DIGIFONICA INTERNATIONAL INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010
(unaudited)

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
ASSETS			
Current assets			
Cash	1,497	238	4,327
HST/GST recoverable and other receivables	9,419	2,998	3,548
Prepaid expenses	1,538	-	3,242
Total current assets	12,454	3,236	11,117
Patents	1	1	381,179
Total assets	12,455	3,237	392,296
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (Notes 5 and 9)	1,938,263	1,809,417	1,684,849
Note payable in default (Note 6)	76,755	78,998	82,884
Convertible promissory notes (Note 7)	75,000	75,000	150,000
Loans from shareholders (Note 9)	234,691	202,691	151,182
Total current liabilities	2,324,709	2,166,106	2,068,915
Total liabilities	2,324,709	2,166,106	2,068,915
SHAREHOLDERS' DEFICIT			
Share capital (Note 8)	11,778,565	11,778,565	11,622,658
Contributed surplus	560,372	560,372	560,372
Deficit	(14,651,191)	(14,501,806)	(13,859,649)
Total shareholders' deficit	(2,312,254)	(2,162,869)	(1,676,619)
Total liabilities and shareholders' deficit	12,455	3,237	392,296

Approved by the Board of Directors

"Colin Tucker" Director   "Emil Malak" Director

The accompanying notes are an integral part of these financial statements

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the three months ended March 31, 2011 and 2010
(unaudited)

	2011 $	2010 $
General and administrative expenses		
Accounting and audit	14,017	5,000
Consulting fees (Note 9)	72,590	39,362
Legal fees	22,970	-
Office and miscellaneous	29,221	21,441
Salaries, wages and commissions	-	5,590
Loss before other items	(138,798)	(71,393)
Foreign exchange gain	1,138	41,022
Interest expense	(11,725)	(2,465)
Net loss and comprehensive loss for the period	(149,385)	(32,836)
Basic and diluted loss per share	(0.04)	(0.01)
Weighted average number of shares outstanding	3,877,197	3,816,583

The accompanying notes are an integral part of these financial statements

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(unaudited)

	Number of shares	Amount $	Contributed Surplus $	Deficit $	Total $
Balance, January 1, 2010	3,790,594	11,622,658	560,372	(13,859,649)	(1,676,619)
Issued during the period:					
For debt settlement	86,603	86,603	-	-	86,603
Net loss and comprehensive loss for the period	-	-	-	(32,836)	(32,836)
Balance, March 31, 2010	3,877,197	11,709,261	560,372	(13,892,485)	(1,622,852)
Balance, January 1, 2011	3,877,197	11,778,565	560,372	(14,501,806)	(2,162,869)
Net loss and comprehensive loss for the period	-	-	-	(149,385)	(149,385)
Balance, March 31, 2011	3,877,197	11,778,565	560,372	(14,651,191)	(2,312,254)

The accompanying notes are an integral part of these financial statements

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2011 and 2010
(unaudited)

	2011 $	2010 $
Operating Activities		
Net loss for the period	(149,385)	(32,836)
Changes in non-cash working capital items		
HST/GST recoverable and other receivables	(6,421)	842
Prepaid expenses	(1,538)	-
Accounts payable and accrued liabilities	128,846	20,469
Note payable in default	(2,243)	(2,385)
Convertible promissory notes	-	(75,000)
	(30,741)	(88,910)
Financing Activities		
Issuance of shares, net of issuance costs	-	86,603
Proceeds from shareholder loans	32,000	336
	32,000	86,939
Increase (decrease) in cash during the period	1,259	(1,971)
Cash – beginning of the period	238	4,327
Cash – end of the period	1,497	2,356
Cash paid during the period for:		
Interest	-	-
Income taxes	-	-

The accompanying notes are an integral part of these financial statements

1. ORGANIZATION AND NATURE OF OPERATIONS

Digifonica International Inc. ("Digifonica" or the "Company") was incorporated under the Alberta Business Corporations Act on November 23, 2004. During the year ended December 31, 2010 and current quarter the Company ceased operations due to a lack of financing. The main activities in the Company during these periods was maintaining its public listing and keeping the patent applications current. The Company is listed on the TSX Venture Exchange's NEX board under the trading symbol "DIL.H". The Company's head office is located at Suite 1750 – 999 West Hastings Street, Vancouver, BC.

These condensed 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 losses of $14,651,191 since its inception and had a working capital deficiency of $2,312,255 at March 31, 2011. 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 shareholders, long-term financing, ongoing product development, the successful implementation of a marketing program, market acceptance of its products and achieving profitability. These condensed 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 PREPARATION

Statement of compliance and conversion to International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in Note 11, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 11 discloses the impact of the transition to IFRS on the Company's reported balance sheet, statements of operations and comprehensive loss and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

Previously, the Company prepared its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of June 29, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

Basis of presentation

The Company's condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The comparative figures presented in these condensed consolidated financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been disclosed in Note 11.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Details of subsidiaries are as follows:

		Percentage owned	
	Country of Incorporation	**March 31, 2011**	**March 31, 2010**
Digifonica (International) Limited	Gibraltar	100%	100%
Digifonica Intellectual Properties Limited	Gibraltar	100%	100%
Digifonica Canada Limited	Canada	100%	100%
Digifonica Enterprises Limited	England and Wales	100%	100%
Shenzhen Sino-Can Inter-Communication Technology Limited	China	49%	49%
Digifonica (International) Limited	Gibraltar	100%	100%
Digifonica Intellectual Properties Limited	Gibraltar	100%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

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

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through income or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through income and loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference

between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in income or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in income or loss.

Earnings per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the three months ended March 31, 2011 and 2010, the calculation of basic and diluted loss per share is the same.

Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Critical estimates and assumptions are made in particular with regard to assessment of impairment to the carrying value of mineral properties, the determination of the likelihood that future income tax benefits can be realized, and the assumptions used in calculating the fair value of warrants and share-based payments.

Foreign currencies

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is Canadian dollars. The functional currency of the parent company and all of the subsidiaries is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the statement of operations.

Income tax

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable incomes will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The Company has established a stock option plan for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates.

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected level of vesting of the options and of stock options which vest immediately is recorded at the date of grant; the fair value, as adjusted for the expected level of vesting of the options and of options which vest in the future is recognized over the vesting period. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus.

Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidation

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

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables	765,972	653,875	601,826
Accrued liabilities	1,037,469	1,020,720	958,201
Subscriptions payable	134,822	134,822	124,822
Total accounts payable and accrued liabilities	1,938,263	1,809,417	1,684,849

6. NOTE PAYABLE IN DEFAULT

	$
Balance – January 1, 2010	82,884
Deduct: Unrealized foreign exchange gain	(3,886)
Balance – December 31, 2010	78,998
Deduct: Unrealized foreign exchange gain	(2,243)
Balance – March 31, 2011	76,755

Due to inactivity and a lack of financing, the Company has one note payable in default for $76,755 as at March 31, 2011 (December 31, 2010 - $78,998; January 1, 2010 - $82,884). At March 31, 2011 and December 31, 2010 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.

7. CONVERTIBLE PROMISSORY NOTES

	Derivative Component $	Equity Component $
Balance – January 1, 2010	150,000	9,035
Deduct: Repayment by issuance of common shares	(75,000)	-
Balance – March 31, 2011 and December 31, 2010	75,000	9,035

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 $3.60 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 $5.00 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 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 business days of demand at anytime thereafter, unless otherwise converted at the terms outlined above. The notes are secured by a general security agreement.

8. SHARE CAPITAL

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

b) Share Consolidation:

Effective February 25, 2011, the Company consolidated its common shares on the basis of one (1) new common share for every ten (10) old common shares issued and outstanding at that time. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

c) Options:

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding shares. The exercise price of options granted equals the market price of the Company's stock on the date of the grant. The options are for a maximum term of five years.

A summary of the status of the Company's stock option plan as of March 31, 2011 and December 31, 2010 and the changes during the periods then ended is presented below:

	Number of options	**Weighted average exercise price $**
Balance outstanding – January 1, 2010	98,100	10.41
Expired	(29,100)	10.00
Balance outstanding and exercisable – March 31, 2011 and December 31, 2010	69,000	10.58

At March 31, 2011, share purchase options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	**Exercise Price $**	**Number of Options**
June 2, 2013	10.00	29,000
June 2, 2013	11.00	40,000
		69,000

d) Warrants:

A summary of warrants outstanding as of March 31, 2011 and December 31, 2010 and changes during the periods then ended is presented below:

	Number of warrants	**Weighted average exercise price $**
Balance outstanding – January 1, 2010	440,865	5.43
Expired	(65,350)	28.00
Balance outstanding – March 31, 2011 and December 31, 2010	375,515	2.50

At March 31, 2011, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

Expiry Date	**Exercise Price $**	**Number of Warrants**

July 24, 2011	2.50	375,515
		375,515

e) Escrow shares:

The Company had 734,050 shares subject to a six year escrow period beginning September 10, 2007. At March 31, 2011, 367,025 common shares remaining in escrow (December 31, 2010 – 440,430; January 1, 2010 – 587,240).

The Company had 934,273 shares subject to a six year escrow period starting May 8, 2007. At March 31, 2011, 467,137 common shares remaining in escrow (December 31, 2010 – 467,137; January 1, 2010 – 653,991).

9. RELATED PARTY TRANSACTIONS

The Company incurred the following charges with directors and officers of the Company and/or companies controlled by them for the three months ended March 31, 2011 and 2010:

	2011 $	2010 $
Consulting fees	63,590	39,362
	63,590	39,362

Included in accounts payable and accrued liabilities as at March 31, 2011 is $312,536 (December 31, 2010 - $244,242; January 1, 2010 - $185,645) due to directors and officers of the Company and/or companies controlled by them. The amounts owing are unsecured, non-interest bearing and due on demand.

Included in loans from shareholders as at March 31, 2011 is $171,356 (December 31, 2010 - $139,356; January 1, 2010 - $88,183) due to directors of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the directors of the Company. The compensation paid or payable to key management for services during the three months ended March 31, 2011 and 2010 is as follows:

	2011 $	2010 $
Consulting fees	63,590	39,362
	63,590	39,362

10. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The Company's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities, note payable in default, convertible promissory notes and loans from shareholders. The Company designated its cash as held-for-trading, which is measured at fair value. The other receivables are designated as loans and receivables, which are measured at fair value. The accounts payable and accrued liabilities, note payable in default, convertible promissory notes and loans from shareholders are designated as other financial liabilities, which are measured at amortized cost.

Fair Value of Financial Instruments

The Company classified the fair value of the financial receivables according to the following fair value hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1 – Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values based on prices or valuation techniques that are not based on observable market data.

The value of cash has been assessed based on the fair value hierarchy described above and is classified as Level 1. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Discussions of risks associated with financial assets and liabilities are detailed below:

Foreign Exchange Risk

The Company has financial instruments denominated in U.S. dollars ("US$") and Great Britain Pounds ("GBP"). Accounts exposed to foreign exchange risk as of March 31, 2011 are:

	US$	GBP
Cash	150	-
Accounts payable and accrued liabilities	(115,630)	(501,834)
Note payable in default	(76,755)	-
Net exposure to foreign currencies	(192,235)	(501,834)

All U.S. dollar and GBP amounts are shown in Canadian dollar equivalents.

Credit Risk

Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with the Royal Bank of Canada.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss is limited because at present the Company's liabilities are non-interest bearing or have fixed interest rates.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities. The Company has a working capital deficiency at March 31, 2011.

11. FIRST-TIME ADOPTION OF IFRS

First-time Adoption Exemptions Applied

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010 (the "Transition Date"). Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions are applied. The Company has chosen to apply the following elections to:

- Not restate previous business combinations and the accounting thereof;
- Not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the Transition Date;
- Not apply IFRS 2 *'Share-based Payments'*, to liabilities arising from share-based payment transactions that were settled before the Transition Date; and,
- Reset the cumulative translation difference reserve for all foreign operations to zero at the Transition Date.

There were no material adjustments to the consolidated balance sheets, consolidated statements of operations and comprehensive loss, consolidated statements of shareholders' deficit or the consolidated statements of cash flows on adopting IFRS as at January 1, 2010 or for the year ended December 31, 2010. Accordingly, no reconciliation schedules have been provided with these financial statements.