including wholesale traffic) processes approximately 50% of the 411 directory assistance inquiries made in Canada annually. Management of CG has been advised that 180 million to 370 million directory assistance inquiries are made in Canada on an annual basis.

Under the commercial arrangement between the Company's wholly-owned subsidiary, Call Genie (Ontario) Inc. ("CGOI") and YPG, CGOI derives revenue from merchants who pay to obtain an EVD listing. Effective May 1, 2007, CGOI agreed to certain amendments to the commercial agreements with YPG and extended the term of those agreements by two years to December 31, 2010. The commercial agreements with YPG, as amended and extended, provide for aggregate payments of \$4.3 million to Call Genie for the provision of its technology and the delivery of maintenance and support services over the remaining term. In addition, CGOI is entitled to a percentage of YPG's gross revenues attributable to the deployment of the Yellowpages411 Service. The sharing of revenue from the EVD Service is to be calculated on a sliding scale basis, with the percentage of annual revenue received by CGOI from the EVD Service reducing as increased revenue targets are achieved. The commercial agreements with YPG do not provide for any limit on the amount of revenue that may be earned by CGOI.

YPG and Call Genie continue to review and evaluate additional commercial products in an effort to maximize the deployment of the EVD Service. For example, a pay-for-performance trial is in the planning phase. Under the pay-for-performance model, participating merchants will only pay for calls that they actually receive from consumers who utilize the EVD Service. Also, expanded service offerings, including bundling with print and internet products are being reviewed. Management of CG believes that these additional products would have value for YPG customers and provide YPG with an advantage over competitive print directory providers. The success of these products is dependent on consumer use of the EVD Service and an increase in caller volume above current levels. On a going forward basis, Call Genie management expects revenues to be derived from several sources (consulting fees, maintenance and support fees, pay-per-call fees, and banner advertisements) that are not dependant on the number of merchants contracted for subscription fees.

### **Technology Development**

Further development and improvement of the EVD Service is an ongoing process. At this time, technology development is focused on: (i) the creation of tools to support the efficient commercial deployment of the EVD Service in other urban areas, (ii) enhancing the usability of the EVD Service based upon consumer and merchant feedback, (iii) enhancing application scalability to support deployment in additional markets or with additional partners (or both),



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(iv) 411 directory assistance research and development (relating to implementation, deployment, pilot parameters and test environments), (v) the expansion and enhancement of key success indicators/metrics, in an effort to facilitate the rapid determination of caller behavior and implementation of learnings, (vi) the creation of more robust and in-depth tuning and transcription tools, (vii) the creation of multi-modal capabilities for input and output of search requests and results presentation, and (viii) the development required to support a multi-lingual system including the support of French followed by Spanish.

### **International Expansion**

The Kelsey Group, an independent organization that provides analysis of the directory services industry, has estimated that approximately 7% of the 2005 global revenues of directory service publishers was derived from their digital directories (i.e. the internet). The balance of their revenue was derived primarily from print books. The Kelsey Group has estimated that in 2008, total annual 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 progress during the first half of 2007. As at June 30, 2007, the Company's Business Development group consisted of eleven staff. The Company's Business Development staff has been tasked with responsibility to identify and pursue international expansion opportunities.

In the past eighteen months, the business development focus has been on increasing the number of international sales leads and advancing existing prospects through the sales cycle. These activities have included attendance at significant industry conferences. During the year ended December 31, 2006, Call Genie was awarded three industry awards recognizing excellence for marketing and technical innovation.

Discussions are ongoing with approximately 65 Yellow Pages Providers, Directory Assistance Providers, and Online Service Providers in North America, Europe and elsewhere, 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. A



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preliminary step towards the development of a contractual relationship is generally the signing of a memorandum of understanding, which outlines the activities and responsibilities of the parties in relation to a trial of the EVD Service within a limited geographical area. Trials are expected to last between six and nine months depending on the opportunity before a commercial contract could be finalized. Realization of revenue streams may up to 18 months after a contract is finalized depending on the customer's ability to sell the service to its merchants and/or consumers.

In the last four months, the Company made three announcements with respect to new customer initiatives. First, the Company announced the completion of a Software Services Agreement with Verizon Services Corp. (a 411 provider). This Agreement sets out the terms and conditions under which the Company's wholly-owned subsidiary, Call Genie USA, Inc. CG may provide services over a five year term. The Agreement enables the extension of a commercial trial in the second half of 2007. Second, the Company announced a trial with TELUS with respect their launch of its EVD service in the United States. Third, the Company announced a contract with America Say Hello Inc. for the provision of the EVD Service. The arrangements associated with these announcements may not generate any material financial impact over the course of the next 18 months but demonstrate continued progress towards commercialization.

The Company has completed the development work required to commence EVD Service trials in all major metropolitan areas in the US. Trials of the EVD Service remain a significant milestone with each potential customer. The Company's current business plan contemplates that CG will enter into contracts with three additional customers in North America for the implementation of EVD Service prior to the end of 2007. Overall, CG management believes that the Company is now well positioned, from a business development perspective, 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



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in significant dilution to CG Shareholders. The inability to obtain additional funds may have a material adverse affect on CG's business, results of operations, and financial condition.

#### *No Record of Profit*

CG has incurred significant losses to date, and there can be no assurance that the future business activities of CG will be profitable. Since its organization, CG has incurred costs to develop and enhance its technology, to establish strategic relationships and to build administrative support systems. CG has incurred negative operational cash flow to date. CG incurred losses from operations of \$5,226,721 for the six months ended June 30, 2007, \$6,451,062 for the year ended December 31, 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. In the first quarter of 2007, the EVD Service was expanded to Alberta and British Columbia. There can be no assurance that a national rollout of the EVD Service 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.



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There can be no assurance that CG will be successful in addressing the challenges to which it will be exposed. If CG is not successful in addressing such challenges, CG's business, results of operations and financial condition could be materially adversely affected.

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

CG's principal business (the provision of the EVD Service) and 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 is only one significant directory service provider 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 and one directory assistance provider in the United States. CG's future success will be dependant upon these contracts remaining in full force and effect, compliance with the terms of such contracts on the part of other parties thereto and CG's ability to perform its obligations thereunder, including achieving successful commercial launch of the EVD Service on a national basis. Any disruption of the relationship with Yellow Pages Group Co. or the directory assistance provider in the United States (through termination of the contract or otherwise) or any interruption of the business (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 is, and will continue to 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. In addition, there can be no assurance that the Company will continue to have access to required third-party technology on terms acceptable to Call Genie. If CG is unable to obtain third party technology on



acceptable terms, 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. Similar technologies have begun to emerge that are competitive with the EVD Service technology. Certain organizations with substantially greater financial and human resources than the Company have active research and development initiatives involving the development of voice search capabilities and are attempting to deploy that technology on a commercial basis. Should CG be unable to secure additional customers due to competitive technologies a material adverse effect on CG's business, results of operations and financial condition could result.

In addition, 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



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technologies or offer new services could have a material adverse effect on CG's business, results of operations and financial condition.

#### *Defects and Liability*

The hardware and software utilized to deliver the EVD Service is complex and sophisticated and may contain design defects or software errors that are difficult to detect and correct. There can be no assurance that the EVD Service technology will be free from errors or defects, or, if discovered, that CG will be able to successfully correct such errors in a timely manner or at all. Errors or failures in the technology could result in loss of or delay in market acceptance of the EVD Service and correcting such errors and failures could require significant expenditures. Because of the limited number of directory service providers, the reputational harm resulting from errors and failures will be damaging to CG. The consequences of such errors and failures could have a material adverse effect on CG's businesses, results of operations and financial condition.

#### *Patents and Other Intellectual Property*

While CG has applied for patents for certain elements of the EVD Service, there can be no assurance that such applications will result in the granting of patent protection. Competitors may have filed patent applications or hold issued patents relating to services or processes competitive with those that CG is developing. Any patents covering elements of the EVD Service granted to third parties (or the inability of CG to successfully challenge such patents) may impair CG's ability to do business in a particular area. Others may independently develop similar services or duplicate unpatented elements of the EVD Service.

CG's success will be largely dependent upon its ability to protect its proprietary technology. CG relies upon copyrights, trademarks and trade secrets to protect its intellectual property. Where appropriate, CG also enters into non-disclosure agreements with persons to whom it reveals proprietary information. Any failure or inability on the part 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.



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*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 has placed, and is likely to continue 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 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.



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#### *Costs Associated with Compliance with Securities Laws*

CG is a publicly traded corporation subject to all of the obligations imposed on “reporting issuers” under applicable securities laws and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with public company status have escalated dramatically in recent years and regulatory initiatives under consideration may further increase the costs of being public in Canada and could have a material adverse effect on CG's business, results of operations and financial condition. If CG is unable to generate significant revenues from business operations, the cost of complying with applicable regulatory requirements will represent a significant financial burden to CG and may have a material adverse effect on CG's business, results of operations and financial condition.

#### *Risk of Future Terrorist Attacks or Related Disasters*

The terrorist attacks of September 11, 2001 had an adverse impact on various regions of the North America and on a wide range of industries. In the future, civil unrest, economic recession, war and additional acts of terrorism may adversely impact the North American and global economies and financial markets and could adversely affect the CG's business, results of operations and financial condition.

#### *Risk of Industry Consolidation*

CG's business customers may be classified as Yellow Pages Providers, Directory Assistance Providers and Telecommunication Service Providers. Each of these industries is characterized by a relatively 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](http://www.callgenie.com).