

**Call Genie Inc.  
Consolidated Financial Statements  
For the three and six months period ended June 30, 2007  
(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, 2007 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 8, 2007

“           signed           ”

Christopher L. Shelton  
Chief Financial Officer  
Toronto, Ontario  
August 8, 2007

**Call Genie Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited – Prepared by Management)**

	<b>June 30, 2007 Unaudited</b>	<b>December 31, 2006 Audited</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 2(b))	\$ 29,794,673	\$ 5,930,024
Accounts receivable	700,868	422,719
Prepaid expenses and deposits	113,592	95,284
	30,581,133	6,448,027
<b>Equipment (Note 3)</b>	<b>804,455</b>	<b>398,520</b>
<b>Other assets (Note 4)</b>	<b>109,665</b>	<b>115,212</b>
	<b>\$ 31,523,253</b>	<b>\$ 6,961,759</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 715,023	\$ 578,757
<b>Shareholders' equity</b>		
Equity instruments (Note 5)	45,760,026	16,497,161
Contributed surplus (Note 11)	2,259,698	1,870,614
Deficit	(17,211,494)	(11,984,773)
	30,808,230	6,383,002
	<b>\$ 31,523,253</b>	<b>\$ 6,961,759</b>

**Going Concern (Note 1)**

**Commitments (Note 9)**

Approved on behalf of the Board:

\_\_\_\_\_ Richard W. DeVries, Director

\_\_\_\_\_ S. Graeme Ross, Director

**Call Genie Inc.**  
**Consolidated Statements of Operations and Deficit**  
**(Unaudited – Prepared by Management)**

	For the three month period ended		For the six month period ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>Revenue</b>	<b>\$ 353,356</b>	<b>\$ 144,188</b>	<b>\$ 646,719</b>	<b>\$ 259,234</b>
<b>Costs of sales</b>	<b>298,787</b>	<b>24,684</b>	<b>494,931</b>	<b>63,783</b>
<b>Gross margin</b>	<b>54,569</b>	<b>119,504</b>	<b>151,788</b>	<b>195,451</b>
<b>Expenses:</b>				
Business development	663,407	414,679	1,178,214	714,425
Sales and marketing	328,158	145,401	671,693	243,942
	<b>991,565</b>	<b>560,080</b>	<b>1,849,907</b>	<b>958,367</b>
Technology and product development, net	727,634	494,848	1,427,235	847,216
General and administrative	808,403	374,428	1,489,905	786,227
Stock based compensation	486,973	111,986	678,584	195,706
Amortization	119,273	33,582	190,155	61,340
	<b>3,133,848</b>	<b>1,574,924</b>	<b>5,635,786</b>	<b>2,848,856</b>
Loss from operations	<b>(3,079,279)</b>	<b>(1,455,420)</b>	<b>(5,483,998)</b>	<b>(2,653,405)</b>
<b>Other income:</b>				
Interest income	205,994	87,409	257,277	114,454
<b>Net loss for the period</b>	<b>(2,873,285)</b>	<b>(1,368,011)</b>	<b>(5,226,721)</b>	<b>(2,538,951)</b>
Deficit, beginning of the period	<b>(14,338,209)</b>	<b>(6,704,651)</b>	<b>(11,984,773)</b>	<b>(5,533,711)</b>
<b>Deficit, end of period</b>	<b>\$ (17,211,494)</b>	<b>\$ (8,072,662)</b>	<b>\$ (17,211,494)</b>	<b>\$ (8,072,662)</b>
<b>Basic and diluted loss per share</b>				
	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.09)</b>	<b>(0.06)</b>
<b>Weighted average number of shares – basic</b>	<b>67,601,947</b>	<b>52,821,170</b>	<b>60,450,077</b>	<b>45,453,829</b>

**Call Genie Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited – Prepared by Management)**

	For the three month period ended		For the six month period ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (2,873,285)	\$ (1,368,011)	\$ (5,226,721)	\$ (2,538,951)
Items not involving cash:				
Stock based compensation	486,973	111,986	678,584	195,706
Amortization	119,273	33,582	190,155	61,340
	<u>(2,267,039)</u>	<u>(1,222,443)</u>	<u>(4,357,982)</u>	<u>(2,281,905)</u>
Changes in non-cash working capital:				
Accounts receivable	(459,098)	(123,472)	(278,149)	(109,017)
Prepaid expenses and advances	(12,349)	90,283	(18,308)	35,976
Accounts payable and accrued liabilities	160,820	(64,523)	136,266	21,762
Amount due to a related party	-	-	-	-
	<u>(2,577,666)</u>	<u>(1,320,155)</u>	<u>(4,518,173)</u>	<u>(2,333,184)</u>
<b>Cash flows from financing activities</b>				
Issuance of common shares (net of share issue costs)	28,968,865	185,386	28,973,365	9,565,165
Advances payable	-	-	-	-
Advances under convertible debenture	-	-	-	-
	<u>28,968,865</u>	<u>185,386</u>	<u>28,973,365</u>	<u>9,565,165</u>
<b>Cash flows from investing activities</b>				
Acquisition of equipment	(495,359)	(153,437)	(579,060)	(216,365)
Acquisition of other assets	(10,332)	(27,971)	(11,483)	(57,556)
	<u>(505,691)</u>	<u>(181,408)</u>	<u>(590,543)</u>	<u>(273,921)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>25,885,508</b>	<b>(1,316,177)</b>	<b>23,864,649</b>	<b>6,958,060</b>
Cash and cash equivalents, beginning of period	<u>3,909,165</u>	<u>10,760,777</u>	<u>5,930,024</u>	<u>2,486,540</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 29,794,673</b>	<b>\$ 9,444,600</b>	<b>\$ 29,794,673</b>	<b>\$ 9,444,600</b>

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

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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 surviving entity.

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. 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.

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**2. Significant Accounting Policies**

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The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management’s opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include its subsidiaries Call Genie (Ontario) Inc. since its date of incorporation September 11, 2003, Call Genie (USA) Inc., since its date of incorporation October 7, 2003 and Call Genie Europe B.V., since its date of incorporation July 6, 2007. All material intercompany transactions have been eliminated.

(b) Cash and cash equivalents

Included in cash and cash equivalents are bank balances and cashable short term investments cashable with maturities of three months or less at the date of acquisition.

(c) Technology and product development costs

Technology and product development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. There have been no development costs capitalized to date.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

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**2. Significant Accounting Policies (cont'd)**

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(d) Revenue recognition

The Company recognizes revenues when they are earned, specifically when all the following conditions are met; services are provided, there is clear evidence that an arrangement exists, amounts are fixed or can be determined and collectability is reasonably assured.

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. 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.

The Company recognizes service revenue relating to customer support and maintenance fees on a monthly basis when the service is provided. Service revenue consisting of revenue from consulting contracts and contracts to provide training and integration services are recorded on a percentage completion basis set forth in our contractual agreements.

(e) Cost of sales

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

(f) Equipment

Equipment is recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of the assets.

The following is a summary of estimated useful lives of the assets:

Office furniture and equipment	5 years
Computer hardware	3 years
Computer software	1 year

(g) Other assets

The costs of acquiring and applying for patents, trademarks and licensed technology are capitalized and amortized on a straight-line basis over their estimated useful lives of five years. Amortization will be recorded upon commencement of product testing.

The costs of acquiring and applying for patents, trademarks and licensed technology costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable. Management measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

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**2. Significant Accounting Policies (cont'd)**

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(h) Financial instruments

The Company carries a number of financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(i) Future income taxes

Income taxes are accounted for using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the year that includes the enactment date. Future income tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

(j) Earnings per share

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

(k) Stock based compensation

The Company has a stock-based compensation plan as described in Note 5(c). 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.

(l) Measurement uncertainty

The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates of profitability, cash flows and other relevant assumptions for the amounts recorded for the amortization of property and equipment and intangible assets and the valuation of property and equipment, intangible assets, the recognition of future tax assets, and the estimated value of stock-based compensation. By their very nature, these estimates are subject to measurement uncertainty and the effect of changes on the financial statements of future periods could be material. The effect on the financial statements resulting from a revision in estimates, if any, will be accounted for prospectively.

(m) Foreign Currency Translation

The Company's foreign subsidiary is an integrated foreign operation and is translated using the temporal method. Income and expense transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect and non-monetary items are translated at historical exchange rates. The resulting translation gain or loss is recognized in the determination of income.

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

**3. Equipment**

June 30, 2007 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Computer hardware and software	\$ 870,326	\$ 343,696	\$ 526,630
Office furniture and equipment	302,972	25,148	277,824
	\$ 1,173,298	\$ 368,844	\$ 804,454

December 31, 2006 (Audited)			
	Cost	Accumulated Amortization	Net book value
Computer hardware and software	\$ 462,408	\$ 187,328	\$ 275,080
Office furniture and equipment	131,831	8,391	123,440
	\$ 594,239	\$ 195,719	\$ 398,520

**4. Other Assets**

June 30, 2007 (Unaudited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 177,777	\$ 68,112	\$ 109,665

December 31, 2006 (Audited)			
	Cost	Accumulated Amortization	Net book value
Trademarks and patents	\$ 166,294	\$ 51,082	\$ 115,212

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

**5. Equity Instruments**

(iii) Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value, non cumulative, redeemable, and non voting

(iv) Issued and outstanding common shares

	Number of Shares	Amount
<b>Balance, December 31, 2003</b>	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 7)	15,641,639	-
Shares issued on acquisition (Note 7)	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 5(c) (i))	-	(352,761)
Shares issued on exercise of options	180,060	54,018
<b>Balance December 31, 2004</b>	36,833,599	\$ 4,687,728
Shares issued on private placement (iii)	5,000,000	2,500,000
Share issue costs		(36,879)
Shares issued on exercise of agent options	582,940	179,382
Fair value of agent options exercised (Note 11)		58,293
<b>Balance December 31, 2005</b>	42,416,539	\$ 7,388,524
Shares issued on private placement (iv)	10,000,000	10,000,000
Share issue costs		(1,342,100)
Shares issued on exercise of options/warrants	800,535	319,813
Add amount allocated to expired warrants	-	72,406
Fair value of options/warrants exercised (Note 11)		58,518
<b>Balance December 31, 2006</b>	53,217,074	\$ 16,497,161
Shares issued on private placements (viii),(x)	22,882,448	30,000,000
Share issue costs		(1,456,495)
Shares issued on exercise of options/warrants	752,624	429,860
Add amount allocated to expired warrants	-	
Fair value of options/warrants exercised (Note 11)		289,500
<b>Balance June 30, 2007</b>	76,852,146	\$ 45,760,026

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

**5. Equity Instruments (cont'd)**

Issued and outstanding warrants

<u>Warrants</u>	Warrant Exercise Price Range	WA <sup>(1)</sup> Remaining Life	Number of Warrants	Amount
Balance, December 31, 2006	\$0.225 – 1.00	2.91 years	4,663,690	\$ -
Warrants issued on private placement (x)	\$1.00	.79 years	600,000	-
Less Warrants expired			-	-
Less Warrants exercised			(316,971)	-
Balance, June 30, 2007	\$0.225 - 1.00	2.67 years	4,946,719	\$ -

<sup>(1)</sup>WA – weighted average

- (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 unit. Each Unit consisted of one common share and one-half of one share purchase warrant (Note 5 (c) (i)).
- (iii) On June 16 and June 22, 2005 the Company issued 5,000,000 common shares, in aggregate, as a result of a private placement, at a price of \$0.50 per share, for net proceeds of \$2,463,121.
- (iv) On March 21, 2006 the Company issued 10,000,000 common shares, in aggregate, as a result of a private placement, at a price of \$1.00 per share, for net proceeds of \$9,244,308.
- (v) 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.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

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**5. Equity Instruments (cont'd)**

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(vi) As part of the concurrent financing on August 17, 2004, 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 until February 2006. All of the share purchase warrants expired without being exercised. As at December 31, 2006, \$72,406 of the total proceeds attributed to the warrants were reclassified to Share Capital

(vii) As part of the private placement on March 21, 2006, the Company issued 600,000 broker warrants, priced at \$1.00, to the underwriters of the private placement. The warrants expire on March 21, 2008.

The fair value of the warrants of \$586,408 were recorded in the share issue costs and credited to contributed surplus for broker warrants issued in connection with this placement. The fair value of the broker warrants used to calculate compensation expenses has been estimated using the Black Scholes option pricing model assuming a risk-free interest rate of 4.0% and an expected volatility of 97% and expected life of 2 years and have a grant date fair value of \$0.98.

(viii) On April 17, 2007 the Company issued 10,000,000 common shares, in aggregate, as a result of a private placement, at a price of \$1.00 per share, for net proceeds of \$9,258,331.

(ix) As part of the private placement on April 17, 2007, the Company issued 600,000 broker warrants, priced at \$1.00, to the underwriters of the private placement. The warrants expire on April 17, 2008.

The fair value of the warrants of \$260,885 were recorded in the share issue costs and credited to contributed surplus for broker warrants issued in connection with this placement. The fair value of the broker warrants used to calculate compensation expenses has been estimated using the Black Scholes option pricing model assuming a risk-free interest rate of 4.0% and an expected volatility of 97% and expected life of 1 years and have a grant date fair value of \$1.07

(x) On May 16, 2007 the Company issued 9,661,835 common shares, in aggregate, as a result of a private placement, at a price of \$1.5525 per share. On May 22, 2007 the Company issued 3,220,613 common shares, in aggregate, as a result of a private placement, at a price of \$1.5525 per share. The combined net proceeds were \$19,285,174.

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

(c) Options

The Company has a stock option plan which may be granted to its directors, officers and employees and consultants. The aggregate number of shares reserved for issuance under the Plan is up to 10% of the number of outstanding common shares. The Company has granted 3,990,000 stock options to its employees as at June 30, 2006 at a price ranging from \$0.30 to \$1.60 per share, exercisable ranging from every three months to once a year for a period of three years. The options have a life of five years and have expire dates ranging September 1, 2009 to June 1, 2011.

- (i) As part of the concurrent financing on August 17, 2004, the Company 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. These non-transferable options expired unexercised in February 2006.

As at December 31, 2004, \$59,987 has been included in the share issue costs, with the corresponding amount charged to contributed surplus for the options and warrants issued to the agent above. The fair value was determined using the Black-Scholes model assuming a risk-free interest rate of 3% and an expected volatility rate of 55%, dividend rate of 0% and expected life of eighteen months.

- (ii) 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 with the following assumptions:

	<b>6 months ended June 30, 2007</b>	<b>12 months ended December 31, 2006 (audited)</b>
Risk Free Rate	<b>4.0%</b>	<b>4.0%</b>
Dividend Yield	<b>0.0%</b>	<b>0.0%</b>
Volatility Rate	<b>97.0%</b>	<b>97.0%</b>
Expected Option Life	<b>5 years</b>	<b>5 years</b>
Weighted Average Fair Value at Grant Date	<b>\$1.02 per share</b>	<b>\$0.87 per share</b>

For the period ended June 30, 2007, \$678,584 (2006 - \$195,706) has been recorded as stock based compensation related to options with the corresponding amount charged to contributed surplus.

**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited – Prepared by Management)**

**June 30, 2007 and 2006**

**5. Equity Instruments (cont'd)**

(iii) The following table summarizes information about the stock options outstanding at June 30, 2007:

Options	Number of Options	Option Exercise Price Range	WA <sup>(1)</sup> Remaining Life	Weighted Average Exercise Price
<i>Employees, directors and officers:</i>				
Balance, December 31, 2002	-	-		-
Options granted to directors on IPO	600,000	\$0.30	4.91 years	\$0.30
Balance, December 31, 2003	600,000	\$0.30	4.91 years	\$0.30
Options granted to employees	1,150,000	\$0.45	4.69 years	\$0.45
	1,750,000	\$0.30 - \$0.45	-	\$0.40
Less:				
Directors options exercised	(150,000)	\$0.30	-	\$0.30
Directors options expired	(150,000)	\$0.30	-	\$0.30
Balance, December 31, 2004	1,450,000	\$0.30 - \$0.45	4.53 years	\$0.42
Options granted to employees and consultants	1,925,000	\$0.50 - \$0.75	4.52 years	\$0.51
Balance, December 31, 2005	3,375,000	\$0.30 - \$0.75	4.09 years	\$0.47
Options granted to employees and directors	1,332,500	\$0.50 - \$1.60	4.33 years	\$0.88
Consultant options exercised	(150,000)	\$0.50 - \$0.75	-	\$0.30
Consultant options expired	(50,000)	\$0.50 - \$0.75	-	\$0.30
Subtotal, December 31, 2006	4,507,500	\$0.30 - \$1.60	3.43 years	\$0.59
<b>Options granted to employees and directors</b>	<b>1,660,000</b>	<b>\$0.68 - \$2.25</b>	<b>4.63 years</b>	<b>\$1.02</b>
<b>Options exercised</b>	<b>(435,833)</b>	<b>\$0.30 - \$0.94</b>	<b>-</b>	<b>-</b>
<b>Options cancelled</b>	<b>(120,000)</b>	<b>\$0.45 - \$1.48</b>	<b>-</b>	<b>-</b>
<b>Subtotal, June 30, 2007</b>	<b>5,611,667</b>	<b>\$0.30 - \$2.25</b>	<b>3.48 years</b>	<b>\$0.72</b>
<i>Agents:</i>				
Balance, December 31, 2002	-	-		-
Options granted to agents on IPO	583,000	\$0.30	1.44 years	\$0.30
Balance, December 31, 2003	583,000	\$0.30	1.44 years	\$0.30
Options issued to agents on concurrent financing	444,440	\$0.45	1.25 years	\$0.45
Option to acquire share purchase warrants	222,220	\$0.90	1.25 years	\$0.90
	1,249,660	\$0.30 - \$0.90	-	\$0.46
Less:				
Agents options exercised	(30,060)	\$0.30	-	\$0.30
Balance, December 31, 2004	1,219,600	\$0.30 - \$0.90	0.87 years	\$0.46
Less:				
Agents options exercised	(582,940)	\$0.30 - \$0.45	-	\$0.31
Subtotal, December 31, 2005	636,660	\$0.45 - \$0.90	0.13 years	\$0.61
Less:				
Agents options exercised	(354,190)	\$0.45	-	\$0.31
Agents options expired	(282,470)	\$0.45 - \$0.90	-	\$0.31
Subtotal, December 31, 2006 and June 30, 2007	-	-	-	-
<b>Balance, June 30, 2007</b>	<b>5,611,667</b>	<b>\$0.30 - \$2.25</b>	<b>3.48 years</b>	<b>\$0.72</b>

<sup>1)</sup>WA – weighted average

**Call Genie Inc.**  
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5. Equity Instruments (cont'd)

The following table summarizes information about the employee and consultant stock options outstanding at June 30, 2007:

Options outstanding	Option price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
95,000	\$0.30	1.42 years	95,000	
960,000	\$0.45	2.17 years	785,005	
1,200,000	\$0.50	2.92 years	400,000	
500,000	\$0.50	3.17 years	166,667	
25,000	\$0.50	3.42 years	8,334	
25,000	\$0.50	3.50 years	8,334	
45,000	\$0.54	3.50 years	15,001	
225,000	\$0.55	3.50 years	75,001	
66,666	\$0.58	3.58 years	16,667	
225,000	\$0.94	3.67 years	75,001	
50,000	\$1.60	3.75 years	16,668	
65,000	\$1.33	3.83 years	21,668	
35,000	\$1.30	3.92 years	11,668	
55,000	\$1.25	4.00 years		
10,000	\$0.90	4.08 years		
265,000	\$0.94	4.08 years	62,500	
30,000	\$0.80	4.17 years		
25,000	\$0.75	4.25 years		
50,000	\$0.75	4.33 years	50,000	
15,000	\$0.75	4.33 years		
15,000	\$0.71	4.42 years		
100,000	\$0.68	4.50 years		
10,000	\$0.84	4.58 years		
1,127,500	\$0.83	4.58 years		
62,500	\$0.82	4.67 years		
10,000	\$0.76	4.67 years		
25,000	\$1.10	4.75 years		
120,000	\$1.48	4.83 years		
50,000	\$2.15	4.83 years	50,000	
125,000	\$2.25	4.92 years		
<b>5,611,666</b>		<b>3.48 years</b>	<b>1,857,514</b>	<b>\$0.72</b>

The 1,670,000 Founders shares are held in escrow and will be released as to 10% thereof following acceptance of the Qualifying Transaction, as disclosed in Note 7, and as to 15% thereof on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> month anniversary dates following the initial release date of August 18, 2004. As at June 30, 2007, a total of 250,250 (2006 – 751,500) shares were held in escrow.

The 21,101,096 shares issued pursuant to the Qualifying Transaction, as disclosed in Note 7, are subject to an Escrow Agreement dated August 17, 2004 and will be released as to 5% each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup> and 24<sup>th</sup> month anniversary dates and 10% thereof on every 6<sup>th</sup> month anniversary. As of June 30, 2007 a total of 14,770,767 (2006 – 17,935,932) shares were held in escrow.

The 930,464 shares issued pursuant to the Qualifying Transaction, as disclosed in Note 7, are subject to and Escrow Agreement dated August 17, 2004 and will be released as to 10% at the time the transaction is finalized and 15% thereof on every 6<sup>th</sup> month anniversary. As at June 30, 2007 a total of 139,570 (2006 – 418,709) shares were held in escrow.

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**6. Related Party Transactions**

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The Company had the following related party transactions:

- (a) Included in technology and product development, business development, and general and administrative expenses in the normal course of operations are \$241,800 (2006 - \$182,951) of consulting services paid directly to officers of the Company or to companies controlled by officers of the Company.
- (b) During 2007, officers and directors of the Company did not subscribe for any common shares. In 2006, officers and directors of the Company subscribed for 168,000 common share for total proceeds of \$168,000 through a private placement.
- (c) Included in accounts payable and accrued liabilities is \$85,516 (2006 - \$33,491) due to various directors, officers and consultants of the Company all of which is for services rendered and reimbursement of expenses.

All the related party transactions have been recorded at the agreed upon exchange amounts.

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**7. 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 7,500,000 shares issued on acquisition was based on the fair value of the net assets acquired. (Note 5(b)). 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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**Call Genie Inc.**  
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**8. Income Taxes**

The effective tax rate of income tax varies from the statutory rate as follows:

	<u>2007</u>	<u>2006</u>
Combined tax rates	<b>33%</b>	33%
Expected income tax (recovery) at statutory rate	\$ (1,698,684)	\$ (863,243)
Stock-based compensation	220,540	66,540
Share Issue costs	(24,331)	
Change in rate	-	-
Other permanent differences	5,012	4,793
Change in valuation allowance	1,497,463	801,496
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

The difference between the effective rate and the actual rate of nil% is attributable to the fact that no future tax asset has been recorded for available loss carry forwards and other deductible temporary differences as their ultimate utilization is not more likely than not.

Future income tax assets are calculated and if realization is not considered likely a valuation allowance is provided. Comparative numbers are provided from audited December 31, 2006 statements as they would be more relevant when reading in conjunction with current interim statements.

Significant components of this future income tax asset include the following:

	<u>2007</u>	<u>2006</u>
Property and equipment and other assets	\$ (59,524)	\$ (28,766)
Share issue costs	252,895	277,226
Unused tax losses carry forward	5,021,876	3,555,170
	<u>5,215,247</u>	<u>3,803,630</u>
Valuation allowance	(5,215,247)	(3,803,630)
<b>Future income tax asset</b>	<u>\$ -</u>	<u>\$ -</u>

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**Call Genie Inc.**  
**Notes to Consolidated Financial Statements**  
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**8. Income Taxes (cont'd)**

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As at June 30, 2007, subject to confirmation from the income tax authorities, the Company has \$14,819,897 of non-capital losses that are available for carry forward to offset future taxable income expiring as follows:

	Non-Capital Losses
2008	\$ 145,800
2009	925,878
2013	899,304
2014	611,406
2015	1,919,903
2016	5,804,665
2017	4,512,941
	<u>\$ 14,819,897</u>

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**9. Commitments**

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Including a lease signed during the period ended June 30, 2007, the Company has leased approximately 19,064 square feet of office space. The terms of the leases terminate between March 1, 2011 and July 31, 2013. The Company has an option to renew each lease for an additional 5 year period.

The remaining annual lease commitments relating to these facilities are as follows:

2007	\$ 233,062
2008	\$ 534,008
2009	\$ 545,377
2010	\$ 547,975
2011	\$ 421,640
2012	\$ 214,995
2013	\$ 71,665

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**Call Genie Inc.**  
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**10. Indemnifications**

(a) Directors and officers

Under the terms of the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

(b) Other

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

**11. Contributed Surplus**

Balance December 31, 2003 for value assigned for warrants	\$ 55,593
Value assigned for options (Note 5 (c)(i))	79,748
Value assigned for warrants (Note 5 (b)(xi))	<u>263,463</u>
Balance, December 31, 2004	\$ 398,804
Value assigned for options (Note 5 (c)(i))	242,739
Value of options exercised during the year (Note 5 (c)(ii))	<u>(58,293)</u>
Balance, December 31, 2005	\$ 583,250
Value assigned for options (Note 5 (c)(i))	759,474
Value of options exercised during the year (Note 5 (c)(ii))	(58,518)
Value of agent warrants issued on March 21, 2006 (Note 5(b)(xiii))	<u>586,408</u>
Balance, December 31, 2006	\$ 1,870,614
Value assigned for options (Note 5 (c)(i))	<b>462,770</b>
Value of options exercised during the year (Note 5 (c)(ii))	<b>(334,541)</b>
Value of agent warrants issued on April 17, 2006 (Note 5(b)(xiv))	<u><b>260,855</b></u>
<b>Balance, June 30, 2007</b>	<b><u><u>\$ 2,259,698</u></u></b>

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**Call Genie Inc.**  
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**June 30, 2007 and 2006**

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**12. Financial instruments**

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As disclosed in Note 2(h), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Credit Risk

All the Company's trade accounts receivable are from one directory service provider and as such, the Company is exposed a concentration of credit risk. At June 30, 2007 all of the Company's cash was held at one financial institution.

(b) Foreign Exchange Risk

The Company is subject to foreign exchange risk for amounts denominated in foreign currencies. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of the rates relative to the Canadian dollar. The Company does not actively manage this risk.

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**13. Economic Dependence**

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At June 30, 2007, the company earned the majority of its revenues from one directory service provider.

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**14. Comparative Figures**

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Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

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