DIGIFONICA INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
December 31, 2012 and 2011

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 statements of financial position as at December 31, 2012 and December 31, 2011, and the statements of operations and comprehensive income (loss), statements of changes in equity (deficiency) and statements of cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the 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 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, 2012 and December 31, 2011, and its financial performance and cash flows for the years ended December 31, 2012 and 2011 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 significant doubt about the ability of Digifonica International Inc. to continue as a going concern.

April 30, 2013
Vancouver, BC

Chartered Accountants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS
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ACCOUNTING › CONSULTING › TAX
2300, 1055 DUNSMUIR STREET, PO BOX 49148: VANCOUVER BC; V7X 1J1
1-877-688-8408 P: 604-685-8408 F: 604-685-8594 www.MNP.ca

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	Note	2012 $	2011 $
ASSETS			
Current assets			
Cash		94,576	237,471
HST recoverable and other receivables		29,360	9,457
Prepaid expenses		2,634	-
Total assets		126,570	246,928
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13	323,753	96,039
Demand loans	6	4,422	59,873
Subscriptions payable	9	5,000	10,000
Loans from shareholders	10	-	69,191
Total liabilities		333,175	235,103
(DEFICIENCY) EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	11	13,169,360	12,777,815
Contributed surplus		1,029,866	1,048,511
Deficit		(14,405,831)	(13,814,501)
Total (deficiency) equity attributable to shareholders		(206,605)	11,825
Total liabilities and (deficiency) equity attributable to shareholders		126,570	246,928

Organization and nature of operations and going concern (Note 1)

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 (LOSS) INCOME
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	Note	2012 $	2011 $
General and administrative expenses			
Accounting and audit	13	64,001	46,347
Consulting fees	13	208,644	102,760
Legal		256,928	65,323
Office and miscellaneous		88,747	135,344
Loss before other items		(618,320)	(349,774)
Foreign exchange loss		(713)	(2,646)
Gain on forgiveness of debt	9, 10	30,015	40,110
Gain on sale of subsidiaries	5	-	1,025,422
Interest expense		(2,312)	(25,807)
Net (loss) income and comprehensive (loss) income for the year		(591,330)	687,305
Basic and diluted (loss) income per share		(0.02)	0.13
Weighted average number of shares outstanding		36,397,356	5,475,295

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, 2012 and 2011
(Expressed in Canadian Dollars)

	Number of shares	Amount $	Contributed Surplus $	Deficit $	Total $
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 and comprehensive 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
Issued during the year:					
For cash pursuant to the exercise of warrants	3,729,000	372,900	-	-	372,900
Transfer of value on warrant exercise	-	18,645	(18,645)	-	-
Net loss and comprehensive loss for the year	-	-	-	(591,330)	(591,330)
Balance, December 31, 2012	39,558,143	13,169,360	1,029,866	(14,405,831)	(206,605)

DIGIFONICA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

	2012 $	2011 $
Cash flow provided by (used in)		
Operating Activities		
Net (loss) income for the year	(591,330)	687,305
Deduct non-cash item:		
Gain on forgiveness of debt	(30,015)	(40,110)
Gain on sale of subsidiaries	-	(1,025,422)
Unrealized foreign exchange loss	-	4,387
	(621,345)	(373,840)
Changes in non-cash working capital items		
HST recoverable and other receivables	(19,903)	(6,459)
Prepaid expenses	(2,634)	-
Accounts payable and accrued liabilities	235,538	(512,874)
	(408,344)	(893,173)
Investing Activity		
Proceeds on sale of subsidiaries, net of cash in subsidiaries	-	(149)
Financing Activities		
Issuance of shares, net of issue costs	372,900	1,487,389
Proceeds from demand loans	-	101,870
Repayment of demand loans	(55,451)	(41,997)
Repayment of note payable	-	(83,385)
Repayment of convertible promissory note	-	(75,000)
Repayment of subscriptions payable	(1,000)	(124,822)
Proceeds from loans from shareholders	-	32,000
Repayment of loans from shareholders	(51,000)	(165,500)
	265,449	1,130,555
(Decrease) increase in cash during the year	(142,895)	237,233
Cash – beginning of the year	237,471	238
Cash – end of the year	94,576	237,471
Cash paid during the year for:		
Interest	-	-
Income taxes	-	-
Non-cash financing activity:		
Transfer of value on exercise of warrants	18,645	-

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 year ended December 31, 2012, the Company had ceased operations due to a lack of financing. The Company's main activity during the year 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 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 December 31, 2012, the Company had a working capital deficiency of $206,605, had accumulated losses of $14,405,831 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, 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. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that financing will be available on terms which are acceptable to the Company. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the board of directors for use on April 30, 2013.

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, except for derivatives which are measured at fair value.

Impairment of non-financial assets

Intangible assets 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, 2012 and 2011, the calculation of basic and diluted loss per share is the same.

Foreign currencies

The financial statements for the Company and each of its subsidiaries, if any, 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 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.

3. 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 10, *Consolidation,* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013.

(iii) IFRS 11, *Joint Arrangements,* replaces IAS 31, *Interests in Joint Ventures*. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled asset and jointly controlled operations under IAS 31. IFRS 11 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

(iv) IFRS 12, *Disclosure of Interests in Other Entities,* sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28, *Investments in Associates*. IFRS 12 is required to be applied for accounting periods beginning on or after January 1, 2013.

(v) 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.

(vi) 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.

4. CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS, AND ASSUMPTIONS

The preparation of financial statements requires management to make judgments, estimates and assumptions based on current available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material. In the process of applying the Company's accounting policies, management has made the following estimates, assumptions and judgments which have a significant effect on the amounts recognized in the financial statements:

(i) *Going concern* - The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. 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 were 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

6. 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 – December 31, 2012	4,422

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.

7. NOTE PAYABLE

	$
Balance – December 31, 2010	78,998
Add: Unrealized foreign exchange loss	4,387
Deduct: Repayment	(83,385)
Balance – December 31, 2012 and 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.

8. CONVERTIBLE PROMISSORY NOTES

	$
Balance – December 31, 2010	75,000
Deduct: Repayment	(75,000)
Balance – December 31, 2012 and 2011	-

9. SUBSCRIPTIONS PAYABLE

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

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. During the year ended December 31, 2012, $5,000 of subscriptions payable were settled for $1,000 resulting in a gain on settlement of debt of $4,000.

10. 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 – December 31, 2012	-

During the year ended December 31, 2012, the Company settled $69,191 of loans from shareholders for $51,000 resulting in a gain on settlement of debt of $18,191.

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 was comprised of one common share and one common share purchase warrant. Each share purchase warrant entitled 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 was 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 had a fair value of $143,000.

During the year ended December 31, 2012, 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, 2012 and 2011 and the changes during the years 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 – December 31, 2012	-	-

e) Warrants:

A summary of warrants outstanding as of December 31, 2012 and 2011 and the changes during the years 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 – December 31, 2011	32,860,000	0.10
Exercised	(3,729,000)	0.10
Expired	(29,131,000)	0.10
Balance outstanding – December 31, 2012	-	-

12. INCOME TAXES

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended December 31, 2012 and 2011:

	2012	2011
Statutory tax rate	25.00%	26.5%
	$	$
(Loss) income for the year before income taxes	(591,330)	687,305
Expected income tax (recovery) expense	(148,000)	182,000
Non-deductible items	-	1,452,000
Change enacted tax rate and other	(38,000)	104,000
Change in deferred tax assets not recognized	186,000	(1,738,000)
Total income taxes (recovery)	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2012 and 2011 are comprised of the following:

	2012 $	2011 $
Non-capital loss carry forwards	531,000	336,000
Capital losses	857,000	851,000
Financing costs	21,000	36,000
Total deferred income tax assets not recognized	1,409,000	1,223,000

The Company has non-capital loss carry forwards of approximately $2,123,000 (2011 - $1,269,000) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	$
2015	13,000
2026	67,000
2027	61,000
2028	442,000
2029	229,000
2030	180,000
2031	489,000
2032	642,000
Total	2,123,000

In addition, the Company has capital losses of $6,860,000 (2011 - $6,860,000) which may be carried forward indefinitely and applied to reduce further capital gains.

The 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 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, 2012 and 2011:

	2012 $	2011 $
Accounting fees	39,518	9,177
Consulting fees	30,000	66,590
	69,518	75,767

Included in accounts payable and accrued liabilities as at December 31, 2012 is $44,390 (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 December 31, 2012, $4,422 (2011 - $4,422) of the demand loans (Note 6) 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 years ended December 31, 2012 and 2011 is identical to the table above.

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, other receivables, accounts payable and accrued liabilities, demand loans and subscriptions payable. The Company designated its cash and other receivables as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities, demand loans and subscriptions payable are classified as other financial liabilities, which are measured at amortized cost.

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$"). Accounts exposed to foreign exchange risk as of December 31, 2012 are:

	US$
Cash	-
Accounts payable and accrued liabilities	(12,398)
Net exposure to foreign currencies	(12,398)

Accounts exposed to foreign exchange risk as of December 31, 2011 are:

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

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. At December 31, 2012 the Company had a working capital deficiency of $206,605.

15. TRANSACTION

Acquisition of assets of BidCactus, LLC

On December 10, 2012, the Company entered into a formal agreement with BidCactus, LLC, (the "BidCactus Agreement", that replaced a non-binding letter of intent ("LOI") entered into on April 24 2012) to acquire from BidCactus, LLC ("BidCactus"), substantially all of the assets and certain of the liabilities of BidCactus (the "Transaction"). Completion of the transaction is subject to the Company obtaining regulatory and shareholder approvals as well as securing an investment banker to sponsor the transaction with regulators. In addition, the Company must complete a financing of at least $5 million at closing. None of these matters have been resolved to date.

BidCactus operates a "penny-auction" website at www.bidcactus.com.