DIGIFONICA INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

MNP LLP

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Digifonica International Inc.:

We have audited the accompanying consolidated financial statements of Digifonica International Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Digifonica International Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010, and the results of their operations and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of these consolidated financial statements, which states that Digifonica International Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Digifonica International Inc. to continue as a going concern.

MNP LLP

April 26, 2012
Vancouver, BC

Chartered Accountants

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
			(Note 17)	(Note 17)
ASSETS				
Current assets				
Cash		237,471	238	4,327
Other receivable		9,457	2,998	3,548
Prepaid expenses		-	-	3,242
Total current assets		246,928	3,236	11,117
Patents		-	1	381,179
Total assets		246,928	3,237	392,296
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	13	96,039	1,674,595	1,560,027
Demand loans	7, 13	59,873	-	-
Note payable in default	8	-	78,998	82,884
Convertible promissory notes	9	-	75,000	150,000
Subscriptions payable	10	10,000	134,822	124,822
Loans from shareholders		69,191	202,691	151,182
Total current liabilities		235,103	2,166,106	2,068,915
Total liabilities		235,103	2,166,106	2,068,915
EQUITY (DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS				
Share capital	11	12,777,815	11,778,565	11,622,658
Contributed surplus		1,048,511	560,372	560,372
Deficit		(13,814,501)	(14,501,806)	(13,859,649)
Total equity attributable to shareholders		11,825	(2,162,869)	(1,676,619)
Total liabilities and equity (deficiency) attributable to shareholders		246,928	3,237	392,296

Organization and nature of operations and going concern (Note 1)
Subsequent events (Notes 11(d) and 16)

Approved by the Board of Directors

"Gunther Roehlig" Director   "Gavin McMillan" Director

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

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2011 and 2010

	Notes	2011 $	2010 $
General and administrative expenses			
Accounting and audit		46,347	(9,693)
Bad debt		-	3,660
Consulting fees	13	102,760	52,862
Legal		65,323	2,700
Office and miscellaneous		135,344	62,362
Salaries, wages and commissions		-	14,095
Loss before other items		(349,774)	(125,986)
Foreign exchange (loss) gain		(2,646)	42,588
Gain on forgiveness of debt		40,110	-
Gain on sale of subsidiaries	6	1,025,422	-
Impairment of patents		-	(414,155)
Interest expense		(25,807)	(75,300)
Loss on settlement of liabilities	9	-	(69,304)
Net income (loss) and comprehensive income (loss) for the year		687,305	(642,157)
Basic and diluted loss per share		0.13	(0.17)
Weighted average number of shares outstanding		5,475,295	3,868,918

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

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
For the years ended December 31, 2011 and 2010

	Number of shares	Amount $	Contributed Surplus $	Deficit $	Total $
Balance, January 1, 2010	3,790,589	11,622,658	560,372	(13,859,649)	(1,676,619)
Issued during the year:					
For debt settlement	86,603	155,907	-	-	155,907
Net loss for the year	-	-	-	(642,157)	(642,157)
Balance, December 31, 2010	3,877,192	11,778,565	560,372	(14,501,806)	(2,162,869)
Issued during the year:					
For cash pursuant to private placement of units	30,000,000	1,350,000	150,000	-	1,500,000
For finder's units	2,860,000	128,700	14,300	-	143,000
Less: issue costs – finders' units	-	(143,000)	-	-	(143,000)
– cash	-	(12,611)	-	-	(12,611)
Cancellation of escrow shares	(908,049)	(323,839)	323,839	-	-
Net income for the year	-	-	-	687,305	687,305
Balance, December 31, 2011	35,829,143	12,777,815	1,048,511	(13,814,501)	11,825

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

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	2011 $	2010 $
Cash flow provided by (used in)		
Operating Activities		
Net income (loss) for the year	687,305	(642,157)
Add (deduct) non-cash items:		
Bad debt	-	3,660
Gain on forgiveness of debt	(40,110)	-
Gain on sale of subsidiaries	(1,025,422)	-
Impairment loss on patents	-	414,155
Loss on settlement of liabilities	-	69,304
Unrealized foreign exchange (loss) gain	4,387	(3,886)
Changes in non-cash working capital items		
Other receivable	(6,459)	550
Prepaid expenses	-	3,242
Accounts payable and accrued liabilities	(512,874)	122,511
	(893,173)	(32,621)
Investing Activities		
Expenditures on patents	-	(32,977)
Proceeds on sale of subsidiaries, net of cash in subsidiaries	(149)	-
	(149)	(32,977)
Financing Activities		
Issuance of shares, net of issuance costs	1,487,389	-
Proceeds from demand loans	101,870	-
Repayment of demand loans	(41,997)	-
Repayment of note payable in default	(83,385)	-
Repayment of convertible promissory notes	(75,000)	-
Subscription proceeds received in advance	-	10,000
Repayment of subscriptions payable	(124,822)	-
Proceeds from loans from shareholders	32,000	51,509
Repayment of loans from shareholders	(165,500)	-
	1,130,555	61,509
Increase (decrease) in cash during the year	237,233	(4,089)
Cash – beginning of the year	238	4,327
Cash – end of the year	237,471	238
Cash paid during the period for:		
Interest	6,712	-
Income taxes	-	-
Non-cash financing activities:		
Issuance of 2,860,000 units as finders' fees	143,000	-
Issuance of 86,603 shares as settlement of convertible promissory notes and interest payable	-	155,907
Transfer from share capital on cancellation of escrow shares	323,839	-

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

1. ORGANIZATION AND NATURE OF OPERATIONS AND GOING CONCERN

Digifonica International Inc. ("Digifonica" or the "Company") was incorporated under the Alberta Business Corporations Act on November 23, 2004. During the years ended December 31, 2011 and 2010 the Company ceased operations due to a lack of financing. The main activities in the Company during these years was maintaining its public listing and keeping the patent applications current. The patents were sold in conjunction with the sale of all of the Company's subsidiaries (Note 6). The Company is listed on the TSX Venture Exchange's NEX board under the trading symbol "DIL.H". The Company's head office is located at Suite 1750 – 999 West Hastings Street, Vancouver, BC.

These consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has accumulated losses of $13,814,501 since its inception at December 31, 2011 and expects to incur further losses in the development of its business. At December 31, 2011, the Company had working capital available for future operations amounting to $11,825 which management estimates will not be sufficient to meet operating and investing requirements over the next twelve months. There may be significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to discharge its liabilities in the normal course of business. The continuation of the Company is dependent upon obtaining necessary financing and to meet its ongoing levels of corporate overhead. These consolidated financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in Note 17, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

These financial statements were approved by the board of directors for use on April 26, 2012.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention. The Company has no assets or liabilities measured at fair value.

Consolidation

The consolidated financial statements include the results of the Company and its subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation. Details of subsidiaries at December 31, 2011 and 2010 are as follows:

		Percentage owned	
	Country of Incorporation	**2011**	**2010**
Digifonica (International) Limited	Gibraltar	0%	100%
Digifonica Intellectual Properties Limited	Gibraltar	0%	100%
Digifonica Canada Limited	Canada	0%	100%
Digifonica Enterprises Limited	England and Wales	0%	100%
Shenzhen Sino-Can Inter-Communication Technology Limited	China	0%	49%

By an agreement dated June 22, 2011, effective July 19, 2011, the Company sold the shares of all of its subsidiaries to a former director of the Company (Note 6).

Patents

The Company capitalizes patent application costs and amortizes on a straight-line basis over the estimated useful life of the patent. The unamortized balance is charged to operations if the Company does not obtain approval or the patent is abandoned.

Impairment of non-financial assets

Intangible assets (patents) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration and accordingly, goodwill is assessed for impairment together with the assets and liabilities of the related segment.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through income or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through income and loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in income or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in income or loss.

Earnings per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the years ended December 31, 2011 and 2010, the calculation of basic and diluted loss per share is the same.

Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Critical estimates and assumptions are made in particular with regard to the determination of the likelihood that future income tax benefits can be realized, and the assumptions used in calculating the fair value of warrants and share-based payments.

Foreign currencies

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is Canadian dollars. The functional currency of the parent company and all of the subsidiaries is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the statement of operations.

Income tax

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of operations and comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax
Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax
Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities:
- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred income tax assets:
- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected level of vesting of the options and of stock options which vest immediately is recorded at the date of grant; the fair value, as adjusted for the expected level of vesting of the options and of options which vest in the future is recognized over the vesting period. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus.

Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise noted, the following revised standards and amendments are effective for the Company for annual periods beginning on or after January 1, 2013 (unless otherwise noted) with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015.

(ii) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(iii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

5. PATENTS

The Corporation had several patent applications pending approval that related directly to the process and technology that ran the Company's previous business platform. The carrying amounts were representative of actual costs incurred to date in pursuing patent applications. During the year ended December 31, 2010, $32,976 of patent application costs and legal fees were capitalized. No patent applications costs were capitalized during the year ended December 31, 2011. None of the patents were granted and therefore no amortization was recorded. The patents of the Company with a capitalized value of $414,155 were written-down to $1 as at December 31, 2010.

6. SALE OF SUBSIDIARIES

By an agreement dated June 22, 2011, effective July 19, 2011, the Company sold the shares of all of its subsidiaries to a former director of the Company. The subsidiaries sold are as follows:

	Country of Incorporation	**Percentage owned**
Digifonica (International) Limited	Gibraltar	100%
Digifonica Intellectual Properties Limited	Gibraltar	100%
Digifonica Canada Limited	Canada	100%
Digifonica Enterprises Limited	England and Wales	100%
Shenzhen Sino-Can Inter-Communication Technology Limited	China	49%

The Company received proceeds of $1, resulting in a gain on disposition of $1,025,422. The net liabilities disposed of were as follows:

	$
Assets	
Cash	150
Patents	1
	151
Liabilities	
Accounts payable	1,025,572
Net liabilities	(1,025,421)
Proceeds on disposition	1
Gain on disposition	1,025,422

7. DEMAND LOANS

	$
Balance – December 31, 2010 and January 1, 2010	-
Add: Proceeds from demand loans	101,870
Deduct: Repayment of demand loans	(41,997)
Balance – December 31, 2011	59,873

During the year ended December 31, 2011, a third-party and a director provided non-interest bearing loans due on demand. Of the total demand loans outstanding, $4,422 is due to a director of the Company.

8. NOTE PAYABLE IN DEFAULT

	$
Balance – January 1, 2010	82,884
Deduct: Unrealized foreign exchange gain	(3,886)
Balance – December 31, 2010	78,998
Add: Unrealized foreign exchange loss	4,387
Deduct: Repayment	(83,385)
Balance – December 31, 2011	-

At December 31, 2010 the one note in default was an unsecured promissory note dated July 23, 2008 which was entered into by the Company with a supplier. The promissory note bore interest at 12% per annum on the unpaid principal. During the year ended December 31, 2011, the promissory note was repaid including accrued interest of $6,712.

9. CONVERTIBLE PROMISSORY NOTES

	Derivative Component $
Balance – January 1, 2010	150,000
Deduct: Settlement by issuing shares	(75,000)
Balance – December 31, 2010	75,000
Deduct: Repayment	(75,000)
Balance – December 31, 2011	-

On July 14, 2008, the Company issued $150,000 in convertible promissory notes to three shareholders and one arms-length party. The notes bore interest at a rate of 10% per annum. The notes were convertible into common shares of the Company at the election of the holder, at a price of $3.60 per Unit. Each Unit consisted of one common share of the Company and one non-transferable common share purchase warrant of the Company. Each common share purchase warrant entitled the holder thereof to acquire one common share of the Company at a price of $5.00 per common share on or before the day that is eighteen months from the date of the note agreements. The notes were repayable on demand subsequent to September 30, 2008 unless otherwise converted at the terms outlined above. The notes were secured by a general security agreement.

On February 4, 2010, the Company issued 86,603 common shares at a deemed price of $1.00 per common share to settle $86,603 in convertible promissory notes and its accrued interest ($75,000 convertible notes plus $11,603 interest). Shares were issued with a fair value of $155,907, resulting in a loss on settlement of $69,304 which has been recognized in the statement of operations.

During the year ended December 31, 2011, the convertible promissory notes were repaid.

10. SUBSCRIPTIONS PAYABLE

	$
Balance – January 1, 2010	124,822
Add: Receipt of subscription in advance	10,000
Balance – December 31, 2010	134,822
Deduct: Repayment	(124,822)
Balance – December 31, 2011	10,000

In December 2008, the Company received an advance of $124,822 from an arm's-length party. The terms of the subscription agreement were not finalized. In 2010, the Company received a $10,000 subscription in advance, but shares were not issued.

During the year ended December 31, 2011, $124,822 of the subscriptions were repaid.

11. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.
Unlimited preferred shares issuable in series.

b) Financings:

During the year ended December 31, 2011, the Company completed the following financing:

i) On December 14, 2011, the Company closed a private placement of 30,000,000 units at $0.05 per unit for gross proceeds of $1,500,000. Each unit is comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder thereof the right to purchase one common share of the Company at $0.10 per share, exercisable up to December 14, 2012. A value of $150,000 has been attributed to the share purchase warrants.

In connection with the private placement, the Company incurred cash issue costs of $12,611. The Company also issued 2,860,000 finder's units with the same terms as the private placement units. The finder's units have a fair value of $143,000.

During the year ended December 31, 2010, no financings were completed.

c) Share Consolidation:

Effective February 25, 2011, the Company consolidated its common shares on the basis of one (1) new common share for every ten (10) old common shares issued and outstanding at that time. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

d) Options:

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding shares. The exercise price of options granted equals the market price of the Company's stock on the date of the grant. The options are for a maximum term of five years.

A summary of the status of the Company's stock option plan as of December 31, 2011 and 2010 and the changes during the years then ended is presented below:

	Number of options	**Weighted average exercise price $**
Balance outstanding – December 31, 2010 and January 1, 2010	69,000	10.58
Balance outstanding and exercisable – December 31, 2011	69,000	10.58

At December 31, 2011, share purchase options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	**Exercise Price $**	**Number of Options**
June 2, 2013	10.00	[1]29,000
June 2, 2013	11.00	[1]40,000
		69,000

[1] Subsequent to December 31, 2011, all options were forfeited.

e) Warrants:

A summary of warrants outstanding as of December 31, 2011 and 2010 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price $
Balance outstanding – January 1, 2010	440,865	16.93
Expired	(65,350)	28.00
Balance outstanding – December 31, 2010	375,515	2.50
Issued	32,860,000	0.10
Expired	(375,515)	2.50
Balance outstanding – December 31, 2011	32,860,000	0.10

The weighted average remaining contractual life of warrants at December 31, 2011 is 0.96 years (2010 – 0.56 years).

At December 31, 2011, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

Expiry Date	Exercise Price $	Number of Warrants
December 14, 2012	0.10	32,860,000
		32,860,000

f) Escrow shares:

The Company had 734,050 shares subject to a six-year escrow period beginning September 10, 2007. At December 31, 2010, 434,428 common shares remained in escrow. The Company had 934,273 shares subject to a six-year escrow period starting May 8, 2007. At December 31, 2010, 560,563 common shares remained in escrow. During the year ended December 31, 2011, the Company released 86,942 shares from escrow to satisfy a schedule release dated November 8, 2010. As a result of the write-down of the patents and the sale of the subsidiaries, the 908,049 shares remaining in escrow were cancelled.

12. INCOME TAXES

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The difference between the expected income tax expense and the actual income tax provision for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Statutory tax rate	26.5%	28.5%
	$	$
Income (loss) for the year before income taxes	687,305	(642,157)
Expected income tax expense (recovery)	182,136	(183,015)
Permanent differences	1,452,075	38,124
Share-based payments	-	118,034
Effect of change in tax rate	104,311	414,668
Decrease in deferred income tax assets not recognized	(1,738,522)	(387,811)
Provision for income taxes	-	-

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred income tax assets and liabilities at December 31, 2011 and 2010 and January 1, 2010 are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred income tax assets			
Non-capital loss carry forwards	336,223	1,850,365	2,051,218
Capital loss carry forwards	850,679	-	-
Share issue costs	36,487	33,651	69,703
Equipment	-	1,077,895	1,228,801
Total deferred income tax assets not recognized	1,223,389	2,961,911	3,349,722

The Company has non-capital loss carry forwards which expire as follows:

2025	52,990
2026	67,089
2027	938
2028	441,535
2029	142,005
2030	74,134
2031	490,074
	1,268,765

Deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that future taxable profit will be available against which the Company can utilize such deferred income tax assets.

13. RELATED PARTY TRANSACTIONS

The Company incurred the following charges with directors and officers of the Company and/or companies controlled by them for the years ended December 31, 2011 and 2010:

	2011 $	2010 $
Accounting fees	9,177	-
Consulting fees	66,590	48,362
	75,767	48,362

Included in accounts payable and accrued liabilities as at December 31, 2011 is $20,365 (2010 - $244,242) due to current and former directors and officers of the Company and/or companies controlled by them. The amounts owing are unsecured, non-interest bearing and due on demand.

At December 31, 2011, $4,422 (2010 - $nil) of the demand loans are due to a director of the Company. Included in loans from shareholders as at December 31, 2011 is $nil (2010 - $139,356) due to former directors of the Company. The amounts owing were unsecured, non-interest bearing and due on demand.

Effective July 19, 2011, the Company sold the shares of all of its subsidiaries to a former director of the Company (Note 6).

Key management includes the directors of the Company. The compensation paid or payable to key management for services during the years ended December 31, 2011 and 2010 is as follows:

	2011 $	2010 $
Accounting fees	9,177	-
Consulting fees	66,590	48,362
	75,767	48,362

14. FINANCIAL INSTRUMENTS

Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of equity attributable to shareholders as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by its ability to compete for investor.

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the TSX Venture Exchange's NEX board.

Classification of Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, demand loans, subscriptions payable and loans from shareholders. The Company designated its cash as a FVTPL financial asset. The accounts payable and accrued liabilities, demand loans, subscriptions payable and loans from shareholders are designated as other financial liabilities, which are measured at amortized cost.

Fair Value of Financial Instruments

The Company classified the fair value of the financial receivables according to the following fair value hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1 – Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

- Level 2 – Values based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – Values based on prices or valuation techniques that are not based on observable market data.

The value of cash has been assessed based on the fair value hierarchy described above and is classified as Level 1. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Discussions of risks associated with financial assets and liabilities are detailed below:

Foreign Exchange Risk

The Company has financial instruments denominated in U.S. dollars ("US$") and Great Britain Pounds ("GBP"). Accounts exposed to foreign exchange risk as of December 31, 2011 are:

	US$	**GBP**
Cash	-	-
Accounts payable and accrued liabilities	(4,239)	-
Net exposure to foreign currencies	(4,239)	-

Accounts exposed to foreign exchange risk as of December 31, 2010 are:

	US$	GBP
Cash	-	(420)
Accounts payable and accrued liabilities	(60,673)	(503,694)
Note payable in default	(78,998)	-
Net exposure to foreign currencies	(139,671)	(504,114)

Credit Risk

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with the Bank of Montreal.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss is limited because at present the Company's liabilities are non-interest bearing or have fixed interest rates.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities.

15. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's consolidated financial statements.

16. SUBSEQUENT EVENTS

Additional subsequent events are disclosed in Note 11(d).

Acquisition of Assets of Bidcactus, LLC

On April 24, 2012, the Company entered into a non-binding letter of intent ("LOI") to acquire from Bidcactus, LLC ("Bidcactus"), through an off-shore subsidiary to be incorporated, substantially all of the assets and certain of the liabilities of Bidcactus (the "Transaction"). Bidcactus operates a "penny-auction" website at www.bidcactus.com.

Under the terms of the Transaction, the Company will issue to Bidcactus 25,000,000 common shares of the Company. A finder's fee of 500,000 common shares will be payable. It is a condition of closing of the Transaction that the Company will undertake a brokered private placement financing of at least $5,000,000 by the issuance of at least 12,500,000 units at $0.40 per unit, each unit consisting of one common share of the company one half of one warrant, each full warrant entitling the holder thereof to buy one additional common share of the Company at $0.75 per share for a period of two years.

The Transaction is subject to a number of conditions, including without limitation, completion of satisfactory technical and legal due diligence, TSX Venture Exchange approval, and Digifonica and Bidcactus shareholders' approval.

17. FIRST-TIME ADOPTION OF IFRS

First-time Adoption Exemptions Applied

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010 (the "Transition Date"). Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions are applied. The Company has chosen to apply the following elections to:

- Not restate previous business combinations and the accounting thereof;
- Not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the Transition Date;
- Not apply IFRS 2 *'Share-based Payments'*, to liabilities arising from share-based payment transactions that were settled before the Transition Date; and,
- Reset the cumulative translation difference reserve for all foreign operations to zero at the Transition Date.

There were no material adjustments to the consolidated statements of financial position, consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity or the consolidated statements of cash flows on adopting IFRS as at January 1, 2010, as at December 31, 2010 or for the year ended December 31, 2010. Accordingly, no reconciliation schedules have been provided with these financial statements.