

# **DIGIFONICA INTERNATIONAL INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following information, prepared as of May 30, 2013, should be read in conjunction with the unaudited condensed interim financial statements of Digifonica International Inc. (the "Company" or "Digifonica") for the three months ended March 31, 2013, together with the audited consolidated financial statements of the Company for the year ended December 31, 2012 and the accompanying Management's Discussion and Analysis (the "Annual MD&A") for that fiscal year. The referenced financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relating to the Company and its operations is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FORWARD-LOOKING STATEMENTS**

The Company's condensed interim financial statements for the three months ended March 31, 2013, and this accompanying MD&A contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators.

It is important to note that, unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of May 30, 2013.

Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions.

Forward-looking statements in this MD&A include statements regarding the Company's future plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A.

Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

### **COMPANY DESCRIPTION**

Digifonica International Inc. was incorporated under the Alberta Business Corporations Act on November 23, 2004. The Company's main activity during the three months ended March 31, 2013 and the year ended December 31, 2012 has been maintaining its public listing. The main activities of the Company during the years ended December 31, 2011 and 2010 was maintaining its public listing and keeping the patent applications current. The patents were sold along with the subsidiaries on July 19, 2011. The Company is listed on the TSX Venture Exchange's NEX board under the trading symbol "DIL.H".

# Digifonica International Inc.

MD&A

March 31, 2013

## OVERALL PERFORMANCE

As part of a restructuring process, the Company completed a share consolidation effective February 25, 2011, consolidating 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.

Effective July 19, 2011, the Company sold all of its subsidiaries, including its wholly-owned subsidiaries Digifonica (International) Limited and Digifonica Canada Limited, to the previous President of the Company for proceeds of \$1. The subsidiaries held all patent technologies that were written-down to a value of \$1. Included in the subsidiaries was \$1,025,572 of liabilities. The liabilities are no longer liabilities of the Company.

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 share purchase warrant. Each share purchase warrant entitles the holder thereof the right to purchase one common share at \$0.10 per share, exercisable up to December 14, 2012. Proceeds of the private placement have been used for debt repayment and for general working capital.

On April 24, 2012, the Company entered into a non-binding letter of intent ("LOI") to acquire from BidCactus, LLC ("BidCactus") substantially all of the assets and certain of the liabilities of BidCactus (the "Transaction"). On December 10, 2012, the Company entered into a formal agreement with BidCactus.

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. In addition, 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 "Units").

On July 31, 2012, the Company announced that it had negotiated with Canaccord Genuity Corp. ("Canaccord") to complete a private placement on a commercially reasonable efforts basis to sell up to 7,500,000 Units at \$0.40 per Unit for gross proceeds of \$3,000,000. The Company also granted Canaccord the option to solicit an additional 2,500,000 Units to raise an additional \$1,000,000. The Company also announced that it plans on completing a non-brokered private placement of up to 5,000,000 Units at \$0.40 per Unit for gross proceeds of \$2,000,000.

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.

# Digifonica International Inc.

MD&A

March 31, 2013

## RESULTS OF OPERATIONS

The Company recorded a net loss of \$234,579 (\$0.01 per share) for the three months ended March 31, 2013 as compared to a net loss of \$45,362 (\$0.00 per share) for the three months ended March 31, 2012. The table below details certain non-cash or unusual transactions that for the purposes of this discussion have been adjusted out of the reported net loss to produce an adjusted net loss that forms a better basis for comparing the period over period operating results of the Company.

|   | Three Months<br>ended March 31,<br>2013<br>\$ | Three Months<br>Ended March 31,<br>2012<br>\$ |
|---|---|---|
| Net loss for the period as reported             | (234,579)                                     | (45,362)                                      |
| Foreign exchange loss (gain)                    | 1,338   | (80)  |
| Gain on forgiveness of debt                     | (4,480)                                       | -   |
| Adjusted net loss for the period <sup>(1)</sup> | (203,464)                                     | (45,442)                                      |

<sup>(1)</sup> Adjusted net loss for the period is not a term recognized under IFRS.

Comments regarding certain of these items are as follows:

- Foreign exchange loss/gain is based on fluctuations in the exchange rate between the Canadian dollar and the US dollar/British pound. Certain liabilities were denominated in US dollars and British pounds.
- The gain on forgiveness of debt is based on settling liabilities for amounts below book value.

The increase in adjusted net loss recorded in the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 is the net result of changes to a number of expenses. Of note are the following items:

- Consulting fees (\$86,450 vs. \$nil) increased as the Company actively pursued the Transaction. The consulting fees in the 2013 period were paid to Canaccord as a work fee in connection with the BidCactus LOI and to consultants assisting in the Transaction.
- Legal fees (\$87,995 vs. \$13,957) are comprised of fees relating to the Transaction.
- Office and miscellaneous expenses (\$45,613 vs. \$17,517) increased due to filing and regulatory fees related to the Transaction. Office and miscellaneous expense is otherwise primarily rent and transfer agent fees

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following table sets out financial information for the past eight quarters:

|  | Three Months Ended (\$) |                      |                       |                  |
|--|-------------------------|----------------------|-----------------------|------------------|
|  | March 31,<br>2013       | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
| Total Revenues   | -                       | -                    | -                     | -                |
| Net Loss   | (234,579)               | (250,154)            | (250,304)             | (45,510)         |
| Net Loss Per Share<br>(basic and diluted) <sup>(1)</sup> | (0.01)                  | (0.01)               | (0.01)                | (0.00)           |

# Digifonica International Inc.

MD&A

March 31, 2013

|  | Three Months Ended (\$) |                      |                       |                  |
|--|-------------------------|----------------------|-----------------------|------------------|
|  | March 31,<br>2012       | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 |
| Total Revenues   | -                       | -                    | -                     | -                |
| Net (Loss) Income  | (45,362)                | (28,046)             | 993,140               | (128,404)        |
| Net (Loss) Income Per<br>Share (basic and<br>diluted) <sup>(1)</sup> | (0.00)                  | (0.26)               | 0.26                  | (0.03)           |

<sup>(1)</sup> The basic and diluted loss per share calculations result in the same amount.

The net income recorded during the three months ended September 30, 2011 was due to the gain on sale of subsidiaries of \$1,025,422.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations consumed approximately \$239,000 of cash (before working capital items) for the three months ended March 31, 2013. The Company's aggregate operating, investing, and financing activities during the three months ended March 31, 2013 resulted in a decrease in its cash balance from \$94,576 at December 31, 2012 to \$12,213 at March 31, 2013. The Company's working capital deficiency at March 31, 2013 was \$441,184 (December 31, 2012 - working capital deficiency of \$206,605). The Company will need additional funding for general working capital purposes.

## INVESTING AND FINANCING ACTIVITIES

During the three months ended March 31, 2013, the Company had no financing activities. During the three months ended March 31, 2012, the Company repaid \$55,451 of demand loans.

## 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, 2013 and 2012:

|                 | 2013<br>\$ | 2012<br>\$ |
|-----------------|------------|------------|
| Accounting fees | 14,463     | 12,338     |
| Consulting fees | 30,000     | -          |
|                 | 44,463     | 12,338     |

Included in accounts payable and accrued liabilities as at March 31, 2013 is \$84,737 (December 13, 2012 - \$44,390) 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, 2013, \$4,422 (December 31, 2012 - \$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, 2013 and 2012 is identical to the table above.

# Digifonica International Inc.

MD&A

March 31, 2013

## FINANCIAL INSTRUMENTS

### Classification of Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, demand loans and subscriptions payable. The Company designated its cash as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities, demand loans and subscriptions payable are designated 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 March 31, 2013 are:

|  | US\$     |
|--|----------|
| Cash                                     | -        |
| Accounts payable and accrued liabilities | (50,937) |
| Net exposure to foreign currencies       | (50,937) |

Accounts exposed to foreign exchange risk as of December 31, 2012 are:

|  | US\$     |
|--|----------|
| Cash                                     | -        |
| Accounts payable and accrued liabilities | (12,441) |
| Net exposure to foreign currencies       | (12,441) |

### 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 March 31, 2013 the Company had a working capital deficiency of \$441,184.

# Digifonica International Inc.

MD&A

March 31, 2013

## OUTSTANDING SHARE DATA

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

All share information is reported as of May 30, 2013 in the following table:

| Type of Security                     | Number     | Exercise Price (\$) | Expiry Date |
|--------------------------------------|------------|---------------------|-------------|
| Issued and outstanding common shares | 39,558,143 | N/A                 | N/A         |
| Total                                | 39,558,143 |                     |             |

## RISKS AND UNCERTAINTIES

The Company has incurred significant losses since inception. The continued operations of the Company are dependent on its ability to generate future cash flow and obtain additional financing. The Company has traditionally financed its cash requirements through the issuance of common shares. If the Company is unable to generate cash from operations or obtain additional financing its ability to continue as a going concern could be impaired.

## DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim financial statements for the three months ended March 31, 2013 and this accompanying MD&A (together the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

The Company is in the process of determining how to proceed with the BidCactus Transaction. The Company requires additional financing for working capital purposes.