

**Call Genie Inc.
(A Development Stage Enterprise)
Consolidated Interim Financial
Statements
For the three and nine months period ended
September 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 September 30, 2005 and the consolidated interim statements of earnings, retained earnings and cash flows for the three and nine 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
November 16, 2005

“ signed ”

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

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

	September 30, 2005	December 31, 2004 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 3,069,438	\$ 1,832,573
Accounts receivable	99,566	20,009
Prepaid expenses and advances	22,433	23,334
	3,191,437	1,875,916
Equipment (Note 3)	75,953	49,033
Other assets (Note 4)	74,600	47,558
	\$ 3,341,991	\$ 1,972,507
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 232,898	\$ 199,114
Shareholders' equity		
Equity instruments (Note 5 (b))	7,402,637	4,760,134
Contributed surplus (Note 5 (c) (i))	484,382	398,804
Deficit	(4,777,926)	(3,385,545)
	3,109,093	1,773,393
	\$ 3,341,991	\$ 1,972,507

Approved on behalf of the Board:

_____ "signed" _____ Richard W. DeVries, 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 nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenue	\$ 51,536	\$ -	\$ 95,351	\$ -
Costs of sales	<u>43,415</u>	-	<u>117,411</u>	-
Gross margin	<u>8,121</u>	-	<u>(22,060)</u>	-
Expenses				
Amortization	12,076	5,012	31,309	11,266
Business development	57,931	12,191	114,664	12,191
General and administrative	200,561	187,174	496,819	542,824
Interest	-	-	-	23,651
Sales and marketing	91,682	26,921	343,925	26,921
Stock based compensation (Note 5 (c))	46,916	155,490	85,578	268,403
Technology and product development, net	(6,600)	196,418	333,168	538,778
	<u>402,566</u>	583,206	<u>1,405,463</u>	1,424,034
Loss from operations	<u>(394,445)</u>	(583,206)	<u>(1,427,523)</u>	(1,424,034)
Other income				
Interest income	<u>19,924</u>	4,409	<u>35,142</u>	4,409
Net loss for the period	<u>(374,521)</u>	(578,797)	<u>(1,392,381)</u>	(1,419,625)
Deficit, beginning of period	<u>(4,403,405)</u>	(2,331,213)	<u>(3,385,545)</u>	(1,490,385)
Deficit, end of period	<u>\$ (4,777,926)</u>	\$ (2,910,010)	<u>\$ (4,777,926)</u>	\$ (2,910,010)
Loss per share*	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.06)
Weighted average number of shares	42,140,274	30,421,678	38,900,148	23,786,761

* 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 nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Cash flows from operating activities				
Net loss for the period	\$ (374,521)	\$ (578,797)	\$ (1,392,381)	\$ (1,419,625)
Items not involving cash:				
Interest on convertible debenture	-	-	-	23,651
Stock based compensation	46,916	155,490	85,578	268,403
Amortization	12,076	5,012	31,309	11,266
	<u>(315,529)</u>	<u>(418,295)</u>	<u>(1,275,494)</u>	<u>(1,116,305)</u>
Changes in non-cash working capital:				
Accounts receivable	(46,453)	-	(79,557)	(8,290)
Advances receivable		(121,775)		148,628
Prepaid expenses and advances	(12,111)	(17,315)	901	(18,657)
Accounts payable and accrued liabilities	37,495	(196,673)	33,784	302
Amount due to a related party	-	(175,658)	-	(122,140)
	<u>(336,598)</u>	<u>(929,716)</u>	<u>(1,320,366)</u>	<u>(1,116,462)</u>
Cash flows from financing activities				
Issuance of common shares (net of share issue costs)	104,391	-	2,642,503	-
Advances payable	-		-	-
Concurrent financing related to RTO (net of issue costs)		1,770,971		1,707,207
Advances under convertible debenture	-	-	-	260,000
	<u>104,391</u>	<u>1,770,971</u>	<u>2,642,503</u>	<u>1,967,207</u>
Cash flows from investing activities				
Acquisition of GRD		1,386,900		1,386,900
Business combination costs		(5,000)		(28,414)
Acquisition of equipment	(18,061)	(16,577)	(46,904)	(32,156)
Acquisition of other assets	(11,336)	(10,668)	(38,367)	(40,354)
	<u>(29,397)</u>	<u>1,354,655</u>	<u>(85,271)</u>	<u>1,285,976</u>
Increase (decrease) in cash and cash equivalents	(261,604)	2,195,910	1,236,866	2,136,721
Cash and cash equivalents, beginning of period	<u>3,331,043</u>	<u>13,680</u>	<u>1,832,573</u>	<u>72,869</u>
Cash and cash equivalents, end of period	\$ 3,069,439	\$ 2,209,590	\$ 3,069,439	\$ 2,209,590

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)

September 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 September 30, 2005, the Company has not recovered cumulative costs of approximately \$2.8 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.
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September 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.

(d) Investment tax credit

During the current period the Company recorded the benefit of receiving a cash refund of \$225,327 under the Scientific Research and Experimental Development ("SR&ED") Program. The costs related to this tax credit refund covered the period from March 2003 to August 2004. The refund received has been netted against the related technology and development costs in the current period as no previous reasonable assurance existed.

3. Equipment

		September 30, 2005		
		Cost	Accumulated Amortization	Net book value
Computer hardware	\$	109,411	\$ 34,515	\$ 74,896
Office furniture and equipment		1,442	385	1,057
		\$ 110,853	\$ 34,900	\$ 75,953
		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
(Unaudited-prepared by management)

September 30, 2005

4. Other Assets

	September 30, 2005		
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 92,335	\$ 17,735	\$ 74,600
	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
Shares issued on exercise of options	332,970	104,391
Balance, September 30, 2005	42,416,539	\$ 7,330,231

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, June 30, 2005 and September 30, 2005	\$0.225 – \$0.90	3.36 years	6,582,235	\$ 72,406
Total equity instruments				\$ 7,402,637

Call Genie Inc.
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Notes to the Consolidated Interim Financial Statements
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September 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 September 30, 2005, \$46,916 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 September 30, 2005:

<u>Options</u>	Number of Options	Option Exercise Price Range	Weighted Average Remaining Life	Weighted Average Exercise Price
<i>Employees, directors, officers and consultants:</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
<i>Balance June 30, 2005</i>	<u>2,650,000</u>	<u>\$0.30 - \$0.50</u>	<u>4.64 years</u>	<u>\$0.46</u>
Options granted to consultants	700,000	\$0.50	4.93 years	\$0.50
	<u>3,350,000</u>	<u>\$0.30 - \$0.50</u>	<u>4.50 years</u>	<u>\$0.47</u>
<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
<i>Balance June 30, 2005</i>	<u>969,630</u>	<u>\$0.30 - \$0.90</u>	<u>.49 years</u>	<u>\$0.51</u>
Less:				
Agents options exercised	(332,970)	\$0.30 - \$0.45		\$0.31
	<u>636,660</u>	<u>\$0.45 - \$0.90</u>	<u>.38 years</u>	<u>\$0.61</u>
Balance, September 30, 2005:	<u>3,986,660</u>	<u>\$0.30 - \$0.90</u>	<u>3.85 years</u>	<u>\$0.49</u>

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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Notes to the Consolidated Interim Financial Statements
(Unaudited-prepared by management)

September 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 \$176,625 (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. Contingent Commitments

The Company sells its services primarily through a joint operating agreement with a directory service provider. Pursuant to that agreement the Company is obligated to pay certain marketing costs to the directory service provider, 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. As of September 30, 2005, the directory service provider has paid approximately \$96,000 for marketing costs.

9. 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	\$	11,419
2006	\$	1,842

10. 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)

September 30, 2005

Technology and Product Development Expenses

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Consulting fees	\$ 10,775	\$ 120,583	\$ 14,825	\$ 437,601
Salaries and benefits	184,302	52,205	511,816	52,205
Travel expenses	14,455	6,985	17,283	12,159
Product development	7,158	3,508	11,744	13,883
Education and training	2,037	58	2,827	3,048
Application hosting and telecommunications	-	13,079	-	13,922
Website development	-	-	-	5,960
Government grant	(225,327)	-	(225,327)	-
	\$ (6,600)	\$ 196,418	\$ 333,168	\$ 538,778

Sales and Marketing Expenses

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Consulting fees	\$ 40,242	\$ 9,988	\$ 211,782	\$ 9,988
Salaries and benefits	22,544	11,340	73,286	11,340
Travel expenses	16,305	4,028	39,794	4,028
Advertising	11,475	-	11,475	-
Telecommunications	565	100	2,819	100
Sales material	-	-	1,879	-
Office supplies	551	1,465	2,891	1,465
	\$ 91,682	\$ 26,921	\$ 343,924	\$ 26,921

Business Development Expenses

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Consulting fees	\$ 11,793	\$ 1,500	\$ 55,962	\$ 1,500
Salaries and benefits	22,302	-	22,302	-
Travel expenses	9,988	3,649	14,592	3,649
Conferences	10,717	7,042	17,717	7,042
Office supplies	3,131	-	4,091	-
	\$ 57,931	\$ 12,191	\$ 114,664	\$ 12,191

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

September 30, 2005

General and Administrative Expenses

Breakdown by major category:

	For the three month period ended		For the nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Consulting fees	\$ 59,876	\$ 87,514	\$ 132,563	\$ 327,134
Salaries and benefits	95,326	16,511	165,850	16,511
Consumer and merchant research	-	19,400	-	35,165
Agency and filing fees	4,502	10,609	18,239	10,609
Shareholder communication and meetings	2,713	-	24,413	-
Insurance	4,712	-	14,102	-
Office supplies	5,153	1,384	15,100	7,221
Telecommunications	4,348	2,882	12,541	8,386
Office rent	12,324	15,000	36,714	45,000
Professional fees	4,582	24,484	37,352	36,624
Travel expenses	5,316	9,385	32,591	43,283
Education, training and dues	-	(1,354)	2,839	7,221
Entertainment and promotion	1,709	1,359	4,515	5,670
	\$ 200,561	\$ 187,174	\$ 496,819	\$ 542,824