

DIGIFONICA INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – expressed in Canadian Dollars)
September 30, 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)

	Note	September 30, 2012 \$	December 31, 2011 \$
ASSETS			
Current assets			
Cash		19,611	237,471
HST recoverable		11,707	9,457
Prepaid expenses		21,384	-
		52,702	246,928
Deferred share issuance costs		25,000	-
Total assets		77,702	246,928
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	304,131	96,039
Demand loans	3, 7	4,422	59,873
Subscriptions payable	4	5,000	10,000
Loans from shareholders	5	-	69,191
		313,553	235,103
Total liabilities		313,553	235,103
(DEFICIENCY) EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	6	12,856,565	12,777,815
Commitment to issue shares	6(c)	18,500	-
Contributed surplus		1,044,761	1,048,511
Deficit		(14,155,677)	(13,814,501)
Total (deficiency) equity attributable to shareholders		(235,851)	11,825
Total liabilities and (deficiency) equity attributable to shareholders		77,702	246,928

Organization and nature of operations and going concern (Note 1)
Commitments (Note 8)
Subsequent event (Note 6(c))

Approved by the Board of Directors

“Gunther Roehlig” Director

“Gavin McMillan” Director

DIGIFONICA INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

(Unaudited – expressed in Canadian Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2012 \$	2011 \$	2012 \$	2011 \$
General and administrative expenses					
Accounting and audit	7	15,606	10,653	38,329	32,170
Consulting fees	7	52,500	1,750	52,500	102,760
Legal		151,535	11,360	206,661	49,830
Office and miscellaneous		29,842	5,380	71,328	128,011
Loss before other items		(249,483)	(29,143)	(368,818)	(312,771)
Gain on settlement of debt	4, 5	-	22,754	30,015	40,110
Foreign exchange gain (loss)		233	(17,894)	(71)	(11,603)
Gain on sale of subsidiaries		-	1,025,422	-	1,025,422
Interest expense		(1,054)	(7,999)	(2,302)	(25,807)
Net loss and comprehensive loss for the period		(250,304)	993,140	(341,176)	715,351
Basic and diluted loss per share		(0.01)	0.26	(0.01)	0.18
Weighted average number of shares outstanding		35,979,143	3,877,197	36,003,596	3,877,197

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

DIGIFONICA INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(DEFICIENCY)

For the nine months ended September 30, 2012 and 2011
(Unaudited – expressed in Canadian Dollars)

	Number of shares	Amount \$	Commitment to Issue Shares \$	Contributed Surplus \$	Deficit \$	Total \$
Balance, December 31, 2010	3,877,197	11,778,565	-	560,372	(14,501,806)	(2,162,869)
Net income and comprehensive income for the period	-	-	-	-	715,351	715,351
Balance, September 30, 2011	3,877,192	11,778,565	-	560,372	(13,786,455)	(1,447,518)
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 loss and comprehensive loss for the period	-	-	-	-	(28,046)	(28,046)
Balance, December 31, 2011	35,829,143	12,777,815	-	1,048,511	(13,814,501)	11,825
Issued during the period:						
For cash pursuant to the exercise of warrants	750,000	75,000	-	-	-	75,000
Transfer of value on warrant exercise	-	3,750	-	(3,750)	-	-
Cash received pursuant to the exercise of warrants	-	-	18,500	-	-	18,500
Net loss and comprehensive loss for the period	-	-	-	-	(341,176)	(341,176)
Balance, September 30, 2012	36,579,143	12,856,565	18,500	1,044,761	(14,155,677)	(235,851)

DIGIFONICA INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2012 and 2011
(Unaudited – expressed in Canadian Dollars)

	2012	2011
	\$	\$
Cash flow provided by (used in)		
Operating Activities		
Net (loss) income for the period	(341,176)	715,351
Add (deduct) non-cash items:		
Gain on settlement of debt	(30,015)	(40,110)
Unrealized foreign exchange loss	-	2,721
Gain on sale of subsidiaries	-	(1,025,422)
	(371,191)	(347,460)
Changes in non-cash working capital items		
HST recoverable	(2,250)	(7,840)
Prepaid expenses	(21,384)	-
Accounts payable and accrued liabilities	215,916	226,866
	(178,909)	(128,434)
Investing Activity		
Proceeds on sale of subsidiaries, net of cash in subsidiaries	-	(149)
Financing Activities		
Exercise of warrants	93,500	-
Repayment of demand loans	(55,451)	-
Proceeds from demand loans	-	97,448
Repayment of subscriptions payable	(1,000)	-
Repayment of loans from shareholders	(51,000)	-
Proceeds from loans from shareholders	-	32,000
Deferred share issuance costs	(25,000)	-
	(38,951)	129,448
(Decrease) increase in cash during the period	(217,860)	865
Cash – beginning of the period	237,471	238
Cash – end of the period	19,611	1,103
Cash paid during the period for:		
Interest	-	-
Income taxes	-	-
Non-cash financing activity:		
Transfer of value on exercise of warrants	3,750	-

DIGIFONICA INTERNATIONAL INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2012
(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. The Company’s main activity during the nine months ended September 30, 2012 has been 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 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. At September 30, 2012, the Company had a working capital deficiency of \$260,851, has accumulated losses of \$14,155,677 since its inception 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, 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 in order to meet its ongoing levels of corporate overhead. These condensed interim 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. See Note 8 regarding a proposed private placement financing.

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 November 26, 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 – September 30, 2012	4,422

DIGIFONICA INTERNATIONAL INC.
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For the nine months ended September 30, 2012
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During the year ended December 31, 2011, a third-party and a director provided non-interest bearing loans due on demand. The remaining demand loan balance of \$4,422 is due to a director of the Company.

4. SUBSCRIPTIONS PAYABLE

	\$
Balance – December 31, 2010	134,822
Deduct: Repayment	(124,822)
Balance –December 31, 2011	10,000
Deduct: Settlement	(5,000)
Balance – September 30, 2012	5,000

In 2008, the Company received a subscription advance of \$124,822. In 2010, the Company received a subscription advance of \$10,000. The terms of the subscription agreements were not finalized and the shares were not issued.

During the year ended December 31, 2011, \$124,822 of the subscriptions were repaid. During the nine months ended September 30, 2012, \$5,000 of subscriptions payable were settled for \$1,000 resulting in a gain on settlement of debt of \$4,000.

5. LOANS FROM SHAREHOLDERS

	\$
Balance – December 31, 2010	202,691
Add: Proceeds from loans	32,000
Deduct: Repayment	(165,500)
Balance –December 31, 2011	69,191
Deduct: Settlement	(69,191)
Balance – September 30, 2012	-

During the nine months ended September 30, 2012, the Company settled \$69,191 of loans from shareholders for \$51,000 resulting in a gain on settlement of debt of \$18,191.

6. SHARE CAPITAL

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

DIGIFONICA INTERNATIONAL INC.
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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 September 30, 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
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Balance outstanding and exercisable – September 30, 2012	-	-

c) Warrants:

A summary of warrants outstanding as of September 30, 2012 and December 31, 2011 and the changes during the periods 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
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Balance outstanding – December 31, 2011	32,860,000	0.10
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Exercised	750,000	0.10
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Balance outstanding – September 30, 2012	32,110,000	0.10

The weighted average remaining contractual life of warrants at September 30, 2012 is 0.21 years (December 31, 2011 – 0.96 years).

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At September 30, 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	⁽¹⁾ 32,110,000
		32,110,000

⁽¹⁾ Subsequent to September 30, 2012, 935,000 of these warrants were exercised for gross proceeds of \$93,500. At September 30, 2012, the Company had received \$18,500 of the gross proceeds.

7. 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 and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Accounting fees	10,607	-	31,347	-
Consulting fees	-	-	-	66,590
	10,607	-	31,347	66,590

Included in accounts payable and accrued liabilities as at September 30, 2012 is \$34,415 (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 September 30, 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 and nine months ended September 30, 2012 and 2011 is identical to the table above.

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8. COMMITMENTS

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 and 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.