



Call Genie Inc.
Quarterly Report
March 31, 2005

Management's 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 2005 unaudited interim period financial statements for the quarter ended March 31, 2005 and the accompanying notes and the audited annual financial statements and the accompanying notes for the year ended December 31, 2004 and the related annual MD&A. CG's unaudited interim period 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 May 18, 2005, unless otherwise noted.

FORWARD LOOKING STATEMENTS

Certain statements regarding the Company and its business contained herein are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "expect", "may", "anticipate" or "will" and similar expressions) may include estimates, plans, expectations, opinions, guidance or other statements that are not statements of fact. 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. These statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those anticipated or implied in the forward-looking statements. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

BUSINESS OVERVIEW

CG is a developer of voice technology applications, specializing in building comprehensive interactive speech recognition solutions for the directory services industry. The Company offers customized, location-based, enhanced voice directory solutions that allow consumers to locate, obtain information and connect with businesses. CG takes leading technologies from both the Internet and telephony worlds and integrates them with CG's proprietary processes to deliver a unique voice-web solution.



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RESULTS OF OPERATIONS

Summary of Quarterly Results

	For the Quarters Ended							
	Jun 30 2003	Sep 30 2003	Dec 31 2003	Mar 31 2004	Jun 30 2004	Sep 30 2004	Dec 31 2004	Mar 2005
Expenses								
Technology and product development, net	\$ 37,476	\$ 61,371	\$ 143,683	\$ 164,453	\$ 177,907	\$ 196,418	\$ 217,310	\$ 182,014
Sales and marketing	-	-	-	-	-	26,921	79,622	134,843
Business development	-	-	-	-	-	12,191	4,157	28,452
General and administrative	120,516	110,591	325,872	199,937	155,713	187,174	162,314	151,413
Interest	-	64	5,867	13,191	10,460	-	2	-
Stock based compensation	-	-	55,593	56,457	56,456	155,490	14,821	14,821
Amortization	-	1,564	1,134	2,711	3,543	5,012	7,362	8,852
	<u>157,992</u>	<u>173,590</u>	<u>532,149</u>	<u>436,749</u>	<u>404,079</u>	<u>583,206</u>	<u>485,588</u>	<u>520,395</u>
Other income								
Interest income	-	-	-	-	-	4,409	10,053	8,374
Net loss for the period	<u>\$ (157,992)</u>	<u>\$ (173,590)</u>	<u>\$(532,149)</u>	<u>\$ (436,749)</u>	<u>\$ (404,079)</u>	<u>\$ (578,797)</u>	<u>\$ (475,535)</u>	<u>\$ (512,021)</u>
Loss per share	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

Expenses

The expenses for the three month period ended March 31, 2005 increased to \$520,395 from \$436,749 in the three month period ended March 31, 2004.

Technology and Product Development

Technology and product development costs increased to \$182,014 for the three month period ended March 31, 2005, compared to 164,453 for the same period of 2004.

The increases were primarily due to increased personnel engaged in developing the product software and processes, and supporting the commercial launch. Personnel costs increased by \$23,490 for the three month period ended March 31, 2005, compared to the same period for 2004. Additional initial costs have also been incurred in setting up the voice platform with the local telephone provider and voice talent recording and tuning for the enhanced voice directory service. These costs increased by \$14,416 for the three month period ended March



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31, 2005, compared to the same period of 2004. During the three month period ended March 31, 2005 the Company recovered costs in the amount of \$13,174 pursuant to its agreement with the Yellow Pages Group Co. (“YPG”).

Sales and Marketing

Sales costs of \$134,843 were incurred for the three month period ended March 31, 2005 compared to \$nil for the same period of 2004. The increase in costs were related to salaries and consulting fees paid to sales consultants who were contracted by the Company to supervise and contract merchants for the HelloYellow service for the Greater Toronto Area (“GTA”). The sales are contracted in the name of YPG and the Company has an agreement with YPG on the recovery of costs and profit sharing.

Business Development

Business development costs of \$28,452 were incurred for the three month period ended March 31, 2005, compared to \$nil for the same period of 2004. The increases in costs were related to allocating consulting costs related to these functions in the amount of \$21,000 and external costs of \$6,553 for attending and having meetings at yellow page industry conferences in the United States.

General and Administration

General and administration costs decreased by \$48,524 during the three month period ended March 31, 2005, compared to the same period of 2004. The decrease was primarily due to a allocation of personnel costs into the specific functions that the personnel are performing within sales and business development areas as the Company transitions into an operating phase. Personnel costs decreased by \$53,559 for the three month period ended March 31, 2005, compared to the same period of 2004. Costs in the amount of \$12,200 that were incurred 2004 in performing both consumer and merchant research were not incurred in 2005. Professional and agency fees associated with maintaining a public company caused increases over the prior period in the amount of \$29,575 for three month period ended March 31, 2005. Insurance expense incurred for directors and officers insurance and general business insurance increased by \$4,694 for the three month ended March 31, 2005, compared to the same period of 2004.

Travel expenses and conference fees decreased during the three month period ended March 31, 2005, compared to the same period of 2004 as such travel costs were allocated to the specific operating function in 2005 as opposed to general and administrative and the conference costs were allocated to business development. Travel expenses and conference fees decreased by \$14,338 for the three month period ended March 31, 2005, compared to the same period of 2004.



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Interest

Interest expense of \$nil was incurred by CG on a convertible debenture for the three month period ended March 31, 2005 compared to \$13,191 for the three month period ended March 31, 2004. The debenture was converted into equity in May, 2004.

Stock based compensation

Stock based compensation expense for the three month period ended March 31, 2005 was \$14,821, which related to the granting of options to employees effective September 1, 2004. The stock based compensation for the three month period ended March 31, 2004 was \$56,457 which related to warrants that were issued September 30, 2003. The stock based compensation for the warrants was fully realized as of December 31, 2004.

Interest Income

CG earned interest income of \$8,374 on cash and term deposits, all of which was earned in the first quarter of 2005 compared to \$nil for the three months ended March 31, 2004. The increase in interest income was a result of having cash on hand from the closing of the business combination and concurrent financing in August, 2004.

Net Earnings

As a result of the foregoing, the net loss for CG for the first quarter of 2005 was \$512,021 which was \$75,272 higher than the same period in 2004.

Critical Accounting Policies and Estimates

CG prepares its consolidated financial statements in Canadian dollars and in accordance with accounting principles generally accepted in Canada.

During the quarter, the Company implemented a revenue recognition policy as CG started to receive reimbursements of expenses pursuant to its agreement with YPG, as a result of the commercial launch of the enhanced voice directory service.

The Company's revenue recognition policy is as follows:

The Company sells its services primarily through a joint operating agreement with a directory service provider. As a part of this agreement, the Company is reimbursed certain costs and is entitled to a net profits interest. The costs reimbursed are treated



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as a reduction of related expenses. The net profits interest will be reported on a line by line basis (i.e. the Company will report its share of revenues and expenses).

There were no significant estimates in the quarter other than the estimates used for stock based compensation. Since the Company is now publicly traded it has a basis for evaluating the expected volatility rate. The Company has used a volatility rate of 55%.

FINANCIAL CONDITION

Outstanding Share Capital

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 36,833,599 common shares were outstanding at March 31, 2005. Further information on the CG's outstanding share capital is provided in Note 5 to the unaudited interim period financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows used in Operating Activities

For the first quarter ended March 31, 2005, the cash flows used in operating activities were \$551,852 compared to cash flows used in operating activities of \$299,118 for the first quarter ended March 31, 2004. The increase in cash flows used in operating activities is primarily attributable to increased personnel and operating costs used in developing the product software and processes, and supporting the commercial launch.

Cash flows from Financing Activities

For the first quarter ended March 31, 2005, the cash flows from financing activities were \$nil compared to cash flows from financing activities of \$260,000 for the first quarter ended March 31, 2004. The cash received from financing activities for 2004 was generated from advances under convertible debenture.

Cash flows used in Investing Activities

For the first quarter ended March 31, 2005, the cash flows used in investing activities were \$46,117 compared to cash flows used in investing activities of \$25,076 for the first quarter ended March 31, 2004. Cash flows used for investing was primarily attributable to the computer equipment required for the software developers to develop the technology and the



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servers for operating the HelloYellow service and the patents and trademark costs incurred to protect the technology.

As at March 31, 2005, CG had a positive working capital of \$1,142,337.

OUTLOOK

In January 2005, CG and YPG introduced the Enhanced Voice Directory (“EVD”) Service to the Greater Toronto Area (“GTA”). The EVD Service is an interactive voice recognition-based service that provides access to the most popular consumer categories associated with YPG’s print and on-line directories.

The EVD Service is designed to enable consumers to search for, identify and retrieve location sensitive information concerning everyday products and services, using their mobile or landline telephones, and complete their searches by auto-connecting through to merchants. According to the New Jersey-based Kelsey Group, a leading provider of strategic research and analysis on the yellow pages industry, the launch of this CG/YPG offering will mark the first time that a service of this nature has been offered anywhere in the world.

CG and YPG plan to continue the commercial introduction of the EVD Service through a scaled rollout. The goal is to prove out the concept in a live commercial environment to ensure: (i) merchant adoption, through appropriate pricing parameters, sales methods and content presentation; (ii) consumer use, by determining the optimal and cost effective methods to generate awareness of the service and drive calls; and (iii) service readiness (i.e. the technology and platform provides a good and consistent consumer and merchant experience).

In February 2005, YPG’s advertising consultants developed a branding and messaging strategy for the EVD Service and introduced “HelloYellow™-Powered by Call Genie™”. The logo builds on the famous Yellow Pages walking fingers. The “HelloYellow™” service is accessed by calling “310-YELO” (310-9356), a catchy, easy to remember number that is a toll free call from anywhere in the service area.



HelloYellow™



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During the initial rollout of the EVD Service, CG and YPG expect to promote consumer use utilizing those media assets of YPG that can be quickly configured to reflect the “HelloYellow” brand, including, it is anticipated, Internet sites such as Canada411.com and YellowPages.ca. The mobile browsers on Bell Mobility phones are embedded with links to the service. To make it easy for consumers, #YELO (#9356) has been activated with Bell Mobility. In addition, new location based service technologies, which enable the service to automatically locate the caller, are being tested. Most of these media assets were not fully configured to the new “HelloYellow” brand and deployed by YPG as a marketing and promotion medium until April, 2005, and others are still waiting to be configured and deployed by YPG. YPG introduced a new website, www.helloyellow.ca, to explain the service, address FAQ’s and generate sales leads. Following successful commercial launch, advertising, information and operating instructions together with re-occurring reminder ads will be featured in new releases of the Yellow Pages print directories in the service areas. CG and YPG are also assessing other YPG and external marketing assets that will be required to promote consumer use of the “HelloYellow” EVD Service.

Initially, merchant sales will be the responsibility of a dedicated sales force assembled by CG. The aim of the sales force was to sell the new service and to test and solicit feedback from merchants on the marketing and branding strategy, the sales approach, sales material and collateral, merchant needs and pricing and packaging options. The sales force has garnered valuable information during the initial sales phase, but the sales process has been complicated as the final “HelloYellow” branding, 310-YELO toll free number, most YPG media assets and other YPG furnished sales tools were only made available to the sales team late in the first quarter or subsequent to the end of the quarter. For the selling period that commenced late in January and into February up to the end of the first quarter, 125 merchants were contracted, representing annualized contract values of approximately \$219,000, net of all discounts offered to early subscribers. As of May, 2005, CG has, as planned, narrowed its sales force down to a core of 8 people. It is anticipated that YPG will start marketing the “HelloYellow” service through its general sales force during the third quarter of 2005, which is the start of YPG’s new sales year and when accounts are reallocated to individual members of the sales force. In addition, YPG’s largest Certified Marketing Representative (“CMR”) firm has requested the right to represent and sell listings for the “HelloYellow” service. CMR’s represent large national advertisers and endeavor to identify industry trends and utilize directional advertising mediums to reach the demographic that their clients target. CG has been informed the CMR intends to commence selling listings once YPG has finalized its media plan. Presently, the “Hello Yellow” service is priced to merchants at between \$69 and \$149 per month per listing per YPG directory coverage area, with certain discounts offered to these early subscribers for the first year.

SuperPages™ is Canada's second largest directory information provider. In March 2005, YPG announced that it had entered into a definitive agreement to purchase Superpages™



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from Bain Capital, with an expected close date around June, 2005. Following completion of the acquisition of Superpages™ by YPG, the combined business will be the leading directory publisher in most major Canadian markets with a total of 337 directories and a circulation of approximately 28 million copies. Yellow Pages Group will also operate Canada's leading online directories and city sites. YPG is presently devoting considerable resources to the SuperPages transaction. Call Genie believes this is a beneficial development as the “HelloYellow” service could be rapidly configured and deployed into these new YPG markets, including Vancouver, Calgary and Edmonton, provided the agreement between Yellow Pages Group and CG is amended to add the new territory.

The EVD Service technology continues to evolve and improve. Highlights of the ongoing development include (i) implementation of first generation system operating and tracking statistics reports, (ii) deployment of first generation key word search for selected directory categories, such as “lawyers”, “golf” and “insurance”, (iii) improvement of audio quality through implementation of pre-recorded phone numbers and merchant names, (iv) implementation of “N-Best Processing” for intersections and headings, which enables a caller to pick from a list of closest matches, resulting in improved recognition rates, (v) expansion of synonyms, resulting in improved category recognition, (vi) deployment of the merchant order entry and enhanced content system, (vii) integration of additional utterances into the system for tuning purposes, resulting in increased recognition rates and improved grammar development, and (viii) testing and limited deployment of short messaging service (SMS), which automatically sends an SMS message back to the handset with the name, address and phone number of the chosen merchant.

As the “HelloYellow” service is more fully proved out in the commercial context, CG and YPG anticipate that further assets will be dedicated to the rollout and strategic partnerships implemented that promote consumer usage and awareness. YPG and CG will continue to review the progress of the EVD Service to determine that the goals for merchants, users and technology are being met.

Assuming successful commercial launch and proof of concept in the GTA, the agreement between CG and YPG contemplates that the “HelloYellow” service will be expanded to other urban centers in Ontario and Quebec. Additional markets may be addressed once YPG completes its acquisition of SuperPages

The reader is directed to CG’s website at www.callgenie.ca.