Consolidated Financial Statements

# MEDIFOCUS INC.

For the years ended March 31, 2013 and March 31, 2012

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying consolidated financial statements of Medifocus Inc. (the "Company") are the responsibility of management and have been approved by the Company's Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Where necessary, management has and chosen accounting policies and methods that are appropriate to the Company's circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the internal controls over the financial reporting process, the consolidated financial statements together with other financial information of the Company, and the auditor's report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

We draw your attention to Note 17 of the consolidated financial statements which describes a prior period adjustment for an accounting error. The company's reliance on the 1997 FDA approval of the APA base system does not provide sufficient basis to meet the criteria of technical feasibility to capitalize the costs of the APA 1000 clinical trials and later developments of the APA technology. Accordingly, the Company has expensed the product development costs related to the APA technology through a prior period adjustment of an accounting error, applied retrospectively in the financial statements.

*Signed:*

"Dr. Augustine Cheung"
Chief Executive Officer

*Signed:*

"Mirsad Jakubovic"
Chief Financial Officer

Toronto, Canada
July 29, 2013

SIEVERT & SAWRANTSCHUK LLP
CHARTERED ACCOUNTANTS

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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of**
**Medifocus Inc.:**

We have audited the accompanying consolidated financial statements of Medifocus Inc. and its subsidiary, which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the consolidated statements of loss and comprehensive loss, statements of changes in shareholder's equity and statements of cash flows for the years then ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Medifocus Inc. and its subsidiary as at March 31, 2013, March 31, 2012, and April 1, 2011 and their financial performance and cash flows for the years then ended March 31, 2013 and March 31, 2012 in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Medifocus Inc.'s ability to continue as a going concern and to Note 17 in the consolidated financial statements which describes the prior period error relating to the product development charges that were recognized as an asset.

July 29, 2013
Toronto, Canada

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

**Medifocus Inc.**

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In Canadian dollars]

| As at | March 31, 2013 | March 31, 2012 *restated [note 17]* | April 1, 2011 *restated [note 17]* |
|---|---|---|---|
| | $ | $ | $ |
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | 1,756,230 | 60,713 | 522,008 |
| Accounts receivable | 512,385 | — | — |
| HST recoverable | 229,433 | 92,175 | 58,889 |
| Prepaid expenses and sundry assets | 24,037 | 24,037 | 8,207 |
| Inventory *[note 6]* | 283,179 | — | — |
| Refundable deposit | 305,130 | 249,250 | — |
| **Total current assets** | 3,110,394 | 426,175 | 589,104 |
| Non-current inventory *[note 6]* | 1,026,250 | | |
| Intangible assets - Prolieve intellectual properties *[note 4 and 7]* | 3,550,610 | — | — |
| Equipment, net *[note 8]* | 33,792 | 10,467 | 15,994 |
| | 7,721,046 | 436,643 | 605,098 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 536,425 | 1,799,883 | 1,157,083 |
| Advance subscriptions | — | 375,245 | — |
| Warranty provision *[note 2(t)]* | 20,000 | — | — |
| Due to employees and consultants *[note 9]* | — | 268,409 | 441,963 |
| Convertible promissory note *[note 10]* | — | 149,550 | 145,830 |
| Convertible debenture *[note 11]* | — | 279,160 | 260,532 |
| Promissory note *[note 12]* | 500,000 | — | — |
| Interest payable on financial instruments *[notes 12]* | 102,000 | 128,546 | 41,391 |
| Payable to Boston Scientific Corporation - current *[note 4 and 13]* | 254,032 | — | — |
| Interest payable to Boston Scientific Corporation current *[note 4 and 13]* | 149,301 | — | — |
| **Total current liabilities** | 1,561,758 | 3,000,793 | 2,046,799 |
| **Long term** | | | |
| Payable to Boston Scientific Corporation *[note 4 and 13]* | 811,666 | | |
| Interest payable to Boston Scientific Corporation *[note 4 and 13]* | 1,180,260 | — | — |
| **Shareholders' equity** | | | |
| Share capital *[note 14]* | 12,476,710 | 4,542,801 | 3,797,443 |
| Common shares to be issued *[note 14(b)]* | — | 794,832 | 1,207,815 |
| Equity portion of convertible debenture | — | 11,670 | 11,670 |
| Contributed surplus | 6,634,814 | 1,202,147 | 1,202,147 |
| Accumulated deficit *[note 17]* | (14,944,163) | (9,115,601) | (7,660,776) |
| **Total shareholders' equity** | 4,167,361 | (2,564,151) | (1,441,701) |
| | 7,721,046 | 436,642 | 605,098 |

Going Concern *[note 1]*
Commitments *[note 19]*
Contingencies *[note 20]*
Subsequent Events *[note 22]*

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

On behalf of the Board:

*Joseph Chan*
Director

*Dr. Augustine Cheung*
Director

**Medifocus Inc.**

# CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[In Canadian dollars]

| | *For the Year Ended March 31, 2013* | *For the Year Ended March 31, 2012 restated [note 17]* |
|---|---|---|
| | *$* | *$* |
| **Revenue** | 1,805,969 | — |
| Cost of sales | 699,573 | — |
| Amortization of intangible assets - Prolieve intellectual property *[note 6]* | 285,000 | — |
| **Gross margin** | 821,396 | — |
| | | |
| **Operating expenses** | | |
| Salaries and wages | 1,809,732 | — |
| Development and investor relations | 1,022,769 | 69,917 |
| Stock based compensation expense *[note 14d]* | 862,287 | — |
| Sales and marketing | 627,494 | — |
| Management fees *[note 16]* | 515,000 | 314,341 |
| Research and development expense *[note 17]* | 421,671 | 528,842 |
| Professional fees | 412,323 | 141,739 |
| Directors fees *[note 16]* | 270,000 | 90,000 |
| Accretion of discount | — | 11,670 |
| General and administrative | 261,211 | 146,054 |
| Interest *[note 11 and 13]* | 178,227 | 94,627 |
| Listing fees | 126,945 | 90,850 |
| Amortization *[note 8]* | 7,256 | 5,527 |
| | 6,514,914 | 1,493,567 |
| Net loss before other income | (5,693,518) | (1,493,567) |
| Other income | — | 324 |
| Gain on settlement of debt | — | 53,300 |
| Foreign exchange loss | (135,044) | (14,882) |
| Net loss and comprehensive loss | (5,828,562) | (1,454,825) |
| | | |
| Basic and fully diluted loss per share | (0.050) | (0.046) |
| | | |
| Weighted average number of common shares outstanding | 117,260,870 | 31,531,442 |

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

**Medifocus Inc.**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

[In Canadian dollars]

| | *For the Year Ended March 31, 2013* | *For the Year Ended March 31, 2012 restated [note 17]* |
|---|---|---|
| | *$* | *$* |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | (5,828,562) | (1,454,825) |
| Items not involving cash | | |
| Amortization | 7,256 | 5,527 |
| Stock-based compensation | 862,287 | — |
| Shares to be issued in lieu of payment | 857,500 | 35,000 |
| Accretion of discount | (11,670) | 11,670 |
| Gain on settlement of debt | — | (53,300) |
| Research and development costs expensed | — | — |
| Net change in non-cash working capital balances related to operations *[note 15]* | (2,500,569) | 224,179 |
| **Cash used in operating activities** | (6,613,758) | (1,231,749) |
| **INVESTING ACTIVITIES** | | |
| Additions to Prolieve technology | (3,550,610) | — |
| Additions to non-current inventory | (1,026,250) | — |
| Additions to equipment | (30,581) | — |
| **Cash used in investing activities** | (4,607,441) | — |
| **FINANCING ACTIVITIES** | | |
| Issuance of common shares | 11,225,287 | 297,375 |
| Increase (decrease) in advanced subscriptions | (375,245) | 375,245 |
| Changes in convertible promissory note | (149,550) | 3,720 |
| Repayment of convertible debenture | (112,490) | 6,958 |
| Promissory note | 500,000 | — |
| Interest payable on financial instruments | (26,546) | 87,155 |
| Payable to Boston Scientific Corporation - current | 254,032 | — |
| Interest Payable to Boston Scientific Corporation current | 149,301 | — |
| Payable to Boston Scientific Corporation | 811,667 | — |
| Payable to Boston Scientific Corporation | 1,180,260 | — |
| **Cash provided by financing activities** | 13,456,716 | 770,453 |
| **Net increase (decrease) in cash and cash equivalents during the year** | 2,235,517 | (461,296) |
| Cash and cash equivalents, beginning of year | 60,713 | 522,008 |
| **Cash and cash equivalents, end of year** | 2,296,230 | 60,713 |
| *Interest paid* | *48,745* | — |
| *Taxes paid* | — | — |

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

**Medifocus Inc.**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[In Canadian Dollars]

| | Common shares | | Warrants | | Subtotal | Common shares to be issued | | Equity Portion of Promissory Notes | Other accumulated comprehensive Income | Contributed Surplus | Deficit | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | *restated [note 17]* | |
| | # | $ | # | $ | $ | # | $ | $ | $ | $ | $ | $ |
| March 31, 2011 | 30,531,442 | 3,797,443 | 10,285,752 | 897,057 | 4,694,500 | 6,867,615 | 1,207,815 | 11,670 | - | 1,202,147 | (4,285,305) | **1,933,770** |
| Prior period adjustment *[note 17]* | | | | | | | | | | | (3,375,471) | **(3,375,471)** |
| April 1, 2011 | 30,531,442 | 3,797,443 | 10,285,752 | 897,057 | 4,694,500 | 6,867,615 | 1,207,815 | 11,670 | - | 1,202,147 | (7,660,776) | **(1,441,701)** |
| Issuance of common shares on private placement | 1,000,000 | 297,375 | | | 297,375 | | | | | | | **297,375** |
| For settlement of accounts payable | | | | | | 175,000 | 35,000 | | | | | **35,000** |
| Stock options vesting | | | | | | | | | | 71,188 | | **71,188** |
| Stock options cancelled | | | | | | | | | | (71,188) | | **(71,188)** |
| Shares to be issued for professional fees | (100,000) | (50,000) | | | | 100,000 | 50,000 | | | | | - |
| Shares issued and debt extinguished | 2,787,070 | 497,983 | | | | (2,787,070) | (497,983) | | | | | - |
| Prior period adjustment *[note 17]* | | | | | | | | | | | (528,842) | **(528,842)** |
| Net loss for the year | | | | | | | | | | | (925,983) | **(925,983)** |
| March 31, 2012 | 34,218,512 | 4,542,801 | 10,285,752 | 897,057 | 4,991,875 | 4,355,545 | 794,832 | 11,670 | - | 1,202,147 | (9,115,601) | **(2,564,151)** |
| Issuance of common shares on private placement | 18,367,263 | 1,730,330 | 18,367,263 | 1,024,758 | 2,755,088 | | | | | 1,024,758 | | **2,755,088** |
| Issuance of common shares on private placement | 22,200,000 | 2,091,403 | 22,200,000 | 1,238,597 | 3,330,000 | | | | | 1,238,597 | | **3,330,000** |
| Issuance of common shares on private placement | 22,196,795 | 2,045,384 | 22,196,795 | 1,284,137 | 3,329,521 | | | | | 1,284,137 | | **3,329,521** |
| Less share issuance costs on private placement | | (147,352) | | | (147,352) | | | | | | | **(147,352)** |
| Issuance of common shares on private placement | 13,056,997 | 1,214,631 | 13,056,997 | 743,924 | 1,958,555 | | | - | | 743,924 | | **1,958,555** |
| Less share issuance costs on private placement | | (525) | | | (525) | | | | | | | **(525)** |
| Shares issued and debt extinguished *[note 14(ix)]* | 1,255,545 | 204,832 | | | 204,832 | (4,255,545) | (204,832) | - | | | | |
| Cancellation of shares to be issued for professional fees | | | | | | (100,000) | (50,000) | | | | | **(50,000)** |
| Shares issued to officers and directors *[note 14(viii)]* | 3,500,000 | 635,000 | | | 635,000 | | (540,000) | | | | | **95,000** |
| Shares issued un lieu of debt | 1,090,000 | 272,500 | | | 272,500 | | | | | | | **272,500** |
| Shares issued for convertible debentures | 1,409,091 | 166,670 | | | 166,670 | | | (11,670) | | | | **155,000** |
| Cancellation of shares issued in error | (33,333) | | | | - | | | | | | | - |
| Stock options vesting | | | | | - | | | | | 862,287 | | **862,287** |
| Extension of warrants | | (278,964) | | 278,964 | - | | | | | 278,964 | | - |
| Net loss for the year | | | | | | | | | | | (5,828,562) | **(5,828,562)** |
| March 31, 2013 | 117,260,870 | 12,476,710 | 86,106,807 | 5,467,437 | 17,496,164 | - | - | - | - | 6,634,814 | (14,944,163) | **4,167,361** |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013 and 2012

## 1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

Medifocus Inc. (the “Company” or "Medifocus") was incorporated under the *Business Corporations Act* (Ontario) on April 25, 2005. Medifocus develops and commercializes minimally invasive focused heat systems for the treatment of cancerous and benign tumors, and enlarged prostate, medically known as Benign Prostatic Hyperplasia (“BPH”). With the recent acquisition of Prolieve®, Medifocus now owns a revenue generating commercial BPH treatment product targeting the BPH drug therapy market and generating cash flow to support the development and commercialization of other catheter based or Adaptive Phased Array (APA) based focused heat systems for targeted thermotherapy of surface, subsurface and deep seated localized and regional cancers.

The Company owns two technology platforms with comprehensive US and international patent protection: 1: The Endo-thermotherapy Platform-from which Prolieve was developed can potentially used to treat cancers in prostate, rectal, cervical and esophageal, and 2: The Adaptive Phased Array (APA) Microwave Focusing Platform-invented by MIT, licensed to Medifocus, directs precisely focused microwave energy at tumor center to induce shrinkage or eradication of tumors without undue harm to surrounding tissue. The Company’s APA 1000 Breast Cancer Treatment System, developed from the APA technology platform, is currently in pivotal Phase-III clinical trials.

The address of the Company's registered office is 130 King Street West, Suite 1800, Toronto, Ontario M5X 1E3, Canada. The Company trades on the TSX Venture Exchange under the symbol "MFS" and the OTCQX International Exchange under the symbol "MDFZF".

The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. There can be no assurances that the Company's activities will be successful or that sufficient funds can be raised in a timely manner. As a result, there is significant doubt regarding the "going concern" assumption and accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities that might be required should the Company be unable to continue as a going concern.

These financial statements were authorized for issue by the Board of Directors on July 22, 2013.

## 2. SIGNIFICANT ACCOUNTING POLICIES

*Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS effective as of July 22, 2013.

### (a) Principles of consolidation

The consolidated financial statements reflect the financial position and results of operations of the Company and its wholly-owned subsidiary Celsion (Canada) Inc. All intercompany transactions and balances have been eliminated.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments designated at fair value through profit and loss, which are stated at their fair value. The Company operates two cash-generating units in North America, namely; Breast Cancer Treatment and Prolieve BPH Treatment.

### (c) Presentation and functional currency

These consolidated financial statements are presented in Canadian dollars ("CAD dollars"), which is also the Company's functional currency.

### (d) Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as follows:

i) The Company maintains an allowance for doubtful accounts for estimated losses that may occur if parties are unable to pay balances owing to the Company. This allowance is determined based on a review of specific parties' historical experience and economic circumstances.

ii) The Company makes estimates for possible write-downs for excess, obsolete, or slow-moving inventory. Any significant or unanticipated change in these estimates could have a significant impact on reported operating results.

iii) The Company makes estimates related to the extent of warranty claims for products sold. Any unexpected increases in actual warranty claims could affect reported operating results.

iv) The Company makes estimates related to the values assigned to assets in the purchase price allocation in a business combination. Changes in these assumptions could result in a change in the value of inventory and Intangible assets - Prolieve intellectual property.

v) The Company makes estimates related to the useful lives of property and equipment, intangible assets- Prolieve intellectual property, and the related amortization.

vi) The Company periodically assesses the recoverability of long-lived assets, and intangible assets. The recoverability analysis requires the Company to make assumptions about future operations. Changes to one or more assumptions would result in a change in the recoverable amount calculated and/or amortization expensed.

vii) The Company makes estimates and utilizes assumptions in determining the fair value for stock based compensation expense, warrants and the bifurcation of convertible debt, using Black-Scholes computations.

viii) Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. At March 31, 2013, the Company has assessed that it is not probable that sufficient taxable profit will be available to use deferred income tax assets based on operating losses in prior years, therefore, there are no balances carried in the consolidated statements of financial position for such assets.

ix) The Company applies judgment in assessing whether material uncertainties exist that would cause significant doubt as to the whether the Company could continue as a going concern.

x) The Company applies judgment in assessing the functional currency of the other entity consolidated in these financial statements.

**(e) Inventories**

The Company values inventories, consisting primarily of consol units, single-use treatment catheters, and parts to refurbish the console units, at the lower of cost and net realizable value. The cost of finished goods is determined on a first-in, first- out method. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale. A periodic review of the inventory on hand is performed to determine if the inventory is properly stated at the lower of cost or market. In performing

this analysis we consider, at a minimum, the following factors: selling prices, reimbursement charges, and changes in demand for products due to competitive conditions or market acceptance. Each type of inventory is analyzed to determine net realizable values. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if required.

We also analyze the level of inventory on hand on a periodic basis, in relation to estimated customer requirements to determine whether write-downs for excess, obsolete, or slow-moving inventory are required. Any significant or unanticipated change in the factors noted above could have a significant impact on the value of inventories and on reported operating results.

**(f) Equipment**

Equipment is recorded at cost less specifically related tax credits and are amortized on a declining balance basis over the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Furniture and fixtures | 20% |
| Equipment | 30% |

Leasehold improvements are amortized on a straight line basis over the lesser of the lease term and their estimated useful lives.

The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

The gain or loss arising on disposing of or retiring an item of equipment is determined as the difference between the sales proceeds and the asset's carrying amount and is recognized in profit or loss.

As at March 31, 2013, there was no impairment of the Company's equipment.

**(g) Intangible Assets -Prolieve intellectual property and product development costs**

Research costs are expensed as incurred, as well as development costs that do not meet the criteria for eligibility for capitalization. Expenditures on technologies are capitalized only if they meet the criteria for deferral. Expenditures are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred.

Intangible assets consist of the intellectual property and patents for the Prolieve technology for the treatment of Benign Prostatic Hyperplasia. The Prolieve technology was acquired from Boston Scientific Corporation on July 25, 2012. Medifocus allocated $3,835,610 of the consideration given to Boston Scientific Corporation to intangible assets - Prolieve intellectual property. Medifocus will amortize the

cost of the technology over 10 years, the estimated useful life of the patents covering the technology. Amortization costs for the year are $285,000.

**(h) Impairment of equipment, Intangible assets - Prolieve intellectual property**

The carrying amounts of tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The carrying amount of equipment and intangible assets - Prolieve intellectual property are tested for impairment annually. When the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of long-lived assets is the greater of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statements of loss and comprehensive loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of loss and comprehensive loss. Following the recognition or reversal of an impairment loss, the amortization charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the estimated useful life.

Gains or losses on the disposal of equipment, patents and intangible assets represent the difference between the net proceeds and the carrying value at the date of sale.

As at March 31, 2013, there was no impairment in the plant and equipment or intangible assets -Prolieve intellectual property

**(i) Provisions**

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and it can make a reliable estimate of the amount of the obligation. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. As at March 31, 2013, the Company does not have any provisions.

### (j) Income taxes

Income taxes are calculated using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry.

Deferred tax assets and liabilities are presented as a non-current item and measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the period in which the change is enacted or substantively enacted.

### (k) Share-based payments

Where equity-settled stock options are awarded to employees, the fair value of the stock options are measured at the date of grant using the Black-Scholes option pricing model and is charged to the Consolidated Statement of Loss, and Comprehensive Loss and Deficit over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Loss, and Comprehensive Loss and Deficit over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the stock based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method and is measured using Black Scholes and assumptions at the time of vesting. The applicable fair value of any stock options which are exercised are transferred from contributed surplus to share capital. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

Purchase warrants are classified as equity and measured at fair value on the date of issue using the Black-Scholes option pricing model. Broker compensation options are classified as issuance costs and a deduction from equity and measured at fair value on the date of issue using the Black-Scholes option pricing model. The fair value of the purchase warrants and broker compensation options are not subsequently revalued.

**(l) Convertible debenture and promissory debt**

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

On conversion, the carrying amount of the debt component and the equity component are transferred to share capital and no gain or loss is recognized. The interest cost recognized in respect of the debt component represents the accretion of the liability, over the expected life using the effective interest method, to the amount that would be payable if redeemed.

**(m) Comprehensive income**

Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a year except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings.

The Company had no comprehensive income or loss transactions, other than its net loss, presented in the Consolidated Statements of Loss and Comprehensive Loss nor has the Company accumulated other comprehensive income during the periods that have been presented.

### (n) Earnings per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed by adjusting the weighted average number of number of common shares outstanding for the effects of all dilutive potential common shares, which are comprised of outstanding warrants, conversion options and vested stock options. Diluted earnings (loss) per common share assumes that any proceeds received for in-the-money warrants and options would be used to buy common shares at the average market price for the period. In years when the Company reports a loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore, basic and diluted earnings (loss) per share are the same.

### (o) Foreign currency translation

The Company's presentation currency and functional currency is the Canadian dollar. Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in Consolidated Statements of Loss, Comprehensive Loss. All resulting exchange differences are recognized in other comprehensive income and accumulated in a cumulative translation reserve under shareholders' equity.

### (p) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to a contractual agreement.

Financial assets are initially measured at fair value and classified into one of the following specified categories: fair value through profit or loss (“FVTPL”), held-to-maturity (“HTM”), available-for-sale (“AFS”) and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Consolidated Statement of Loss, and Comprehensive Loss for the year.
Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Consolidated Statement of Loss, Comprehensive Loss and Deficit for the period. Other financial liabilities, including borrowings, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

Transaction costs directly attributable to the acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through loss for the year are recognized immediately in the Consolidated Statement of Loss, and Comprehensive Loss and Deficit for the year.

Financial assets and financial liabilities are offset and reported on the Consolidated Statement of Financial Position only if there is an enforceable legal right to offset the recognized amounts, and an intention to realize the asset and settle the liability simultaneously.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Consolidated Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Financial instruments recognized in the Consolidated Statement of Financial Position include cash and equivalents, sales taxes recoverable, accounts receivable, refundable deposits, and accounts payable and accrued liabilities. The respective accounting policies are described below.

*Cash and cash equivalents*
Cash and cash equivalents consists of cash on hand, cash held in a financial institution or investments having a maturity of ninety days or less at acquisition, that are readily convertible to the contracted amounts of cash. Cash and equivalents are classified as FVTPL and measured at fair value.

*Accounts payable and accrued liabilities*
Accounts payable and accrued liabilities are initially recognized at fair value and classified as other financial liabilities measured at amortized cost.

The Corporation has classified its financial instruments as follows:

| Financial instrument | Classification |
|---|---|
| Cash and cash equivalents | FVTPL |
| Account receivable | Loans and receivables |
| HST receivable | Loans and receivables |
| Refundable deposits | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Promissory note | Other financial liabilities |
| BSC loan payable | Amortized cost |
| Interest Payable -Promissory note | Other financial liabilities |
| Interest payable - BSC loan payable | Other financial liabilities |

**(q) Revenue recognition**

The Company provides its customers with products which are used in the treatment of Benign Prostate Hyperplasia. Revenues from sale of products in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns. The Company recognizes revenue from the sale of Prolieve catheters upon delivery to the customer. Revenue is recognized from the sale of Prolieve consoles upon shipment to the customer. Revenue from the mobile service is recognized upon treatment of the patient. Revenue for extended warranty service contracts is deferred and recognized over the contract period. We record a provision for estimated sales returns on product sales in the same period

as the related revenue is recorded. The provision for estimated sales returns is based on historical sales returns, analysis of credit memo data and specific customer-based circumstances.

**(r) Business Combinations**

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes the fair value of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and liabilities assumed measured at fair value, the difference is treated as goodwill or intangible assets. After initial recognition, goodwill and intangible assets are measured at their initial cost from the acquisition date, less any accumulated impairment losses. Intangible assets are reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company's share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in income (loss). Acquisition costs are expensed as incurred in net income (loss).

**(s) Related party transactions**

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

**(t) Warranty Provisions**

Prolieve products are covered by warranties against defects in material and workmanship for periods of up to 12 months. We record a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of product failure rates, material usage and service delivery costs to sales, the historical length of time between the sale and resulting warranty claim and other factors. Warranty provisions for the year ended March 31, 2013 are $20,000.

## 3. NEW ACCOUNTING STANDARDS

The IASB and IFRS Interpretations Committee (“IFRIC”) have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and except as noted below are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

The IASB issued IFRS 9, *Financial Instruments* in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; in particular, it introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 before its effective date of January 1, 2015 to add new requirements for classifying and measuring financial liabilities, derecognizing financial instruments, impairment and hedge accounting.

IFRS 10, 11, 12 and 13 were all issued in May 2011. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

In June 2011, the IASB amended IAS 1 *Presentation of financial statements* ("IAS 1") to require presenting items in other comprehensive income in two categories: items that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or as two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

The Company has not yet determined the impact of these standards and amendments on its financial statements.

## 4. BUSINESS ACQUISITION

On July 24, 2012 the Company purchased from Boston Scientific Corporation all of the assets relating to the Prolieve Thermodilatation System ["Prolieve"], an FDA approved device for the treatment of Benign Prostatic Hyperplasia (BPH). The Company acquired a revenue generating heat technology. This technology was successfully engineered and developed by the same management team that now operates Medifocus. This management team believes that with their extensive knowledge and past success with this product, they are in the best position to maximize Prolieve's potential within the marketplace. The Company acquired all of the business assets of Prolieve, including the intellectual properties, patents and inventory for total consideration $5,035,610. Medifocus paid Boston Scientific Corporation $2,535,610 including the deposit of $249,250 previously remitted, upon closing of the transaction. The balance of $2,500,000 will be paid quarterly at a rate of 10% of sales of Prolieve products; see contingency note 19.

The following summarizes the fair value of the assets acquired in the transaction:

| | $ |
|---|---|
| Inventory | 1,200,000 |
| Intangible assets -Prolieve intellectual property | 3,835,610 |
| Total consideration | 5,035,610 |

## 5. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, HST recoverable, accounts payable and accrued liabilities, amounts due to employees and consultants and notes payable. Unless otherwise noted, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**Fair value**
The fair value of the Company's financial instruments approximates their carrying values due to their short-term maturity.

The methods and assumptions used to measure financial instruments at fair value in the consolidated statement of financial position are classified into three levels according to a defined fair value hierarchy:

- Level one includes quoted prices [unadjusted] in active markets for identical assets or liabilities.
- Level two includes inputs that are observable, other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

The assets carried at fair value are cash and accounts receivable and refundable deposits, classified within Level one of the hierarchy.

**Credit risk**
Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the end of the reporting period.
The company is exposed to credit risk primarily through its cash, accounts receivable, and refundable deposits. The company has cash deposits with a reputable financial institution, from which management believes the risk of loss to be remote. The risk inherent to accounts receivable is effectively mitigated by the company’s close, frequent monitoring of accounts.

**Foreign currency risk**
The prices paid by the Company for services and supplies are paid in U.S. and Canadian dollars and the Company is raising funds in Canadian dollars. As of March 31, 2013 the Company has some USD receivables and believes the currency risk is limited and not a risk to be hedged at the present time.

**Interest rate risk**
Interest rate risk arises because of changes in market interest rates. The Company has no borrowings other than its convertible debt, a promissory note and certain of the amounts due to employees and consultants, all of which is at fixed interest rates, and considers itself to have very minimal exposure to interest rate risk.

**Liquidity risk**
Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business of commercializing Prolieve and completing development, testing and commercialization of the APA System for the treatment of cancer. The Company’s operating cash requirements include amounts necessary to conduct its pivotal clinical trial to obtain regulatory approval

to commercialize the APA System in North America. The Company's objective is to maintain sufficient liquid resources to meet operational requirements, including marketing and sales of Prolieve. As at March 31, 2013, the Company had cash of $1,756,230 [2012 - $60,713]. In addition, at March 31, 2013, the Company's working capital position was $2,574,886 [2012 - negative $2,574,618]. The Company's continuing operations are dependent upon its ability to secure additional equity capital, divest assets or generate cash flow from operations in the future, none of which are assured. There can be no assurances that the Company's activities will be successful or that sufficient funds can be raised in a timely manner.

**Capital risk**

The Company's objective when managing capital, defined as its equity, is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is managing its capital structure to convert to equity as much of its current debt as possible and will issue equity to obtain funding to initiate its pivotal clinical trial. The Company is not subject to any externally imposed capital requirements. The Company's objective is to insure adequate working capital to commercialize its APA System for the treatment of cancer, and the sales and marketing of its Prolieve technology, and it will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully. There were no changes to the Company's management of capital from the prior year.

**Sensitivity analysis**

The Company believes that the movements in its U.S. dollar financial instruments that are reasonably possible over the next twelve-month period, a variance of +/-10% will not have a significant impact on the Company.

## 6. INVENTORY

Inventory consists of consol units, single-use treatment catheters, and parts used to refurbish console units. The console units represents non-current inventories that the Company does not expect to sell within the next 12 months, however they are also not considered excess or obsolete.

| | $ |
|---|---|
| Finished goods - catheters | 283,214 |
| Finished goods - consoles | 704,000 |
| Work-in-progress - consoles | 322,215 |
| | 1,302,429 |

| | |
|---|---|
| Current portion of inventory | 283,214 |
| Non-current portion of inventory | 1,026,215 |
| | 1,309,429 |

## 7. INTANGIBLE ASSETS

Intangible assets include intellectual properties and patents relating to the Prolieve technology for the treatment of Benign Prostatic Hyperplasia acquired from Boston Scientific Corporation on July 24, 2012. Medifocus allocated $3,835,610 of the consideration given for the Prolieve patents and technology to

intangible assets. Intangible assets are amortized using the straight-line method over their estimated remaining useful lives. Patents and technology related to the Prolieve system are being amortized over 10 years.

Amortization expense associated with the Prolieve intellectual property for the fiscal year ended March 31, 2013 was $285,000 and has been recorded in cost of goods sold. Future amortization expense related to the net carrying amount of intangible assets is estimated to be as follows:

| | $ |
|---|---|
| 2014 | 383,500 |
| 2015 | 383,500 |
| 2016 | 383,500 |
| 2017 | 383,500 |
| 2018 | 383,500 |
| Sub-total | 1,917,500 |
| 2019 and thereafter | 1,633,110 |
| | 3,550,610 |

## 8. EQUIPMENT

Plant and equipment are composed of the following:

| | Equipment<br>$ | Furniture and fixtures<br>$ | Leasehold improvements<br>$ | **Total**<br>**$** |
|---|---|---|---|---|
| **Cost** | | | | |
| As at March 31, 2011 | 46,995 | 20,464 | 10,600 | **78,059** |
| Additions | — | — | — | **—** |
| Disposals | — | — | — | **—** |
| As at March 31, 2012 | 46,995 | 20,464 | 10,600 | **78,059** |
| Additions | 30,581 | — | — | **30,581** |
| Disposals | — | — | (10,600) | **(10,600)** |
| As at March31, 2013 | 77,576 | 20,464 | — | **98,040** |
| **Accumulated depreciation** | | | | |
| As at March 31, 2011 | 38,779 | 14,570 | 8,716 | **62,065** |
| Depreciation for the year | 2,465 | 1,178 | 1,884 | **5,527** |
| As at March 31, 2012 | 41,244 | 15,748 | 10,600 | **67,592** |
| Disposals | | | (10,600) | **(10,600)** |
| Depreciation for the year | 6,312 | 944 | — | **7,256** |
| As at March 31, 2013 | 47,556 | 16,692 | — | **64,248** |
| **Net book value** | | | | |
| As at March 31, 2011 | 8,216 | 5,894 | 1,884 | **15,994** |
| As at March 31, 2012 | 5,751 | 4,716 | — | **10,467** |
| As at March 31, 2013 | 30,020 | 3,772 | — | **33,792** |

## 9. DUE TO EMPLOYEES AND CONSULTANTS

The Company has liabilities of $12,000 [2012 - $268,409] owing to employees and consultants for past compensation. This amount has been included in accounts payable for 2013.

## 10. CONVERTIBLE PROMISSORY NOTE

In 2007, the Company raised bridge financing of USD $150,000. The bridge financing lender received a promissory note from the Company for USD $150,000 with interest payable at 1.5% per month on the face value. The lender may convert the balance due into common stock of the Company at $0.20 per share. The face value and accrued interest were payable December 21, 2009, and were extended to September 30, 2010. The interest rate for the extended period increased to 1.667% per month from 1.5%. The Company paid USD $15,000, applied against outstanding interest, during the year ended March 31, 2011, and the lender agreed to convert USD $54,000 of accrued interest into 275,510 common shares of the Company. The interest rate on the USD $150,000, is 1.667% per month plus an additional 1% default interest per month following the default on September 30, 2010.

On June 6, 2012, the Company repaid the promissory note of USD $150,000 and accrued interest of $87,888 [2012-$79,339].

## 11. CONVERTIBLE DEBENTURE

On January 24, 2011, the Company issued various non-brokered unsecured convertible debentures ["Debentures"] in the principal amount of USD $280,000. The Debentures matured on January 24, 2012. The interest rate on the Debentures is 15% per annum. Upon the request of the Holders, the Debentures but not the accrued interest may be converted in whole, but not in part, into shares of Common Stock of the Company at a price of $0.11 per common share. The Debenture may be repaid in whole or in part at any time by the Company.

For accounting purposes, the Debentures contain both a debt component and an equity component. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Debentures from the face value of the principal of the Debentures. The fair value of the debt component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 21% for a comparable debt instrument that excluded any conversion privileges. The debt component accretes over the life of the unsecured convertible debenture through periodic charges to expense using the effective interest method.

On June 2, 2012, the Company repaid US$ 125,000 and converted US$155,000 of the convertible debentures to 1,409,091 common shares.

## 12. PROMISSORY NOTE PAYABLE

On July 23, 2012 the Company raised bridge financing of $500,000. The bridge financing lender received a promissory note from the Company for $550,000. Interest is payable at 2% per month on the face value after October 23, 2012. The promissory note is due October 23, 2013.

## 13. PAYABLE TO BOSTON SCIENTIFIC CORPORATION

The consideration paid for the purchase of the Prolieve technology includes a payable to BSC of US $2,500,000 that will be paid quarterly at a rate of 10% of sales of Prolieve products.

For accounting purposes, the Payable to BSC contains both a debt component and an interest payable component. At issuance, the Company estimated the fair value of the interest portion by deducting the present value of the future cash outflows of the payable from the face value of the payable. The fair value of the debt component was determined by discounting the stream of future payments, based on an estimated 8 year life, at the estimated prevailing market rate of 24% for a comparable debt instrument. The debt component accretes over the life of the debt through periodic charges to expense using the effective interest method.

As at March 31, 2013, the balance owing is allocated as follows:

| | $ |
|---|---|
| Initial balance | 2,500,000 |
| Less: payments during the year | (104,741) |
| Less: BSC Payable -current | (254,032) |
| Less: Interest on BSC payable - current | (149,301) |
| Less: Interest on BSC Payable - long-term | (1,180,260) |
| BCS Payable - long term | 811,666 |

Future payments of interest and principal are as follows:

| | $ |
|---|---|
| 2014 | 315,000 |
| 2015 | 315,000 |
| 2016 | 315,000 |
| 2017 | 315,000 |
| 2018 | 315,000 |
| subtotal | 1,575,000 |
| 2019 and thereafter | 820,529 |

A further payment of $75,856 due by June 30, 2013 has not been made as at July 29, 2013

## 14. SHARE CAPITAL

### [a] Common shares

Authorized share capital consists of unlimited common shares with no par value.

The continuity of share capital is as follows:

| | Number<br># | Amount<br>$ |
|---|---|---|
| **Balance as at March 31, 2011** | **30,531,442** | **3,797,443** |
| Shares issued in private placement *[i]* | 1,000,000 | 297,375 |
| Shares issued on extinguishment of debt *[ii]* | 2,687,070 | 447,983 |
| **Balance, March 31, 2012** | **34,218,512** | **4,542,801** |
| Extension of warrants *[note c]* | | (278,964) |
| Shares issued in private placement, net of issuance costs *[iii]* | 18,367,263 | 2,755,088 |
| Less allocation to contributed surplus *[iii]* | | (1,024,758) |
| Shares issued in private placement, net of issuance costs *[iv]* | 22,200,000 | 3,330,000 |
| Less allocation to contributed surplus *[iv]* | | (1,238,597) |
| Shares issued in private placement, net of issuance costs *[v]* | 22,196,795 | 3,182,169 |
| Less allocation to contributed surplus *[v]* | | (1,284,137) |
| Shares issued in private placement *[vi]* | 13,056,997 | 1,958,030 |
| Less allocation to contributed surplus *[vi]* | | (743,924) |
| Shares issued for convertible debentures *[vii]* | 1,409,091 | 166,670 |
| Shares issued to officers and directors *[viii]* | 3,500,000 | 635,000 |
| Cancellation of shares issued in error | (33,333) | |
| Shares issued on extinguishment of debt *[ix]* | 1,255,545 | 204,832 |
| Shares issued on extinguishment of debt *[x]* | 1,090,000 | 272,500 |
| **Balance, March 31, 2012** | **117,260,870** | **12,476,610** |

[i] On June 29, 2011, the Company completed a private placement of 1,000,000 shares at a price of $0.30 per share raising gross proceeds of $300,000. The Company paid legal fees of $2,625 that were included in share issuance costs.

[ii] On March 6, 2012, the Company issued 2,787,070 shares for a previously recognized debt settlement, with a value of $497,983. Accordingly, these shares have been moved to share capital from shares to be issued. The Company transferred 100,000 shares valued at $50,000 that had been reserved for payment of past professional fees from share capital to shares to be issued.

[iii] On June 8, 2012, the Company completed a private placement of 18,367,263 units at a price of $0.15 per unit raising gross proceeds of $2,755,088. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of $0.20 until June 8, 2014. Management determined the warrants to have a fair value of $0.056 per warrant and accordingly, $1,024,758 of the proceeds

from the issuance was allocated to the warrants, and the balance of the proceeds was allocated to common shares.

A relative fair value calculation was used to determine the carrying value of the warrants. The fair value of the warrants issued was estimated using a Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.0% |
| Expected life in years | 2 year |
| Expected volatility | 149.0% |
| Dividends per share | 0.0% |

[iv] On June 21, 2012, the Company completed a private placement of 22,200,000 units at a price of $0.15 per unit raising gross proceeds of $3,330,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of $0.20 until June 21, 2014. Management determined the warrants to have a fair value of $0.056 per warrant and accordingly, $1,238,597 of the proceeds from the issuance was allocated to the warrants, and the balance of the proceeds was allocated to common shares.

A relative fair value calculation was used to determine the carrying value of the warrants. The fair value of the warrants issued was estimated using a Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.0% |
| Expected life in years | 2 year |
| Expected volatility | 149.0% |
| Dividends per share | 0.0% |

[v] On September 21, 2012, the Company completed a private placement of 22,196,795 units at a price of $0.15 per unit raising gross proceeds of $3,329,521. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of $0.20 until September 21, 2014. Management determined the warrants to have a fair value of $0.058 per warrant and accordingly, $1,284,137 of the proceeds from the issuance was allocated to the warrants, and the balance of the proceeds was allocated to common shares. The Company paid finder's fees of $147,352.

A relative fair value calculation was used to determine the carrying value of the warrants. The fair value of the warrants issued was estimated using a Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.20% |
| Expected life in years | 2 year |
| Expected volatility | 158.0% |
| Dividends per share | 0.0% |

[vi] On January 14,2013, the Company completed a private placement of 13,056,997 units at a price of $0.15 per unit raising gross proceeds of $1,958,550. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of $0.20 until January 14, 2015. Management determined the warrants to have a fair value of $0.057 per warrant and accordingly, $743,924 of the proceeds from the issuance was allocated to the warrants, and the balance of the proceeds was allocated to common shares. The Company paid finder's fees of $525.

A relative fair value calculation was used to determine the carrying value of the warrants. The fair value of the warrants issued was estimated using a Black-Scholes pricing model with the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.20% |
| Expected life in years | 2 year |
| Expected volatility | 154.0% |
| Dividends per share | 0.0% |

[vii] On June 2, 2012, the Company converted US$155,000 of convertible debentures to 1,409,091 common shares

[viii] On October 19, 2012 the Company awarded 3,000,000 common shares to its directors and officers.

[ix] On December 17, 2012 the Company completed its award of 1,755,545 common shares to certain directors and officers in lieu of part of the remuneration owing to these individuals.

[x] On January 29, 2013, the Company issued 1,090,000 common shares to settle an aggregate of $272,500 of debt representing unpaid salary of $210,000 and amounts due to service providers of $62,500

**[b] Share capital to be issued**

From time to time the Company will make agreements for the settlement of debt, accrued interest or other expenditures by issuing shares, subject to regulatory and shareholder approval. The value of the shares to be issued is determined by the closing price on the day of the agreement.

The continuity of share capital to be issued is as follows:

| | Number<br># | Amount<br>$ |
|---|---|---|
| **Balance as at March 31, 2011** | **6,867,615** | **1,207,815** |
| For settlement of accounts payable *[i]* | 175,000 | 35,000 |
| Shares issued on debt extinguishment *[ii]* | (2,787,070) | (497,983) |
| Shares to be issued for professional fees | 100,000) | 50,000 |
| **Balance, March 31, 2012** | **4,355,545** | **794,832** |
| Cancellation of shares to be issued for professional fees *[ii]* | (100,000) | (50,000) |
| For officers and directors*[iii]* | (3,000,000) | (540,000) |
| Shares to be issued to a director*[iv]* | 500,000 | 95,000 |
| Shares issued to a director *[iv]* | (500,000) | (95,000) |
| Shares issued on debt extinguishment *[v]* | (1,255,545) | (204,832) |
| **Balance, March 31, 2013** | — | — |

[i] The Company agreed to issue 175,000 shares to settle debt of $35,000.

[ii] On March 6, 2012, the Company issued 2,787,070 shares for a previously recognized debt settlement**,** with a value of $497,983. Accordingly, these shares have been moved to share capital from shares to be issued. The Company transferred 100,000 shares valued at $50,000 that had been reserved for payment of past professional fees from share capital to shares to be issued. The Company cancelled the issuance of these shares during the year.

[iii] On October 19, 2012 the Company issued 3,000,000 common shares to officers and directors that had been granted on March 17, 2011, in accordance with the Company's approved compensation strategy.

[iv] On December 17, 2012 the Company awarded 500,000 common shares to a director in lieu of part of the remuneration owing to this individual.

[v] On December 17, 2012 the Company completed its award of 1,755,545 common shares for previously recognized debt settlement to officers and directors.

### [c] Warrants

As at March 31, 2013, the Company had the following warrants outstanding:

| | Purchase warrants | | | | |
|---|---|---|---|---|---|
| | **Number** # | **Exercise price** $ | **Black-Scholes Values** $ | **Expiry date** | **Year of issue** |
| Share purchase warrants | **4,090,755** | **0.60** | 572,375 | 11/25/2013 | 2009 |
| Share purchase warrants | **2,449,997** | **0.50** | 411,466 | 4/24/2014 | 2011 |
| Share purchase warrants | **3,745,000** | **0.30** | 192,180 | 3/24/2016 | 2011 |
| Share purchase warrants | **18,367,263** | **0.20** | 1,024,758 | 3/24/2014 | 2012 |
| Share purchase warrants | **22,200,000** | **0.20** | 1,238,597 | 3/24/2014 | 2012 |
| Share purchase warrants | **22,196,795** | **0.20** | 1,284,137 | 3/24/2014 | 2012 |
| Share purchase warrants | **13,056,997** | **0.20** | 743,924 | 3/24/2015 | 2013 |
| **Outstanding, end of year** | **86,106,807** | | 5,467,437 | | |

As at March 31, 2012, the Company had the following warrants outstanding:

| | Purchase warrants | | | | |
|---|---|---|---|---|---|
| | **Number** # | **Exercise price** $ | **Black-Scholes Values** $ | **Expiry date** | **Year of issue** |
| Share purchase warrants | **4,090,755** | **0.60** | 385,070 | 11/25/2012 | 2009 |
| Share purchase warrants | **2,449,997** | **0.50** | 319,807 | 4/24/2013 | 2011 |
| Share purchase warrants | **3,745,000** | **0.30** | 192,180 | 3/24/2016 | 2011 |
| **Outstanding, end of year** | **10,282,752** | | 897,057 | | |

On April 24, 2012, the Company extended the expiry date of 2,449,997 warrants to April 24, 2013, and accordingly, $187,305 was allocated to contributed surplus. A relative fair value calculation was used to determine the carrying value of the extension of the warrants. The fair value of the extension of the warrants was estimated using a Black-Scholes pricing model and assumptions of a risk free interest rate of 1.10%, an expected life of 1 year, an expected volatility of 174% and a zero dividend rate.

On November 25, 2012, the Company extended the expiry date of 4,090,755 warrants to November 25, 2013, and accordingly, $91,659 was allocated to contributed surplus. A relative fair value calculation was used to determine the carrying value of the extension of the warrants. The fair value of the extension of the warrants was estimated using a Black-Scholes pricing model and assumptions of a risk free interest rate of 1.10%, an expected life of 1 year, an expected volatility of 174% and a zero dividend rate.

The weighted average exercise price of the outstanding warrants as at March 31, 2013 was $0.23.

### [d] Stock options

The Company may grant stock options to directors, senior officers and service providers by resolution of the Board of Directors. The exercise price will reflect the market price of the Company's stock on the date of the grant. The maximum number of stock options outstanding under the stock option plan is limited 10% of issued shares.

On March 17, 2011, the Company granted incentive stock options to the directors and officers of the Company to purchase an aggregate of 3,700,000 common shares. The options are exercisable at a price of $0.20 per common share and expire five years from the date of the grant. 3,350,000 stock options vested immediately and 350,000 vested on March 17, 2012. In August 2011, the Company cancelled 700,000 incentive stock options issued to management in order to reduce the number of options outstanding to 10% of issued shares as per the Company's approved stock option plan.

A summary of the Plan as at March 31, 2013 and changes therein are presented below:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number #** | **Weighted average exercise price $** | Number # | Weighted average exercise price $ |
| **Outstanding, beginning of year** | **3,000,000** | **0.20** | 3,921,666 | 0.20 |
| Cancelled | **—** | **—** | (700,000) | 0.20 |
| Expired | **(300,000)** | **0.20** | (221,666) | 0.20 |
| Granted to officer and directors | **4,825,000** | **0.19** | — | — |
| Granted | **1,000,000** | **0.24** | — | — |
| **Outstanding, end of year** | **8,525,000** | **0.21** | 3,000,000 | 0.20 |
| **Options exercisable, end of year** | **7,775,000** | | 3,000,000 | |

### [e] Diluted earnings per share

There has been no impact computed on diluted earnings from outstanding stock options and warrants as the impact would be anti-dilutive.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013 and 2012

### 15. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Accounts receivable | (512,385) | — |
| Inventory | (283,179) | — |
| Prepaid expenses and refundable deposits | — | (15,830) |
| Refundable deposit | (55,880) | (249,250) |
| HST recoverable | (137,258) | (33,286) |
| Accounts payable and accrued liabilities | (1,263,458) | 696,099 |
| Warranty expense accrual | 20,000 | |
| Due to employees and consultants | (268,409) | (173,554) |
| | (2,500,569) | 224,179 |

### 16. RELATED PARTY TRANSACTIONS

The following amounts, incurred are in the normal course of business and measured at the exchange amount were paid for management salaries and consulting fees (CFO) for the year ended March 31, 2013:

| | 2013 | 2012 |
|---|---|---|
| Chief Executive Officer | $ 240,000 | $ 240,000 |
| Chief Financial Officer | $ 75,000 | $ 65,000 |
| Chief Operating Officer | $ 200,000 | $ 200,000 |
| | $ 515,000 | $ 505,000 |

The following amounts owing to officers are included in accounts payable as at March 31, 2013:

| | 2013 | 2012 |
|---|---|---|
| Chief Executive Officer | — | $ 269,263 |
| Chief Financial Officer | $ 840 | $ 78,000 |
| Chief Operating Officer | — | $ 216,652 |
| Other directors and officers | $ 52,083 | — |

The following table summarizes the Company's related party transactions during the year:

| | 2013 | 2012 |
|---|---|---|
| Director fees settled in cash | $ 175,000 | $ 90,000 |
| Director fees settled with issuance of shares | $ 95,000 | — |
| | | |
| Stock options issued (cancelled) to officers and directors | 4,825,000 | (700,000) |
| Common shares issued to officers and directors | 3,000,000 | — |

## 17. PRIOR PERIOD ADJUSTMENT - CORRECTION OF AN ERROR

Management of Medifocus, while preparing financial statements for the year ended March 31, 2013, reviewed their policy for capitalizing expenditures related to the development of the APA technology. The U.S. FDA had approved the base machine of the APA system in 1997. Following the approval, the Company capitalized the costs of its clinical trials utilizing that technology, and the costs of modifications to that technology. The company received approval from Health Canada in 2009 and FDA in 2010 to proceed with the Phase III clinical trial to determine the efficacy of the APA 1000 system in reducing breast cancer tumor size in conjunction with chemotherapy.

This approval to initiate the Phase III trials does not guarantee the receipt of the final approval for commercializing the APA 1000 System. As such, the company's reliance on the 1997 FDA approval of the base system does not provide sufficient basis to meet the criteria of technical feasibility to capitalize the costs of the APA 1000 clinical trials and any later developments of the APA technology.

Accordingly, the Company has expensed the product development costs, as shown below. This represents a prior period adjustment of an accounting error which must be accounted for retrospectively in the financial statements. The Company has adjusted all comparative amounts presented in the current financial statements affected by the accounting error as follows:

| | As Previously Recorded April 1, 2011 | Adjustment | As Restated April 1, 2011 |
|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | |
| Product development charges | 3,375,471 | (3,375,471) | — |
| Deficit - beginning of year | 2,642,588 | — | 2,642,588 |
| Deficit - end of year | 4,285,305 | 3,375471 | 7,660,776 |

| | As Previously Recorded April 1, 2011 | Adjustment | As Restated April 1, 2011 |
|---|---|---|---|
| **Consolidated Statements of Loss and Comprehensive Loss** | | | |
| Net loss before other income | 1,708,002 | 3,375,471 | 5,083,473 |
| Other income | (408) | | (408) |
| Foreign exchange loss | (64,877) | | (64,877) |
| Net loss and comprehensive loss | 1,642,717 | 3,375,471 | 5,018,188 |
| | | | |
| Loss per share, basic and diluted | 0.063 | | 0.193 |

| | As Previously Recorded March 31, 2012 | Adjustment | As Restated March 31, 2012 |
|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | |
| Product development charges | 3,904,313 | (3,904,313) | — |
| Deficit - beginning of year | 4,285,305 | 3,375,471 | 4,285,305 |
| Deficit - end of year | 5,211,288 | 3,904,313 | 9,115,601 |

| | As Previously Recorded March 31, 2012 | Adjustment | As Restated March 31, 2012 |
|---|---|---|---|
| **Consolidated Statements of Loss and Comprehensive Loss** | | | |
| Net loss before other income | 964,725 | 528,845 | 1,493,567 |
| Other income | (324) | | (324) |
| Gain on settlement of debt | (53,300) | | (53,300) |
| Foreign exchange loss | 14,882 | | 14,882 |
| Net loss and comprehensive loss | 925,983 | 528,842 | 1,454,825 |
| Loss per share, basic and diluted | 0.029 | | 0.046 |

## 18. SEGMENTED INFORMATION

The following is selected financial information for each segment:

| | Year Ended March 31, 3013 | | | |
|---|---|---|---|---|
| | Prolieve Thermodilatation System | APA 1000 Breast Cancer System | Corporate | Total |
| Revenue | 1,805,969 | — | — | 1,805,969 |
| Gross Margin | 821,396 | — | — | 821,396 |
| Operating Expenses | 3,186,899 | 75,508 | 3,387,551 | 6,649,958 |
| Net Loss | (2,390,916) | (75,508) | (3,387,551) | (5,853,975) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013 and 2012

| | As at March 31, 2013 | | | |
|---|---|---|---|---|
| Selected balance sheet items | Prolieve Thermodilatation System | APA 1000 Breast Cancer System | Corporate | Total |
| Equipment | 25,995 | 7,797 | — | 33,792 |
| Intangible assets | 3,550,610 | — | — | 3,550,610 |
| Total assets | 5,696,049 | 7,797 | 2,017,200 | 7,721,046 |
| Total liabilities | 2,402,759 | 12,500 | 1,138,425 | 3,553,684 |

### 19. COMMITMENTS

On January 16, 2006 Celsion purchased from Celsion Corporation *(USA)* all of the assets relating to breast cancer Microfocus APA 1000 System ("System"), consisting of the microwave machine technology, the APA technology licensed from MIT, and all related intellectual and regulatory property (collectively, the "Business"). The Company has a commitment to pay a 5% royalty to Celsion on the net sales of products sold by and patent royalties received by the Company and its successors and assignees. Total royalties paid are not to exceed US $18,500,000. Royalties will not be payable until the System can be placed in the market following successful completion of the pivotal clinical trial and receipt of approval to market the System in the US and Canada from the FDA and Health Canada.

The Company has an additional commitment to pay a 5% royalty to MIT on the net sales of products, upon commercialization. Also, the Company has a commitment to pay MIT a maintenance fee of US $50,000 during 2014.

Future minimum payments under operating leases and contractual commitments are as follows:

| | |
|---|---|
| 2014 | US $ 138,398 |
| 2015 | US $ 144,614 |
| 2016 | US $ 149,475 |
| 2017 | US $ 155,528 |
| 2018 | US $ 145,751 |
| | US $ 733,766 |

### 20. CONTINGENCIES

The Company has agreed to indemnify its directors and officers and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.

The Company has agreed to pay Boston Scientific Corporation $2,500,000 of the purchase price for the acquisition of Prolieve (note 4), in quarterly instalments at a rate of 10% of Prolieve sales (note 13).

## 21. INCOME TAXES

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates to loss before income taxes as a result of the following:

| | **2013** $ | 2012 $ *Restated (note 17)* |
|---|---|---|
| Loss before income taxes | **(5,828,562)** | (1,454,825) |
| Income tax recovery at average statutory rate (2013; 28.5% 2012: 28.5%) | **(1,661,140)** | (414,625) |
| Add: Gain in settlement of debt | **—** | 15,190 |
| Add: other non-deductible amounts for income-tax purposes | **267,169** | 5,333 |
| Valuation allowance | **1,393,971** | 394,102 |
| Income tax expense (recovery) | **—** | — |

Deferred income tax assets and liabilities consist of the following:

| | **2013** $ | 2012 $ *Restated (note 17)* |
|---|---|---|
| **Deferred tax assets** | | |
| Non-capital losses | **2,565,454** | 1,844,758 |
| Other | **57,927** | 20,393 |
| Research and development expenses | **(976,078)** | (976,078) |
| Valuation allowance | **(1,647,303)** | (889,073) |
| **Net deferred tax assets** | **—** | — |

In addition, the Company also has non-capital losses totaling approximately $14,166,125 that have not been tax benefited and expire as follows:

| | $ *Restated (note 17)* |
|---|---|
| 2026 | 12,462 |
| 2027 | 147,253 |
| 2028 | 14,902 |
| 2029 | 540,776 |
| 2030 | 1,112,000 |
| 2031 | 4,797,799 |
| 2032 | 753,838 |
| 2033 | 6,787,095 |
| | 14,166,125 |

No deferred tax assets have been recognized in these consolidated financial statements as there is no assurance that the Company will realize the benefits of loss carry forwards.

**U.S. Income Tax Status**

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in “corporate inversion” transactions. A “corporate inversion” generally occurs when a non-U.S. Company acquires “substantially all” of the equity interests in, or the assets of, a U.S. Company or partnership, if, after the acquisition, former equity holders of the U.S. Company or partnership own a specified level of stock in the non-U.S. Company. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in the “80-percent identity” transactions, i.e. former equity holders of the U.S. Company owns 80% or more of the equity of the non-U.S. acquiring entity (excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes. In the “60-80 percent identity” transactions, the benefits of the inversion are limited by barring certain corporate-level “toll charges” from being offset by certain tax attributes of the U.S. Company (e.g. loss carryforwards), and imposing excise taxes on certain stock based compensation held by “insiders” of the U.S. Company.

Management is of the view that a corporate inversion has resulted from the reverse takeover transaction it completed in fiscal 2009, as disclosed in Note 2 to its annual financial statements for the year ended March 31, 2012. However, management has not yet determined whether the Company is subject to the "80 percent" or the "60-80 percent" identity with respect to the transactions undertaken in the fiscal 2009 year since the interpretation of which categories of stock ownership are to be considered under the inversion rules is not yet settled.

**22. SUBSEQUENT EVENTS**

On April 25, the Company extended until April 24, 2014 the expiry of 2,449,997 outstanding common share purchase warrants described in Note 14c.