

**Call Genie Inc.  
(A Development Stage Enterprise)  
Consolidated Interim Financial  
Statements  
For the nine month period ended  
September 30, 2004  
(Unaudited)**

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

	<b>September 30, 2004</b>	<b>December 31, 2003</b> (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 2(b))	\$ 2,209,590	\$ 72,869
Accounts receivable	45,015	28,195
Prepaid expenses and advances	20,157	1,500
	2,274,762	102,564
<b>Equipment (Note 3)</b>	<b>37,346</b>	<b>12,568</b>
<b>Other assets (Note 4)</b>	<b>44,783</b>	<b>8,317</b>
	\$ 2,356,891	\$ 123,449
<b>Liabilities and Shareholders' Deficiency</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 176,802	\$ 178,107
Amounts due to a related party (Note 6)	-	122,140
	176,802	300,247
<b>Convertible debenture (Note 5)</b>	<b>-</b>	<b>290,000</b>
	<b>176,802</b>	<b>590,247</b>
<b>Shareholders' equity (deficiency)</b>		
Equity instruments (Note 8 (b))	4,706,116	967,994
Contributed surplus (Note 8 (c) (i), 8(d) (i) and (ii))	383,983	55,593
Deficit	(2,910,010)	(1,490,385)
	<b>2,180,089</b>	<b>(466,798)</b>
	<b>\$ 2,356,891</b>	<b>\$ 123,449</b>

Approved on behalf of the Board:

\_\_\_\_\_(Signed) "Richard W. DeVries" Richard W. DeVries, Director

\_\_\_\_\_(Signed) "Ronald D. Johnston" Ronald D. Johnston, Director

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

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

	For the three month period ended September		For the nine month period ended September	
	30, 2004	September 30, 2003	30, 2004	September 30, 2003
<b>Expenses</b>				
Amortization	\$ 5,012	\$ 1,564	\$ 11,266	\$ 1,564
Business development	12,191	-	12,191	-
General and administrative	187,174	110,591	542,824	253,809
Interest	-	64	23,651	1,655
Sales and marketing	26,921	-	26,921	-
Stock based compensation (Note 8 (c))	155,490	-	268,403	-
Technology and product development	196,418	61,371	538,778	135,847
	<u>583,206</u>	<u>173,590</u>	<u>1,424,034</u>	<u>392,875</u>
<b>Other income</b>				
Interest income	4,409	-	4,409	-
<b>Net loss for the period</b>	<b>(578,797)</b>	<b>(173,590)</b>	<b>(1,419,625)</b>	<b>(392,875)</b>
Deficit, beginning of period	<u>(2,331,213)</u>	<u>(784,646)</u>	<u>(1,490,385)</u>	<u>(565,361)</u>
<b>Deficit, end of period</b>	<b>\$ (2,910,010)</b>	<b>\$ (958,236)</b>	<b>\$ (2,910,010)</b>	<b>\$ (958,236)</b>
<b>Loss per share*</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>	<b>\$ (0.06)</b>	<b>\$ (0.07)</b>
<b>Weighted average number of shares</b>	<b>30,421,678</b>	<b>6,563,622</b>	<b>23,786,761</b>	<b>5,665,634</b>

\* No diluted earnings per share have been disclosed, as these would be anti dilutive.

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

	For the three month period ended		For the nine month period ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (578,797)	\$ (173,590)	\$ (1,419,625)	\$ (392,875)
Items not involving cash:				
Interest on convertible debenture	-	-	23,651	-
Stock based compensation	155,490	-	268,403	-
Amortization	5,012	1,564	11,266	1,564
	<u>(418,295)</u>	<u>(172,026)</u>	<u>(1,116,305)</u>	<u>(391,311)</u>
Changes in non-cash working capital:				
Accounts receivable	-	(3,253)	(8,290)	(10,837)
Advances receivable	(121,775)	-	148,628	38,500
Prepaid expenses and advances	(17,315)	-	(18,657)	-
Accounts payable and accrued liabilities	(196,673)	14,353	302	(42,770)
Amount due to a related party	(175,658)	7,073	(122,140)	22,638
	<u>(929,716)</u>	<u>(153,853)</u>	<u>(1,116,462)</u>	<u>(383,780)</u>
<b>Cash flows from financing activities</b>				
Issuance of common shares (net of share issue costs)	-	100,201	-	366,474
Concurrent financing related to RTO (net of issue costs)	1,770,971	-	1,707,207	-
Advances under convertible debenture	-	50,000	260,000	50,000
	<u>1,770,971</u>	<u>150,201</u>	<u>1,967,207</u>	<u>416,474</u>
<b>Cash flows from investing activities</b>				
Acquisition of GRD	1,386,900	-	1,386,900	-
Business combination costs	(5,000)	-	(28,414)	-
Acquisition of equipment	(16,577)	(3,197)	(32,156)	(10,397)
Acquisition of other assets	(10,668)	-	(40,354)	-
	<u>1,354,655</u>	<u>(3,197)</u>	<u>1,285,976</u>	<u>(10,397)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,195,910</b>	<b>(6,849)</b>	<b>2,136,721</b>	<b>22,297</b>
Cash and cash equivalents, beginning of period	<u>13,680</u>	<u>30,473</u>	<u>72,869</u>	<u>1,327</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,209,590</b>	<b>\$ 23,624</b>	<b>\$ 2,209,590</b>	<b>\$ 23,624</b>

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

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

**September 30, 2004**

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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 survivor 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 services under development. The Company is currently in the process of developing the enhanced voice directory. All costs incurred to date have been recorded as technology and development expense. No revenue has been generated from the sale of its services to date.

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. There are several development stages to be completed before the marketability, if any, of the Company's technology can be determined. These stages include the commercial launch of the service, the services ability to meet consumer expectations, the initial and continued use of the service by consumers and merchants subscribing for the service. While the Company has derived no 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.

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**2. Significant Accounting Policies**

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The consolidated interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated interim financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality. These consolidated interim financial statements should be read in conjunction with the most recent annual consolidated financial statements. The significant accounting policies follow that of the most recently reported annual consolidated financial statements, except for the following:

(a) Stock-based compensation

As a result of the adoption of the Canadian Institute of Chartered Accountants ("CICA") section 3870, "Stock-based Compensation and Other Stock-based Payments" the Company has restated their comparative 2003 results to reflect the adoption effective January 1, 2003.

(b) Cash and cash equivalents

Included in cash and cash equivalents are bank balances and cashable short term investments with a maturity date within three months.

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

**September 30, 2004**

**3. Equipment**

	<b>September 30, 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
Computer hardware	\$ 43,321	\$ 8,804	\$ 34,517
Computer software	3,672	1,135	2,537
Office furniture and equipment	429	137	292
	\$ 47,422	\$ 10,076	\$ 37,346

December 31, 2003 (Audited)

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
Computer hardware	\$ 14,837	\$ 2,612	\$ 12,225
Office furniture and equipment	429	86	343
	\$ 15,266	\$ 2,698	\$ 12,568

**4. Other Assets**

	<b>September 30, 2004</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
Trademarks and patents	\$ 48,671	\$ 3,888	\$ 44,783

December 31, 2003 (Audited)

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
Trademarks	\$ 8,317	\$ -	\$ 8,317

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

**September 30, 2004**

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**5. Convertible Debenture**

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In September 2003, the Company issued a Convertible Debenture ("Debenture"), bearing interest at 12% per annum, with a principal amount of \$1,000,000 of which \$290,000 was advanced to the Company as at December 31, 2003 and additional \$260,000 advanced by March 31, 2004. The debenture and accrued interest, totalling \$578,247 was converted into 1,927,490 common shares, at \$0.30 per share, as of May 28, 2004. The equity component of this debenture had not been segregated as the value attributable to the equity component was not material.

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**6. Due to Related Party**

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Amounts due to a company, related by virtue of common management, were extinguished during the period. The amount was unsecured, non-interest bearing and had no fixed terms of repayment.

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**7. Related Party Transactions**

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In addition to the related party transactions described in other notes to these consolidated financial statements, the Company had the following transactions:

- (a) During the first nine months of 2004, the Company was charged \$45,000 (2003 - \$9,000) for rent expense in the normal course of operations by a corporation controlled by a shareholder for shared office premises.
- (b) In the first three quarters of 2004, the Company was advanced \$260,000 (2003 - \$290,000) of \$1,000,000 on a Convertible Debenture from a corporate shareholder (Note 5).
- (c) Included in technology and product development, and general and administrative expenses in the normal course of operations are \$395,775 (2003 - \$214,900) of consulting services paid to officers and consultants who are either shareholders or warrant holders of the Company.
- (d) Interest expense of \$23,651 (2003- \$Nil) was accrued on the convertible debenture (Note 5) to a company who is also a corporate shareholder.

All the related party transactions have been recorded at the agreed upon exchange amounts. The exchange amounts agreed upon reflect the carrying values and approximate fair values of the services rendered.

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

**September 30, 2004**

**8. 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, 2003	7,140,010	\$ 967,994
Shares issued on conversion of debt (i)	1,927,490	578,247
Subtotal before business combination	9,067,500	1,546,241
Adjustment for business combination RTO (Note 9)	15,641,639	-
Shares issued on acquisition (Note 9)	7,500,000	1,512,656
Shares issued on concurrent financing (ii)	4,444,400	1,999,980
Less amount allocated to warrants	-	(72,406)
Share issue costs on concurrent financing (\$59,987 relates to agents options granted Note 8(c))	-	(352,761)
<b>Balance September 30, 2004</b>	<b>36,653,539</b>	<b>\$ 4,633,710</b>

Issued and outstanding warrants

	Warrant Exercise Price Range	Number of Warrants	Amount
<u>Warrants</u>			
Balance, December 31, 2003	\$0.50	1,600,000	\$ -
Adjustment for business combination RTO (Note 9)		2,760,035	-
Subtotal after business combination RTO	\$0.225	4,360,035	-
Warrants issued on concurrent financing (iv)	\$0.90	2,222,200	72,406
<b>Balance, September 30, 2004</b>	<b>\$0.225 – 0.90</b>	<b>6,582,235</b>	<b>\$ 72,406</b>
<b>Total equity instruments</b>			<b>\$ 4,706,116</b>

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

**September 30, 2004**

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**8. Equity instruments (cont'd)**

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- (i) On May 28, 2004, the Company issued 1,927,490 shares upon the conversion of the Convertible Debenture in the amount of \$578,247, principal and accrued interest, at \$0.30 per share (Note 5).
- (ii) 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 share. Each Unit consisted of one common share and one-half of one share purchase warrant (Note 8 (c)(ii)).
- (iii) The Company had issued, with an effective date of September 30, 2003, 1,600,000 warrants (4,360,035 post business combination), which were priced at \$0.50 each and the warrant holder is entitled to acquire for each warrant, on or after March 1, 2005 and before March 1, 2010, one common share of the Company. The warrants were issued to officers of the Company and would be cancelled upon voluntary resignation or termination for cause of the officer prior to March 1, 2005. Upon the completion of the business combination, these warrants were repriced to \$0.225 each (pre business combination price \$0.613) and the cancellation clause was removed.

The Company measures compensation costs associated with stock-based compensation using the fair value method and the cost is recognized over the vesting period of the underlying security. As a result of the accelerated vesting as described above, the full value was recognized as at September 30, 2004. The fair value of each warrant was determined at the grant date using the Black-Scholes model assuming a risk-free interest rate of Nil% and an expected volatility rate of 100%.

For the period ended September 30, 2004, \$263,433 has been recorded as stock based compensation related to these compensation warrants with the corresponding amount charged to contributed surplus.

- (iv) As part of the concurrent financing, equity participants received one common share and a one-half of one share purchase warrant. Each full share purchase warrant, (up to 2,222,200) will entitle the holder to acquire one common share at an exercise price of \$0.90 for a period of 18 months from the closing date.

As at September 30, 2004, \$72,406 of the total proceeds has been attributed to the warrants. The fair value was determined using the Black-Scholes model assuming a risk-free interest rate of Nil% and an expected volatility rate of 55%.

(c) Options

- (i) The Company has 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. The non-transferable option has an expiry date of 18 months from the date of closing. Furthermore, since each unit has one-half a warrant attached to it, the Agent's will also have the option to additionally acquire up to 222,220 shares which may be exercised at the price of \$0.90 per share.

As at September 30, 2004, \$59.987 has been included in the share issue costs, with the corresponding amount charged to contributed surplus for the options issued to the agent above. The fair value was determined using the Black-Scholes model assuming a risk-free interest rate of Nil% and an expected volatility rate of 55%.

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

**September 30, 2004**

**8. Equity instruments (cont'd)**

(c) Options (cont'd)

- (ii) The Company has granted 1,150,000 stock options to its employees as at September 1, 2004 at a price of \$0.45 per share, exercisable every six months for a period of three years. The options expire September 1, 2009.

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 assuming a risk-free interest rate of Nil% and an expected volatility rate of 55%.

As at September 30, 2004, \$4,940 has been recorded as stock based compensation related to he warrants with the corresponding amount charged to contributed surplus.

- (iii) At the time of the business combination with GRD, there were 600,000 GRD options outstanding to directors of GRD. Additionally, there were 583,000 options outstanding for issuance to agents under the GRD IPO. The option plan that was in effect prior to the business combination continues as is, except that the options are now exercisable into Call Genie shares. The exercise price per share is \$0.30.
- (iv) The following table summarizes information about the stock options outstanding at September 30, 2004:

<u>Options</u>	Number of Options	Option Exercise Price Range	Weighted Average Exercise Price
<i>Employees, directors and officers:</i>			
Balance, December 31, 2003	600,000	\$0.30	\$0.30
Options granted to employees	1,150,000	\$0.45	\$0.45
	1,750,000	\$0.30 - \$0.45	\$0.40
<i>Agents:</i>			
Balance, December 31, 2003	583,000	\$0.30	\$0.30
Options issued to agents on concurrent financing	444,440	\$0.45	\$0.45
Option to acquire share purchase warrants	222,220	\$0.90	\$0.90
	1,249,660	\$0.30 - \$0.90	\$0.46
<b>Balance, September 30, 2004</b>	<b>2,999,660</b>	<b>\$0.30 - \$0.90</b>	<b>\$0.42</b>

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

**September 30, 2004**

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**9. 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 shares issued on acquisition was based on the fair value of the net assets acquired. 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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**10. Non-Cash Transactions**

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During the nine months ended September 30, 2004, the debenture payable and the related interest expense payable on the debenture was converted into 1,927,490 common shares, at \$0.30 per share.

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**11. Commitments**

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Effective August 18, 2004, the Company entered into a sublease agreement for new premises. The terms of the sublease commenced on October 1, 2004 and terminate on January 15, 2006.

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

2004	\$	11,420
2005	\$	45,678
2006	\$	1,842

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**Call Genie Inc.**  
**(A Development Stage Enterprise)**  
**Supplementary Information**  
**(Unaudited)**

**September 30, 2004**

**Technology and Product Development Expenses**

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Consulting fees	\$ 120,583	\$ 58,000	\$ 437,601	\$ 130,250
Salaries and benefits	52,205	-	52,205	-
Travel expenses	6,985	-	12,159	-
Education and training	58	3,171	3,048	5,197
Miscellaneous	-	200	-	400
Product development	3,508	-	13,883	-
Application hosting and telecommunications	13,079	-	13,922	-
Website development	-	-	5,960	-
	<b>\$ 196,418</b>	<b>\$ 61,371</b>	<b>\$ 538,778</b>	<b>\$ 135,847</b>

**Sales and Marketing Expenses**

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Consulting fees	\$ 9,988	\$ -	\$ 9,988	\$ -
Salaries and benefits	11,340	-	11,340	-
Travel expenses	4,028	-	4,028	-
Telecommunications	100	-	100	-
Office supplies	1,465	-	1,465	-
	<b>\$ 26,921</b>	<b>\$ -</b>	<b>\$ 26,921</b>	<b>\$ -</b>

**Business Development Expenses**

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Consulting fees	\$ 1,500	\$ -	\$ 1,500	\$ -
Travel expenses	3,649	-	3,649	-
Conferences	7,042	-	7,042	-
	<b>\$ 12,191</b>	<b>\$ -</b>	<b>\$ 12,191</b>	<b>\$ -</b>

**Call Genie Inc.**  
**(A Development Stage Enterprise)**  
**Supplementary Information**  
**(Unaudited)**

**September 30, 2004**

**General and Administrative Expenses**

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Consulting fees	\$ 87,514	\$ 89,999	\$ 327,134	\$ 185,234
Salaries and benefits	16,511	-	16,511	-
Consumer and merchant research	19,400	-	35,165	-
Agency and filing fees	10,609	-	10,609	-
Office supplies	1,384	2,218	4,538	5,990
Telecommunications	2,882	-	8,386	-
Software maintenance	-	-	2,683	-
Office rent	15,000	5,909	45,000	11,909
Professional fees	24,484	1,445	36,624	13,964
Travel expenses	9,385	9,182	43,283	31,078
Education and training	(1,354)	-	7,221	-
Entertainment and promotion	1,359	1,838	5,670	5,634
	<b>\$ 187,174</b>	<b>\$ 110,591</b>	<b>\$ 542,824</b>	<b>\$ 253,809</b>