



Call Genie Inc.
Quarterly Report
June 30, 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 June 30, 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 August 16, 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							
	Sep 30 2003	Dec 31 2003	Mar 31 2004	Jun 30 2004	Sep 30 2004	Dec 31 2004	Mar 31 2005	Jun 30 2005
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,174	\$ 30,641
Cost of sales	-	-	-	-	-	-	25,408	48,588
Gross margin	-	-	-	-	-	-	(12,234)	(17,947)
Expenses								
Technology and product development	61,371	143,683	164,453	177,907	196,418	217,310	169,780	169,988
Sales and marketing	-	-	-	-	26,921	79,622	134,843	117,400
Business development	-	-	-	-	12,191	4,157	28,452	28,281
General and administrative	110,591	325,872	199,937	155,713	187,174	162,314	151,413	144,845
Interest	64	5,867	13,191	10,460	-	2	-	-
Stock based compensation	-	55,593	56,457	56,456	155,490	14,821	14,821	23,841
Amortization	1,564	1,134	2,711	3,543	5,012	7,362	8,852	10,381
	173,590	532,149	436,749	404,079	583,206	485,588	508,161	494,736
Earnings (loss) from operations	(173,590)	(532,149)	(436,749)	(404,079)	(583,206)	(485,588)	(520,395)	(512,683)
Other income								
Interest income	-	-	-	-	4,409	10,053	8,374	6,844
Net loss for the period	\$ (173,590)	\$ (532,149)	\$ (436,749)	\$ (404,079)	\$ (578,797)	\$ (475,535)	\$ (512,021)	(505,839)
Loss per share	\$ (0.03)	\$ (0.08)	\$ (0.06)	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

Revenue

The revenue for the three month period ended June 30, 2005 increased to \$30,641 from \$nil in the three month period ended June 30, 2004. The revenue for the six month period ended June 30, 2005 increased to \$43,815 from \$nil in the six month period ended June 30, 2004. The increase in revenue over both periods was as a result on launching the commercial product in the Greater Toronto Area in the first quarter of 2005 and selling the services through a joint operating agreement with a directory service provider.



Cost of sales

The cost of sales for the three month period ended June 30, 2005 increased to \$48,588 from \$nil in the three month period ended June 30, 2004. The cost of sales for the six month period ended June 30, 2005 increased to \$73,996 from \$nil in the six month period ended June 30, 2004. The increase in cost of sales over both periods was as a result direct costs related to the operating of the enhanced voice directory service which includes telephony costs, hosting, network, tuning and other third party charges.

Expenses

The expenses for the three month period ended June 30, 2005 increased to \$494,736 from \$404,079 in the three month period ended June 30, 2004. The expenses for the six month period ended June 30, 2005 increased to \$1,002,897 from \$840,828 in the six month period ended June 30, 2004.

Technology and Product Development

Technology and product development costs decreased by \$7,919 and \$2,592 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004.

The decreases were primarily due to the reduction of development related costs for designing and developing the product software, training of the staff and developing processes, as the service was launched in the first quarter of 2005. These costs decreased by \$8,339 and \$14,792 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004. Personnel costs however increased by \$1,555 and \$14,546 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods for 2004.

Sales and Marketing

Sales and marketing costs increased by \$117,400 and \$252,243 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004. The increase in costs were related to salaries and consulting fees paid to employees and sales consultants who were contracted or employed 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 increased by \$28,281 and \$56,733 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004. The increases in costs were related to allocating consulting costs related to these functions in the amount of \$22,757 and \$44,169, for the three and six month periods ended June 30, 2005, respectively, compared to the same periods for 2004. The increase in external costs of \$5,524 and \$12,564 for the three and six month periods ended June 30, 2005, were for attending and having meetings at yellow page industry conferences in the United States.

General and Administration

General and administration costs decreased by \$10,868 and \$59,392 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004. The decrease was primarily due to an allocation of personnel costs into the specific functions that the personnel are performing within the sales and business development areas as the Company transitions into an operating phase. Personnel costs decreased by \$42,849 and \$96,049 for the three and six months ended June 30, 2005, respectively, compared to the same periods of 2004. Costs in the amount of \$3,567 and \$15,767 for the three and six month periods ended June 30, 2004 in performing both consumer and merchant research were not incurred in 2005. Professional and agency fees, and shareholder communication costs associated with maintaining a public company caused increases over the prior period in the amount of \$33,557 and \$68,207 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004. Insurance expense incurred for directors and officers insurance and general business insurance increased by \$4,695 and \$9,390 for the three and six month periods ended June 30, 2005, respectively, compared to the same periods of 2004.

Interest

Interest expense of \$nil was incurred by CG on a convertible debenture for the three month period ended June 30, 2005 compared to \$10,460 for the same periods for 2004. Interest expense of \$nil was incurred by CG on a convertible debenture for the six month period ended June 30, 2005 compared to \$23,651 for the same periods for 2004. The debenture was converted into equity in May, 2004.

Stock based compensation

Stock based compensation expense for the three month period ended June 30, 2005 was \$23,841, compared to \$56,456 for the same period for 2004. The decrease was due to the elimination of the stock based compensation related to the change in the vesting terms of warrants on the business combination.



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Stock based compensation expense for the six months ended June 30, 2005 was \$38,662 compared to \$112,913 for the six months ended June 30, 2004. The decrease in the expense is related to warrants that were issued September 30, 2003 and the subsequent realization of the charge to income over the six month period ended June 30, 2004. The stock based compensation related to these warrants was eliminated in 2005 as described above.

Interest Income

CG earned interest income of \$6,844 on cash and term deposits, for the three month period ended June 30, 2005 compared to \$nil for the same period in 2004. CG earned interest income of \$15,218 on cash and term deposits, for the six month period ended June 30, 2005 compared to \$nil for the same period in 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 and the private placement closed in June 2005.

Net Earnings

As a result of the foregoing, the net loss for CG for the second quarter of 2005 was \$505,839 which was \$101,760 higher than the same period in 2004. The net loss for CG for six month period ended June 30, 2005 was \$1,017,860 which was \$177,032 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.

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



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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.

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

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.

Estimates

There were no other significant estimates in the quarter other than the estimates used for stock based compensation. The Company has used a volatility rate of 65%.

FINANCIAL CONDITION

Outstanding Share Capital

CG's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized and 42,083,569 common shares were outstanding at June 30, 2005. Further information on the CG's outstanding share capital is provided in Note 5 to the unaudited interim period financial statements.

During the current quarter, the Company completed a private placement for gross proceeds of \$2,500,000 (\$2,463,121 net). The Corporation accepted subscriptions for an aggregate of 5 million shares at a sale price of \$0.50 per share.

Also during the current quarter, 249,970 options originally priced at \$0.30 held by Agents were exercised, resulting in proceeds of \$74,991.



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LIQUIDITY AND CAPITAL RESOURCES

Cash flows used in Operating Activities

For the second quarter ended June 30, 2005, the cash flows used in operating activities were \$431,916 compared to cash flows used in operating activities of \$224,806 for the second quarter ended June 30, 2004. For the six month period ended June 30, 2005, cash flows used in operating activities were \$983,768 compared to \$523,924 for the same period in 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 second quarter ended June 30, 2005, the cash flows from financing activities were \$2,538,112 compared to cash flows from financing activities of \$nil for the second quarter ended June 30, 2004. For the six month period ended June 30, 2005, cash flows from financing activities were \$2,538,112 compared to \$260,000 for the same period in 2004. The cash received from financing activities for 2005 was generated from the private placement financing that raised net proceeds of \$2,463,121 and proceeds of \$74,991 from the exercise of options.

Cash flows used in Investing Activities

For the second quarter ended June 30, 2005, the cash flows used in investing activities were \$9,757 compared to cash flows used in investing activities of \$20,189 for the second quarter ended June 30, 2004. For the six month period ended June 30, 2005, cash flows used in investing activities were \$55,874 compared to cash flows used in investing activities \$45,265 for the same period in 2004. Cash flows used for investing was primarily attributable to the computer equipment required for the software developers to develop the technology and the patents and trademark costs incurred to protect the technology.

As at June 30, 2005, CG had a positive working capital of \$3,199,075.

OUTLOOK

In July 2005, Michael E. Durance assumed his duties full time as the new Chief Executive Officer of CG. Mr. Durance was also elected as a member of the Board of Directors at the Annual and Special Meeting of the shareholders of the Company held on June 17, 2005.



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Michael Durance is a proven executive leader in the software and telecommunications industries with demonstrated general management capabilities and over 23 years of industry specific experience, including interactive voice recognition applications. Most recently, Mr. Durance was Vice President and General Manager at Toshiba America Information Systems in Irvine, California, where he was group executive responsible for up to six Toshiba divisions. Mr. Durance has also held senior positions, including international assignments, at ADC Telecommunications and Nortel Networks, and was an officer at Saville Systems.

Neil D. Frizzell, the former Chief Executive Officer, was appointed Executive Chairman of CG concurrent with the appointment of Mr. Durance as CEO.

The Kelsey Group has extended an invitation to Call Genie to be a feature speaker at the Directory Driven Commerce (DDC) conference entitled “What Is the Future of the Yellow Pages?” to be held September 27-29 in Denver, Colorado. Michael Durance will highlight Call Genie’s technology and speak on the topic “What Emerging Technologies Will Drive Tomorrow’s Directories?” The Kelsey Group is the leading provider of strategic research and analysis to the yellow pages industry. The DDC conference is the major annual gathering held by The Kelsey Group for the directory services industry.

On June 22, 2005, the Company completed a non-brokered private placement for gross proceeds of \$2.5 million. The Corporation accepted subscriptions for an aggregate of 5 million common shares, at a sale price of \$0.50 per share, which represented a 25% premium to the closing price of the common shares on the TSX Venture Exchange on the day the issue was priced. In total, insiders of the Company (and associates of insiders) subscribed for and purchased approximately 27% of the total number of shares issued in connection with the private placement (33.4% including the Company’s new Chief Executive Officer, Mr. Michael Durance).

Proceeds from the private placement have been added to the working capital of CG and used to fund the continued rollout of the Company’s Enhanced Voice Directory (“EVD”) Service[™], which has been launched on a commercial basis in the Greater Toronto Area (“GTA”) in cooperation with the Yellow Pages group Co. (“YPG”). In addition, proceeds of the private placement are expected to be utilized to pursue other business opportunities, including the ongoing effort to expand the EVD Service to urban areas outside of the Greater Toronto Area.

On June 9, 2005, CG announced that it had entered into an agreement with TELUS Communications Inc. and YPG to develop and implement a voice activated, business search feature for use in connection with the 411 directory assistance service offered by TELUS. Once successfully tested and launched, the business search feature will enable TELUS 411 callers to undertake a localized search of the most popular business categories associated with the Yellow Pages[™] directories using only voice commands.



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This 411 category search initiative is intended to drive callers to the EVD Service where YPG merchants can be presented in response to the requested search.

CG has been advised that the majority of 411 callers use directory assistance to search for business listings. Most of those callers have a specific business name in mind, but may also be interested in other business listings within a particular geographic area. A number of other callers access the 411 service to locate businesses within a particular category (a flower shop, for example). The EVD Service is viewed as a means to enhance the directory assistance experience as category searches of this type and the presentation of alternative listings could enhance the information available through TELUS directory assistance.

CG expects to work with TELUS to customize the EVD Service so as to enable it to operate in conjunction with TELUS directory assistance and its wholesale directory assistance customers. Under the 411 Services Agreement entered into with TELUS and YPG, testing of the customized service will be undertaken to ensure applicable service and functionality levels are attained. Following the successful completion of testing, which is expected to take place through to the first quarter of 2006, the service is expected to be launched by TELUS in the GTA. Assuming positive GTA implementation results, TELUS will offer the customized EVD Service as a component of its 411 directory assistance service in all other markets where CG and YPG may launch the EVD Service in the future.

The EVD Service is commercially available in the GTA under the YPG brand "HelloYellow" and is accessed by dialing "310-YELO" (310-9356), a toll free call in the service area, or "#YELO" (#9356) on Bell Mobility. 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. 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 and assess: (i) merchant adoption, through appropriate pricing parameters, sales methods and content presentation; (ii) consumer use, including a determination of 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). 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.

During the initial rollout of the EVD Service, CG and YPG have attempted to promote consumer use utilizing those media assets of YPG that were quickly configured to reflect the "HelloYellow" brand, including Internet sites such as Canada411.com, YellowPages.ca, SuperPages.ca and TorontoPlus.ca. Mobile browsers on all the leading



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Canadian cellular carriers 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. YPG introduced a new website, www.helloyellow.ca, to explain the service, address FAQ's and generate sales leads. Additionally, YPG is expected to place information and operating instructions, together with re-occurring reminder ads, in new releases of the Yellow Pages print directories in the service areas where the EVD Service is offered.

CG has been informed by YPG that it is planning an external advertising campaign in the GTA for the third and fourth quarters of 2005. The goal of this media plan is to utilize third party advertising assets (i.e. radio, billboards and other promotional venues) to promote the "HelloYellow" brand and to create awareness and usage of the "310-YELO" number.

Initially, sales of EVD listings to merchant were 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, merchant needs and pricing and packaging options. As planned, the sales force was reduced to 4 people by July and by the end of July, 2005, CG's dedicated sales force had completed its mandate and was fully disbanded. YPG has interviewed and offered positions to the majority of the CG sales force. Commencing in July, the responsibility for sales of the "HelloYellow" service was transferred over to the YPG General Sales Force. CG will have the responsibility of providing sales training, EVD Service training, in house sales support and sales and marketing collateral to the YPG General Sales Force. CG expects this process to be completed for the majority of the YPG sales force near the end of the third quarter. The YPG General Sales Force in the GTA consists of two premise Sales divisions, High Value Customers and General Business, and the Telephone Sales division. The first sales of the HelloYellow service to a YPG merchant by YPG's own sales force occurred in late July. The YPG General Sales Force is presently concentrating its sales effort in the geographic area of Halton/Peel and will, as is its custom, shift its focus to other areas of the GTA as the sales year advances. 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 the media plan discussed above. Presently, the "Hello Yellow" service, as sold by the YPG General Sales Force, is priced to merchants at up to \$89 per month per listing per YPG directory coverage area, with certain discounts offered to these early subscribers for the first year. HelloYellow Lite, at \$49 per listing per area per month, was also introduced to accommodate smaller telephone sales accounts.



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For the second quarter selling period, 165 merchants were contracted and subscribed to the HelloYellow service through YPG, representing annualized contract values of approximately \$300,000, net of all discounts offered to early subscribers.

In May 2005, YPG closed its purchase of Advertising Directories Solutions Holdings Inc. (marketed under the brand name Superpages™), Canada's second largest directory information provider, from Bain Capital. The combined business is the leading directory publisher in most major Canadian markets with a total of 337 directories and a circulation of approximately 28 million copies. YPG now also operates Canada's most visited online directories and is the leading provider in local on-line city sites. YPG is presently devoting considerable resources to the integration of SuperPages. Call Genie believes this is a beneficial development as the "HelloYellow" service can be configured and deployed into these new YPG markets, including Vancouver, Calgary and Edmonton, provided the agreement between YPG and CG is amended to add the new territory and address other relevant issues. CG has had planning discussions with YPG regarding the expansion of the EVD Service to these newly acquired urban markets for the 2006 sales cycle.

Highlights of the ongoing development and improvement of the EVD Service include: (i) creation of tools to enable the efficient support of the commercial deployment of the HelloYellow service, (ii) enhanced usability resulting from consumer and merchant feedback, (iii) development of sales tools and processes for the YPG General Sales Force, (iv) enhanced application scalability to support deployment in additional markets and/or with additional partners, (v) 411 directory assistance research and development regarding implementation, deployment, pilot parameters and test environments, (vi) expansion and enhancement of key success indicators/metrics enabling the rapid determination of caller behavior and implementation of learnings, and (vii) creation of more robust and in-depth tuning and transcription tools.

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 integration of SuperPages.

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