

DIGIFONICA INTERNATIONAL INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 STATEMENTS OF FINANCIAL POSITION
(unaudited)

	June 30, 2011	December 31, 2010
	\$	\$
ASSETS		
Current assets		
Cash	4,898	238
HST/GST recoverable and other receivables	9,530	2,998
Total current assets	14,428	3,236
Patents	1	1
Total assets	14,429	3,237
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	1,841,951	1,674,595
Demand loans (Note 4)	92,460	-
Note payable in default (Note 5)	76,163	78,998
Convertible promissory notes (Note 6)	75,000	75,000
Subscriptions payable	134,822	134,822
Loans from shareholders (Note 8)	234,691	202,691
Total current liabilities	2,455,087	2,166,106
Total liabilities	2,455,087	2,166,106
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		
Share capital (Note 7)	11,778,565	11,778,565
Contributed surplus	560,372	560,372
Deficit	(14,779,595)	(14,501,806)
Total equity attributable to shareholders	(2,440,658)	(2,162,869)
Total liabilities and equity attributable to shareholders	14,429	3,237

Approved by the Board of Directors

_____"Colin Tucker"_____
Director

_____"Emil Malak"_____
Director

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
General and administrative expenses				
Accounting and audit	7,500	307	21,517	5,307
Consulting fees (Note 8)	28,420	8,000	101,010	47,362
Legal fees	15,500	-	38,470	-
Office and miscellaneous	93,410	21,030	122,631	42,471
Salaries, wages and commissions	-	8,505	-	14,095
Loss before other items	(144,830)	(37,842)	(283,628)	(109,235)
Foreign exchange gain (loss)	5,153	(18,567)	6,291	22,455
Gain on forgiveness of debt	17,356	-	17,356	-
Interest expense	(6,083)	(4,887)	(17,808)	(7,352)
Net loss and comprehensive loss for the period	(128,404)	(61,296)	(277,789)	(94,132)
Basic and diluted loss per share	(0.03)	(0.02)	(0.07)	(0.02)
Weighted average number of shares outstanding	3,877,197	3,877,225	3,877,197	3,847,072

The accompanying notes are an integral part of these financial statements

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(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	-	-	-	(94,132)	(94,132)
Balance, June 30, 2010	3,877,197	11,709,261	560,372	(13,953,781)	(1,684,148)
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	-	-	-	(277,789)	(277,789)
Balance, June 30, 2011	3,877,197	11,778,565	560,372	(14,779,595)	(2,440,658)

DIGIFONICA INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2011 and 2010
(unaudited)

	2011	2010
	\$	\$
Operating Activities		
Net loss for the period	(277,789)	(94,132)
Deduct non-cash item: unrealized foreign exchange gain	(2,835)	(237)
Changes in non-cash working capital items		
HST/GST recoverable and other receivables	(6,532)	1,806
Accounts payable and accrued liabilities	167,356	72,201
	(119,800)	(20,362)
Financing Activities		
Subscription proceeds received in advance	-	10,000
Proceeds from demand loans	92,460	-
Proceeds from shareholder loans	32,000	1,036
	124,460	11,036
Increase (decrease) in cash during the period	4,660	(9,326)
Cash – beginning of the period	238	4,327
Cash – end of the period	4,898	(4,999)
Cash paid during the period for:		
Interest	-	-
Income taxes	-	-
Non-cash financing activity:		
Issuance of 86,603 shares as settlement of convertible promissory notes and interest payable	-	86,603

DIGIFONICA INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2011
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1. ORGANIZATION, NATURE AND CONTINUANCE 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 \$14,779,595 since its inception and had a working capital deficiency of \$2,440,658 at June 30, 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. Subsequent to June 30, 2011, the Company disposed of all of its subsidiaries for proceeds of \$1 (Note 10), eliminating \$1,036,407 of current liabilities at June 30, 2011.

2. BASIS OF PREPARATION AND ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The accounting policies followed in these interim financial statements are the same as those applied in the Company’s interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies 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 as at June 30, 2010 and the comprehensive income for the three and six months ended June 30, 2010, 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.

DIGIFONICA INTERNATIONAL INC.
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For the six months ended June 30, 2011
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The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 26, 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 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, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

3. 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

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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.

4. DEMAND LOANS

	\$
Balance – December 31, 2010	-
Add: Proceeds from demand loans	92,460
Balance – June 30, 2011	92,460

During the six months ended June 30, 2011, a third-party provided non-interest bearing loans due on demand.

5. 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	(2,835)
Balance – June 30, 2011	76,163

At June 30, 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.

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6. 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 – June 30, 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.

On February 4, 2010, the Company issued 86,603 common shares at a deemed price of \$1.00 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.

7. 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.

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A summary of the status of the Company's stock option plan as of June 30, 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 – June 30, 2011 and December 31, 2010	69,000	10.58

At June 30, 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
		<u>69,000</u>

d) Warrants:

A summary of warrants outstanding as of June 30, 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 – June 30, 2011 and December 31, 2010	375,515	2.50

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At June 30, 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	(1)375,515
		375,515

(1) Subsequent to June 30, 2011, these warrants expired unexercised.

e) Escrow shares:

The Company had 734,050 shares subject to a six year escrow period beginning September 10, 2007. At June 30, 2011, 367,025 common shares remaining in escrow (December 31, 2010 – 440,430).

The Company had 934,273 shares subject to a six year escrow period starting May 8, 2007. At June 30, 2011, 373,709 common shares remaining in escrow (December 31, 2010 – 467,137).

8. 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 and six months ended June 30, 2011 and 2010:

	Three months ended June 30,		Six months ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Consulting fees	3,000	11,808	66,590	51,170
	3,000	11,808	66,590	51,170

Included in accounts payable and accrued liabilities as at June 30, 2011 is \$289,432 (December 31, 2010 - \$244,242) 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 June 30, 2011 is \$171,692 (December 31, 2010 - \$139,356) due to directors of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

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Key management includes the directors of the Company. The compensation paid or payable to key management for services during the three and six months ended June 30, 2011 and 2010 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Consulting fees	3,000	11,808	66,590	51,170
	3,000	11,808	66,590	51,170

9. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The Company's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities, demand loans, note payable in default, convertible promissory notes, subscriptions payable 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, demand loans, note payable in default, convertible promissory notes, subscriptions payable 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.

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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 June 30, 2011 are:

	US\$	GBP
Cash	150	-
Accounts payable and accrued liabilities	(121,351)	(293,318)
Note payable in default	(78,982)	-
Net exposure to foreign currencies	(200,183)	(293,318)

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 June 30, 2011.

10. SUBSEQUENT EVENTS

Effective July 19, 2011, the Company sold all of its subsidiaries, including its wholly-owned subsidiaries Digifonica (International) Limited and Digifonica Canada Limited, to the President of the Company for proceeds of \$1.

The sale of the wholly-owned subsidiaries reduced the liabilities of the Company at June 30, 2011 by \$1,036,407.

DIGIFONICA INTERNATIONAL INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

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 statements of financial position, consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity or the consolidated statements of cash flows on adopting IFRS as at January 1, 2010, as at June 30, 2010, for the six months ended June 30, 2010 or for the year ended December 31, 2010. Accordingly, no reconciliation schedules have been provided with these financial statements.