

**Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Interim Financial
Statements
For the three and six months period ended
June 30, 2005
(Unaudited – Prepared by Management)**

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NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Call Genie Inc. and the accompanying consolidated interim balance sheets as at June 30, 2005 and the consolidated interim statements of earnings, retained earnings and cash flows for the three and six months period then ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, BDO Dunwoody LLP.

The consolidated interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these consolidated financial statements in accordance with Canadian generally accepted accounting principles.

“ signed ”

Michael E. Durance
Chief Executive Officer
Toronto, Ontario
August 16, 2005

“ signed ”

Ian S. Hill
Chief Financial Officer
Calgary, Alberta
August 16, 2005

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Interim Balance Sheets
(Unaudited-prepared by management)

	June 30, 2005	December 31, 2004 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 3,331,043	\$ 1,832,573
Accounts receivable	53,113	20,009
Prepaid expenses and advances	10,322	23,334
	3,394,478	1,875,916
Equipment (Note 3)	65,707	49,033
Other assets (Note 4)	67,525	47,558
	\$ 3,527,710	\$ 1,972,507
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 195,403	\$ 199,114
Shareholders' equity		
Equity instruments (Note 5 (b))	7,298,246	4,760,134
Contributed surplus (Note 5 (c) (i))	437,466	398,804
Deficit	(4,403,405)	(3,385,545)
	3,332,307	1,773,393
	\$ 3,527,710	\$ 1,972,507

Approved on behalf of the Board:

“signed” _____ S. Graeme Ross, Director

“signed” _____ 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-prepared by management)

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Revenue	\$ 30,641	\$ -	\$ 43,815	\$ -
Costs of sales	48,588	-	73,996	-
Gross margin	(17,947)	-	(30,181)	-
Expenses				
Amortization	10,381	3,543	19,233	6,254
Business development	28,281	-	56,733	-
General and administrative	144,845	155,713	296,258	355,650
Interest	-	10,460	-	23,651
Sales and marketing	117,400	-	252,243	-
Stock based compensation (Note 5 (c))	23,841	56,456	38,662	112,913
Technology and product development	169,988	177,907	339,768	342,360
	494,736	404,079	1,002,897	840,828
Earnings (loss) from operations	(512,683)	(404,079)	1,033,078	(840,828)
Other income				
Interest income	6,844	-	15,218	-
Net loss for the period	(505,839)	(404,079)	(1,017,860)	(840,828)
Deficit, beginning of period	(3,897,566)	(1,927,134)	(3,385,545)	(1,490,385)
Deficit, end of period	\$ (4,403,405)	\$ (2,331,213)	\$ (4,403,405)	\$ (2,331,213)
Loss per share*	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Weighted average number of shares	37,555,466	21,361,407	37,196,527	20,414,308

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

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

Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Interim Statements of Cash Flows
(Unaudited-prepared by management)

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Cash flows from operating activities				
Net loss for the period	\$ (505,839)	\$ (404,079)	\$ (1,017,860)	\$ (840,828)
Items not involving cash:				
Interest on convertible debenture	-	28,246	-	28,246
Stock based compensation	23,841	56,456	38,662	112,913
Amortization	10,381	3,543	19,233	6,254
	<u>(471,617)</u>	<u>(315,834)</u>	<u>(959,965)</u>	<u>(693,415)</u>
Changes in non-cash working capital:				
Accounts receivable	11,667	10,745	(33,104)	12,114
Prepaid expenses and advances	10,598	(43,618)	13,012	(88,520)
Accounts payable and accrued liabilities	17,436	96,054	(3,711)	192,379
Amount due to a related party	-	27,847	-	53,518
	<u>(431,916)</u>	<u>(224,806)</u>	<u>(983,768)</u>	<u>(523,924)</u>
Cash flows from financing activities				
Issuance of common shares (net of share issue costs)	2,538,112	-	2,538,112	-
Advances payable	-	250,000	-	250,000
Advances under convertible debenture	-	-	-	260,000
	<u>2,538,112</u>	<u>250,000</u>	<u>2,538,112</u>	<u>510,000</u>
Cash flows from investing activities				
Acquisition of equipment	(6,788)	(1,150)	(28,843)	(17,389)
Acquisition of other assets	(2,969)	(19,039)	(27,031)	(27,876)
	<u>(9,757)</u>	<u>(20,189)</u>	<u>(55,874)</u>	<u>(45,265)</u>
Increase (decrease) in cash and cash equivalents	2,096,439	5,005	1,498,470	(59,189)
Cash and cash equivalents, beginning of period	<u>1,234,604</u>	<u>8,675</u>	<u>1,832,573</u>	<u>72,869</u>
Cash and cash equivalents, end of period	\$ 3,331,043	\$ 13,680	\$ 3,331,043	\$ 13,680

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

Call Genie Inc.
(A Development Stage Enterprise)
Notes to the Consolidated Interim Financial Statements
(Unaudited-prepared by management)

June 30, 2005

1. Nature of Operations and Going Concern

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 launching the enhanced voice directory. All costs incurred to date have been recorded as technology and development expense. The Company has started to recover some costs pursuant to the agreement with a directory service provider as a result of commercial launch.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. While there have been delays in revenue generating activities, management has raised additional equity to compensate for any shortfall. Because the Company has derived limited revenue from its technology development projects, its ability to continue operations is uncertain and dependent upon the successful completion of technical and market development of such technology and achieving profitable operations. Additional financing may also be required. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and liabilities that might be necessary should the Company be unable to continue in business.

2. Significant Accounting Policies

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) Revenue recognition

The Company sells its services primarily through a joint operating agreement with a directory service provider. Revenues are earned through the sale of directory advertising. Advertising revenues are generally billed, in accordance with the contractual terms with the advertisers, and recognized on a monthly basis over the estimated life of the directory advertising, not exceeding twelve months, commencing with the month the service went into operation. The Company is entitled to and records 100% of the monthly amounts billed to the directory advertiser, net of certain direct costs of the directory service provider, until payout of certain operating and development costs incurred on a cumulative basis have been recovered by the Company. As of June 30, 2005, the Company has not recovered cumulative costs of approximately \$2.6 million. After payout of the above, the directory service provider is entitled to recover certain marketing costs, these costs will be recorded as a liability of the Company when it is more likely than not, that they will be recovered from project profits. After all costs above are recovered the Company will record its ongoing current monthly operating and development costs recoverable under the joint operating agreement and its share of net profit as revenue as agreed with the directory service provider.

Call Genie Inc.
(A Development Stage Enterprise)
Notes to the Consolidated Interim Financial Statements
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June 30, 2005

2. Significant Accounting Policies (cont'd)

(a) Revenue recognition – continued

The Company makes a provision for bad debts and cancellations of contracts using management's best estimate. The provision is netted against accounts receivable and revenue. The provision is reviewed on a regular basis by management.

(b) Cost of sales

The Company includes in cost of sales direct costs related to operating of the enhanced voice directory service which includes telephony costs, hosting, network, tuning and other third party charges.

(c) Stock based compensation

The Company has a stock-based compensation plan as described in Note 8(c) (ii). The Company accounts for its stock-based compensation programs using the fair value method. Under this method, stock based compensation expense related to these programs is recorded in the statement of earnings and retained earnings with the corresponding amount increasing contributed surplus over the vesting period.

3. Equipment

		June 30, 2005		
		Cost	Accumulated Amortization	Net book value
Computer hardware	\$	91,350	\$ 26,763	\$ 64,587
Office furniture and equipment		1,442	322	1,120
		\$ 92,792	\$ 27,085	\$ 65,707
		December 31, 2004 (Audited)		
		Cost	Accumulated Amortization	Net book value
Computer hardware	\$	62,506	\$ 14,717	\$ 47,789
Office furniture and equipment		1,442	198	1,244
		\$ 63,948	\$ 14,915	\$ 49,033

Call Genie Inc.
(A Development Stage Enterprise)
Notes to the Consolidated Interim Financial Statements
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June 30, 2005

4. Other Assets

	June 30, 2005		
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 80,999	\$ 13,474	\$ 67,525
December 31, 2004 (Audited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 53,968	\$ 6,410	\$ 47,558

5. Equity Instruments

- (a) Authorized
 Unlimited common shares without par value
 Unlimited preferred shares without par value, non cumulative, redeemable, and non voting
- (b) Issued and outstanding common shares

	Number of Shares	Amount
Balance, December 31, 2004 and March 31, 2005	36,833,599	\$ 4,687,728
Shares issued on private placement	5,000,000	2,500,000
Shares issued on exercise of options	249,970	74,991
Share issue costs on private placement		(36,879)
Balance, June 30, 2005	42,083,569	7,225,840

Issued and outstanding warrants

	Warrant Exercise Price Range	Weighted Average Remaining Life	Number of Warrants	Amount
<u>Warrants</u> Balance , December 31, 2004, March 31, 2005, and June 30, 2005	\$0.225 – \$0.90	3.61 years	6,582,235	\$ 72,406
Total equity instruments				\$ 7,373,350

Call Genie Inc.
(A Development Stage Enterprise)
Notes to the Consolidated Interim Financial Statements
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June 30, 2005

5. Equity Instruments (cont'd)

(c) Options

- (i) 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 3.5% and an expected volatility rate of 65%.

As at June 30, 2005, \$38,662 has been recorded as stock based compensation related to the options with the corresponding amount charged to contributed surplus.

- (ii) The following table summarizes information about the stock options outstanding at June 30, 2005:

	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
<u>Options</u>				
<i>Employees, directors and officers:</i>				
Balance, December 31, 2004 and March 31, 2005	1,450,000	\$0.30 - \$0.45	4.66 years	\$0.42
Options granted to employees	1,200,000	\$0.50	4.92 years	\$0.50
	2,650,000	\$0.30 - \$0.50	4.64 years	\$0.46
<i>Agents:</i>				
Balance, December 31, 2004 and March 31, 2005	1,219,600	\$0.30 - \$0.90	.68 years	\$0.46
Less:				
Agents options exercised	(249,970)	\$0.30	-	\$0.30
	969,630	\$0.30 - \$0.90	.49 years	\$0.51
Balance, June 30, 2005:	3,619,630	\$0.30 - \$0.90	3.53 years	\$0.47

6. Related Party Transactions

The Company had the following related party transactions:

- (a) During the first six months of 2005, the Company was charged \$Nil (2004 - \$30,000) for rent expense in the normal course of operations by a corporation controlled by a shareholder for shared office premises. The Company no longer shares the office premises.
- (b) In the first six months of 2005, the Company was advanced \$Nil (2004 - \$550,000) of \$1,000,000 on a convertible debenture from a corporate shareholder. The convertible debenture was closed off and converted to equity in 2004.

Call Genie Inc.
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June 30, 2005

6. Related Party Transactions (cont'd)

(c) Included in technology and product development, and general and administrative expenses in the normal course of operations are \$117,750 (2004 - \$306,875) of consulting services paid to officers and consultants who are either shareholders or warrant holders of the Company.

(d) Interest expense of \$Nil (2004- \$23,651) was accrued on the convertible debenture to a company who is also a corporate shareholder. The convertible debenture was closed off and converted to equity in 2004.

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.

7. Non-Cash Transactions

During 2005, the Company paid interest of \$Nil (2004- \$23,651) on the convertible debenture by charging a credit to the debenture account. The convertible debenture was closed off and converted to equity in 2004.

8. Commitments

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:

2005	\$	22,839
2006	\$	1,842

9. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

Call Genie Inc.
(A Development Stage Enterprise)
Supplementary Information
(Unaudited – prepared by management)

June 30, 2005

Technology and Product Development Expenses

Breakdown by major category:

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Consulting fees	\$ 2,550	\$ 163,897	\$ 4,050	\$ 317,018
Salaries and benefits	162,902	-	327,514	-
Travel expenses	1,416	2,551	2,828	5,174
Product development	2,330	8,469	4,586	11,218
Education and training	790	2,990	790	2,990
Website development	-	-	-	5,960
	\$ 169,988	\$ 177,907	\$ 339,768	\$ 342,360

Sales and Marketing Expenses

Breakdown by major category:

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Consulting fees	\$ 76,377	\$ -	\$ 171,540	\$ -
Salaries and benefits	23,515	-	50,742	-
Travel expenses	13,729	-	23,488	-
Telecommunications	1,195	-	2,254	-
Sales material	1,879	-	1,879	-
Office supplies	705	-	2,340	-
	\$ 117,400	\$ -	\$ 252,243	\$ -

Business Development Expenses

Breakdown by major category:

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Consulting fees	\$ 22,757	\$ -	\$ 44,169	\$ -
Travel expenses	1,697	-	4,604	-
Conferences	3,353	-	7,000	-
Office supplies	474	-	960	-
	\$ 28,281	\$ -	\$ 56,733	\$ -

Call Genie Inc.
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Supplementary Information
(Unaudited – prepared by management)

June 30, 2005

General and Administrative Expenses

Breakdown by major category:

	For the three month period ended		For the six month period ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Consulting fees	\$ 36,313	\$ 114,424	\$ 72,687	\$ 239,620
Salaries and benefits	35,262		70,524	-
Consumer and merchant research	-	3,567	-	15,767
Agency and filing fees	3,015	-	13,737	-
Shareholder communication and meetings	19,004	-	21,700	-
Insurance	4,695	-	9,390	-
Office supplies	5,416	1,168	9,947	3,154
Telecommunications	3,481	2,520	8,193	5,504
Software maintenance		-	-	2,683
Office rent	12,354	15,000	24,390	30,000
Professional fees	11,538	7,066	32,770	12,140
Travel expenses	11,880	10,521	27,275	33,898
Education, training and dues	619	-	2,839	8,575
Entertainment and promotion	1,268	1,447	2,806	4,309
	\$ 144,845	\$ 155,713	\$ 296,258	\$ 355,650