# DIGIFONICA INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – expressed in Canadian Dollars)
Three Months Ended March 31, 2012 and 2011

## NOTICE OF NO AUDITOR REVIEW OF

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**DIGIFONICA INTERNATIONAL INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Unaudited – expressed in Canadian Dollars)

| | Notes | March 31, 2012 $ | December 31, 2011 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash | | 113,229 | 237,471 |
| HST recoverable and other receivables | | 13,294 | 9,457 |
| Prepaid expenses | | 5,341 | - |
| Total current assets | | 131,864 | 246,928 |
| Deferred transaction costs | 7 | 21,500 | - |
| | | 153,364 | 246,928 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 6 | 103,288 | 96,039 |
| Demand loans | 3, 6 | 4,422 | 59,873 |
| Subscriptions payable | 4 | 10,000 | 10,000 |
| Loans from shareholders | 7 | 69,191 | 69,191 |
| | | 186,901 | 235,103 |
| **(DEFICIENCY) EQUITY ATTRIBUTABLE TO SHAREHOLDERS** | | | |
| Share capital | 5 | 12,777,815 | 12,777,815 |
| Contributed surplus | | 1,048,511 | 1,048,511 |
| Deficit | | (13,859,863) | (13,814,501) |
| | | (33,537) | 11,825 |
| | | 153,364 | 246,928 |

Organization and nature of operations and going concern (Note 1)
Subsequent events (Notes 4 and 7)

**Approved by the Board of Directors**

"Gunther Roehlig" Director          "Gavin McMillan" Director



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

**DIGIFONICA INTERNATIONAL INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
For the three months ended March 31, 2012 and 2011
(Unaudited – expressed in Canadian Dollars)

| | Notes | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| Accounting and audit | 6 | 13,446 | 14,017 |
| Consulting fees | 6 | - | 72,590 |
| Legal | | 13,957 | 22,970 |
| Office and miscellaneous | | 17,517 | 29,221 |
| Loss before other items | | (44,920) | (138,798) |
| Foreign exchange gain | | 80 | 1,138 |
| Interest expense | | (522) | (11,725) |
| Net loss and comprehensive loss for the period | | (45,362) | (149,385) |
| Basic and diluted loss per share | | (0.00) | (0.04) |
| Weighted average number of shares outstanding | | 35,829,143 | 3,877,197 |



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

**DIGIFONICA INTERNATIONAL INC.**
**CONDESNED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**
For the three months ended March 31, 2012 and 2011
(Unaudited – expressed in Canadian Dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Number of shares** | **Amount $** | **Contributed Surplus $** | **Deficit $** | **Total $** |
| Balance, December 31, 2010 | 3,877,197 | 11,778,565 | 560,372 | (14,501,806) | (2,162,869) |
| Net loss and comprehensive loss for the period | - | - | - | (149,385) | (149,385) |
| Balance, March 31, 2011 | 3,877,192 | 11,778,565 | 560,372 | (14,651,191) | (2,312,254) |
| Issued during the period: | | | | | |
| 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 and comprehensive income for the period | - | - | - | 836,690 | 836,690 |
| Balance, December 31, 2011 | 35,829,143 | 12,777,815 | 1,048,511 | (13,814,501) | 11,825 |
| Net loss and comprehensive loss for the period | - | - | - | (45,362) | (45,362) |
| Balance, March 31, 2012 | 35,829,143 | 12,777,815, | 1,048,511 | (13,859,863) | (33,537) |



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

**DIGIFONICA INTERNATIONAL INC.**
**CONDESNSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
For the three months ended March 31, 2012 and 2011
(Unaudited – expressed in Canadian Dollars)

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Cash flow provided by (used in) | | |
| Operating Activities | | |
| Net loss for the period | (45,362) | (149,385) |
| Changes in non-cash working capital items | | |
| HST recoverable and other receivables | (3,837) | (6,421) |
| Prepaid expenses | (5,341) | (1,538) |
| Accounts payable and accrued liabilities | 7,249 | 128,846 |
| Note payable in default | - | (2,243) |
| | (47,291) | (30,741) |
| Investing Activity | | |
| Deferred transaction costs | (21,500) | - |
| Financing Activities | | |
| Repayment of demand loans | (55,451) | - |
| Proceeds from loans from shareholders | - | 32,000 |
| | (55,451) | 32,000 |
| (Decrease) increase in cash during the period | (124,242) | 1,259 |
| Cash – beginning of the period | 237,471 | 238 |
| Cash – end of the period | 113,229 | 1,497 |
| Cash paid during the period for: | | |
| Interest | 522 | - |
| Income taxes | - | - |



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

(Unaudited – expressed in Canadian Dollars)

## 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. Since January 2010, the Company has ceased operations due to a lack of financing. The Company's main activity during these periods was maintaining its public listing. 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 condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material. At March 31, 2012, the Company had not yet achieve profitable operations, had a working capital deficiency of $55,037 had an accumulate deficit of $13,859,863 and expects to incur further losses in the development of its business, all of which may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon obtaining necessary financing and to meet its ongoing levels of corporate overhead.

## 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2011. These financial statements were approved by the board of directors for use on May 22, 2012.

## 3. DEMAND LOANS

| | $ |
|---|---:|
| Balance – December 31, 2010 | - |
| Add: Proceeds from demand loans | 101,870 |
| Deduct: Repayment of demand loans | (41,997) |
| Balance – December 31, 2011 | 59,873 |
| Deduct: Repayment of demand loans | (55,451) |
| Balance – March 31, 2012 | 4,422 |

(Unaudited – expressed in Canadian Dollars)

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.

## 4. SUBSCRIPTIONS PAYABLE

| | $ |
|---|---|
| Balance – December 31, 2010 | 134,822 |
| Deduct: Repayment | (124,822) |
| Balance – March 31, 2012 and 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. Subsequent to March 31, 2012, $5,000 of subscriptions payable were settled for $1,000.

## 5. SHARE CAPITAL

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

b) 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 March 31, 2012 and December 31, 2011 and the changes during the periods then ended is presented below:

| | Number of options | Weighted average exercise price $ |
|---|---|---|
| Balance outstanding – December 31, 2011 and 2010 | 69,000 | 10.58 |
| Forfeited | (69,000) | 10.58 |
| Balance outstanding and exercisable – March 31, 2012 | - | - |

(Unaudited – expressed in Canadian Dollars)

c) Warrants:

A summary of warrants outstanding as of March 31, 2012 and December 31, 2011 and the changes during the period then ended is presented below:

| | Number of warrants | Weighted average exercise price $ |
|---|---|---|
| Balance outstanding – December 31, 2010 | 375,515 | 2.50 |
| Issued | 32,860,000 | 0.10 |
| Expired | (375,515) | 2.50 |
| Balance outstanding – March 31, 2012 and December 31, 2011 | 32,860,000 | 0.10 |

The weighted average remaining contractual life of warrants at March 31, 2012 is 0.71 years (December 31, 2011 – 0.96 years).

At March 31, 2012, 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 |

## 6. RELATED PARTY TRANSACTIONS

The Company incurred the following charges with directors and officers of the Company and/or companies controlled by them during the three months ended March 31, 2012 and 2011:

| | 2012 $ | 2011 $ |
|---|---|---|
| Accounting fees | 12,338 | - |
| Consulting fees | - | 63,590 |
| | 12,338 | 63,590 |

Included in accounts payable and accrued liabilities as at March 31, 2012 is $7,407 (December 31, 2011 - $20,365) 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 March 31 2012, $4,422 (December 31, 2011 - $4,422) of the demand loans are due to a director of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the directors of the Company. The compensation paid or payable to key management for services during the three months ended March 31, 2012 and 2011 is identical to the table above.

## 7. SUBSEQUENT EVENTS

An additional subsequent event is disclosed in Note 4.

### Settlement of loans from shareholders

On April 17, 2012, the Company settled $62,999 of loans from shareholders for $50,000. On April 30, 2012, the Company settled $6,192 of loans from shareholders for $1,000.

### 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.

At March 31, 2012, the Company had recorded $21,500 of deferred transaction costs in connection with the Transaction.

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.