DIGIFONICA INTERNATIONAL INC.

AMENDED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following amended management's discussion and analysis ("MD&A") of the financial condition and results for Digifonica International Inc. ("Digifonica" or the "Company") should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2010. 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.

All references are to Canadian dollars unless otherwise indicated.

This MD&A is dated June 8, 2011 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

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 Q4, 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 267, 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 business of the Company is as an Internet telecommunications solutions provider operating on a network-partner model. The Company offers reseller, wholesaler, and network licensing models to enable its partners to service their large subscriber bases.

The short term objectives of the Company are:

- to launch with existing Partners in Europe to generate revenue;
- to file Patents internationally; and
- to further develop the sales funnel and increase market reach.

The Company's long term objectives are to:

- acquire subscribers primarily in Europe to be accomplished by executing existing Partner rollout plans on schedule and moving into new markets where Partners operate;
- develop new technologies (and intellectual properties) and introduce them into the VoIP marketplace to be achieved by continuing research and development projects that enhance and compliment existing technologies; and
- be profitable and cash flow positive by using Digifonica's unique business approach to generate revenue, profit and positive cashflow for Digifonica and its Partners.

The Company has spent four years developing a VoIP network and a number of partners' sales and self management tools. It has built an entire VoIP platform; undergone a successful technology audit in November 2006 with favorable results; deployed two nodes, one in England and one in Canada; created tools to allow its partners to market and sell the service; signed seven partner contracts; conducted two successful partner pilot programs; and filed certain United States Patent Applications.

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, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Inception (Sep 9, 2004) to Dec 31, 2010
Operating expenses	$ 122,329	$ 614,550	$ 2,071,211	$ 12,394,380
Other income (expense)	(519,828)	(3,445,531)	(34,817)	(2,107,426)
Net earnings (loss)	(642,157)	(4,060,081)	(2,106,028)	(14,501,806)
Net earnings (loss) per share - basic and diluted	(0.02)	(0.12)	(0.07)	(0.66)

Financial Position	As at December 31, 2010	As at December 31, 20009	As at December 31, 2008
Total assets	$ 3,237	$ 392,296	$ 3,753,650
Long term liabilities	nil	nil	nil
Total liabilities	2,166,106	2,068,915	2,260,465
Shareholders' equity (deficit)	(2,162,869)	(1,676,619)	(1,493,183)
Cash dividends declared	nil	nil	nil

The operating expenses in 2010 were lower than 2009 due to lower salary, consulting fee and no amortization expenses in 2010 compared to 2009. The net loss recognized in the year ended December

31, 2010 is lower than in the comparable period of 2009 since the Company wrote down its Deferred Development costs to nil in 2009 and also expenses was higher in 2009.

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 audited financial information for the past eight quarters

Quarterly comparatives for MD&A:

		Q4 2010		Q3 2010		Q2 2010		Q1 2010
Net profit (loss)	$	(517,288)	$	(30,737)	$	(61,296)	$	(32,836)
Weighted average number of shares		38,772,245		38,772,245		38,772,245		38,165,834
Profit (loss) per share - basic and diluted	$	(0.01)	$	(0.00)	$	(0.00)	$	(0.00)

		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		20,003,179
Profit (loss) per share - basic and diluted	$	(0.10)		(0.00)		(0.01)	$	(0.01)

The net profit (loss) varies quarter by quarter depending on the financial position and the Company's ability to fund product development. For Q4, 2010, the Company recognized a net loss of $517,288 or $0.01 per share. The increase is primarily due to impairment of patent for $414,155and loss of settlement of old liabilitiesfor$69,304.

RESULTS OF OPERATIONS
Year ended December 31, 2010 compared to the year ended December 31, 2009

For the year ended December 31, 2010, the Company incurred a loss of $642,157 or $0.02 per share, compared to a loss of $4,060,081or $0.12 per share for the year ended December 31, 2009.

Operating expenses

Operating expenses for the year ended December 31, 2010 were $122,329 compared to $614,550 for the year ended December 31, 2009.

The following table shows operating expenses by main category:

	Year ended December 31, 2010	Year ended December 31, 2009	Inception (Sep 9, 2004) to Dec 31, 2010
Expenses:			
Accounting and audit	$ (9,693)	$ 43,347	$ 554,332
Salaries, wages, and commissions	14,095	70,689	3,134,326
Consulting fees	52,862	226,500	
General and administrative	62,362	113,934	3,584,417
Legal	2,700	6,704	874,009
Rent	-	25,343	430,737
Amortization	-	128,033	1,108,923
Sales and marketing	-	-	2,095,071
Research and development	-	-	284,073
Travel	3	-	460,327
	$ 122,329	$ 614,550	$ 12,526,215

Accounting and audit

Accounting and audit expense was $(9,693) for the year ended December 31, 2010 (December 31, 2009:$ 43,347). Accounting and audit expense is negative since in the prior period accrued auditing expenses was more than actual expenses and it was adjusted in 2010.

Salaries, wages, and commissions

Salaries, wages and commissions consist of wages and benefits for management and operations staff, excluding the sales and marketing and research and development teams. Salaries and wages were $14,095 for the year ended December 31, 2010 (December 31, 2009: $70,689). The decrease is primarily due to a reduction in the number of employees during 2010(from an average of 3 employees in 2009 to 1 during 2010).

Consulting fees

Consulting fees consists of amounts paid to consultants for services provided. Consulting fees were $52,862 for the year ended December 31, 2010 (December 31, 2009: $226,500). The decrease is primarily due to reduction of consulting services in 2010.

Amortization

Amortization expense was $nil for the year ended December 31, 2010 (December 31, 2009: $128,033). The decrease in amortization is due to nil beginning balance of book value of property and equipment in 2010.

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, 2010 and 2009 (December 31, 2008:

$209,606). During the year ended December 31, 2010 and 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 developed its VoIP communication system and therefore the expenses for research and development for the year ended December 31, 2010 and also 2009 was nil.

Other income (expense)

The Company recognized a write-down of Deferred Development costs of nil in 2010 compared to $3,117,605 in 2009. The Company no longer meets the recognition criteria to allow the deferment of these expenses in 2010.

The Company has written down its patent from $414,155 to $1. On February 4, 2010, the Company issued 866,031 common shares at a deemed price of $0.10 per common share to settle $86,603 in convertible promissory notes and its accrued interest ($ 75,000 convertible notes plus 11,603 interest). TSX Venture Exchange approval was obtained. Shares were issued with a fair value of $155,907, resulting in a loss on debt settlement of $69,304 which has been recognized in the income statement . The company recognized a loss on disposition of property and equipment of nil in 2010 compared to $339,669 in 2009. 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 was $75,300 for the year ended December 31, 2010 (December 31, 2009: $36,730).

The Company recognized a foreign exchange gain of $42,588 for the year ended December 31, 2010(December 31, 2009: foreign exchange gain of $48,143).

RESULTS OF OPERATIONS

Three months ended December 31, 2010 compared to the three months ended December 31, 2009

For the three months ended December 31, 2010, the Company recognized a net loss of $517,288 or $0.01 per share. For the three months ended December 31, 2009, the Company recognized a net loss of $3,531,568 or $0.10 per share. The decrease 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 incurred in 2009. The net loss before these write-downs in 2009 was $123,120 or $0.01 per share.
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Operating expenses

Operating expenses for the three months ended December 31, 2010 were $(1,245) compared to $134,932 for the three months ended December 31, 2009. The operating expenses for the three months ended December 31, 2010 are negative and significantly lower in comparison to the three months ended December 31, 2009 due to audit expense adjustment for $15,000 and overall lower expenses particularly a lower average number of employees of nil for Q4, 2010, compared to (3) for Q4, 2009.These expenses reductions are consistent with explanations provided in the comparison of the year ended December 31, 2010 to the year ended December 31, 2009.

Other income (expense)

In the three months ended December 31, 2010, the Company recognized impairment cost of patent at $414,155, loss of liabilities settlement at $69,304 and bad debt at $3,660. In the same period in 2009 the company recognized write-down of Deferred Development costs of $3,117,605.

The Company has recognized a loss on disposition of property and equipment of nil in the three months ended December 31, 2010 compared to $290,753 in the three months ended December 31, 2009.

The Company recognized a foreign exchange gain of $29,438 for the three months ended December 31, 2010 (three months ended December 31, 2009: foreign exchange loss of $19,923).

FINANCIAL POSITION

At December 31, 2010, total assets employed by the Company were $3,237 (December 31, 2009: $392,296). The decrease is primarily attributable to impairment of the patent for $414,155. Cash and cash equivalents as at December 31, 2010 were $238 compared to $4,327 as at December 31, 2009.

At December 31, 2010, the Company had total liabilities of $2,166,106 compared to $2,068,915 as at December 31, 2009. The movement is not material.

Shareholders' equity (deficit) was $(2,162,869) as of December 31, 2010 compared to $1,676,619 as at December 31, 2009. The following table shows the changes to shareholders' equity (deficit) for the year ended December 31, 2010:

Balance at December 31, 2009	$	(1,676,619)
Net loss for the year ended December 31, 2010		(642,157)
Shares for debt		155,907
Balance at December 31, 2010	$	(2,162,869)

In November 2010, the Board of Directors of the Company approved a debt settlement for three of the directors. Based on this agreement the amounts owing to three Directors can be reduced from $316,000 to $120,000 and the remaining debt is convertible into mixture of shares (per $0.05) and share purchase warrants (exercisable at $0.05).The debt settlement has not been effected as December 31, 2010.

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 acquiring other capital assets for growth initiatives.

Year ended December 31, 2010 compared to the year ended December 31, 2009

Operating activities

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.

Investing and financing activities

During the year ended December 31, 2010, the Company invested nil in deferred development costs and nil in property and equipment compared to $100,741 and nil respectively during the year ended December 31, 2009.

For the year ended December 31, 2010, the Company' received cash of $61,509 on proceeds from shareholders loans for $ 51,509 and subscription in advance for $10,000. This compared to $812,714 in the same period in 2009. The Company used nil the cash to repay shareholder loans in 2010 compared to $123,691 in 2009.

Three months ended December 31, 2010 compared to the three months ended December 31, 2009

Operating activities

For the three months ended December 31, 2010, the Company used cash of $6,510 for operating activities, primarily on salaries and wages, sales and marketing, general and administrative and other cash based operating expenses. This compared to $46,384 for the three months ended December 31, 2009..

For the three months ended December 31, 2010, the Company provided cash of $112,068 to finance non- cash working capital. This compared to $58,572 of cash provided for the three months ended December 31, 2009.

Investing and financing activities

During the three months ended December 31, 2010 and 2009, the Company invested nil in deferred development costs and nil in property and equipment.
For the three months ended December 31, 2010, the Company received cash of $34,981 from proceeds from loans. This compared to nil in the same period in 2009 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, 2010, the Company paid consulting fees in the amount of $48,362 to directors and officers, and companies owned by directors and officers of the Company (2009 - $224,000).

b) During the year ended December 31, 2010, the Company issued nil shares to related party(2009:350,000 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).

Included in accounts payable is $70,752 payable to directors and officers of the Company (2009:$35,210) .The amounts are non-interest bearing with no specific terms of repayment.

Included in accrued expenses is $173,490 payable to a director of the Company (2009 - $150,435). This amount is non-interest bearing and due on demand.

Included in loans from shareholders is $139,356 payable three directors or companies owned by directors of the Company (2009 - $88,183). This amount is due on demand and is non- interest bearing. A flat 5% fee was paid to the director in the amount of nil in 2010 and $3,084 in 2009.

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, 2010. 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, 2010, 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 May 2, 2011, the Company had 38,771,975 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 38,771,975 common shares outstanding, 9,062,703 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	2,936,200	4,404,300
Six year period starting May 8, 2007	9,342,731	3,737,089	4,658,403
Three year period starting May 8, 2007	900,000	900,000	-
	17,583,231	7,573,289	9,062,703

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 installments 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, 2010 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.

Meyers Noris Penny LLP, 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, 2011 and approved by Digifonica's Board of Directors on April 29, 2011.

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. The Company reviewed the alternatives available on adoption; the Company also, in the second phase of its plan, prepared a detailed impact assessment. As the implications of the conversion were identified, the impacts on the other key elements of our conversion plan have been assessed. These key elements include: accounting policy changes, information technology changes, training requirements, internal control over financial reporting and impacts on business activities.

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, 2010, 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, 2010, 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.