Consolidated Financial Statements

MEDIFOCUS INC.

March 31, 2011 and 2010

Management’s responsibility for the Financial Statements

The preparation and presentation of the accompanying consolidated financial statements and Management’s Discussion and Analysis (“MD&A”) are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management, under the supervision, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A, considers the report of the external auditors; assesses the adequacy of our internal controls, including management’s assessment described below, examines and approves the fees and expenses for the audit services, and recommends the independent auditors to the Board for the appointment by the shareholders. The independent auditors have full and free access to the Audit Committee and meet with it to discuss their audit work, our internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders and management’s assessment of the internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has assessed the effectiveness of our internal control over financial reporting as of March 31, 2011. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of March 31, 2011.

“Dr. Augustine Cheung”
Dr. Augustine Cheung
Chief Executive Officer

“Mirsad Jakubovic”
Mirsad Jakubovic
Chief Financial Officer

SIEVERT & SAWRANTSCHUK LLP
CHARTERED ACCOUNTANTS

43 Colborne Street, PH
Toronto, Ontario M5E 1E3
Tel: (416) 979-7444 Fax: (416) 979-8432
e-mail: sievertca@baxter.net
www.sievert.on.ca

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Medifocus Inc.:

We have audited the accompanying consolidated financial statements of **Medifocus Inc.** which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statement of loss, comprehensive loss and deficit and consolidated statement of cash flows for the year then ended, 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 Canadian generally accepted accounting principles, 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 audit. We conducted our audit 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 judgement, 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 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. as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $1,642,717 during the year ended March 31, 2011 and, as of that date, the Company's current liabilities exceeded its current assets by $1,457,695. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matters

The consolidated financial statements of Medifocus Inc. for the year ended March 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on July 29, 2010.

August 19, 2011
Toronto, Canada

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

Medifocus Inc.

CONSOLIDATED BALANCE SHEETS

[In Canadian dollars]

As at March 31	**2011**	2010
		[Note 18]
	$	$
ASSETS		
Current		
Cash and cash equivalents	**522,008**	60,181
Restricted cash	**—**	373,027
Harmonized sales tax recoverable	**58,889**	34,660
Prepaid expenses and sundry assets	**8,207**	8,603
Total current assets	**589,104**	476,471
Product development charges *[note 5]*	**3,375,471**	2,652,167
Plant and equipment, net *[note 6]*	**15,994**	22,754
	3,980,569	3,151,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,157,083**	740,091
Advance subscriptions	**—**	373,027
Due to employees and consultants *[note 14]*	**441,963**	—
Convertible promissory debt *[note 7]*	**179,838**	216,325
Convertible debenture *[note 8]*	**267,915**	—
Total current liabilities	**2,046,799**	1,329,443
Long term		
Due to employees and consultants *[note 14]*	**—**	463,329
Total current and long term liabilities	**2,0467,99**	1,792,772
Basis of Presentation and Going Concern [note 1]		
Commitments [note 12]		
Subsequent Events [note 17]		
Shareholders' equity		
Capital stock *[note 9a]*	**3,797,443**	3,385,892
Common shares to be issued *[note 9b]*	**1,207,815**	615,316
Equity component of convertible debentures *[note 8]*	**11,670**	—
Contributed surplus *[note 9f]*	**1,202,147**	—
Accumulated deficit	**(4,285,305)**	(2,642,588)
Total shareholders' equity	**1,933,770**	1,358,620
	3,980,569	3,151,392

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

On behalf of the Board:

"Joseph Chan"	***"Grant B. Walsh"***
Director	Director
Joseph Chan	Grant Walsh

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

For the Years Ended March 31

	2011	2010
		[Note 18]
	$	$
Operating Expenses		
Development and investor relations	**303,503**	497,343
Consulting and management fees	**429,152**	294,756
Director fees *[note 9b]*	**306,000**	—
General and administrative	**170,394**	183,221
Professional fees	**107,875**	75,639
Listing fees	**27,808**	20,689
Stock-based compensation expense	**305,090**	—
Interest	**51,420**	38,685
Amortization	**6,760**	8,639
	1,708,002	1,118,972
Net loss before other income	**(1,708,002)**	(1,118,972)
Other income	**408**	14,900
Foreign exchange gain	**64,877**	223,440
Net loss and comprehensive loss	**(1,642,717)**	(880,632)
Accumulated deficit, beginning of year	**(2,642,588)**	(1,761,956)
Accumulated deficit, end of year	**(4,285,305)**	(2,642,588)
Basic and fully diluted loss per share	**(0.063)**	(0.036)
Weighted average number of common shares outstanding *[note 9e]*	**26,002,635**	24,236,445

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended March 31

	2011	2010 *[Note 18]*
	$	$
OPERATING ACTIVITIES		
Net loss for the period	**(1,642,717)**	(880,632)
Items not involving cash		
Amortization	**6,760**	8,639
Stock -based compensation	**305,090**	—
Shares to be issued in lieu of payment *[note 9]*	**502,499**	—
Non-cash portion of product development	**90,000**	—
Unrealized foreign exchange gain	**(29,407)**	(220,871)
Net change in non-cash working capital balances		
related to operations *[note 10]*	**636,257**	170,611
Cash used in operating activities	**(131,518)**	(922,253)
INVESTING ACTIVITIES		
Additions to product development charges	**(723,304)**	(742,617)
Cash used in investing activities	**(723,304)**	(742,617)
FINANCING ACTIVITIES		
Issuance of common shares, net of issuance costs *[note 9]*	**1,338,015**	—
		151,500
Decrease in advanced subscriptions	**(373,027)**	—
Decrease in Due to employees and consultants	**(21,366)**	—
Cash provided by financing activities	**943,622**	151,500
Net increase (decrease) in cash and cash		
equivalents during the year	**88,800**	(1,513,370)
Cash and cash equivalents, beginning of year	**433,208**	1,946,578
Cash and cash equivalents, end of year	**522,008**	433,208
Supplementary information:		
Interest paid	*41,655*	*39,145*
Income taxes paid	—	—
Shares to be issued in lieu of payment [note9]		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

1. NATURE OF OPERATIONS

(a) The Company and Going Concern

Medifocus Inc. (the "Company") was incorporated under the *Business Corporations Act* (Ontario) on April 25, 2005.

The Company is in the business of development and commercialization of minimally invasive, focused heat tumor targeting cancer treatment devices and systems. Medifocus owns a patented microwave focusing technology platform, the Adaptive Phased Array ("APA") thermotherapy system, which can precisely target and concentrate microwave energy to destroy cancer tumors without damaging healthy tissue when used alone or in conjunction with chemotherapy or radiation. The core technology has been exclusively licensed from The Massachusetts Institute of Technology ["MIT"].

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) applicable to a going concern, which assumes that the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a net loss of $1,642,717 and $880,632 during the years ended March 31, 2011 and 2010 respectively, has total current liabilities in excess of current assets in the amount of $1,457,695 [2010 - $1,316,301] and has not generated positive cash flow from operations. In addition, as the Company is in the development stage it is subject to the risks and challenges to other companies in a comparable stage of development. These risks include, but are not limited to, continuing losses, dependence on key individuals, and the ability to secure adequate financing to meet obligations and continue as a going concern. As a result, there is significant doubt regarding the going concern assumption. While the Company has successfully raised financing to date, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements do not include any adjustments related to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

Reverse Takeover

On November 25, 2008, the Company completed its Qualifying Transaction, as defined under the policies of the Exchange, by way of a Share Exchange Agreement with Celsion (Canada) Limited.

Pursuant to the terms and subject to the conditions of the Share Exchange Agreement, the company paid $165,000 and issued an aggregate of 11,200,000 Medifocus Shares at a deemed issue price of $0.50 per share to the shareholders of Celsion. The Share Exchange Agreement was negotiated at arm's length among Medifocus, Celsion and the shareholders of Celsion. Following the Qualifying Transaction, Celsion is a wholly-owned subsidiary of the Company.

In addition, 903,112 shares, valued at $0.50 per share were issued to Celsion Corporation *(USA)* in respect of a portion of the indebtedness previously incurred by Celsion following its acquisition from Celsion Corporation *(USA)* of the business now being carried by Celsion and 763,168 shares were issued to the holders of the 2006 Bridge Notes Payable of Celsion with respect to the conversion of $310,556 in principal amount of such notes, plus accrued interest, valued at $0.50 per share.

Concurrently with the closing of the Qualifying Transaction, the Company completed a private placement of 4,140,755 units, at a price of $0.50 per unit, for aggregate gross proceeds of $2,070,377.50. Each unit consists of one common share of Medifocus and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Medifocus for a period of 24 months at a price per share of $0.60.

During the year, the expiry date of 4,090,775 warrants was extended to November 30, 2012. A value of $385,067 was attributed to the extension using Black-Scholes computations and accordingly, $385,067 was allocated to contributed surplus.

(b) The Stock Purchase Agreement and Asset Acquisition

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 adaptive phased array ("APA") technology licensed from Massachusetts Institute of Technology ("MIT"), and all related intellectual and regulatory property (collectively, the "Business"). The Company has a commitment to pay a 5% royalty on the net sales of products sold by and patent royalties received by the Company and its successors and assignees. The royalties 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 will expense the royalties as paid. Celsion Corporation *(USA)* also agreed to provide certain services and financing to Celsion pursuant to a Transition Services Agreement between Celsion and Celsion Corporation *(USA)*.

(c) The Transition Services Agreement

The Transition Services Agreement was entered into January 16, 2006 by and between the Celsion and Celsion Corporation *(USA)*, amended March 28, 2006 and March 5, 2008, and as amended provides for the following:

- sublease of space in Celsion Corporation *(USA)*'s offices for use by the Company to carry on its business, for a period of up to six (6) months from the date of the agreement.
- administrative support services as needed in the operation of the Company's business for the period of the sublease.
- payment of salary and benefits totaling approximately $45,000 per month, for the shorter of: (1) the period ending June 30, 2006; or (2) the date of closing by the Company of a funding transaction.
- funding to the Company for expenses reasonably incurred in connection with the operation of the Company's business, for the shorter of the period ending June 30, 2006 or the date of closing of a funding transaction; provided that the aggregate funding for such expenses will not exceed $300,000. Celsion Canada is required to pay interest on expenses advanced above $100,000 at the rate of prime + 1%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

On November 25, 2008 Celsion Corporation *(USA)* converted all but US $200,000 of the debt incurred under the Transition Services Agreement into shares of Medifocus upon its Qualifying Transaction. Concurrent with the Qualifying Transaction, the Company issued 903,112 shares to convert $570,000 of the debt. During 2010, the Company paid the outstanding balance of US $200,000.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These consolidated financial statements have been prepared within the framework of the significant accounting policies summarized below:

(a) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Accounts which require management to make material estimates in determining amounts recorded include valuation of warrants, stock-based compensation and income taxes and particularly with respect to the valuation of product development costs. Actual results could differ from those estimates.

(b) Cash, cash equivalents and restricted cash

Cash and cash equivalents consist of commercial accounts, trust accounts and interest bearing bank deposits with maturities of 90 days or less at the time of purchase. Monies received from financing in advance of the close of financing is recorded in restricted cash.

(c) Plant and equipment

Plant and equipment are 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	20% - 30%

Leasehold improvements are amortized on a straight line basis over the lesser of the lease term and 6 years.

(d) Product development charges

The Company capitalizes the cost of acquiring patents and licenses from third parties as well as the cost of preparing the Microfocus APA 1000 System to enter clinical trial, and the design of the trial, and will amortize that cost over the useful life of the APA System once the APA System is approved and placed in service. No amortization expense was recognized through March 31, 2011 because the APA Systems have not been placed into service. The Company has received approval from Health Canada and the US

FDA to initiate clinical trials. Following the completion of the clinical trials, expected in fiscal 2013, the APA System will be placed into use.

(e) Impairment of long-lived assets

CICA 3063, ``Impairment of long-lived assets`` requires the Company to assess the impairment of long-lived asset whenever events or a change in circumstance indicate that the value of an asset may not be recoverable. Product development charges are tested for impairment by comparing its net book value with the undiscounted projected future cash flows from their use. There has been no evidence or change in circumstances to suggest any impairment in 2010 or 2011.

(f) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless such costs meet the criteria for capitalization and amortization under Canadian GAAP. Refundable income tax credits earned on Scientific Research and Experimental Development (SR&ED) expenditures are recorded as a reduction of research costs in the year the research costs are incurred.

(g) Tax credits and other government assistance recoverable

The benefits of tax credits for SR&ED and Government Assistance are recorded in the year as reductions to the related expenses or capital costs and recognized only when there is reasonable assurance that the Company has complied with all the terms and conditions of the relevant tax credit program and the credits will be recovered.

(h) Income taxes

Income taxes are accounted for using the future income tax method. Under this method, income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of those accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry. Future income tax assets and liabilities are measured using the substantively enacted income tax rates expected to apply when such differences are expected to reverse. Future income taxes are also related to the recognition of flow-though share tax deductions. Flow-through share tax deductions are recognized in the year in which they are renounced.

(i) Stock-based compensation

The Company has adopted the CICA Handbook section 3870, "Stock-Based Compensation and other Stock-Based Payments". This section requires the use of a fair-value based method, determined by using the Black-Scholes option pricing model to calculate all stock-based compensation associated with granting stock options to employees, consultants and directors, and the inclusion of that expense in the statement of operations. The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as a debit (expense) in the consolidated statements of loss, comprehensive loss and deficit and as a credit to contributed surplus on the consolidated balance sheets. On the exercise of stock options, consideration received and the respective accumulated contributed surplus amount are credited to share capital.

(j) Convertible debentures

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.

(k) Shares Issued for commercial transactions

Shares issued for commercial transactions are valued based on the value of the transaction. If that is not readily determinable, the fair value of shares at the time of the transaction is used as the basis for determination of the amount to be attributed to the related shares issued.

(l) Earnings per share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. In years when the Company reports a comprehensive loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore, basic and diluted loss (earnings) per share are the same.

(m) Foreign currency translation

The functional currency of the Company 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 balance sheet 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 and deficit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

(n) Comprehensive income (loss)

CICA Section 1530 sets out reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is composed of net income and other comprehensive income ["OCI"].

(o) Financial instruments

Section 3855 sets out standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be measured at fair value on initial recognition and recorded on the consolidated balance sheets. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net loss. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The Company has made the following classifications:

- Cash, and cash-equivalents, and restricted cash, are classified as "held-for-trading" and measured at fair value. Gains and losses resulting from change in fair values are recorded in net loss.

- Sundry assets are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

- Accounts payable and accrued liabilities are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents, accounts receivable, royalty tax receivable, prepaid expenses and other assets, accounts payable and accrued liabilities, and income taxes payable. Equity investments classified as available for sale that do not have an active trading market are recorded at cost. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the consolidated balance sheets, have been prioritized into three levels as per the fair value hierarchy included in GAAP.

- 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 cash equivalents considered Level 1 in the hierarchy.

(p) Hedges

The Company may use derivative instruments to manage foreign exchange and interest rate risk. The Company may choose to designate derivative instruments as hedges.

- Cash flow hedges - The effective portion of the changes in fair value of financial instruments designated as a cash flow hedge is recognized in OCI, net of tax, with any ineffective portion being recognized immediately in net income. Gains and losses are recovered from OCI and recognized in net loss in the same period as the hedged item affects net loss. If at any point the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in accumulated OCI is reclassified to net income immediately.

- Fair value hedges - Both the financial instrument designated as the hedging item, and the underlying hedged asset or liability are measured at fair value. Changes in the fair value of both the hedging and hedged item are reflected in net loss immediately. The carrying value of the hedged item is adjusted through net income for changes in its fair value attributable to the hedged risk.

- Net investment hedges - Foreign exchange gains and losses on debt designated as a net investment hedge are recognized in OCI, net of tax, to the extent the hedge is effective. The ineffective portion of such hedges is recognized in net loss.

The Company had no such hedges for the year ended March 31, 2011.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting changes

Business Combinations [CICA Section 1582], Consolidated Financial Statements [CICA Section 1601] and Non-controlling Interests [CICA Section 1602]

These sections replace the former *Section 1581, Business Combinations* and *Section 1600, Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R) Business Combinations and No. 160, Non-controlling interests in Consolidated Financial Statements. Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

4. INTERNATIONAL FINANCIAL REPORTING STANDARDS ["IFRS"]

The Accounting Standards Board has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The Company has undertaken a project to assess the potential impacts of the transition to IFRS and has developed a detailed project plan to ensure compliance with the new standards.

The Company will prepare financial statements in accordance with IFRS starting with interim statements for the quarter ended June 30, 2011. These statements will require 2010 comparatives in accordance with IFRS. As a result, the financial statements prepared under Canadian GAAP for 2010 will need to be restated to conform to IFRS for comparative purposes. The Company's transition date is April 1, 2011.

5. PRODUCT DEVELOPMENT

Product development costs represent the costs incurred to date in connection with the development of the Microfocus APA 1000 System including patent and clinical trial expenditures. There will be no amortization of these costs until the system is commercialized.

	March 31, 2011 $	March 31, 2010 $
Balance, beginning of year	2,652,167	1,909,550
Expenditures during the year	723,304	742,617
Balance, end of year	3,375,471	2,652,167

The Company has also built a comprehensive Intellectual Property portfolio consisting of 9 US and 21 international patents to protect its technology platform.

6. PLANT AND EQUIPMENT

Plant and equipment are composed of the following:

	2011			2010		
	Cost **$**	**Accumulated amortization** **$**	**Net book value** **$**	Cost $	Accumulated amortization $	Net book value $
Equipment	**46,995**	**38,779**	**8,216**	46,995	35,258	11,737
Furniture and fixtures	**20,464**	**14,570**	**5,894**	20,464	13,097	7,367
Leasehold improvements	**10,600**	**8,716**	**1,884**	10,600	6,950	3,650
	78,059	**62,065**	**15,994**	78,059	55,305	22,754

7. 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 face value and accrued interest were payable December 21, 2009, and were extended to September 30, 2010. The interest rate for the extended period has increased to 1.667% per month from 1.5%. The Company paid USD $15,000, that was applied against outstanding interest, during the year, and the lender agreed to convert USD $54,000 of accrued interest into 275,510 common shares of the Company. Accordingly, this has been removed from promissory note payable and recorded as shares to be issued. The interest payable 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. The Company intends to repay the amount plus accrued interest as equity financing becomes available. The balance of $179,838 includes $34,008 of accrued interest.

The lender may convert the balance due into common stock of the Company at a discount to market as approved by the TSX-V.

8. 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 mature on January 24, 2012. The interest rate on the Debentures is 15% per annum. Upon the request of the Holders, the Debentures plus any 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 prepaid 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. The Company allocated the proceeds using the residual approach as follows:

Debt component	260,268
Accrued interest	7,647
	267,915
Equity component	11,670
	279,585

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

9. CAPITAL STOCK

[a] Share capital

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

The continuity of share capital is as follows:

	Number \#	Amount $
Balance as at March 31, 2010	24,336,445	3,385,892
Shares issued in private placement *[i]*	2,449,997	734,999
Less share issuance costs *[i]*		(77,989)
Less allocation to contributed surplus *[i]*		(319,180)
Extension of warrants *[note b]*		(385,067)
Shares issued in private placement *[ii]*	3,745,000	674,100
Less share issuance costs *[ii]*		(22,502)
Less allocation to contributed surplus*[ii]*		(192,810)
Balance, March 31, 2011	**30,531,442**	**3,797,443**

[i] On August 7, 2010, the Company completed a private placement 2,449,997 units at a price of $0.30 per unit raising gross proceeds of $734,999. 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 $0.50 until August 7, 2012. Management determined the warrants to have a fair value of $0.13 per warrant and accordingly, $319,180 of the proceeds from the issuance was allocated to contributed surplus, and the balance of the proceeds was allocated to common shares. The Company paid finder's fees of $28,431 and legal fees of $49,558 that were included in share issuance costs of $77,989.

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	2.0%
Expected life in years	2 year
Expected volatility	207.0%
Dividends per share	0.0%

[ii] On March 24, 2011, the Company completed a private placement 3,745,000 units at a price of $0.18 per unit raising gross proceeds of $674,100. 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 $0.11 until March 24, 2016. Management determined the warrants to have a fair value of $0.05 per warrant and accordingly, $192,810 of the proceeds from the issuance was allocated to contributed surplus, and the balance of the proceeds was allocated to common shares. The Company paid legal fees of $22,502 that were included in share issuance costs.

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	2.0%
Expected life in years	5 year
Expected volatility	70.0%
Dividends per share	0.0%

[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 \#	Amount $
Balance as at March 31, 2009	**3,092,105**	**463,816**
For settlement of debt *[i]*	500,000	151,500
Balance as at March 31, 2010	**3,592,105**	**615,316**
For settlement of accrued interest*[ii]*	275,510	52,499
For directors*[iii]*	1,700,000	306,000
For officers *[iii]*	1,300,000	234,000
Balance, March 31, 2011	**6,867,615**	**1,207,815**

[i] The Company agreed to issue 500,000 shares to settle debt of $151,500.
[ii] The Company agreed to issue 275,510 shares to settle accrued interest of $52,499. *[note 7]*
[iii] On March 17, 2011, the Company granted to directors and officers of the Company, an aggregate of 3,000,000 common shares at a value of $0.18 per share, in accordance with the Company's approved compensation strategy and subject to regulatory and shareholder approval.

[c] Warrants

As at March 31, 2011, the Company had the following warrants outstanding:

	Purchase warrants			
	Number \#	Exercise price $	Expiry date \#	Year of issue
Share purchase warrants	**4,090,755**	**0.60**	11/25/2012	2009
Share purchase warrants	**2,449,997**	**0.50**	8/7/2012	2011
Share purchase warrants	**3,745,000**	**0.30**	3/24/2016	2011
Outstanding, end of year	**10,285,752**			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

During the year, the Company extended the expiry date of 4,090,755 warrants to November 25, 2012, and accordingly, $385,067 was allocated to contributed surplus. 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	2.0%
Expected life in years	2 year
Expected volatility	199.0%
Dividends per share	0.0%

As at March 31, 2010, the Company had the following warrants outstanding:

	Purchase warrants			
	Number \#	**Exercise price** $	**Expiry date** \#	**Year of issue**
Share purchase warrants	**4,090,755**	**0.60**	11/25/2010	2009
Outstanding, end of year	**4,090,755**			

The weighted average exercise price of the outstanding warrants as at March 31, 2011 was $0.47.

[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 Board plans to establish a maximum number of stock options issuable to employees and board members.

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 subject to regulatory and shareholder approval. The options are exercisable at a price of $0.20 per common share and expire five years from the date of the grant. 3,000,00 stock option vest immediately and 700,0000 options vest in two equal installments with 50% (350,000) vesting immediately and the remainder vesting (350,000) vesting on the first anniversary of their date of grant.

Risk free interest rate	2.0%
Expected life in years	5 year
Expected volatility	70.0%
Dividends per share	0.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

A summary of the status of the Plan as at March 31, 2011 and changes during the years is presented below:

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	#	$	#	$
Outstanding, beginning of year	**221,666**	**0.20**	443,333	0.20
Forfeited	—		221,667	0.20
Granted	3,700,000	0.20	—	—
Outstanding, end of year	**3,921,666**	**0.20**	221,666	0.20
Options exercisable, end of year	**3,571,666**		221,666	

The following table summarizes information about stock options outstanding at March 31, 2011:

Exercise price	**Options outstanding**	**Weighted average remaining contractual life**	**Options exercisable**
$	#	[years]	#
0.20	**3,921,666**	5	3,571,666

On June 29, 2011, 221,666 options expired without exercise.

[e] Diluted earnings per share

There has been no impact on diluted earnings per share as a result of outstanding stock options and warrants as the impact would be anti-dilutive.

[f] Contributed surplus

The following table sets forth the changes in contributed surplus for the year:

	2011
	$
Balance, beginning of year	—
Issuance of share purchase warrants	319,180
Extension of warrants	385,067
Stock-based compensation	305,090
Issuance of share purchase warrants	192,810
Balance, end of year	1,202,147

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

10. STATEMENT OF CASH FLOWS

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

	2011	2010
	$	$
Prepaid expenses	**396**	—
Harmonization sales taxes recoverable	**(24,229)**	(15,830)
Accounts payable and accrued liabilities	**416,992**	546,832
Due to employees and consultants	—	(95,346)
Convertible promissory debt	**(36,487)**	(15,145)
Convertible debenture	**279,585**	(249,900)
	636,257	170,611

11. RELATED PARTY TRANSACTIONS

Included in amounts expensed and payable is approximately $188,037 [2010 - $169,553] owed to the Chief Executive Officer for salary and un-reimbursed expenses.

The Company has paid marketing fees of $112,440 [2010 - $90,000] and administrative fees of $10,500 [2010 - $42,000] to two Companies in which a Director of Medifocus is also a Director of both of the respective Companies.

On March 17, 2011, the Company granted 1,700,000 common shares to directors and 1,3600,00 common shares to officers and employees of the Company, in accordance with the Company's approved compensation strategy and subject to regulatory and shareholder approval. In addition, the Company granted 1,900,000 stock options to directors and 1,800,00 stock options to officers and employees of the Company.

12. COMMITMENTS

The Company has a contractual commitment to pay a royalty to Celsion Corporation *(USA)* on the net sales of products as explained in Note 1. The Company has a 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 an annual maintenance fee as follows:

	USD $
2012	50,000
2013	50,000
2014	50,000

Neither the royalty payable to Celsion Corporation *(USA)* or to MIT are 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 will expense the royalties as paid. The contractual commitments of the Company obligating it for payments currently are its license agreement with MIT and the lease pertaining to its space in Columbia, Maryland.

Future minimum payments under operating leases and contractual commitments for the following five (5) years are as follows:

	$
2012	126,566

13. 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:

	2011 $	**2010** $
Loss before income taxes	**(1,642,717)**	(880,633)
Income tax recovery expected at average statutory rate (2011; 28.5% 2010: 31%)	**(468,174)**	(272,996)
Non-deductible amounts for income-tax purposes	**85,737**	7,328
Valuation allowance	**382,437**	265,668
Income tax expense (recovery)	-	-

Future income tax assets and liabilities consist of the following:

	2011 $	2010 $
Future income tax assets		
Non-capital losses	**812,380**	1,139,924
Valuation allowance	**(812,830)**	(1,139,924)
Net future income assets	-	-

In addition, the Company also has non-capital losses totaling approximately $3,249,721 that have not been tax benefited and expire as follows:

	$
2026	12,462
2027	147,253
2028	14,902
2029	540,776
2030	1,112,000
2031	1,422,328
	3,249,721

No future tax assets or liabilities 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. corporation acquires "substantially all" of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. 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. corporation 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. corporation (e.g. loss carryforwards), and imposing excise taxes on certain stock based compensation held by "insiders" of the U.S. corporation.

Management is of the view that a corporate inversion has resulted from the RTO transaction completed in fiscal 2009, as disclosed in Note 2. 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.

14. DUE TO EMPLOYEES AND CONSULTANTS

The Company has liabilities of $441,963 [2010 - $463,329] owing to employees and consultants for past compensation. Of this amount, USD $149,638 bears interest at 5% per annum and is payable by April 1, 2011. Accrued interest of $22,446 to March 31, 2011 is included in the total liability. The Company has not paid the amounts owing to employees and consultants as at August 19, 2011.

The Company has recognized these as short term liabilities.

15. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, convertible debt due to Celsion USA, and convertible promissory notes. 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 cash, and cash equivalents, restricted cash and accounts payable, accrued liabilities approximates their carrying values, due to their short-term maturity.

The carrying value of convertible promissory notes approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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 consolidated balance sheet dates. The Company is not presently subject to credit risk at March 31, 2011.

[i] Cash and cash equivalents
The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major Canadian chartered bank. Management expects the credit risk to be minimal.

Foreign Currency Risk

The prices paid by the Company for services and supplies are paid primarily in U.S. dollars and the Company is raising funds in Canadian dollars. Given the exchange rate trend, the Company believes the exchange risk is limited and not a risk to be hedged at the present time.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market rates. The Company borrowing is at fixed rates on all obligations. Therefore, the Company 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 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.

Capital Risk

The Company’s objective when managing capital 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 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.

Market Risk

The risk exists that the Company's technology will be made redundant prior to commercialization by new technologies being developed. The Company mitigates this risk by researching and developing new and expanded uses of its technology.

Sensitivity analysis

(i) The Company believes that the movements in investments held for trading that are reasonably possible over the next twelve-month period will not have a significant impact on the Company. The Company believes that its cash position and short-term investments provide adequate liquidity to meet all of the

Company's near-term obligations.

(ii) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk is minimal as the Company has fixed interest rate instruments. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

(iii) Foreign currency risk
The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars and US dollars. If the US Dollar appreciated by 10%, the Company's net loss would increase by approximately $70,000 and total assets would increase by approximately $50,000. If the US dollar depreciated by 10%, the Company's net loss would decrease by the same amounts. The Company does not manage its foreign currency risk.

16. CAPITAL DISCLOSURES

The Company's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Company the ability to respond to changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue additional equity. The Company's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Company's needs and market conditions at the time of the transaction.

There were no changes in the Company's approach to capital management during the year.

17. SUBSEQUENT EVENTS

(i) On June 28, 2011, the Company completed a private placement for 1,000,000 common shares at a price of $0.30 per common share raising gross proceeds of $300,000.

(ii) On June 29, 2011, 221,666 options expired without exercise.

(iii) Of the 2,449,997 shares issued in the private placement described in Note 9(a)[i] 33,333 were cancelled.

18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain comparative consolidated financial statements have been reclassified from statements previously presented to conform with the 2011 consolidated financial statement presentation.