Condensed Interim Consolidated Financial Statements

MEDIFOCUS INC.

For the three and nine months ended
December 31, 2012 and December 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Medifocus Inc. (the "Company") are the responsibility of the management and Board of Directors of the Company.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the end of the reporting period. In the opinion of management, the condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

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 unaudited condensed interim consolidated financial statements together with other financial information of the Company 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 financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company 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.

Dr. Augustine Cheung
Chief Executive Officer

Mirsad Jakubovic
Chief Financial Officer

Toronto, Canada
February 25, 2013

Notice of no Auditor Review of Interim Financial Statements

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

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

Medifocus Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In Canadian dollars]

As at	31-Dec-12	March 31, 2012
	$	$
ASSETS		
Current		
Cash and cash equivalents	2,625,436	60,713
Accounts receivable *[note 15]*	389,574	—
Harmonized sales tax recoverable	206,415	92,175
Prepaid expenses and sundry assets	339,038	24,037
Inventory *[note 15]*	1,048,129	—
Refundable deposit *[note 15]*	—	249,250
Total current assets	4,608,592	426,175
Product development charges *[note 2 and 5]*	4,063,954	3,904,313
Intangible assets [note 2 and 15]	3,835,610	—
Plant and equipment, net *[note 6]*	35,129	10,467
	12,543,285	4,340,955
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	1,001,959	1,799,883
Advance subscriptions	968,500	375,245
Due to employees and consultants *[note 13]*	18,734	268,409
Convertible promissory note *[note 7]*	—	149,550
Convertible debenture *[note 8]*	—	279,160
Promissory note *[note 15]*	550,000	—
Interest payable on convertible financial instruments *[notes 7 and 8]*	—	128,546
Other payable *[note 12 and 15]*	2,442,850	—
Total current liabilities	4,982,044	3,000,793
Commitments *[note 12]*		
Shareholders' equity		
Share capital *[note 9]*	11,081,763	4,542,801
Common shares to be issued *[note 9b]*	50,000	794,832
Equity portion of convertible debenture	—	11,670
Contributed surplus	4,976,944	1,202,147
Accumulated deficit	(8,547,466)	(5,211,288)
Total shareholders' equity	7,561,241	1,340,162
	12,543,285	4,340,955

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

On behalf of the Board:

Joseph Chan
Director

Dr. Augustine Cheung
Director

Medifocus Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[In Canadian dollars]

	For the Three Months Ended December 31, 2012	*For the Three Months Ended December 31, 2011*	***For the Nine Months Ended December 31, 2012***	*For the Nine Months Ended December 31, 2011*
	$	*$*	*$*	*$*
Revenue ***[note 15]***	**630,150**	—	**943,431**	—
Cost of sales	206,946	—	312,079	—
Gross margin	**423,204**	—	**631,352**	—
Operating expenses				
Development and investor relations	**695,819**	9,826	**926,718**	40,540
Management fees *[note 11]*	**284,550**	74,098	**378,750**	220,000
Salaries and wages	**676,090**	—	**1,086,483**	—
Directors fees	**133,750**	—	**221,250**	—
Accretion of discount	**—**	2,920	**—**	8,760
General and administrative	**69,394**	32,363	**189,176**	101,833
Consulting and professional fees	**139,908**	128,221	**443,418**	193,168
Prolieve research and development expense	**335,777**	—	**335,777**	—
Listing fees	**16,117**	24,986	**78,279**	58,636
Stock based compensation expense *[note 9d]*	**40,000**	(53,391)	**40,000**	(17,797)
Interest *[note 7 and 8]*	**48,556**	24,865	**131,202**	74,490
Amortization *[note 6]*	**3,211**	1,354	**5,919**	4,062
	2,443,174	245,242	**3,836,971**	683,692
Net loss before other income	**(2,019,970)**	(245,242)	**(3,205,619)**	(683,692)
Foreign exchange loss	**(40,874)**	(1,687)	**(130,559)**	(58,812)
Net loss and comprehensive loss	**(2,060,844)**	(246,929)	**(3,336,178)**	(742,504)
Basic and fully diluted loss per share	**(0.020)**	(0.008)	**(0.032)**	(0.024)
Weighted average number of common shares outstanding	**103,113,882**	31,531,442	**103,113,882**	31,531,442

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

Medifocus Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[In Canadian dollars]

	For the Three Months Ended December 31, 2012	*For the Three Months Ended December 31, 2011*	***For the Nine Months Ended December 31, 2012***	*For the Nine Months Ended December 31, 2011*
	$	*$*	*$*	*$*
OPERATING ACTIVITIES				
Net loss for the period	**(2,060,844)**	(246,930)	**(3,336,178)**	(742,504)
Items not involving cash				
Amortization	**3,211**	1,354	**5,919**	4,062
Stock-based compensation	**40,000**	(53,391)	**40,000**	(17,797)
Shares to be issued in lieu of payment	**250,000**	—	**250,000**	—
Non-cash portion of product development	—	—	—	—
Accretion of discount	—	2,920	—	8,760
Unrealized foreign exchange loss	—	2,920	—	—
Net change in non-cash working capital balances related to operations *[note 10]*	**(602,459)**	346,443	**(2,665,292)**	382,251
Cash used in operating activities	**(2,370,092)**	53,316	**(5,705,551)**	(365,228)
INVESTING ACTIVITIES				
Additions to product development charges	—	(150,324)	**(159,641)**	(448,816)
Additions to Prolieve technology	—	—	**(1,392,760)**	—
Additions to capital assets	—	—	**(30,581)**	—
Cash used in investing activities	—	(150,324)	**(1,582,982)**	(448,816)
FINANCING ACTIVITIES				
Issuance of common shares	—	—	**9,267,257**	297,375
Increase (decrease) in advanced subscriptions	**968,500**	—	**593,255**	—
Changes in convertible promissory note	—	—	**(149,550)**	—
Changes in convertible debenture	**(155,000)**	7,581	**(279,160)**	47,562
Promissory note	**25,000**	—	**550,000**	—
Interest payable on convertible financial instruments	—	—	**(128,546)**	—
Cash provided by financing activities	**838,500**	7,581	**9,853,256**	344,937
Net increase (decrease) in cash and cash equivalents during the year	**(1,531,592)**	(89,427)	**2,564,723**	(469,107)
Cash and cash equivalents, beginning of period	**4,157,028**	142,328	**60,713**	522,008
Cash and cash equivalents, end of period	**2,625,436**	52,901	**2,625,436**	52,901
Interest paid	***22,100***	—	***95,845***	—
Taxes paid	—	—	—	—

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

Medifocus Inc.

CONDENSED INTERIM 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
	#	$	#	$	$	#	$	$	$	$	$	$
March 31, 2010	24,336,445	3,385,892	4,090,755		3,385,892	3,592,105	615,316				(2,642,588)	**1,358,620**
Issuance of common shares on private placement	6,194,997	796,618	6,194,997	511,990	1,308,608					511,990		**1,308,608**
For settlement of accrued interest						275,510	52,499					**52,499**
Issued to officers						1,700,000	306,000					**306,000**
Issued to directors						1,300,000	234,000					**234,000**
Extension of warrants		(385,067)		385,067						385,067		**-**
Stock options granted										305,090		**305,090**
Equity portion of promissory note								11,670				**11,670**
Net loss for the year											(1,642,717)	**(1,642,717)**
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**
Issuance of common shares on private placement	1,000,000	297,375			297,375							**297,375**
Stock options vesting										17,797		**17,797**
Net loss for the period											(227,829)	**(227,829)**
June 30, 2011	31,531,442	4,094,818	10,285,752	897,057	4,991,875	6,867,615	1,207,815	11,670		1,219,944	(4,513,134)	**2,021,113**
Stock options vesting										17,797		**17,797**
Net loss for the period											(267,746)	**(267,746)**
September 30, 2011	31,531,442	4,094,818	10,285,752	897,057	4,991,875	6,867,615	1,207,815	11,670	-	1,237,741	(4,780,880)	**1,771,164**
Stock options vesting										17,797		**17,797**
Stock options cancelled										(71,188)		**(71,188)**
Net loss for the period											(246,929)	**(246,929)**
December 31, 2011	31,531,442	4,094,818	10,285,752	897,057	4,991,875	6,867,615	1,207,815	11,670	-	1,184,350	(5,027,809)	**1,470,844**
For settlement of accounts payable						175,000	35,000					**35,000**
Stock options vesting										17,797		**17,797**
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)					**-**
Net loss for the period											(183,479)	**(183,479)**
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	(5,211,288)	**1,340,162**
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**
Cancellation of shares issued in error	(33,333)											
Net loss for the period											(284,500)	**(284,500)**
June 30, 2012	74,752,442	8,364,534	50,853,015	3,160,412	11,076,963	4,355,545	794,832	11,670	-	3,465,502	(5,495,788)	**7,140,750**
Issuance of common shares on private placement	22,196,804	2,045,384	22,196,804	1,284,137	3,329,521					1,284,137		**3,329,521**
Less share issuance costs on private placement		(147,352)										**(147,352)**
Net loss for the period											(990,834)	**(990,834)**
September 30, 2012	96,949,246	10,262,566	73,049,819	4,444,549	14,406,484	4,355,545	794,832	11,670	-	4,749,639	(6,486,622)	**9,332,085**
Shares issued and debt extinguished	4,255,545	744,832				(4,255,545)	(744,832)	-				**0**
Shares issued to director	500,000	95,000										**95,000**
Shares issued for convertible debentures	1,409,091	166,670						(11,670)				**155,000**
Stock options vesting										40,000		**40,000**
Extension of warrants		(187,305)		187,305						187,305		**-**
Net loss for the period											(2,060,844)	**(2,060,844)**
December 31, 2012	103,113,882	11,081,763	73,049,819	4,631,854	14,406,484	100,000	50,000	-	-	4,976,944	(8,547,466)	**7,561,241**

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

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. 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"].

On July 25, 2012 Medifocus, purchased Prolieve BPH technology, an FDA approved device for the treatment of Benign Prostatic Hyperplasia (BPH) from Boston Scientific. The Prolieve technology is a medical device based on endo-thermotherapy that both heats the prostate and dilates the prostatic urethra. Prolieve was originally developed and commercialized by the current Medifocus management, product development, clinical and regulatory teams. The Prolieve System is the only minimally invasive treatment option for the symptoms of enlarged prostate (BPH) in men indicated by the FDA as an in office treatment alternative to drug therapy.

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 is in the development stage and 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. The Company has yet to complete its Phase III clinical trials and there is no assurance that these trials will be successful.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IFRS, *International Financial Reporting Standards* and International Accounting Standard 34, *Interim Financial Reporting* ("IAS34"). The policies applied in these financial statements are based on IFRS issue and outstanding as of February 25, 2013, the date of approval by the Company's Board of Directors. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the period ended March 31, 2012.

(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. Intercompany transactions and balances are eliminated on consolidation.

(b) Use of estimates
To prepare consolidated financial statements in conformity with IFRS, the Company must make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, approximates the actual results. The estimates and assumptions most critical to determining the carrying values of assets and liabilities include those related to the estimated useful lives of plant and equipment, amortization of intangible assets, valuation of intangible assets, contingencies, taxes and valuation of share based payments. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in both the period of revision and future periods if the revision affects both current and future periods.

(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	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 amortization 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 plant and equipment is the difference between the sales proceeds and the asset’s carrying amount and is recognized in profit or loss.

As at December 31, 2012, there was no impairment of the Company's plant and equipment.

(d) Research costs and product development charges

Research costs are expensed as incurred. Expenditure on development activities is capitalized only if the product or process is technically and commercially feasible, if development costs can be measured reliability, if future economic benefits are probable, if the Company intends to use or sell the asset and the Company intends and has sufficient resources to complete development.

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, including the design of the trial, and will amortize that cost over the useful life of the APA System once the APA System is commercialized. No amortization expense was recognized through December 31, 2012 because the APA System has not yet been commercialized. As at December 31, 2012 there was no impairment of product development charges.

The benefits of tax credits for SR&ED and Government Assistance are recorded 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.

(e) Impairment of plant and equipment, intangible assets and product development assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether any indication exists those assets have suffered an impairment loss. If any such indication exists, it estimates the asset’s recoverable amount to determine the extent of the impairment loss, if any. Where it is not possible to estimate a specific asset’s recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to specific cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If an asset or cash-generating unit’s recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(f) 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.

(g) Income taxes

Income taxes are accounted for using the deferred income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year. Deferred income taxes are recognized for temporary differences between tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Deferred income tax assets and liabilities are measured using tax rates expected to be recovered or settled. Tax benefits have not been recorded due to uncertainty regarding their utilization. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is more likely than not to be recognized.

(h) Share-based payments

Where equity-settled stock options are awarded to employees, the fair value of the stock options at the date of grant is charged to the consolidated statement of loss and comprehensive loss 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 modification, is also charged to the consolidated statement of loss and comprehensive loss over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument 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 have been met.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of loss or 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 and 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 considerations.

(i) 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.

(j) Earnings per share

Basic income (loss) per share is computed by dividing net income (loss) and comprehensive income (loss) by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) 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 income (loss) 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.

(k) 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 end of the reporting period 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 the statement of loss and comprehensive loss.

(l) Financial instruments

The Company’s financial instruments consist of cash and cash equivalents, Harmonized sales tax recoverable, accounts receivable, accounts payable and accrued liabilities, amounts due to employees and consultants, and convertible promissory debt, promissory note and debentures (see (i) above). The Company has designated its cash and cash equivalents and restricted cash as financial assets at fair value through profit or loss, which are measured at fair value. Accounts payable and amounts due to employees and consultants and the liability portion of convertible promissory debt, promissory note and debentures are classified as other financial liabilities, which are measured at amortized cost. Accounts receivable and Harmonized sales tax recoverable are designated as loans/receivables.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives held for trading or are discounted as such by management, or assets acquired or incurred principally for the purpose of being sold or

repurchased in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit and loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in Other Comprehensive Income (Loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit and loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the fair value is below the carrying value. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives held for trading, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category includes all other financial liabilities, recognized at amortized cost.

(m) Revenue recognition
The Company provides its customers with catheters and consoles 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 when goods are shipped to the customer, at which time all the following conditions are satisfied: the Company has

transferred to the buyer the significant risks and rewards of ownership of the goods; it retains no continuing managerial involvement nor effective control over the goods sold; it can measure the amount of revenue reliably; it is probable that the economic benefits associated with the transaction will flow to the Company, and it can reliably measure the costs incurred or to be incurred in respect of the transaction.

(n) 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)

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. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, Harmonized sales tax recoverable, accounts payable and accrued liabilities, advance subscriptions, amounts due to employees and consultants and convertible promissory note, promissory note and debentures. 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 accounts payable and amounts due to employees and consultants and convertible promissory debt and debentures 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 cash equivalents, 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.

[i] Cash

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 in U.S. and Canadian dollars and the Company is raising funds in Canadian dollars. As of December 31, 2012 the Company has few 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's borrowings are all at fixed interest rates, and the Company considers itself to have very minimal exposure to interest rate risk.

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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. The Company's objective is to maintain sufficient liquid resources to meet operational requirements, including marketing and sales of Prolieve. As at December 31, 2012, the Company had cash of $2,625,436 [March 31, 2012 - $60,713]. In addition, at December 31, 2012, the Company's working capital position was positive $2,069,399 [March 31, 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 not subject to any externally imposed capital requirements. The Company's objectives are to insure adequate working capital to commercialize its APA System for the treatment of cancer and commercialize Prolieve technology so it is cash positive. The Company 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.

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 will not have a significant impact on the Company.

5. INTANGIBLE ASSETS AND PRODUCT DEVELOPMENT

(a) Microfocus APA Technology

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 ready for use.

The cost and net book value of product development charges are as follows:

	Total $
As at March 31, 2011	3,375,471
Additions	528,842
As at March 31, 2012	3,904,313
Additions	159,641
As at December 31, 2012	4,063,954

(b) Intangible assets

Intangible assets are related to 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 for the Prolieve patents and technology to intangible assets. Medifocus will amortize the cost of the technology over the remaining life of the patents covering the technology

6. PLANT AND EQUIPMENT

Plant and equipment are composed of the following:

	Equipment $	Furniture and fixtures $	Leasehold improvements $	**Total** **$**
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	—	—	—	**—**
As at December 31, 2012	77,576	20,464	10,600	**108,640**
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**
Depreciation for the period	5,211	708	—	**5,919**
As at December 31, 2012	46,455	16,456	10,600	**73,511**
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 December 31, 2012	31,121	4,008	—	**35,129**

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 lender may convert the balance due into common shares 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, 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 current 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.

8. CONVERTIBLE DEBENTURE

On January 24, 2011, the Company issued various non-brokered unsecured convertible debentures ("the Debentures") in the principal amount of US $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 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.

During the period, the Company repaid US$ 125,000 and converted US$155,000 of the convertible debentures to 1,409,091 common shares.

9. 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 #	**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 c]*		(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**
Shares issued in private placement, net of issuance costs *[iii]*	1,000,000	297,375
Shares issued on extinguishment of debt *[iv]*	2,687,070	447,983
Balance, March 31, 2012	**34,218,512**	**4,542,801**
Shares issued in private placement, net of issuance costs *[v]*	18,367,263	2,755,088
Less allocation to contributed surplus *[v]*		(1,024,758)
Shares issued in private placement, net of issuance costs *[vi]*	22,200,000	3,330,000
Less allocation to contributed surplus *[vi]*		(1,238,597)
Shares issued in private placement, net of issuance costs *[vii]*	22,196,804	3,329,521

Less share issuance costs *[vii]*		(147,352)
Less allocation to contributed surplus *[vii]*		(1,284,137)
Less shares cancelled	(33,333)	—
Shares issued for convertible debentures	1,409,091	166,670
Extension of warrants *[note c]*		(150,000)
Shares issued to directors	500,000	95,000
Shares issued on extinguishment of debt *[iv]*	4,255,545	744,832
Balance, December 31, 2012	**103,113,882**	**11,199,068**

[i] On April 23, 2010, the Company completed a private placement of 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 April 24, 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 the warrants, 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. The expiry date of the warrants was extended to April 24 2013.

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%

During the period, the Company extended the expiry date of 2,449,997 warrants by twelve months to expire on April 24, 2013

[ii] On March 24, 2011, the Company completed a private placement of 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 $0.30 until March 24, 2016. Management determined the warrants to have a fair value of $0.052 per warrant and accordingly, $192,810 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 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%

[iii] 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.

[iv] 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.

[v] 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 $1,730,330. 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%

[vi] 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 $2,091,403. 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%

[vii] On September 23, 2012, the Company completed a private placement of 22,196,804 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 23, 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. Commissions of $147,352 were paid in relation to the private placement.

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%

[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 common 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, 2010	**3,592,105**	**615,316**
For settlement of accrued interest *[i]*	275,510	52,499
For directors *[ii]*	1,700,000	306,000
For officers *[ii]*	1,300,000	234,000
Balance, March 31, 2011	**6,867,615**	**1,207,815**
For settlement of accounts payable *[iii]*	175,000	35,000
For shares to be issued for professional fees	100,000	50,000
Shares issued on debt extinguishment *[iv]*	(2,787,070)	(497,983)
Balance, March 31, 2012	**4,455,545**	**794,832**
Shares issued to directors*[v]*	(1,700,000)	(306,000)
Shares issued to officers*[v]*	(1,300,000)	(234,000)
Shares issued on debt extinguishment*[v]*	(1,355,545)	(204,832)
Balance, December 31, 2012	**100,000**	**50,000**

[i] The Company agreed to issue 275,510 shares to settle accrued interest of $52,499. *[note 7]*

[ii] 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.

[iii]The Company agreed to issue 175,000 shares to settle debt of $35,000 owing to a past employee.

[iv] 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.

[v] On December 17, 2012, the Company issued 4,355,545 shares for a previously recognized debt settlement**,** with a value of $744,832. Accordingly, these shares have been moved to share capital from shares to be issued.

[c] Warrants

As at December 31, 2012, 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	11/25/2013	2009
Share purchase warrants	2,449,997	0.50	4/24/2013	2011
Share purchase warrants	3,745,000	0.30	3/24/2016	2011
Share purchase warrants	18,367,263	0.20	6/8/2014	2012
Share purchase warrants	22,200,000	0.20	6/21/2014	2012
Share purchase warrants	22,196,804	0.20	9/23/2014	2012
Outstanding, end of period	73,049,819			

During the period, the Company extended the expiry date of 2,449,997 warrants by twelve months to expire on April 24, 2013.

During the period, the Company extended the expiry date of 4,090,775 warrants by twelve months to expire on November 25, 2013.

[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. 3,000,000 stock options vested immediately and 700,000 options vested in two equal installments with 50% (350,000) vesting immediately and the remainder (350,000) vesting on the first anniversary of their date of grant. Stock-based compensation expense of $71,188 was recognized during the year ended March 41, 2012, for the options that vested during the year (2011-$305,090). The fair value of the options 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%

On December 17, 2012, the Company granted incentive stock options to the directors and officers of the Company to purchase an aggregate of 4,825,000 common shares subject to regulatory and shareholder approval. The options are exercisable at a price of $0.19 per common share and expire three years from the date of the grant. The stock options vest over 12 months from the date of the grant. Stock-based compensation expense of $40,000 was recognized during the period ended December 31, 2012, for the options that vested during the period. The fair value of the options was estimated using a Black-Scholes pricing model with the following assumptions:

Risk free interest rate	1.10%
Expected life in years	3 year
Expected volatility	156.0%
Dividends per share	0.0%

A summary of the status of the Plan as at December 31, 2012 and changes therein are presented below:

	2012		2011	
	Number **#**	**Weighted average exercise price** **$**	Number \#	Weighted average exercise price $
Outstanding,	**3,921,666**	**0.20**	221,666	0.20
Cancelled	(700,000)	0.20	—	—
Expired	(221,666)	0.20	—	—
Granted	—	—	3,700,000	0.20
Outstanding, March 31,	**3,000,000**	**0.20**	3,921,666	0.20
Granted	4,825,000	0.19	—	—
Outstanding, December 31, 2012	**7,825,000**	**0.20**		
Options exercisable, end of period	3,000,000		3,571,666	

[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.

10. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

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

	2012	2011
	$	$
Accounts receivable	**(389,574)**	—
Prepaid expenses and refundable deposits	**(315,000)**	—
Refundable deposit	**249,250**	—
Inventory	**(1,048,129)**	—
Harmonized sales tax recoverable	**(114,240)**	(224,534
Accounts payable and accrued liabilities	**(740,744)**	400,480
Due to employees and consultants	**(249,675)**	6,304
	2,665,292	382,250

11. RELATED PARTY TRANSACTIONS

The compensation paid or potentially payable to key management for services is shown below:

	2012	2011
Salaries and fees	**$ 378,750**	$ 375,000
Director fees and travel expenses reimbursed	**$ 248,250**	$ —
Share-based compensation expense	**$ 40,000**	$ —
	$ **667,000**	$ 375,000

12. COMMITMENTS

(a)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 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.

(b)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 an annual maintenance fee as follows:

		$
2013	USD	50,000
2014	USD	50,000

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

2013	$ 74,241
2014	$ 76,468
2015	$59,071

13. DUE TO EMPLOYEES AND CONSULTANTS

The Company has liabilities of $18,734 [March 31, 2012 - $268,409] owing to employees and consultants for past compensation. The amounts are non-interest bearing.

14. PROMISSORY NOTE PAYABLE

During the period, the Company raised bridge financing of $500,000. The bridge financing lender received a promissory note from the Company for $550,000, including $50,000 of interest expenses if paid by November 23, 2012. Interest is payable at 2% per month on the face value after November 23, 2012. The Company intends to repay the promissory note during 2013.

15. BUSINESS ACQUISITION

On July 25, 2012 the Company purchased from Boston Scientific Corporation all of the assets relating to Prolieve, a FDA approved device for the treatment of Benign Prostatic Hyperplasia (BPH). The total purchase price for the transaction was $5,035,610. Medifocus paid Boston Scientific Corporation $2,535,610 including the deposit of $249,250 previously paid, 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. The following summarizes the fair value of the assets acquired in the transaction:

	$
Inventory and materials	1,200,000
Intangible assets	3,835,610
Total consideration	5,035,610

The Company has generated sales of $943,431 from the sales of catheters during the nine months ended December 31, 2012. Accounts receivable from the sales of catheters is $389,574 at December 31, 2012.

16. SUBSEQUENT EVENTS

On January 14, 2013, the Company issued 13,056,997 units at a price of $0.15 per unit for gross proceeds of $1,958,550. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.20 for a period of 24 months.

On January 29, 2013, the Company agreed to issue 1,090,000 common shares at a deemed price of $0.25 per common share to settle an aggregate of $272,500 of debt representing unpaid salary of $210,000 and amounts due to service providers of $62,500.