DIGIFONICA INTERNATIONAL INC.

NOTICE OF ANNUAL AND SPECIAL MEETING

OF

SHAREHOLDERS

to be held on February 25, 2011

11:00 a.m. (Vancouver time)

Days Inn, 921 West Pender Street

Vancouver, British Columbia, V6C 1M2

MANAGEMENT INFORMATION CIRCULAR

AND

PROXY STATEMENT

January 28, 2011

DIGIFONICA INTERNATIONAL INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT an Annual and Special Meeting (the "Meeting") of holders of common shares (“Shares”) of Digifonica International Inc. (the "Corporation") will be held on Friday February 25, 2011 at 11:00 a.m. (Vancouver time) at Days Inn, 921 West Pender Street Vancouver, British Columbia, V6C 1M2 for the following purposes:

1. to receive and consider the audited financial statements of the Corporation for the fiscal year ended December 31, 2009, together with the reports of the auditors thereon;

2. to elect the board of directors of the Corporation for the ensuing year;

3. to re-appoint HLB Cinnamon Jang Willoughby & Company as the auditors of the Corporation for the ensuing year and to authorize the board of directors of the Corporation to determine the remuneration to be paid to the auditors;

4. to consider and, if deemed advisable, to pass a special resolution, the full text of which is set forth in the accompanying Management Proxy Circular, to consolidate Shares of the Corporation on a ratio of one new consolidated Share for up to ten current shares in the discretion of the directors and to change the name of the Corporation to a name selected by the directors;

5. To approve a change of business and a change of the undertaking of the Corporation;

6. to consider and, if deemed advisable, to pass an ordinary resolution, the full text of which is set forth in the accompanying Management Proxy Circular, ratifying, adopting and re-approving the stock option plan of the Corporation and authorizing the Corporation's board of directors to make any amendments thereto that may be required for the purpose of obtaining the approval of applicable securities regulatory authorities or stock exchanges;

7. To approve stock options granted in the ensuing year to the directors, officers, insiders and consultants on terms acceptable to the TSX Venture Exchange and in accordance with the Corporation’s stock option plan.

8. to transact such other business as may be properly brought before the Meeting or any adjournment thereof.

Information relating to matters to be acted upon by the shareholders at the Meeting is set forth in the accompanying Management Proxy Circular.

A shareholder may attend the Meeting in person or may be represented at the Meeting by proxy. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are requested to date, sign and return the accompanying Instrument of Proxy, or other appropriate form of proxy, in accordance with the instructions set forth in the accompanying Management Proxy Circular and Instrument of Proxy. An Instrument of Proxy will not be valid unless it is deposited at the offices of Olympia Trust Company at Suite 2300, 125 - 9th Avenue S.E., Calgary, Alberta T2G 0P6, in the enclosed self-addressed envelope or faxed to (403) 265-1455 not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time of the Meeting, or any adjournment thereof. A person appointed as proxy holder need not be a shareholder of the Corporation. Shareholders can also vote online at http://www.oympiatrust.com/proxy.

Only shareholders of record as at the close of business on January 21, 2011 (the "Record Date") are entitled to receive notice of the Meeting.

SHAREHOLDERS ARE CAUTIONED THAT THE USE OF THE MAIL TO TRANSMIT PROXIES IS AT EACH SHAREHOLDER'S RISK.

DATED at Vancouver, British Columbia, this 28th day of January, 2011.

BY ORDER OF THE BOARD OF DIRECTORS

"*Gavin McMillan*"

Gavin McMillan

President

DIGIFONICA INTERNATIONAL INC.

MANAGEMENT PROXY CIRCULAR

(Unless otherwise stated, information contained herein is given as of January 28, 2011)

INFORMATION REGARDING PROXIES AND VOTING AT THE MEETING

Solicitation of Proxies

This Management Proxy Circular is furnished in connection with the solicitation of proxies by the management of Digifonica International Inc. (the "Corporation") for use at the Annual and Special Meeting of the holders (the "Shareholders") of common shares ("Common Shares") of the Corporation to be held at the Days Inn, 921 West Georgia Street, Vancouver, British Columbia, V6B 1M2 on Friday February 25, 2011 at 11:00 a.m. (Vancouver time) (the "Meeting"), for the purposes set forth in the Notice of Annual and Special Meeting (the "Notice") accompanying this Management Proxy Circular. Solicitation of proxies will be primarily by mail, but may also be undertaken by way of telephone, facsimile or oral communication by the directors, officers and regular employees of the Corporation, at no additional compensation. Costs associated with the solicitation of proxies will be borne by the Corporation.

Appointment of Proxyholders

Accompanying this Management Proxy Circular is an instrument of proxy for use at the Meeting. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are required to date and sign the enclosed instrument of proxy and return it in the enclosed return envelope. **All properly executed instruments of proxy for Shareholders must be mailed so as to reach or be deposited at the offices of Olympia Trust Company at Suite 2300, 125 - 9th Avenue S.E., Calgary, Alberta T2G 0P6 not later than 48 hours (excluding Saturdays, Sundays and statutory holidays in the Province of Alberta) prior to the time set for the Meeting or any adjournment thereof. Proxies can also be faxed to (403) 265-1455. Shareholders can also vote online at http://www.olympiatrust.com/proxy.**

The persons designated in the instrument of proxy are a director and the legal counsel for the Corporation. **A Shareholder has the right to appoint a person (who need not be a Shareholder) other than the persons designated in the accompanying instrument of proxy, to attend at and represent the Shareholder at the Meeting**. To exercise this right, a Shareholder should insert the name of the designated representative in the blank space provided on the instrument of proxy and strike out the names of management's nominees. Alternatively, a Shareholder may complete another appropriate instrument of proxy.

Signing of Proxy

The instrument of proxy must be signed by the Shareholder or the Shareholder's duly appointed attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by a duly authorized officer or attorney of the Corporation. An instrument of proxy signed by a person acting as attorney or in some other representative capacity (including a representative of a corporate Shareholder) should indicate that person's capacity (following his or her signature) and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Corporation).

Revocability of Proxies

A Shareholder who has submitted an instrument of proxy may revoke it at any time prior to the exercise thereof. In addition to any manner permitted by law, a proxy may be revoked by instrument in writing executed by the Shareholder or by his or her duly authorized attorney or, if the Shareholder is a corporation, under its corporate seal or executed by a duly authorized officer or attorney of the corporation and deposited either: (i) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournments thereof, at which the instrument of proxy is to be used; or (ii) with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof. In addition, an instrument of proxy may be revoked: (i) by the Shareholder personally attending the Meeting and voting the securities represented thereby or, if the Shareholder is a corporation, by a duly authorized representative of the corporation attending at the Meeting and voting such securities; or (ii) in any other manner permitted by law.

Voting of Proxies and Exercise of Discretion by Proxyholders

All Common Shares represented at the Meeting by properly executed proxies will be voted on any ballot that may be called for and, where a choice with respect to any matter to be acted upon has been specified in the instrument of proxy, the Common Shares represented by the instrument of proxy will be voted in accordance with such instructions. The management designees named in the accompanying instrument of proxy will vote or withhold from voting the Common Shares in respect of which they are appointed in accordance with the direction of the Shareholder appointing him or her on any ballot that may be called for at the Meeting. **In the absence of such direction, such Common Shares will be voted "FOR" the proposed resolutions at the Meetings. The accompanying instrument of proxy confers discretionary authority upon the persons named therein with respect to amendments of or variations to the matters identified in the accompanying Notice and with respect to other matters that may properly be brought before the Meeting.** In the event that amendments or variations to matters identified in the Notice are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the management designees to vote in accordance with their best judgment on such matters or business. At the time of printing this Management Proxy Circular, the management of the Corporation knows of no such amendment, variation or other matter to come before the Meeting other than the matters referred to in the accompanying Notice.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED ON

Except as disclosed in this Management Proxy Circular, none of the directors or senior officers of the Corporation at any time since the beginning of the Corporation's last financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise in any matter to be acted on (other than the election of directors).

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

Voting of Common Shares – General

The record date for the determination of Shareholders entitled to receive notice of and to vote at the Meeting is January 21, 2011 (the "Record Date"). Only Shareholders whose names are entered in the Corporation's register of shareholders at the close of business on the Record Date and holders of Common Shares issued by the Corporation after the Record Date and prior to the Meeting will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent that: (i) a registered Shareholder has transferred the ownership of any Common Shares subsequent to the Record Date; and (ii) the transferee of those Common Shares produces properly endorsed share certificates, or otherwise establishes that he or she owns the Common Shares and demands, not later than ten days before the Meeting, that his or her name be included on the Shareholder list before the Meeting, in which case the transferee shall be entitled to vote his or her Common Shares at the Meeting.

Voting Shares

The Corporation is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares. On the Record Date, of the Corporation's authorized Common Shares, 38,771,975 Common Shares were issued and outstanding as fully paid and non-assessable. No preferred shares were outstanding as of the Record Date.

Common Shares

The holders of Common Shares are entitled to notice of and to vote at all annual and special meetings of shareholders (except meetings at which only holders of a specified class or series are entitled to vote) and are entitled to one vote per Common Share. Subject to any prior rights of the holders of preferred shares the holders of Common Shares are entitled to receive such dividends as the board of directors (the "Board of Directors" or the "Board") declare and, upon liquidation, to receive such assets of the Corporation as are distributable to holders of Common Shares.

Voting of Common Shares – Advice to Non-Registered Holders

Only registered holders of Common Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a "Non-Registered Holder") are registered either:

(a) in the name of an intermediary (an "Intermediary") that the Non-Registered Holder deals with in respect of the Common Shares. Intermediaries include banks, trust companies, securities dealers or brokers, and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or

(b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited or "CDS").

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Notice, this Management Proxy Circular and the instrument of proxy (collectively, the "Meeting Materials") to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non Registered Holder has waived the right to receive them. Typically, Intermediaries will use a service company (such as Broadridge Financial Solutions, Inc. ("Broadridge")) to forward meeting materials to

Non-Registered Holders.

Generally, Non-Registered Holders who have not waived the right to receive meeting materials will:

(a) have received as part of the Meeting Materials a voting instruction form which must be completed, signed and delivered by the Non-Registered Holder in accordance with the directions on the voting instruction form; voting instruction forms sent by Broadridge permit the completion of the voting instruction form by telephone or through Internet based voting procedures; or

(b) less typically, be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with Olympia Trust Company at the address referred to above.

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Holder wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non Registered Holder should strike out the names of the persons named in the proxy and insert the Non Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.

Only registered Shareholders have the right to revoke a proxy. Non-Registered Holders who wish to change their vote must in sufficient time in advance of the Meeting, arrange for their respective Intermediaries to change their vote and if necessary revoke their proxy in accordance with the revocation procedures set above.

Principal Holders of Common Shares

To the knowledge of the directors and executive officers of the Corporation, as of the record date and the date hereof, no one shareholder owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Corporation. As of the record date CDS & CO , CDS Account of 25 The Esplanade, PO Box 1038 STN A, Toronto, Ontario M5W 1G5 holds 19,117,741 shares which is 49.31% of the issued and outstanding shares.

STATEMENT OF EXECUTIVE COMPENSATION

Securities laws require that a "Statement of Executive Compensation" in accordance with Form 51-102F6 be included in this information circular. Form 51-102F6 prescribes the disclosure requirements in respect of the compensation of executive officers and directors of reporting issuers. Form 51-102F6 provides that compensation disclosure must be provided for the Chief Executive Officer (or an individual who acted in a similar capacity) and the Chief Financial Officer of an issuer and each of the three most highly compensated executive officers whose total salary and bonus exceed $150,000. Based on these requirements, the executive officers of the Corporation whose disclosure is required under Form 51-102F6 are Gavin McMillan, President (acting in a similar capacity as Chief Executive Officer) and Jeff Bates, Chief Financial Officer. They are collectively referred to as the "Named Executive Officers" or "NEOs".

Compensation discussion and analysis

Philosophy

The Corporation believes that the experience, skills, engagement, dedication and motivation of the executive officers are important factors that may have a direct effect on the Corporation's performance and ability to provide growth of shareholder value. It is the view of the Corporation that the total compensation should be established at a competitive level to attract, retain and motivate the executive officers to achieve its business objectives. The retention of executive officers, their talent, skills and experience is enabled through a competitive compensation system.

The Compensation Committee of the Board of Directors (the "Compensation Committee") which is comprised entirely by independent directors is responsible for establishing policies with respect to the compensation of the executive officers of the Corporation. It has overall responsibilities for approving and evaluating plans, policies and programs related to executive compensation. The Compensation Committee utilizes two primary compensation elements and such elements are aligned with certain goals and objectives: (a) base salary and (b) long-term equity plans, including stock option grants. Each of these compensation elements are discussed in detail below.

Base salary

The Corporation provides NEOs and other executives with a fixed base salary set at a level to allow the Corporation to attract, motivate and retain highly qualified executives. The base salary for each NEO is determined on the basis of the following factors: responsibilities, experience, skill, performance, potential for growth, and the average salary levels in effect for comparable positions within the industry against which the Corporation competes to attract superior executive talent. The base salary level rewards executive performance and their contribution to the Corporation. For the purposes of maintaining competitive compensation, the Compensation Committee periodically refers to compensation surveys, advice from compensation consultants and other informative sources. Salary levels are reviewed and considered periodically as part of the Corporation's performance review process.

Long-term Incentive Compensation

Long-term incentives are provided through stock options. The Corporation and the Compensation Committee believe that stock-based compensation aligns the interests of the executive officers and employees of the Corporation with that of the shareholders. Since we operate in a highly competitive market, we also believe that stock-based compensation provides the opportunity for a long-term retention of executive officers.

During the year ended December 31, 2009 no stock options were granted.

Also, depending on the officer position, experience, skills and other factors, the Compensation Committee grants equity awards to executive officers upon commencement of their employment with the Corporation, with the level of award based on factors similar to those considered in connection with awards to existing executive officers. The number of Common Shares subject to each grant is set at a level intended to create a meaningful opportunity for stock ownership and resulting compensation opportunity based on the executive officer's current position and other compensation factors. The Compensation Committee also takes into account the number of vested and unvested options held by the executive officer in order to maintain the levels required by the Corporation's Stock Option Plan.

Stock options are granted in accordance with the Toronto Stock Exchange-Venture ("Exchange") Rules, at a fixed price per share which is not lower than the weighted average price of the common shares on the Exchange during the five trading days prior to the date of grant of options. Stock options generally become exercisable at the rate of 33% of the shares per year and expire five to ten years from the date of grant. These terms are intended to encourage long term retention of executive officers and motivate their continued performance. They will be able to get maximum return from grants of options only if they continue their employment with the Corporation for a minimum period of three years and if the stock price increases in value. The more the value of the stock is increased, the more return they get and as a result shareholder value increases.

Contracts with Named Executive Officers

During the year ended December 31, 2008, the Corporation was a party to employment agreements with Gavin McMillan, President and Jeff Bates, Chief Financial Officer. The annual salary for each NEO was $125,500. Under the employment agreements each NEO is entitled to three months notice upon termination without cause.

On January 15, 2009, the Corporation terminated the employment agreements with the NEOs who agreed to waive their notice periods. The employment agreements were replaced with consultancy agreements. Under the terms of Gavin McMillan's consultancy agreement he is paid $8,000 per month. Under the terms of Jeff Bates' consultancy agreement he is paid $3,000 per month.

However, during the year ended December 31, 2009 Gavin McMillan was paid $74500 as consulting fee and Jeff Bates was paid $36,000 as a consulting fee.

Summary Compensation Table

The following table sets forth information concerning the total compensation paid, during each of the last three financial years (as applicable), to the Named Executive Officers.

Name and Principal Position	Year	Salary ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)		Pension value ($)	All other Compen-sation ($)	Total Compen-sation ($)
					Annual incentive Plans (1)	Long-term incentive Plans (2)			
Gavin McMillan President (3)	2009	74,500	Nil	Nil	Nil	Nil	Nil	$35,000 (5)	109,500
	2008	125,500	Nil	5,820	Nil	Nil	Nil	Nil	131,320
	2007	32,877	Nil	Nil	Nil	Nil	Nil	Nill	32,877
Jeff Bates Chief Financial Officer (4)	2009	36,000	Nil	Nil	Nil	Nil	Nil	Nil	
	2008	125,500	Nil	6,984	Nil	Nil	Nil	Nil	132,484
	2007	77,918	Nil	Nil	Nil	Nil	Nil	Nil	77,918

1. Perquisites and other personal benefits, securities or property, received did not exceed the lesser of $50,000 and 10% of the total annual salary and bonuses for the Named Executive Officers.

2. "Long Term Incentive Plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include options or stock appreciation right plans or plans for compensation through restricted shares or restricted share units. The Corporation does not have any Long term incentive plans.

3. Gavin McMillan is President of the Corporation and has performed the functions similar to the Chief Executive Officer since October 26, 2007.

4. Jeff Bates was appointed as Chief Financial Officer on May 8, 2007.

5.The Corporation issued 350,000 common shares to Gavin McMillan to settle $35,000 of debt owed in respect of consultancy services.

5. The fair value of stock options award at grant date is calculated consistently with the Corporation's accounting for the fair value of stock option awards. It is calculated in accordance with section 3870 of the CICA Handbook, using the BlackScholes-Merton option pricing model and is adjusted for forfeitures. For the purposes of determining the accounting expense to be included in the financial statements of the Corporation for the year ended December 31, 2009 in respect of the stock option awards, accounting fair value expense is amortized over the vesting period of the award, which is normally 3 years. Please refer to the Corporation's consolidated financial statements note 11 (b) "Share Capital" for more details on accounting for fair value of stock option awards.

6. Amounts shown are for the entire financial year ended December 31, 2009 and includes all remuneration paid during, or payable in respect of, the year, even if the NEO did not hold the position shown for the year.

The Corporation calculates the fair value of stock options on the date of granting in the 'Option Based Awards' column using the Black-Scholes-Merton Model, a mathematical valuation model that ascribes a value to a stock option based on a number of variables, including the exercise price of the options, the market price of the underlying shares on the date the option was granted, the term of the option and assumptions with respect to the volatility of the price of the underlying share and the risk-free rate of return. The Corporation used this model because it is the methodology recommended by the Canadian Institute of Chartered Accountants in its Handbook for valuing securities based compensation and, in line with that recommendation, is the methodology used by the Corporation, and most Canadian publicly traded companies, in valuing and reporting stock options in its financial statements.

Calculating the value of stock options using the Black-Scholes-Merton Model is very different from simple 'in-the-money' value calculation. Stock options that are well 'out-of-the-money' can still have a significant fair value based on a Black-Scholes-Merton valuation. Accordingly, caution must be exercised in comparing grant date fair value amounts with cash compensation or an in-the-money option value calculation. The value of the 'in-the-money' options currently held by each NEO and director (based on share market price less option exercise price) is set forth in the 'Value of Unexercised in-the-money Options' column of the table in the section "Outstanding Share and Option Based Awards" below.

Outstanding Share and Option-based Awards

The following table sets forth the all Share and Option-based Awards outstanding for each Named Executive Officer and Director at December 31, 2009:

	Share-based Awards		Option-based Awards			
	Number of shares or units of shares that have not vested	Market or payout value of share based awards that have not vested	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in the-money options
Named Executive Officers						
Gavin MacMillan President	Nil	Nil	125,000	$1.00	June 2, 2013	Nil
Jeff Bates CFO	Nil	Nil	150,000	$1.00	June 2, 2013	Nil
Directors						
Colin Tucker	Nil	Nil	200,000	1.10	June 2, 2013	Nil
Thomas Sawyer	Nil	Nil	100,000	$1.10	June 2, 2013	Nil
Peter Legault	Nil	Nil	100,000	$1.10	June 2, 2013	Nil
Gordon Blankstein	Nil	Nil	Nil			
Emil Malak	Nil	Nil	Nil			

Incentive plan Awards – value vested or earned during the year

The following table sets forth the value vested or earning by each Named Executive Officers and Director during the financial year ended December 31, 2000:

Name	Option-based Awards – Value vested during the year	Share-based-Awards Value vested during the year	Non-equity incentive plan compensation - Value earned during the year
Named Executive Officers			
Gavin MacMillan President	Nil	Nil	Nil
Jeff Bates Chief Financial Officer	Nil	Nil	Nil
Directors			
Colin Tucker	Nil	Nil	Nil
Thomas Sawyer	Nil	Nil	Nil
Peter Legault	Nil	Nil	Nil
Gordon Blankstein	Nil	Nil	Nil
Emil Malak	Nil	Nil	Nil

Notes:

1. The Option-based Awards are share options granted to the NEOs on June 2, 2008. These share options vest over a three year period with one-third vesting on each of June 2, 2009, 2010 and 2011.

2. The Option-based Awards are share options granted to the Directors on June 2, 2008 vested immediately.

3. No options were granted or exercised in 2009.

Termination of Employment, Change in Responsibilities and Employment Contracts

Please refer to the earlier section of this information circular titled “Contracts with Named Executive Officers”. There are no compensatory plans, contracts or arrangements with any Named Executive Officer (including payments to be received from the Corporation or any subsidiary), which result or will result from the resignation, retirement or any other termination of employment of such Named Executive Officer or from a change of control of the Corporation or any subsidiary thereof or any change in such Named Executive Officer's responsibilities following a change in control, where in respect of the Named Executive officer the value of such compensation exceeds $100,000.

Compensation of Directors

Other than stock options to purchase shares of the Corporation which are granted to the Corporation’s directors from time to time the Corporation does not have any arrangements, other than that disclosed below, pursuant to which directors are directly or indirectly remunerated by the Corporation, for their services in their capacities as directors, consultants or experts.

Pursuant to a Consulting Agreement dated October 1, 2007, Dr. Colin Tucker, Chairman and director of the Corporation, provides consulting services to the Corporation. The remuneration payable under the agreement is GBP£3,333.33 per month. The Corporation closed a non-brokered private placement on February 7, 2008. Legault Investment Counsel Inc. (a company controlled by Peter Legault, Director of the Corporation) was paid $101,738 in respect of finder’s fees for this placement. TSX Venture Exchange approval was obtained.

The following table discloses the compensation paid, directly or indirectly, by or on behalf of the Corporation during the financial year ended December 31, 2009 to its directors:

Name	Fees earned $	Share awards	Option based awards (5)	Non-equity incentive plan compensation	Pension value	All other compensation	Total Compensation $
Gavin McMillan	74,500 (1)	Nil	Nil	Nil	Nil	Nil	74,500
Colin Tucker (1)	70,865 (2)	Nil	Nil	Nil	Nil	Nil	70,865
Gordon Blankstein	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Emil Malak	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Thomas E. Sawyer	7,635.46 (3)	Nil	Nil	Nil	Nil	Nil	7,635.46
Peter Legault	35,000 (3)	Nil	Nil	Nil	Nil	Nil	35,000

Notes:

1. Gavin McMillan was paid $74,500 for consultancy services provided to the Corporation during 2009.
2. Colin Tucker was paid $70,865 for consultancy services provided to the Corporation during 2009.
3. Thomas Sawyer was paid $7,635.46 for consultancy services provided to the Corporation during 2009.
4. Peter Legault was paid $35,000 for consultancy services provided to the Corporation during 2009.

5. The fair value of stock options award at grant date is calculated consistently with the Corporation's accounting for the fair value of stock option awards. It is calculated in accordance with section 3870 of the CICA Handbook, using the BlackScholes-Merton option pricing model and is adjusted for forfeitures. For the purposes of determining the accounting expense to be included in the financial statements of the Corporation for the year ended December 31, 2009 in respect of the stock option awards, accounting fair value expense is amortized over the vesting period of the award, which is normally 3 years.

Please refer to the Corporation's consolidated financial statements note 12 (c) "Share Capital" for more details on accounting for fair value of stock option awards.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth securities of the Corporation that are authorized for issuance under equity compensation plans as at the end of the Corporation's, most recently completed financial year.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a)) (c) (1)
Equity compensation plans previously approved by security holders	690,000	$1.04	Nil
Equity compensation plans not approved by security holders		Nil	Nil
Total	690,000	$1.04	Nil

Notes: The aggregate number of Common Shares that may be reserved for issuance under the Plan shall not exceed 10% of the Corporation’s issued and outstanding shares.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors and officers of the Corporation, any proposed management nominee for election as a director of the Corporation or any associate of any director, officer or proposed management nominee is or has been indebted to the Corporation at any time during the last completed financial year.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Management Proxy Circular, none of the informed persons of the Corporation (as defined in National Instrument 51-102), nor any proposed nominee for election as a director of the Corporation, nor any person who beneficially owns, directly or indirectly, shares carrying more than 10%

of the voting rights attached to the issued shares of the Corporation, nor any associate or affiliate of the foregoing persons has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which, in either case, has or will materially affect the Corporation and none of such persons has any material interest in any transaction proposed to be undertaken by the Corporation that will materially affect the Corporation.

MANAGEMENT CONTRACTS

Except as disclosed in this Information Circular, the Corporation does not have in place any management contracts between the Corporation and any directors or officers and there are no management functions of the Corporation that are to any substantial degree performed by a person or company other than the directors or officers (or private companies controlled by them, either directly or indirectly) of the Corporation.

The Corporation has consultancy contracts in place with Gavin McMillan, President of the Corporation, Dr. Colin Tucker, Chairman and Director of the Corporation, and Jeff Bates, Chief Financial Officer of the Corporation. All consultancy contracts have a notice period of up to three months.

Audit Committee

Form 52-110F2 containing information on the Audit Committee can be viewed in its entirety as Appendix "B" to the Corporations’ Management Information Circular dated October 27, 2009 at www.sedar.com.

Corporate Governance Disclosure

Form 58-101F2 containing information on the Corporation’s Corporate Governance can be viewed in its entirety as Appendix "C" to the Corporations’ Management Information Circular dated October 27, 2009 at www.sedar.com.

PARTICULARS OF MATTERS TO BE ACTED UPON

Financial Statements

The audited financial statements of the Corporation for the year ended December 31, 2009 and the Auditors' Reports thereon accompanying this Management Proxy Circular will be placed before the Shareholders at the Meeting for their consideration. Shareholders who wish to receive interim financial statements are encouraged to send the enclosed notice, in the addressed envelope to Olympia Trust Company. No formal action will be taken at the Meeting to approve the financial statements, which have been approved by the Board of Directors of the Corporation in accordance with applicable corporate and securities legislation. Any questions regarding the financial statements may be brought forward at the Meeting.

Election of Directors

The term of office of each of the present directors expires at the Meeting. Management of the Corporation proposes to nominate the persons named below for election as directors of the Corporation at the Meeting to serve until the next annual meeting of the Shareholders of the Corporation, unless his office is earlier vacated. All of the nominees are currently members of the Board of Directors of the Corporation.

Approval of the election of directors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favour of the election, as directors, of the nominees whose names are set forth below. In the event that prior to the Meeting, any vacancies occur on the slate of nominees submitted herewith, it is intended that discretionary authority will be granted to vote proxies solicited by or on behalf of management for the election of any other person or persons as directors. Management is not currently aware that any such nominees would not be willing to serve as director if elected.

The following information concerning the proposed nominees has been furnished by each of them:

Name, Province or State & Country of Residence & Present Position with the Corporation	Principal Occupation or Employment for the Last Five Years	Director since	Voting Securities Beneficially Owned
Thomas E. Sawyer Utah, USA Director (1) (2)	Dr. Sawyer is the President of Sawyer Technologies LLC. Dr. Sawyer is a principal, innovator and entrepreneur in the telecommunications and high technology industries. Dr. Sawyer has served as the Chief Executive Officer in a number of start-ups including NACT Telecommunications, SAGE Analytics International Inc. and Wicat Systems Inc. Dr. Sawyer has experience taking high technology companies public and has raised hundreds of millions of dollars in funding. He has community relations experience in the USA at a local, state and national level including service as a senior advisor to three US presidents – Nixon, Ford and Reagan. Dr. Sawyer has a PhD in Management from Walden University and a PhD in Clinical Psychology from Florida State University. Dr. Sawyer is current a Director on Chief Consolidated Mining Company.	May 8, 2007	100,000
Emil Malak Vancouver, BC, Canada Director (1) (2)	President of Bellagio Properties Inc. (property and restaurant company), and Chairman of Albonia Innovative Technologies Limited. Mr. Malak is a multifaceted entrepreneur and business executive with experience in the real estate and development, hospitality, mining, oil/gas and technology industries.	May 8, 2007	2,592,500
Colin Tucker London, UK Chairman and Director (1) (2)	Dr. Colin Tucker has an exemplary track record of achievement, corporate leadership, and guidance in the Communications Industry including leading "3 UK" in the development and deployment of the first 3G mobile network in the UK 2003, prompting the Financial Times to list Dr. Tucker as one of the 8 key people to know in the Telecommunications sector. Dr. Tucker has also served as an executive director to the board of Orange Plc, and as Chief Operating Officer of International Operations where he has led the development and continued management of the Orange Plc international brand and operations in countries such as France, Germany, Belgium and Switzerland. Dr. Tucker currently also sits as a non-executive director on the Board of Monitise Plc., an extensive and commercially successful mobile banking and payments service.	Sept 27, 2007	1,000,000

Notes:
1. Member of the Audit Committee.
2. Member of the Compensation Committee.

Corporate Cease Trade Orders or Bankruptcies

Other than as disclosed below, no director or proposed director of the Corporation is, or has been within the past ten years, a director, chief executive officer or chief financial officer of any other company that, while such person was acting in that capacity:

(i) was the subject to an order that was issued wile the director or proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or

(ii) was subject to an order that was issued after the director or proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as disclosed below, no director or proposed director of the Corporation is, or has been within the past ten years, a director or executive officer of any other company that, while such person was acting in that capacity, or within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Tucker was a Director of UIQ Technology Ltd ("UIQ"), a private company incorporated in Sweden. UIQ went into bankruptcy on January 5, 2009.

Individual Bankruptcies

No director or proposed director of the Corporation is or has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Penalties or Sanctions

No director or proposed director of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered

into a settlement agreement with a securities regulatory authority. No director or proposed director of the Corporation has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director

Conflicts of Interest

The directors and officers of the Corporation may, from time to time, be involved with the business and operations of other issuers, in which case a conflict of interest may arise between their duties as officers and directors of the Corporation and as officer and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such procedures and remedies, as applicable, under the Business Corporations Act (Alberta).

Appointment of Auditors

Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favour of the appointment of HLB Cinnamon Jang Willoughby & Company, as auditors of the Corporation, to hold office until the close of the next annual meeting, at a remuneration to be determined by the Board of Directors of the Corporation. Approval of the appointment of the auditors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

Consolidation of issued and outstanding Shares

As at September 30, the Corporation has a working capital deficiency of $2,098,923. On December 31, 2009 the Corporation wrote down its property, equipment and deferred development costs to their estimated recoverable amount of $nil. Management proposes to change the business of the Company ("COB") and its undertaking to a business not yet determined. The Corporation needs to raise money by the sale of its share. Management proposes to consolidate the 38,771,975 issued common shares on a basis of one new common share for up to ten common shares currently issued and outstanding **(the "New Common Shares").** On a post-consolidated basis, the Corporation anticipates that there will be approximately 3,877,197 New Common Shares of the Corporation issued and outstanding, assuming a consolidation ratio of 10 to 1.

The Board of Directors believes that consolidation of the Common Shares should enhance their marketability as an investment and should facilitate additional financings to fund operations in the future.

No fractional New Common Shares will be issued as a result of the Share Consolidation. If, as a result of the Share Consolidation, the holder of New Common Shares would otherwise be entitled to a fraction of a share, the number of New Common Shares issuable to such shareholder shall be rounded down to the nearest whole number. In addition, the exercise price and number of common shares of the Corporation issuable upon the exercise of outstanding options, warrants and other convertible securities will be proportionally adjusted upon the implementation of the proposed share consolidation.

In connection with the Share Consolidation, the Corporation is proposing a name change and may also seek a new stock trading symbol from the TSX Venture Exchange (the "Exchange"). The Corporation is proposing to change its name to a name determined by the Board of Directors and acceptable to the Exchange.

Notwithstanding shareholder approval, the Board of Directors may, in their sole discretion, revoke the resolution approving the change of corporate name at any time prior to its implementation. Concurrently management proposes to change the name of the Company.

Shareholders are asked to approve the following special resolution which means a resolution passed by a majority of not less than 2/3 of the votes cast by the shareholders present in person or by proxy at the Meeting who voted in respect of that resolution.

BE IT RESOLVED THAT a special resolution to change the name of the Corporation to a name selected by the directors and accepted by the regulatory authorities and to consolidate the 38,771,975 issued and outstanding shares on a ratio of one New Common Share for up to ten common shares currently issued and outstanding, the final ratio to be determined at the sole discretion of the directors; and that any one director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents as in his opinion may be necessary or advisable in order to give effect to the foregoing resolutions be and are hereby approved."

To be effective, such resolution must be passed by a majority of the votes cast thereon by Shareholders present in person or by proxy at the Meeting. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

1. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, without further resolution of shareholders, approval is hereby given to the board of directors of the Corporation, in their sole discretion, to revoke this resolution at any time and to refrain from implementing the share consolidation and name change.

2. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

Change of Business and Undertaking of the Company

The Corporation has spent four years developing a VoIP network and a number of partners sales and self management tools. It was looking for Partners in its technology and / or to sell its Patents.

On February 1, 2009, the Company vacated its rental premises. The Leasehold improvements and Furniture & Fixtures were disposed of and written down to Nil and a loss from disposition of property and equipment of $48,917 was recognized in the nine months ended September 30, 2009.

On December 31, 2009, the Company wrote down its Property and equipment to its estimated recoverable amount of $nil. The Company recognized a loss from disposition of property of equipment of $290,752, for a total loss from disposition of $339,669.

The only remaining asset of any value is the patents with a value of $381,179 which the Corporation would like to sell.

Management plans to sell, transfer, license and otherwise dispose of the patents (“Disposition”) which are the sole undertaking of the Corporation (the “Undertaking”) and enter into a new business unrelated to the prior business which may be a change of business (“COB”) or a reverse takeover (RTO) as defined by the Exchange.

“**Change of Business**” or “**COB**” means a transaction or series of transactions which will redirect an Issuer’s resources and which changes the nature of its business, for example, through the acquisition of an interest in another business which represents a material amount of the issuer’s market value, assets or operations, or which becomes the principal enterprise of the issuer.

“**Reverse Takeover**” or “**RTO**” means a transaction or series of transactions, involving an acquisition by the Issuer or of the Issuer, and a securities issuance by an Issuer that results in:

(a) new Shareholders holding more than 50% of the outstanding voting securities of the Issuer; and

(b) a Change of Control of the Issuer which means a new person owns 20% of the Corporation's shares. The Exchange may deem a transaction to have resulted in a Change of Control by aggregating the shares of a vendor group and/or incoming management group, but does not include any transaction or series of transactions whereby the newly issued securities are to be issued to shareholders of an issuer listed on TSX or another senior exchange under a formal takeover bid made pursuant to Securities Laws.

A transaction or series of transactions may include an acquisition of a business or assets, an amalgamation, arrangement or other reorganization.

Shareholders are asked to approve the following special resolution which means a resolution passed by a majority of not less than 2/3 of the votes cast by the shareholders present in person or by proxy at the Meeting who voted in respect of that resolution.

BE IT RESOLVED THAT a special resolution to dispose of the Undertaking of the Corporation and to enter into a COB or RTO with a new business as determined by the directors be and is hereby approved.

To be effective, such resolution must be passed by a majority of the votes cast thereon by Shareholders present in person or by proxy at the Meeting. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

1. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, without further resolution of shareholders, approval is hereby given to the board of directors of the Corporation, in their sole discretion, to revoke this resolution at any time and to refrain changing the Undertaking of the Corporation or entering into a COB or RTO.

2. Any one director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents as in his opinion may be necessary or advisable in order to give effect to the foregoing resolutions."

3. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

Ratification and Re-Approval of Stock Option Plan

Pursuant to Policy 4.4 of the Exchange (the "Policy"), corporations that have a rolling stock option plan reserving a maximum of 10% of the issued and outstanding shares of the corporation must receive yearly shareholder approval of the stock option plan. The directors of the Corporation have approved the Stock Option Plan in the form attached as Appendix "A" to the Corporation's Management Information Circular dated October 27, 209 which can be viewed in its entirety at www.sedar.com. The Exchange requires the Stock Option Plan to be re-approved by the shareholders of the Corporation. Management of the Corporation will place before the Meeting the following resolution relating to the re-approval of the Stock Option Plan:

BE IT RESOLVED THAT:

1. the stock option plan of the Corporation, the full text of which is set forth in Appendix "A" to the Management Proxy Circular of the Corporation dated October 27, 2009, as may be amended by the board of directors as required by the applicable securities regulatory authorities or stock exchanges, is hereby ratified, adopted and re-approved;

2. the form of the Stock Option Plan may be amended in order to satisfy the requirements or requests of any regulatory authorities without requiring further approval of the shareholders of the Corporation;

3. the shareholders of the Corporation hereby expressly authorize the board of directors to revoke this resolution before it is acted upon without requiring further approval of the shareholders in that regard; and

4. Any one director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents as in his opinion may be necessary or advisable in order to give effect to the foregoing resolutions."

The approval by Shareholders requires a favorable vote of a majority of the Common Shares voted in respect thereof at the Meeting. Options to purchase Common Shares that were previously granted to directors, officers and employees of the Corporation will be deemed to be granted under the Stock Option Plan. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

Grant of New Stock Options to directors, officer, insiders and consultants

The Corporation proposes to grant stock options to its directors, officer, insiders and consultants in the ensuing year at on terms and prices acceptable to the Exchange and in compliance with the Corporation's stock option plan. Management of the Corporation will place before the Meeting the following resolution relating to the grant of new stock options.

BE IT RESOLVED THAT:

1. The Corporation may amend current outstanding options and grant new option to officer, insiders and consultants in the ensuing year at on terms and prices acceptable to the Exchange and in compliance with the Corporation's stock option plan.

2. Any one director or officer of the Corporation be and is hereby authorized and directed to do such things and to execute and deliver all such instruments, deeds and documents as in his opinion may be necessary or advisable in order to give effect to the foregoing resolutions."

The approval by Shareholders requires a favorable vote of a majority of the Common Shares voted in respect thereof at the Meeting. Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote "FOR" the resolution.

OTHER MATTERS

As of the date of this Information Circular, the Board of Directors and management know of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matter properly comes before the Meeting, proxies in favour of management nominees will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com. Financial information on the Corporation is provided in the comparative financial statements and management discussion and analysis of the Corporation which can also be accessed at www.sedar.com.

Dated at Vancouver, British Columbia this 28th date of January, 2011.

Approved by the Board of Directors of **DIGIFONICA INTERNATIONAL INC.**

BY ORDER OF THE BOARD OF DIRECTORS

"*Gavin McMillan*"

Gavin McMillan

President

Form 52-109FV1
Certification of annual filings - venture issuer basic certificate

I, Gavin McMillan, President, (Chief Executive Officer) of Digifonica International Inc. certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Digifonica International Inc. (the "issuer") for the financial year ended December 31, 2009.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: May 7, 2009

"*Gavin McMillan****"***

Gavin McMillan
President (performing similar functions to the Chief Executive Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Form 52-109FV1
Certification of annual filings - venture issuer basic certificate

I, Jeff Bates, Chief Financial Officer of Digifonica International Inc. certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Digifonica International Inc. (the "issuer") for the financial year ended December 31, 2009.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: May 7, 2009
"Jeff Bates"
____
Jeff Bates
Chief Financial Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Digifonica International Inc.

Consolidated Financial Statements

Years ended December 31, 2009 and 2008

Digifonica International Inc.
Consolidated Financial Statements
Years ended December 31, 2009 and 2008

Contents

MEYERS NORRIS PENNY LLP

AUDITORS' REPORT

To the Shareholders of **Digifonica International Inc.**:

We have audited the consolidated balance sheets of Digifonica International Inc. as at December 31, 2009 and 2008 and the consolidated statement of operations, comprehensive loss and deficit, and cash flows for the years then ended, and from the date of inception on September 9, 2004 to December 31, 2009. These consolidated financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, and from the date of inception on September 9, 2004 to December 31, 2009, in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants

Vancouver, British Columbia, Canada
April 29, 2010

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS
2300 – 1055 DUNSMUIR STREET VANCOUVER, BC V7X 1J1
PH. (604) 685-8408 FAX (604) 685-8594 www.mnp.ca

DIGIFONICA INTERNATIONAL INC.
(A Development Stage Company)
Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 4,327	$ 42,946
Other receivable	3,548	12,890
Prepaid expenses	3,242	70,239
Total current assets	11,117	126,075
Property and equipment, net (Note 5)	-	467,702
Deferred development costs (Note 6)	-	3,016,864
Patents (Note 7)	381,179	143,009
Total Assets	392,296	3,753,650
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank overdraft	-	46,595
Accounts payable (Note 14)	601,826	845,272
Note payable in default (Note 8)	82,884	96,580
Accrued expenses (Note 14)	958,201	789,673
Convertible Promissory notes (Note 9)	150,000	147,418
Subscriptions payable (Note 10)	124,822	124,822
Loan from shareholders (Note 14)	151,182	210,105
Total current liabilities	2,068,915	2,260,465
Shareholders' equity:		
Share Capital (Note 11)	11,622,658	10,745,975
Contributed surplus (Note 12)	560,372	546,778
Deficit accumulated during the development stage	(13,859,649)	(9,799,568)
Total shareholders' equity	(1,676,619)	1,493,185
Total Liabilities and Shareholders' Equity	$ 392,296	$ 3,753,650

Nature of operations and going concern (Note 1)
Subsequent events (Note 17)

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

Approved on behalf of the Board of Directors:

"Colin Tucker" ________________________
Colin Tucker

"Emil Malak" ________________________
Emil Malak

DIGIFONICA INTERNATIONAL INC.
(A Development Stage Company)
Consolidated Statements of Operations, Comprehensive Loss, and Deficit

	Year ended December 31, 2009	Year ended December 31, 2008	Inception (Sep 9, 2004) to Dec 31, 2009
Sales	$ -	$ -	$ -
Cost of sales	-	-	-
	-	-	-
Expenses:			
Accounting and audit	43,347	39,805	564,025
Salaries, wages, and commissions	70,689	746,985	3,120,231
Consulting fees (Note 14)	226,500	111,332	404,528
General and administrative	113,934	555,006	3,064,665
Legal	6,704	41,161	871,309
Rent	25,343	98,717	430,737
Amortization	128,033	222,717	1,108,923
Sales and marketing	-	209,606	2,095,071
Research and development	-	-	284,073
Travel	-	45,882	460,324
	614,550	2,071,211	12,403,886
Loss from continuing operations before other income (expense) and income taxes	(614,550)	(2,071,211)	(12,403,886)
Other income (expense):			
Loss from disposition of property and equipment (Note 5)	(339,669)	-	(367,769)
Write-off of Deferred Development Costs (Note 6)	(3,117,605)	-	(3,117,605)
Interest expense	(36,730)	(47,522)	(268,892)
Interest income	330	765	5,906
Foreign currency gain	48,143	11,940	431,190
Gain on sale of subsidiary	-	-	805,133
Gain on settlement of liabilities	-	-	1,056,274
	(3,445,531)	(34,817)	(1,455,763)
Loss from continuing operations before income taxes	(4,060,081)	(2,106,028)	(13,859,649)
Income tax expense	-	-	-
Net and Comprehensive loss	(4,060,081)	(2,106,028)	(13,859,649)
Deficit, beginning of period	(9,799,568)	(7,693,540)	-
Deficit, end of period	$ (13,859,649)	$ (9,799,568)	$ (13,859,649)
Loss per share - basic and diluted	$ (0.12)	$ (0.07)	$ (0.70)
Weighted average number of common shares Basic and diluted	32,609,317	28,832,529	19,752,088

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

DIGIFONICA INTERNATIONAL INC.
(A Development Stage Company)
Consolidated Statements of Cash Flows

	Year ended December 31, 2009	Year ended December 31, 2008	Inception (Sep 9, 2004) to Dec 31, 2009
Cash provided by (used in):			
Operations:			
Loss from continuing operations	$ (4,060,081)	$ (2,106,028)	$ (13,859,649)
Items not involving cash:			
Amortization	128,033	222,717	1,108,923
Common shares issued for services rendered	139,247	-	145,268
Stock-based compensation expense	-	56,746	56,746
Loss on disposal of property and equipment	339,669	-	367,769
Write-off of Deferred Development Costs	3,117,605		3,117,605
Flat fee on shareholders' loan	3,084	10,005	98,842
Gain on sale of subsidiary	-	-	(805,133)
Gain on settlement of liabilities	-	-	(1,056,274)
Changes in non-cash operating working capital (Note 15)	(18,212)	664,768	2,436,864
	(350,655)	(1,151,792)	(8,389,039)
Investments:			
Purchase of property and equipment	-	(84,066)	(1,477,387)
Proceeds from disposition of property and equipment	-	-	695
Payable from purchase of property and equipment	-	-	28,210
Expenditures on deferred development costs	(100,741)	(590,585)	(3,117,605)
Payable from deferrred development costs	8,519	146,697	155,216
Expenditures on patents	(238,170)	(43,855)	(381,179)
Proceeds from sale of short term investments	-	25,859	-
	(330,392)	(545,950)	(4,792,050)
Financing:			
Issuance of shares, net of issue costs	751,030	1,277,921	11,362,716
Subscription proceeds received in advance	-	-	350,000
Proceeds from shareholder loans	61,684	200,100	3,956,790
Proceeds from Convertible Promissory notes	-	150,000	150,000
Proceeds from Subcriptions payable	-	124,822	124,822
(Decrease) Increase in bank overdraft	(46,595)	46,595	-
Repayment of loan	(123,691)	(206,038)	(2,758,912)
	642,428	1,593,400	13,185,416
Increase (decrease) in cash and cash equivalents	(38,619)	(104,342)	4,327
Cash and cash equivalents, beginning of period	42,946	147,288	-
Cash and cash equivalents, end of period	$ 4,327	$ 42,946	$ 4,327

Supplementary cash flow information (Note 15)

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

1. Nature of operations and going concern

Digifonica International Inc., formerly Initial Capital Inc., ("Digifonica" or the "Company") was incorporated under the Alberta Business Corporations Act on November 23, 2004 and was listed as a Capital Pool Company on the TSX Venture Exchange (the "Exchange") effective May 9, 2005. The Company completed its Qualifying Transaction by acquiring a 50.02% controlling interest in Digifonica International Corp. ("DIC") on May 8, 2007. The Company completed the acquisition of a further 49.5% of the issued and outstanding shares of DIC on September 10, 2007. The Company currently trades on the Exchange under the symbol "DIL".

In 2007, the Company completed an internal group reorganization with ownership by DIC in Digifonica (International) Limited (organized in Gibraltar on September 9, 2004) , Digifonica Intellectual Properties Limited (organized in Gibraltar on September 25, 2003) , Digifonica Canada Limited (organized in Canada on July 29, 2004), Digifonica Enterprises Limited (organized in England and Wales on April 26, 2006) and Shenzhen Sino-Can Inter-Communication Technology Limited (a joint venture company in China) being transferred directly to the Company. Previously ownership by the Company was held indirectly through DIC. Subsequent to the internal group reorganization DIC was sold to an arm's length third party for proceeds of $1,000.

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 operating losses of $13,859,649, since its inception and had a working capital deficiency of $2,057,798 at December 31, 2009 (December 31, 2008: $2,134,390). The Company is in default of covenants and repayment schedules with certain creditors. The continuation of the Company is dependent upon the continuing support of creditors and stockholders, long-term financing, ongoing product development, the successful implementation of a marketing program, market acceptance of its products and achieving profitability. 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 presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar amounts presented are in Canadian dollars.

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Digifonica (International) Limited, Digifonica Intellectual Properties Limited, Digifonica Canada Limited and Digifonica Enterprises Limited and its 49% interest in Shenzhen Sino-Can Inter-Communication Technology Limited. All significant inter-company transactions have been eliminated.

3. Significant accounting policies

The Company's significant accounting policies are as follow:

a) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods may be significant. Key areas of estimation, where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include certain accrued liabilities, useful lives of depreciable assets and intangible assets with finite useful lives, estimates of volatility and

3. Significant accounting policies (continued)

forfeiture rates for stock based compensation and the determination of the debt and equity components for convertible debt instruments, recoverability of patent, calculation and recoverability of future tax assets and liabilities. For business combinations, key areas of estimation and judgement include the allocation of the purchase price.

b) Foreign currency translation

The Company's subsidiaries are considered fully integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in a foreign currency have been translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets, liabilities, revenue and expense items are translated at rates prevailing when they were acquired or incurred. Exchange gains and losses arising on translation of assets and liabilities are included in operations.

c) Cash and cash equivalents

The Company considers all highly liquid investments with maturity of three months or less at the time of purchase to be cash equivalents. These cash equivalents primarily consist of funds on deposit under various terms.

d) Deferred development costs

Research costs are expensed in the year incurred. The Company expenses development costs in the year incurred, except when it is determined that the costs meet Canadian GAAP criteria for deferral and amortization. The Company follows the guidance outlined in CICA Handbook Section 3064, *Goodwill and Intangible Assets*, to define and defer costs associated with software development of the Company's VoIP system and applications. The deferred development costs will be amortized on a straight-line basis over three years commencing when the software is available for use.

e) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Equipment is amortized over its estimated useful life, using the declining balance method as follows:

Furniture and fixtures	20%
Computers	30%
Nodes	30%
Equipment	30%
Software	100%

f) 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 its operations if the Company does not obtain approval or the patent is abandoned.

g) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

3. Significant accounting policies (continued)

h) Convertible Promissory note

The Company's Convertible Promissory notes are considered to be a compound financial instrument that contains both a debt and equity component. On issuance, the fair value of the debt component is determined by discounting the expected future cash flows over the expected life using a market rate of interest for a nonconvertible debt instrument with similar terms. The value is carried as debt on an amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated as a separate component of shareholders' equity. Transaction costs are apportioned between the debt and equity components based on their respective carrying amount when the instrument was issued.

i) Financial instruments

Fair value

CICA Handbook Section 3855, *Financial instruments – recognition and measurement*, establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives, including derivatives embedded in non-financial contracts. It requires financial assets and financial liabilities, including derivatives, be measured at fair value on initial recognition and recorded on the balance sheet. Measurement in subsequent periods is dependent on the classification of the financial instrument:

- held for trading – measured at fair value with changes in those fair values recognized in income
- available for sale – measured at fair value with unrealized gains and losses recognized in other comprehensive income; instruments that do not have a quoted market price in an active market are measured at cost
- held to maturity, loans and receivables, other financial liabilities – measured at amortized cost using the effective interest method of amortization

The Company's financial instruments include cash and cash equivalents, other receivable, accounts payable, accrued liabilities, bank overdraft and subscriptions payable. Management believes that the fair values of these financial instruments approximate their carrying values. The Company's other financial instruments include notes payable in default, convertible promissory notes and loans from shareholders.

The Company has classified all of its financial assets and liabilities as follows:

Financial Asset / Liability Classification / Subsequent Measurement
Cash and cash equivalents / Held for trading / Fair value
Other receivable / Held for trading / Fair value
Bank overdraft / Head for trading / Fair value
Accounts payable and accrued liabilities / Other liabilities / Amortized cost
Notes payable in default / Held for trading / Fair value
Loans from shareholders / Held for trading / Fair value
Convertible Promissory notes / Held for trading / Fair value
Subscriptions payable / Held for trading / Fair value

Held for trading financial assets and liabilities, including derivative financial instruments, are recorded at fair value as determined by active market prices and valuation models, as appropriate. Valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses readily observable market inputs. Changes in fair value of held for trading financial instruments are recorded in net

3. Significant accounting policies (continued)

i) Financial instruments (continued)

earnings. Loans and receivables and other financial liabilities are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Changes in the fair values of derivative instruments are recognized in net income with the exception of derivatives designated in effective cash flow hedges.

The principal changes due to the adoption of these new standards are as follows:

a) Financial Instruments - Disclosure and Presentation

These new standards implement changes to accounting standards for disclosure of financial instruments. The disclosure requires information to be presented on all categories of financial instruments, the risks associated with investments and how the company manages those risks (Note 18).

b) Capital Disclosure -

This new standard requires the company to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and procedures for managing capital (Note 18).

j) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, title passes to the customer, typically upon delivery, and when collection of the fixed or determinable selling price is reasonably assured.

k) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in operations in the period in which the change is substantively enacted. A valuation allowance is recorded against any future income tax assets to the extent that there is uncertainty regarding utilization of future tax assets.

l) Loss per share

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in-the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Company at the average market price during the period. Basic loss per share is computed by dividing net losses by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. Anti-dilutive options and warrants are not included in the calculation.

3. Significant accounting policies (continued)

m) Stock options

Under the Company's stock option plan described in Note 10 (c), options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Stock-based compensation expense is recorded in the statement of loss and deficit for all options granted with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values at the time of the grant and the expense is recognized over the estimated vesting period. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that vested options are cancelled, previously recognized compensation expense associated with such stock options is reduced.

o) Comprehensive income

CICA Handbook Section 1530, *Comprehensive income*, introduces comprehensive income, which consists of net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from unrealized foreign currency translation gains or losses of self sustaining foreign operations, unrealized gains and losses on financial assets classified as available for sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The components of comprehensive income are disclosed in the consolidated statement of comprehensive income. The Company does not have any items that should be included in other comprehensive income.

p) Hedges

CICA Handbook Section 3865, *hedges*, specifies the criteria that must be satisfied for the application of hedge accounting. The Company does not engage in hedging practices.

4. Changes in accounting policies

During the year ended December 31, 2009 and 2008, the Company adopted the following new or revised Canadian accounting standards. Prior periods have not been restated. The adoption of these policies had no impact on the opening deficit.

a) Financial instruments - reclassification of financial assets

In October 2008, the AcSB issued amendments to its standards dealing with reclassification of financial assets in response to similar amendments made by the International Accounting Standards Board in the context of the current financial market turmoil. The amendments allow reclassification of financial assets out of the held-for-trading category (measured at fair value with gains and losses recognized immediately in net income) into the available-for-sale or held-to-maturity categories, in "rare circumstances." The latter two categories are subject to impairment testing, but income statement charges for impairment are recognized when impairment is considered "other than temporary." The financial assets that can be reclassified exclude derivatives and financial assets an entity has elected to include in the held-for-trading category. Assets qualifying for reclassification are mainly debt and equity investments that were originally classified as held for trading because they were acquired for the purpose of near-term sale. The amendments apply to reclassifications made or after July 1, 2008. The Company did not reclassify any financial assets in 2010.

4. Changes in accounting policies

b) Going Concern

In June 2007, the CICA approved amendments to Handbook Section 1400 "General Standards for Financial Statement Presentation". The standard outlines specific requirements for assessing and disclosing an entity's ability to continue as a going concern. Although the revised standard is not expected to impact the Company's net earnings or financial position, there may be different and additional disclosure surrounding the Company's going concern disclosure. Please refer to Note 1 for the company's going concern assessment.

c) Section 3064, Goodwill and Intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets. This new section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new Section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development from being considered as intangible asset, as existing Section 3061, Property, Plant and Equipment, contains standards for measurement, presentation and disclosure of mining properties. Adoption of this standard did not have any effect on the Company's financial statements.

d) EIC – 173, Credit risk and the fair value of financial assets and Financial liabilities

In January 2009, the CICA issued EIC-173, Credit risk and the fair value of financial assets and financial liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2009. Adoption of this EIC did not have any effect on the Company's financial statements.

5. Property and equipment

Property and equipment consist of the following assets as of December 31, 2009:

	Cost $	Accumulated amortization $	Net book Value $
Leasehold improvements	-	-	-
Furniture & fixtures	-	-	-
Computers	132,792	(132,792)	-
Nodes	445,035	(445,045)	-
Equipment	579,644	(579,644)	-
Software	82,983	(82,983)	-
	1,240,454	(1,240,454)	-

5. Property and equipment (continued)

Property and equipment consist of the following assets as of December 31, 2008:

	Cost $	Accumulated amortization $	Net book Value $
Leasehold improvements	172,376	(134,070)	38,306
Furniture & fixtures	25,713	(11,677)	14,036
Computers	132,791	(81,428)	51,363
Nodes	445,035	(279,664)	165,371
Equipment	579,644	(381,018)	198,626
Software	82,983	(82,983)	-
	1,438,542	(970,840)	467,702

Amortization expense for the year ended December 31, 2009 and 2008 were $128,033 and $222,717 respectively.

On February 1, 2009, the Company vacated its rental premises. The Leasehold improvements and Furniture & Fixtures were disposed of and written down to Nil and a loss from disposition of property and equipment of $48,917 was recognized in the nine months ended September 30, 2009.

On December 31, 2009, the Company wrote down its Property and equipment to its estimated recoverable amount of $nil. The Company recognized a loss from disposition of property of equipment of $290,752, for a total loss from disposition of $339,669.

6. Deferred development costs

The Company has capitalized the cost of development related to wages, contractor fees and other related costs for software design and application products of the Company's VoIP system and applications. As at December 31, 2009 the Company determined that the Deferred development costs were no longer recoverable and the balance of $3,117,605 was written off to the income statement.

The amount of deferred development costs for the year ended December 31, 2009 and 2008 were $100,741 and $590,585 respectively. The accumulated amount of deferred development costs as of December 31, 2008 was $nil (December 31, 2008: $3,016,864). Amortization expense for the years ended December 31, 2009 and 2008 were nil.

7. Patents

The Corporation has several patent applications pending approval that relate directly to the process and technology that run the Company's current business platform. The carrying amounts are representative of actual costs incurred to date in pursuing patent applications. $238,170 of patent application costs and legal fees have been capitalized during the year ended December 31, 2009 (December 31, 2008: $43,855). Patents will be amortized over the remaining life of the patent commencing when the patents have been granted. To date, none of the patents have been granted and therefore no amortization has been recorded.

8. Note payable in default

The Company has one note payable in default for $82,884 as at December 31, 2009 (December 31, 2008: $96,580). At December 31, 2009 and 2008 the one note in default is an unsecured promissory note dated July 23, 2008 which was entered into by the Company with a supplier. The promissory note bears interest at 12% per annum on the unpaid principal.

9. Convertible Promissory notes

On July 14, 2008, the Company issued $150,000 in convertible promissory notes to three shareholders and one arms-length party. The notes bear interest at a rate of 10% per annum. The notes are convertible into common shares of the Company at the election of the holder, at a price of $0.36 per Unit. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant of the Company. Each common share purchase warrant shall entitle the holder thereof to acquire one common share of the Company at a price of $0.50 per common share on or before the day that is eighteen months from the date of the note agreements. The notes are repayable at a date which is not more than ten (10) days from the date of closing a private placement offering by the Company where the Company raises funds, net of expenses of the offering, in excess of $1,000,000 (the "Private Placement"); or where the Private Placement has not closed by September 30, 2008, within five (5) business days of demand at anytime thereafter, unless otherwise converted at the terms outlined above. The notes are secured by a general security agreement.

The Company has allocated $140,965 of the $150,000 proceeds to current liabilities based on the fair value of similar debt instruments without an associated conversion option. The fair value of the conversion option was estimated at approximately $9,035. This is reflected as an adjustment to Contributed surplus. An accretion expense of $2,582 (December 31, 2008: $6,453) was recognized in the year ended December 31, 2009.

Subsequent to the year end, the Company issued 866,301 common shares at a deemed price of $0.10 per common share to settle $86,630 in convertible promissory notes. TSX Venture Exchange approval was obtained.

10. Subscriptions payable

In December, 2008, the Company received an advance of $124,822 from an arms length party. The terms of the subscription agreement are yet to be finalized.

11. Share capital

a) Authorized

Unlimited number of common shares without nominal or par value.
Unlimited number of preferred shares issuable in series.

b) Common shares issued and fully paid

	Number		Amount
Balance - December 31, 2007	27,592,179	$	9,130,490
Shares issued pursuant to private placement (Note 11 (b) (I))	1,307,000		1,699,100
Share issue costs (Note 11 (b) (IV))	-		(123,179)
Options exercised (Note 11 (c))	104,000		52,000
Fair value of warrants issued allocated to contributed surplus (Note 11 (b) (II))	-		(12,436)
Balance – December 31, 2008	29,003,179	$	10,745,975
Shares issued pursuant to private placement (Note 11 (b) (I))	7,510,300		751,030
Fair value of warrants issued allocated to contributed surplus (Note 11 (b) (II))	-		(13,594)
Shares for debt (Note 11 (b) (III) and (IV))	1,392,465		139,247
Balance – December 31, 2009	37,905,944	$	11,622,658

11. Share capital (continued)

b) Common shares issued and fully paid (continued)

I. On February 7, 2008 the Company closed a non-brokered Private Placement of units (“Units”). The Company issued an aggregate of 1,307,000 Units at a price of $1.30 per Unit for gross proceeds of $1,699,100. Each Unit consists of one common share (a "Common Share") of the Company and one-half of one non-transferable common share purchase warrant (a "Warrant"), with each whole Warrant entitling the holder thereof to acquire one Common Share at a price of $2.00 per Common Share for a period of 12 months from the date of issuance and thereafter at a price of $2.80 per

Common Share until the date that is 24 months from the date of issuance. The Common Shares, Warrants and Common Shares issuable upon exercise of the Warrants are all subject to a four month hold period expiring on June 8, 2008.

The fair value of the warrants issued as part of each Unit was determined using the Black-Scholes Option Pricing Model and resulted in a value of $12,436 based on the following assumptions: risk-free interest rate of 3.75%, expected term of 2 years, weighted average stock volatility of 35%, and expected future dividends of nil per share.

A finder’s fee of $101,738 was paid in cash to a company controlled by a Director of the Company and was approved by the TSX Venture Exchange.

II. On July 24, 2009 the Company closed a non-brokered Private Placement of units (“Units”). The Company issued an aggregate of 7,510,300 Units at a price of $0.10 per Unit for gross proceeds of $751,030. Each Unit consists of one common share (a "Common Share") of the Company and one-half of one non-transferable common share purchase warrant (a "Warrant"), with each whole Warrant entitling the holder thereof to acquire one Common Share at a price of $0.15 per Common Share for a period of 12 months from the date of issuance and thereafter at a price of $0.25 per Common Share until the date that is 24 months from the date of issuance.

The fair value of the warrants issued as part of each Unit was determined using the Black-Scholes Option Pricing Model and resulted in a value of $13,594 based on the following assumptions: risk-free interest rate of 1.29%, expected term of 2 years, weighted average stock volatility of 35%, and expected future dividends of nil per share.

11. Share capital (continued)

III. On September 22, 2009, the Company issued 350,000 common shares to the President of the Company to settle $35,000 of debt owed in respect of consultancy services provided to the Company.

IV. On October 19, 2009, the Company issued 1,042,465 common shares at $0.10 per share to seven (7) creditors to settle $104,246 of payables.

c) Stock options

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the plan, the options vest immediately and expire three years from date of grant. In May 2005, the Company granted 650,000 (130,000 post consolidation) options to certain directors, officers and employees of the Company. The options are exercisable at $0.10 ($0.50 post consolidation) per share, vest immediately and expire on May 3, 2008. On July 24, 2007, 26,000 (post consolidation) options were exercised for gross proceeds of $13,000.

11. Share capital (continued)

b) Stock options (continued)

On May 2, 2008 two Directors of the Company exercised 104,000 stock options at an exercise price of $0.50 per common share. Gross proceeds of $52,000 were received by the Company.

On June 2, 2008 the Company granted a total of 1,348,816 stock options to directors, officers, consultants and employees of the Company. 481,816 stock options were granted to Directors of the Company at an exercise price of $1.10. These stock options vested immediately. 867,000 stock options were granted to officers, consultants and employees of the Company at an exercise price of $1.00 vesting over a three year period.

The fair value of the stock options granted to Directors was determined using the Black-Scholes Option Pricing Model and resulted in a value of $17,562 based on the following assumptions: risk-free interest rate of 2.89%, expected term of 3 years, weighted average stock volatility of 35%, and expected future dividends of nil per share. The fair value of the stock options granted to officers, consultants and employees was determined using the Black-Scholes Option Pricing Model and resulted in a value of $40,368 based on the following assumptions: risk-free interest rate of 2.89%, expected term of 3 years, weighted average stock volatility of 35%, and expected future dividends of nil per share.

On October 2, 2008, 81,816 stock options with an exercise price of $1.10 expired unexercised. In November, 2008, 286,000 non-vested stock options with an exercise price of $1.00 expired.

The following table presents the changes in the number of options outstanding for the stock option plan:

	December 31, 2009		December 31, 2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of period	981,000	$ 1.04	304,000	$ 1.65
Options granted	-	-	1,348,816	1.04
Options exercised	-	-	(104,000)	0.50
Options expired	(291,000)	1.00	(567,816)	1.45
Balance, end of period	690,000	$ 1.06	981,000	$ 1.04

	Options outstanding and exercisable		
Exercise Price	Number of options	Weighted average remaining contractual life	Weighted average exercise price
$1.00	290,000	3.42	$ 1.00
$1.10	400,000	3.42	1.10
	690,000	3.42	$ 1.06

At December 31, 2009, the weighted average remaining contractual life of the options was 3.42 years (December 31, 2008: 4.58 years).

11. Share capital (continued)

d) Escrowed shares

In November 2004, the Company issued 4,500,000 (900,000 post consolidation) common shares to founders of the Company. The shares were issued at a price of $0.05 per share for total proceeds of $225,000. The shares are held in escrow and released in increments over a three year period commencing on May 8, 2007. As at December 31, 2009, 135,000 common shares remain in Escrow.

The Company has 7,340,500 shares subject to a six year escrow period starting September 10, 2007 (5,872,400 common shares remaining in escrow as at December 31, 2009). The Company has 9,342,731 shares subject to a three year escrow period starting May 8, 2007 (6,539,912 common shares remaining in escrow as at December 31, 2009).

e) Share purchase warrants

The exercise price and expiry date of the common share purchase warrants as at December 31, 2009 are as follows:

Number	Exercise Price	Expiry date
653,500	$2 to 2/7/09, $2.80 to 2/7/10	February 7, 2010
3,755,150	$0.15 to 7/24/10, $0.25 to 7/24/11	July 24, 2011
4,408,650		

During the year ended December 31, 2009, 1,007,172 (December 31, 2008: 1,205,209) share purchase warrants expired unexercised. Subsequent to year end, 653,500 share purchase warrants expired unexercised.

12. Contributed surplus

The following table summarizes the changes in contributed surplus:

Balance – December 31, 2007		468,561
Fair value of warrants issued (Note 11 (b) (IV))		12,436
Reversal of Stock-based compensation expense (Note 11 (c))		(1,184)
Fair value of Stock options granted (Note 11 (c))		57,930
Fair value of Convertible Promissory Note issued (Note 9)		9,035
Balance – December 31, 2008	$	546,778
Fair value of warrants issued (Note 11 (b) (IV))		13,594
Balance – December 31, 2009	$	560,372

13. Income taxes

The following table reconciles the expected income tax payable (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2009 and 2008.

	Year ended December 31, 2009	Year ended December 31, 2008
Net income (loss) before tax	$ (4,060,081)	$ (2,106,028)
Income tax rate	30.00%	31.50%
Expected income tax expense (recovery) at above rates	$ (1,218,024)	$ (663,399)
Increase (decrease) due to:		
Impact of lower statutory rates on foreign subsidiaries	1,123	49,501
Non-deductible expenses	3,174	34,813
Effect of rate change	281,489	-
Expired non-capital losses	5,771	32,881
Change in valuation allowance	926,467	546,204
Provision for income taxes	$ -	$ -

The potential benefit arising from operating losses has been recognized as a future tax asset. To the extent that these benefits may not be realized, a valuation allowance is provided. The Canadian federal and provincial statutory minimum tax rate was reduced to 28.5% subsequent to the year-end.

The following tables reflect future income tax assets and liabilities as at December 31, 2009 and 2008:

	Year ended December 31, 2009	Year ended December 31, 2008
Future income tax assets (liabilities):		
Non capital losses	$ 2,051,218	$ 2,012,187
Share issue cost	69,703	111,679
Temporary differences of assets	1,228,801	299,387
Less valuation allowance	(3,349,722)	(2,423,254)
	$ -	$ -

The Company has non capital loss carryforwards expiring in the following years:

	Total
2014	$ 78,938
2015	1,132,490
2026	1,630,051
2027	1,959,104
2028	1,322,492
2029	369,622
	$ 6,492,697

14. Related party transactions

The following related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) During the year ended December 31, 2009, the Company paid consulting fees in the amount of $224,000 to directors and officers, and companies owned by directors and officers of the Company (2008 - $225,797).

b) During the year ended December 31, 2008, a finders fees relating to a private placement was paid to a company controlled by a director in the amount of $101,738. No finders fees were paid for the year ended December 31, 2009.

c) During the year ended December 31, 2009, the Company issued 350,000 shares to an officer at a deemed price of $0.10 per share to in settlement of consulting fees owing to him in the amount of $35,000 (2008 - $nil).

Included in accounts payable is $35,210 payable to directors and officers of the Company. The amounts are non-interest bearing with no specific terms of repayment.

Included in accrued expenses is $150,435 payable to a director of the Company (2008 - $88,520). This amount is non-interest bearing and due on demand.

Included in loans from shareholders is $88,183 payable to a director of the Company (2008 - $147,106 payable to three directors or companies owned by directors). This amount is due on demand and is non-interest bearing. A flat 5% fee was paid to the director in the amount of $3,084 (2008 - $10,005).

15. Supplementary cash flow information

	Year ended December 31, 2009	Year ended December 31, 2008	Inception (Sep 9, 2004) to Dec 31, 2009
Changes in non-cash operating working capital:			
Other receivable	$ 9,342	$ 8,625	$ 1,121,209
Prepaid and other current assets	66,997	35,207	258,317
Accounts payable	(251,965)	269,582	341,913
Accrued expenses	168,528	321,681	687,133
Note payable in default	(13,696)	23,220	56,003
Convertible promissory notes	2,582	6,453	2,582
Due to other parties	-	-	(65,500)
	$ (18,212)	$ 664,768	2,436,864
Cash paid during the period for:			
Interest	$ 2,199	$ 3,079	$ 21,225
Non-cash investing and financing activities:			
Liabilities assumed, reverse merger	$ -	-	$ 886,273
Common shares issued for services rendered	-	-	6,021
Shareholders' loan converted to common shares	-	-	1,145,165

16. Comparative figures

Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period.

17. Subsequent events

Subsequent to the year end, the Company issued 866,301 common shares at a deemed price of $0.10 per common share to settle $86,630 in convertible promissory notes. TSX Venture Exchange approval was obtained.

18. Capital Management

The Company's objectives when managing its capital are:

I. to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
II. to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
III. to safeguard the Company's ability to obtain financing should the need arise; and
IV. to maintain financial flexibility in order to benefit from potential opportunities as they arise.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets. The Company monitors the return on capital, which is defined as total shareholders' equity. There were no changes in the Company's approach to capital management during the year ended December 31, 2009 and 2008. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19. Financial Instruments and Financial Risk Management

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

This note presents information about the Company's exposure to significant financial risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The principal financial risks to which the Company is exposed are described below

Credit risk

A significant portion of the Company's cash is held at one institution and as a result the Company is exposed to the risks of that institution. The carrying amount of cash and short-term investment held for trading represents the Company's maximum credit exposure. The Company minimizes its risk by ensuring that funds are deposited with credit worthy financial institutions.

19. Financial Instruments and Financial Risk Management (continued)

Foreign exchange risk

The Company conducts its business in foreign currencies and as a result it is exposed to fluctuations in foreign exchange rates. The Company's current foreign currency risk is primarily with the U.S. dollar and Great Britain pound ('GBP'). Accounts exposed to foreign exchange risk as of December 31, 2009 are:

		US$ Balance		GBP Balance
Cash and cash equivalents	$	823	$	287
Other receivables		-		707
Accounts payable		(47,161)		(451,412)
Notes payable in default		(82,884)		-
Total	$	(129,222)	$	(450,418)

The Company does not actively hedge its foreign denominated financial instruments.

Foreign currency exchange risk sensitivity analysis

The following table details the Company's sensitivity analysis to a 10% strengthening in the US Dollar and Great Britain Pound on foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 10% change in foreign currency rates. For a 10% weakening of the US Dollar against the Canadian Dollar, there would be an equal and opposite impact on net loss for the period.

Change in foreign exchange gain/(loss) resulting from currency fluctuations at December 31, 2009:

		US$ Balance		GBP Balance
Cash and cash equivalents	$	82	$	29
Other receivables		-		70
Accounts payable		(4,716)		(45,141)
Notes payable in default		(8,288)		-
Total	$	(12,922)	$	(45,042)

Liquidity risk

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

20. Recent Accounting Pronouncements

This Section details recent accounting pronouncements that impact these and future financial statements.

a) Business Combinations, Consolidated Financial Statements, Non-controlling Interests

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. The Company has not chosen to early adopt any one of these Sections at the year end date.

b) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

DIGIFONICA INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results for Digifonica International Inc. ("Digifonica", the "Company" or "DII") should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2009. Unless otherwise noted, the results herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Additional information relating to the Company and its operations is available under the Company's profile on SEDAR at www.sedar.com and also from the Company's website at www.digifionica.com.

All references are to Canadian dollars unless otherwise indicated.

This MD&A is dated April 29, 2010 and incorporates all relevant information and considerations to that date.

FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Company. Forward-looking statements involve substantial risks and uncertainties. Potential risks and uncertainties include, without limitation, the uncertainties inherent in the development stage of the Company; requirement of additional funding; rapid developments in technology, including developments by competitors; interest rate and foreign exchange fluctuations; market competition and trends; dependence on key employees; and reliance on the Company's business partners. These factors could cause actual results and performance to differ materially from the results discussed in the forward-looking statements. Readers are cautioned against placing undue reliance on forward-looking statements. The forward looking statements contained in this discussion are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by securities law.

COMPANY DESCRIPTION

Digifonica International Inc., formerly Initial Capital Inc., ("Digifonica" or the "Company") was incorporated under the Alberta Business Corporations Act on November 23, 2004 and was listed as a Capital Pool Company on the TSX Venture Exchange (the "Exchange") effective May 9, 2005. The Company completed its Qualifying Transaction by acquiring a 50.02% controlling interest in Digifonica International Corp. ("DIC") on May 8, 2007. The Company completed the acquisition of a further 49.5% of the issued and outstanding shares of DIC on September 10, 2007. The Company currently trades on the Exchange under the symbol "DIL".

In 2007, the Company completed an internal group reorganization with ownership by DIC in Digifonica (International) Limited (organized in Gibraltar on September 9, 2004) , Digifonica Intellectual Properties Limited (organized in Gibraltar on September 25, 2003) , Digifonica Canada Limited (organized in Canada on July 29, 2004), Digifonica Enterprises Limited (organized in England and Wales on April 26, 2006) and Shenzhen Sino-Can Inter-Communication Technology Limited (a joint venture company in China) being transferred directly to the Company. Previously ownership by the Company was held indirectly through DIC. Subsequent to the internal group reorganization DIC was sold to an arm's length third party for proceeds of $1,000.

OVERALL PERFORMANCE / OUTLOOK

The Company has spent four years developing a VoIP network and a number of partners sales and self management tools. It is looking for Partners in its technology and / or to sell its Patents.

Digifonica's management team is well known in the telecommunications sector and has created a sales strategy allowing it to focus on efforts with partners who have established brand identity, products and services. Research supports that there are many opportunities ahead for VoIP and Digifonica has positioned itself well to be able to offer attractive services and products into this market.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes select financial information for the periods indicated:

Results of Operations	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Inception (Sep 9, 2004) to Dec 31, 2009
Operating expenses	$ 614,550	$ 2,071,211	$ 3,179,663	$ 12,403,886
Other income (expense)	(3,445,531)	(34,817)	994,385	(1,455,763)
Net earnings (loss)	(4,060,081)	(2,106,028)	(2,185,278)	(13,859,649)
Net earnings (loss) per share - basic and diluted	(0.12)	(0.07)	(0.12)	(0.70)

Financial Position	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Total assets	$ 392,296	$ 3,753,650	$ 3,431,894
Long term liabilities	nil	nil	nil
Total liabilities	2,068,915	2,260,465	2,260,465
Shareholders' equity (deficit)	(1,676,619)	1,493,185	1,493,185
Cash dividends declared	nil	nil	nil

The operating expenses vary by year depending on the level of funding and working capital being available to the Company at that time. The net loss recognized in the year ended December 31, 2009 is higher than in the comparable period of 2008 as the Company wrote down its Deferred Development costs to nil.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Q4 2009	**Q3 2009**	**Q2 2009**	**Q1 2009**
Net profit (loss)	$ (3,531,568)	$ (115,357)	$ (203,549)	$ (209,607)
Weighted average number of shares	34,991,680	34,590,433	29,003,179	29,003,179
Profit (loss) per share - basic and diluted	$ (0.10)	$ (0.01)	$ (0.01)	$ (0.01)

	Q4 2008	**Q3 2008**	**Q2 2008**	**Q1 2008**
Net profit (loss)	$ (349,791)	(470,292)	$ (646,371)	$ (639,574)
Weighted average number of shares	29,003,179	29,003,179	28,966,608	28,353,399
Profit (loss) per share - basic and diluted	$ (0.01)	(0.02)	$ (0.02)	$ (0.02)

The net profit (loss) vary quarter by quarter depending on the financial position and the Company's ability to fund product development. For Q4, 2009, the Company recognized a net profit of $105,138 or $0.01 per share, due to the write off of Deferred Development costs ($3,117,605) and a loss on disposition of property and equipment of $290,753. The net loss before these write-downs was $123,120 or $0.01 per share.

RESULTS OF OPERATIONS
Year ended December 31, 2009 compared to the year ended December 31, 2008

For the year ended December 31, 2009, the Company incurred a loss of $4,060,081or $0.12 per share, compared to a loss of $2,106,028 or $0.07 per share for the year ended December 31, 2008.

Operating expenses

Operating expenses for the year ended December 31, 2009 were $614,550 compared to $2,071,211 for the year ended December 31, 2008.

The following table shows operating expenses by main category:

	Year ended December 31, 2009	Year ended December 31, 2008	Inception (Sep 9, 2004) to Dec 31, 2009
Expenses:			
Accounting and audit	$ 43,347	$ 39,805	$ 564,025
Salaries, wages, and commissions	70,689	746,985	3,120,231
Consulting fees	226,500	111,332	404,528
General and administrative	113,934	555,006	3,064,665
Legal	6,704	41,161	871,309
Rent	25,343	98,717	430,737
Amortization	128,033	222,717	1,108,923
Sales and marketing	-	209,606	2,095,071
Research and development	-	-	284,073
Travel	-	45,882	460,324
	$ 614,550	$ 2,071,211	$ 12,403,886

Accounting and audit

Accounting and audit expense was $43,805 for the year ended December 31, 2009 (December 31, 2008: $39,805). Accounting and audit expense is in line with the prior period.

Salaries, wages, and commissions

Salaries, wages and commissions consists of wages and benefits for management and operations staff, excluding the sales and marketing and research and development teams. Salaries and wages were $70,689 for the year ended December 31, 2009 (December 31, 2008: $746,985). The decrease is primarily due to a reduction in the number of employees during 2009 from an average of 17 employees in 2008 to 3 as at December 31, 2009.

Consulting fees

Consulting fees consists of amounts paid to consultants for services provided. Consulting fees were $226,500 for the year ended December 31, 2009 (December 31, 2008: $111,332). The increase is primarily due to officers of the Company moving from employees to consultants in 2009.

General and administrative

General and administrative ("G&A") expenses consist primarily of contractors, co-location, broadband, and telecommunication expenses. G&A expenses were $113,934 for the year ended December 31, 2009 (December 31, 2008: $555,006). In 2009, the number of contractors employed by the Company decreased in line with the reduction in employees.

Legal

Legal expense was $6,704 for the year ended December 31, 2009 (December 31, 2008: $41,161). The Company incurred minimal legal expenses during 2009.

Rent

Rent expense was $25,343 for the year ended December 31, 2009 (December 31, 2008: $98,717). The rent expense is lower in the current year due to the Company vacating its premises in Q1, 2009.

Amortization

Amortization expense was $128,033 for the year ended December 31, 2009 (December 31, 2008: $222,717). The decrease in amortization is due to the nature of the declining balance amortization method used by the Company.

Sales and marketing

Included in sales and marketing ("S&M") expenses are primarily wages, consulting and contractor fees. S&M expenses were nil for the year ended December 31, 2009 (December 31, 2008: $209,606). During the year ended December 31, 2009, the Company did not have any sales and marketing employees (previously an average of three employees during 2008).

Research and Development

The Company is developing its VoIP communication system and therefore defers the development costs associated with this product when the recognition criteria for deferment is met.

Travel

Travel expense was nil for the year ended December 31, 2009 (December 31, 2008: $45,882). The Company incurred no travel expenses in 2009.

Other income (expense)

The Company recognized a write-down of Deferred Development costs of $3,117,605 in the current year. The Company no longer meets the recognition criteria to allow the deferment of these expenses.

The Company has recognized a loss on disposition of property and equipment of $339,669 in the current year. This includes the write-down of leasehold improvements on the Company's vacation of its leased premises in Q1, 2009.

Interest expense is included in the "other income (expense)" category. Interest expense for the year ended December 31, 2009 included nil (December 31, 2008: $10,005) for a 5% flat fee paid on shareholder loans received during the period.

The Company recognized a foreign exchange gain of $48,143 for the year ended December 31, 2008 (December 31, 2008: foreign exchange gain of $11,940).

RESULTS OF OPERATIONS

Three months ended December 31, 2009 compared to the three months ended December 31, 2008

For the three months ended December 31, 2009, the Company recognized a net loss of $3,531,568 or $0.01 per share. For the three months ended December 31, 2008, the Company recognized a net loss of $349,791 or $0.01 per share. The increase in net loss is due to the write-down of Deferred Development costs of $3,117,605 and a loss on disposition of property and equipment of $290,753. The net loss before these write-downs was $123,120 or $0.01 per share.

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Operating expenses

Operating expenses for the three months ended December 31, 2009 were $134,932 compared to $327,789 for the three months ended December 31, 2008. The operating expenses for the three months ended December 31, 2009 are significantly lower in comparison to the three months ended December 31, 2008 due to a lower number average number of employees of three (3) for Q4, 2009, compared to eight (8) for Q4, 2008. These expenses reductions are consistent with explanations provided in the comparison of the year ended December 31, 2009 to the year ended December 31, 2008.

Other income (expense)

The Company recognized a write-down of Deferred Development costs of $3,117,605 in the three months ended December 31, 2009. The Company no longer meets the recognition criteria to allow the deferment of these expenses.

The Company has recognized a loss on disposition of property and equipment of $290,753 in the three months ended December 31, 2009.

The Company recognized a foreign exchange gain of $19,923 for the three months ended December 31, 2009 (three months ended December 31, 2008: foreign exchange loss of $697).

FINANCIAL POSITION

At December 31, 2009, total assets employed by the Company were $392,296 (December 31, 2008: $3,753,650). The decrease is primarily attributable to an write-down in deferred development costs of $3,117,605. Cash and cash equivalents as at December 31, 2009 were $4,327 compared to $42,946 as at December 31, 2008.

At December 31, 2009, the Company had total liabilities of $2,068,915 compared to $2,260,465 as at December 31, 2008. The decrease is primarily due to the settlement of $139,247 by way of common share issuance.

Shareholders' equity (deficit) was $(1,676,619) as of December 31, 2009 compared to $1,493,185 as at December 31, 2008. The following table shows the changes to shareholders' equity (deficit) for the year ended December 31, 2009:

Balance at December 31, 2008	$	1,493,185
Private Placement, net of share issue costs		751,030
Net loss for the year ended December 31, 2009		(4,060,081)
Shares for debt		139,247
Balance at December 31, 2009	$	(1,676,619)

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company's principal sources of liquidity are equity offerings and loans from shareholders. The Company's principal uses of cash have been to finance working capital, service and repay loans, and investing in developing proprietary VoIP communication systems and filing patents internationally. The Company is seeking to secure additional financing to ensure that the Company has sufficient cash and working capital in order to meet its short-term and long-term objectives however, there is no assurance that such additional financing will be secured.

Year ended December 31, 2009 compared to the year ended December 31, 2008

Operating activities

For the year ended December 31, 2009, the Company used cash of $350,655 for operating activities, primarily on salaries and wages, sales and marketing, general and administrative and other cash based operating expenses. This compared to $1,151,792 for the year ended December 31, 2008.

For the year ended December 31, 2009, the Company used cash of $18,212 to finance non-cash working capital. This compared to cash provided of $664,768 for the year ended December 31, 2008.

At December 31, 2009, the Company had a working capital deficiency of $2,057,798 for a ratio of current assets to liabilities of 0.01:1, compared to a working capital deficiency of $2,134,390 for a current ratio of 0.06:1 as at December 31, 2008. This significant increase in the working capital deficiency is due to an decrease in current assets as the Company seeks to secure additional funding.

Investing and financing activities

During the year ended December 31, 2008, the Company invested $100,741 in deferred development costs and nil in property and equipment compared to $590,585 and $84,066 respectively during the year ended December 31, 2008.

For the year ended December 31, 2009, the Company received cash of $812,714 on net issuance of common shares, proceeds from loans, proceeds from Convertible Promissory notes and Subscriptions payable. This compared to $1,752,843 in the same period in 2008. The Company used the cash to repay shareholder loans of $123,691 in 2009 compared to $206,038 for the same period in 2008.

Three months ended December 31, 2009 compared to the three months ended December 31, 2008

Operating activities

For the three months ended December 31, 2009, the Company used cash of $46,384 for operating activities, primarily on salaries and wages, sales and marketing, general and administrative and other cash based operating expenses. This compared to $109,705 for the three months ended December 31, 2008.

For the three months ended December 31, 2009, the Company provided cash of $58,572 to finance non-cash working capital. This compared to $182,247 of cash provided for the three months ended December 31, 2008.

Investing and financing activities

During the three months ended December 31, 2009, the Company invested nil in deferred development costs and nil in property and equipment compared to $88,891 and nil respectively during the three months ended December 31, 2008.

For the three months ended December 31, 2009, the Company received cash of nil from proceeds from loans. This compared to $26,392 received in the same period in 2008 from the sale of short term investments and proceeds from loans.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company does not have any commitments or contractual obligations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any special purpose entities nor is it a party to any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The following related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) During the year ended December 31, 2009, the Company paid consulting fees in the amount of $224,000 to directors and officers, and companies owned by directors and officers of the Company (2008 - $225,797).

b) During the year ended December 31, 2008, a finders fees relating to a private placement was paid to a company controlled by a director in the amount of $101,738. No finders fees were paid for the year ended December 31, 2009.

c) During the year ended December 31, 2009, the Company issued 350,000 shares to an officer at a deemed price of $0.10 per share to in settlement of consulting fees owing to him in the amount of $35,000 (2008 - $nil).

Included in accounts payable is $35,210 payable to directors and officers of the Company. The amounts are non-interest bearing with no specific terms of repayment.

Included in accrued expenses is $150,435 payable to a director of the Company (2008 - $88,520). This amount is non-interest bearing and due on demand.

Included in loans from shareholders is $88,183 payable to a director of the Company (2008 - $147,106 payable to three directors or companies owned by directors). This amount is due on demand and is non-interest bearing. A flat 5% fee was paid to the director in the amount of $3,084 (2008 - $10,005).

CRITICAL ACCOUNTING ESTIMATES

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of the Company's significant accounting policies is contained in Note 3 to the audited consolidated financial statements for the year ended December 31, 2009. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control. The Company believes the following are the most critical accounting estimates used in the determination of its financial results:

Foreign currency translation

The Company's subsidiaries are considered fully integrated and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in a foreign currency have been translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets, liabilities, revenue and expense items are translated at rates prevailing when they were acquired or incurred. Exchange gains and losses arising on translation of assets and liabilities are included in operations.

Deferred development costs

Research costs are expensed in the year incurred. The Company expenses development costs in the year incurred, except when it is determined that the costs meet Canadian GAAP criteria for deferral and amortization. The Company follows the guidance outlined in CICA Handbook Section 3064, *Goodwill and Intangible Assets*, to define and defer costs associated with software development of the Company's VoIP system and applications. The deferred development costs will be amortized on a straight-line basis over three years commencing when the software is available for use.

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 its operations if the Company does not obtain approval or the patent is abandoned.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, title passes to the customer, typically upon delivery, and when collection of the fixed or determinable selling price is reasonably assured.

Stock options

Under the Company's stock option plan described in Note 10 (c) to the annual consolidated financial statements for the year ended December 31, 2009, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Stock-based compensation expense is recorded in the statement of loss and deficit for all options granted with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values at the time of the grant and the expense is recognized over the estimated vesting period. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that vested options are cancelled, previously recognized compensation expense associated with such stock options is reduced.

CHANGES IN ACCOUNTING POLICIES

During the year ended December 31, 2009, the Company adopted the following new or revised Canadian accounting standards. Prior periods have not been restated. The adoption of these policies had no impact on the opening deficit.

Financial instruments - reclassification of financial assets

In October 2008, the AcSB issued amendments to its standards dealing with reclassification of financial assets in response to similar amendments made by the International Accounting Standards Board in the context of the current financial market turmoil. The amendments allow reclassification of financial assets out of the held-for-trading category (measured at fair value with gains and losses recognized immediately in net income) into the available-for-sale or held-to-maturity categories, in "rare circumstances." The latter two categories are subject to impairment testing, but income statement charges for impairment are recognized when impairment is considered "other than temporary." The financial assets that can be reclassified exclude derivatives and financial assets an entity has elected to include in the held-for-trading category. Assets qualifying for reclassification are mainly debt and equity investments that were originally classified as held for trading because they were acquired for the purpose of near-term sale. The amendments apply to reclassifications made or after July 1, 2008. The Company did not reclassify any financial assets in 2010.

Going Concern

In June 2007, the CICA approved amendments to Handbook Section 1400 "General Standards for Financial Statement Presentation". The standard outlines specific requirements for assessing and disclosing an entity's ability to continue as a going concern. Although the revised standard is not expected to impact the Company's net earnings or financial position, there may be different and additional disclosure surrounding the Company's going concern disclosure. Please refer to Note 1 for the company's going concern assessment.

Section 3064, Goodwill and Intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets. This new section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new Section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development from being considered as intangible asset, as existing Section 3061, Property, Plant and Equipment, contains standards for measurement, presentation and disclosure of mining properties. Adoption of this standard did not have any effect on the Company's financial statements.

EIC – 173, Credit risk and the fair value of financial assets and Financial liabilities

In January 2009, the CICA issued EIC-173, Credit risk and the fair value of financial assets and financial liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual financial statements related to fiscal years beginning on or after January 1, 2009. Adoption of this EIC did not have any effect on the Company's financial statements.

FINANCIAL INSTRUMENTS

The Company is exposed to changes in interest rate and foreign exchange rates. The Company mitigates these risks by fixing the interest rates on shareholder loans and monitoring the movement of foreign exchange rates.

OUTSTANDING SHARE DATA

As at April 29, 2010, the Company had 38,772,245 common shares without nominal or par value and 690,000 stock options outstanding. The 690,000 stock options are each exercisable to acquire a common share at a price ranging between $1.00 - $1.10 per common share and expire on June 2, 2012.

The Company has 3,755,150 common share purchase warrants outstanding. The common share purchase warrants are each exercisable to acquire a common share at a price per common share of $0.15 to July 24, 2010 and $0.25 to July 24, 2011.

Of the 38,772,245 common shares outstanding, 11,813,262 are held in escrow. The common shares subject to escrow periods are summarized in the table below:

Escrow period	Total common shares	Released from Escrow	Common shares remaining in Escrow
Six year period starting September 10, 2007	7,340,500	2,202,150	5,138,350
Six year period starting May 8, 2007	9,342,731	2,802,819	6,539,912
Three year period starting May 8, 2007	900,000	765,000	135,000
	17,583,231	5,769,969	11,813,262

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 operate and grow the business could be impeded.

The Company operates in the VoIP industry which is subject to all the risks and hazards typically associated with communication operations, including, but not limited to, costly instalments and maintenance of nodes in various jurisdictions, and maintaining operating systems on a world wide basis.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and Management Discussion and Analysis ("MD&A") of Digifonica International Inc. (the "Company" or "Digifonica") and all other information in this annual MD&A are the responsibility of management and have been reviewed and approved by its Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators. The consolidated financial statements and MD&A include amounts that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the annual report is consistent with that in the audited consolidated financial statements. The Company's President (performing similar functions to the Chief Executive Officer) and Chief Financial Officer (CFO) have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Company has been made known to them and has been properly disclosed in the audited annual consolidated financial statements and MD&A. In compliance with National Instrument 52-109, the Company's President and CFO have provided to the Canadian Securities Administrators a certification related to the Company's annual disclosure documents, including the audited annual consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the audited annual consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors. The Audit Committee meets periodically with management, as well as with the external auditors, to review the audited annual consolidated financial statements, the MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. The annual consolidated financial statements for the year ended December 31, 2009 have been audited by the Company's auditors. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the audited consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors.

The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders. Cinnamon Jang Willoughby & Company, external auditors approved by the shareholders, meets periodically with the Audit Committee to discuss audit activities, financial reporting matters and other related subjects. This report and our audited annual consolidated financial statements were reviewed by the Company's Audit Committee on April 29, 2010 and approved by Digifonica's Board of Directors on April 29, 2010.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

To be prepared for the conversion to IFRS, the Company has put in place an implementation plan. The Company has started the training phase and the evaluation of the impact which involved a high-level of review of the differences between current GAAP and IFRS. In the coming months, the Company will be reviewing the alternatives available on adoption; the Company will also, in the second phase of its plan, prepare a detailed impact assessment. As the implications of the conversion are identified, the impacts on the other key elements of our conversion plan will be assessed. These key elements include: accounting policy changes, information technology changes, training requirements, internal control over financial reporting and impacts on business activities.

The Company will continue to report on the key elements and timing of its IFRS implementation plan in its MD&A's throughout fiscal year 2010.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company has a limited number of staff and therefore there is a weakness in internal controls relating to segregation of duties; however management is satisfied that there are adequate compensating controls. Management assessed the design effectiveness of the Company's internal control over financial reporting as at December 31, 2009, and based on that assessment determined that the Company's internal control over financial reporting design was effective.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by National Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that as at December 31, 2009, the Company's disclosure controls and procedures were effective to provider reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.