Consolidated Financial Statements

MEDIFOCUS INC.

For the years ended March 31, 2014 and March 31, 2013

S & W LLP
Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Medifocus Inc.

We have audited the accompanying consolidated financial statements of Medifocus Inc. and its subsidiary, which comprise the consolidated statements of financial position as at March 31, 2014, and March 31, 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Medifocus Inc. and its subsidiary as at March 31, 2014 and March 31, 2013 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which discloses conditions that indicate the existence of a material uncertainty that may cast significant doubt about Medifocus Inc's ability to continue as a going concern; and to Note 14 in the consolidated financial statements which describes the prior period error relating to the fair value presentation of the contingent consideration due on the acquisition from Boston Scientific Corporation of the Prolieve Thermodilapitation System.

S + W LLP

July 29, 2014 — S & W LLP
Toronto, Canada — Chartered Professional Accountants, Licensed Public Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

We draw your attention to Note 14 of the consolidated financial statements which describes a prior period adjustment for an accounting error. Management reviewed the presentation of the fair value of the contingent consideration payable to Boston Scientific Corporation pursuant to the purchase of the Prolieve Thermodilapitation System. The full value of the contingent consideration had been presented as interest and debt payable to Boston Scientific Corporation. The Company should have shown the fair value of the contingent consideration. The discount of the contingent consideration to its fair value adjusted the purchase price of the intangible assets. Accordingly, the Company has reflected this adjustment through a prior period adjustment of an accounting error, applied retrospectively in the financial statements.

Signed:

"Dr. Augustine Cheung"
Chief Executive Officer

Signed:

"Mirsad Jakubovic"
Chief Financial Officer

Toronto, Canada
July 29, 2014

Medifocus Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in United States dollars]

As at	March 31, 2014	March 31, 2013 *restated [note 14]*
	$	$
ASSETS		
Current		
Cash and cash equivalents	1,292,527	1,726,709
Accounts receivable	1,785,704	512,385
HST recoverable	243,981	225,576
Prepaid expenses and sundry assets	32,725	24,725
Inventory *[note 6]*	518,763	283,179
Refundable deposit	254,400	300,000
Total current assets	4,128,099	3,072,574
Non-current inventory *[note 6]*	180,997	1,026,250
Intangible assets - Prolieve intellectual properties *[note 4 and 7]*	2,067,490	2,318,095
Equipment, net *[note 8]*	640,984	33,660
	7,017,571	6,450,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,399,363	548,676
Promissory note *[note 9]*	497,377	491,594
Interest payable on financial instruments *[notes 9]*	161,292	100,285
Payable to Boston Scientific Corporation - current *[10]*	498,750	—
Total current liabilities	2,556,782	1,140,555
Long term		
Contingent consideration payable to Boston Scientific Corporation *[note 10]*	1,104,413	1,065,698
Convertible debenture payable *[note 9]*	4,002,129	—
Shareholders' equity (deficiency)		
Share capital *[note 11]*	12,304,474	12,476,710
Contributed surplus	8,051,272	6,634,814
Accumulated other comprehensive income	(20,081)	(20,081)
Accumulated deficit *[note 14]*	(20,981,418)	(14,847,117)
Total shareholders' equity	(645,753)	4,244,326
	7,017,571	6,450,578

Going Concern *[note 1]*

Investment in associate *[note 15]*

Commitments *[note 16]*

Contingencies *[note 17]*

Subsequent Events *[note 19]*

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

Medifocus Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[Expressed in United States dollars]

	March 31, 2014	*March 31, 2013*
		restated [note 14]
	$	*$*
Revenue	**5,383,973**	1,805,969
Cost of sales	**3,477,750**	1,572,527
Gross margin	**1,906,223**	233,442
Operating expenses		
Salaries and wages	**2,572,266**	1,706,732
Development and investor relations	**591,275**	1,022,769
Stock based compensation expense *[note 11d]*	**79,632**	862,287
Sales and marketing	**1,133,554**	485,494
Research and development expense	**474,638**	421,671
Professional fees	**1,037,107**	487,323
Bad debt expense	**55,774**	—
Directors fees *[note 13]*	**158,316**	270,000
General and administrative	**612,128**	261,211
Interest *[note 9]*	**365,624**	178,227
Listing fees	**36,286**	126,945
Amortization *[note 7 and 8]*	**12,052**	7,256
	7,128,652	5,829,914
Net loss before change in fair value of contingent consideration and loss from investment in associated company and foreign exchange loss	**(5,222,429)**	(5,596,472)
Change in fair value of contingent consideration	**(741,857)**	—
Loss from investment in associated company	**(159,000)**	—
Foreign exchange loss	**(11,015)**	(135,044)
Net loss and comprehensive loss	**(6,134,301)**	(5,731,516)
Other comprehensive loss	—	(20,081)
Net loss and comprehensive loss	**(6,134,301)**	(5,751,597)
Basic and fully diluted loss per share	**(0.052)**	(0.059)
Weighted average number of common shares outstanding	**117,260,411**	96,949,246

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

Medifocus Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in United States dollars]

	March 31, 2014	*March 31, 2013 restated [note 14]*
	$	*$*
OPERATING ACTIVITIES		
Net loss for the year	(6,134,301)	(5,751,597)
Items not involving cash		
Amortization	383,322	7,256
Stock-based compensation	79,632	862,287
Change in FMV of contingent consideration	741,857	—
Unrealized foreign exchange loss	97,418	85,512
Shares to be issued in liue of payment	—	857,500
Accretion of discount	—	(11,670)
Net change in non-cash working capital balances related to operations *[note 13]*	(456,751)	(2,633,690)
Cash used in operating activities	(5,288,823)	(6,584,402)
INVESTING ACTIVITIES		
Cash paid for business acquisition	—	(2,535,610)
Additions to equipment	(16,050)	(30,581)
Cash used in investing activities	(16,050)	(2,566,191)
FINANCING ACTIVITIES		
Issuance of common shares	—	11,225,287
Decrease in advanced subscriptions	—	(375,245)
Changes in convertible promissory note	—	(149,550)
Repayment of convertible debenture	—	(279,160)
Increase in (repayment of) promissory note payable	5,783	500,000
Proceeds from convertible debenture payable, net	5,069,300	—
Payments of contingent consideration	(204,392)	(104,741)
Cash provided by financing activities	4,870,691	10,816,591
Net increase (decrease) in cash and cash equivalents during the year	(434,182)	1,665,997
Cash and cash equivalents, beginning of year	1,726,709	60,713
Cash and cash equivalents, end of year	1,292,527	1,726,709

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

Medifocus Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[Expressed In United States Dollars]

	Common shares		Warrants		Common shares to be issued		Debt Discount	Accumulated other comprehensive income	Contributed Surplus	Deficit restated *[note 14]*	Total Shareholders Equity (Deficiency)
March 31, 2012	34,218,053	4,542,801	10,285,752	897,057	4,355,545	794,832	11,670		1,202,147	(9,115,601)	(2,564,151)
Issuance of common shares on private placement	18,367,263	1,730,330	18,367,263	1,024,758					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					1,238,597		**3,330,000**
Issuance of common shares on private placement	22,196,795	2,045,384	22,196,795	1,284,137					1,284,137		**3,329,521**
Less share issuance costs on private placement		(147,352)									**(147,352)**
Issuance of common shares on private placement	13,056,997	1,214,631	13,056,997	743,924			-		743,924		**1,958,555**
Less share issuance costs on private placement		(525)									**(525)**
Shares issued and debt extinguished *[note 14(ix)]*	1,255,545	204,832			(4,255,545)	(204,832)	-				**-**
Cancellation of shares to be issued for professional fees					(100,000)	(50,000)					**(50,000)**
Shares issued to officers and directors *[note 14(viii)]*	3,500,000	635,000				(540,000)					**95,000**
Shares issued un lieu of debt	1,090,000	272,500									**272,500**
Shares issued for convertible debentures	1,409,091	166,670					(11,670)				**155,000**
Cancellation of shares issued in error	(33,333)										**-**
Stock options vesting									862,287		**862,287**
Extension of warrants		(278,964)		278,964					278,964		**-**
Other comprehensive income								(20,081)			**(20,081)**
Net loss for the year										(5,731,516)	**(5,731,516)**
March 31, 2013	117,260,411	12,476,710	86,106,807	5,467,437	-	-	-	(20,081)	6,634,814	(14,847,117)	4,244,326
Stock options vesting									79,632		**79,632**
cancellation of warrants			(4,090,755)	(572,375)							
Extension of warrants		(172,236)		172,236					172,236		**-**
Equity portion of convertible debenture			12,962,800	1,164,590					1,164,590		**1,164,590**
Net loss for the year										(6,134,301)	**(6,134,301)**
March 31, 2014	117,260,411	12,304,474	94,978,852	6,231,888	-	-	-	(20,081)	8,051,272	(20,981,418)	(645,753)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

1. CORPORATE INFORMATION AND GOING CONCERN UNCERTAINTY

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

The Company owns two technology platforms with comprehensive US and international patent protection:

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

The 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.

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".

These financial statements were authorized for issue by the Board of Directors on July 29, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").
The policies applied in these consolidated financial statements are based on IFRS effective as of July 28, 2014.

(a) Principles of consolidation

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

(b) Basis of presentation and measurement

The functional currency of the Company and its subsidiary is the Canadian dollar, and the presentation currency is the United States dollar. The consolidated financial statements have been prepared on the historical cost basis except for financial instruments designated at fair value through profit and loss, which are stated at their fair value. Unless otherwise noted, all references to "$" or "dollar" refer to the United States dollar. Certain items in the prior period financial statements have been reclassified to conform to the current period presentation. The Company operates in a single business segment, its cash generating unit, focused heat systems for targeted thermotherapy of surface, subsurface and deep seated localized and regional cancers, Substantially all of the Company's revenue is generated, and assets are located, in the United States.

(c) Foreign currency

In 2014, the Company changed is reporting currency from the Canadian dollar to the U.S. dollar in anticipation of filing its financial statements with the U.S. Securities and Exchange Commission; The Company has translated its financial statements for March 31, 2013 into the new reporting currency using the current rate method. Items reported in the statements of loss and comprehensive loss and of cash flows for the comparative period have been translated into the new reporting currency using the average exchange rates prevailing during each reporting period. Assets and liabilities have been translated using the exchange rate prevailing at the end of the reporting period. Exchange differences arising from the translation are included as a separate component of other comprehensive income.

The Company's functional currency remains the Canadian dollar. Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the end of each 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 profit or loss. The Company translates its financial statements into the U.S. dollar reporting currency using the current rate method, as described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

(d) Use of estimates

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

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

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

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

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

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

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

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

viii) Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. At March 31, 2014, the Company has assessed that it is not probable that sufficient taxable profit will be available to use deferred income tax assets based on operating losses in prior years, therefore, there are no balances carried in the consolidated statements of financial position for such assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Inventories

The Company values inventories, consisting primarily of console units, single-use treatment catheters, and parts to refurbish the console units, at the lower of cost and net realizable value. The cost of finished goods is determined on a first-in, first- out method. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale. A periodic review of the inventory on hand is performed to determine if the inventory is properly stated at the lower of cost or market. In performing this analysis the Company considers, at a minimum, the following factors: selling prices, reimbursement charges, and changes in demand for products due to competitive conditions or market acceptance. Each type of inventory is analyzed to determine net realizable values. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if required.

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

(f) Equipment

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

Furniture and fixtures	20%
Equipment	30%

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

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

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

As at March 31, 2014, there was no impairment of the Company's equipment.

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

Research costs are expensed as incurred, as well as development costs that do not meet the criteria for eligibility for capitalization. Expenditures on technologies are capitalized only if they meet the criteria for deferral. Expenditures are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii)

its intention to complete the intangible asset and use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred.

Intangible assets consist of the intellectual property and patents for the Prolieve technology for the treatment of Benign Prostatic Hyperplasia. The Prolieve technology was acquired from Boston Scientific Corporation on July 25, 2012. Medifocus allocated $2,506,049 of the consideration given to Boston Scientific Corporation to intangible assets - Prolieve intellectual property [see note 7] Medifocus amortizes the cost of the technology over 10 years, the estimated useful life of the patents covering the technology. Amortization charge for the year ended March 31, 2014 is $250,605 [March 31, 2013 - $187,954]. The Company reviews the estimated useful life, residual value and amortization method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

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

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

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

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

As at March 31, 2014, there was no impairment in the plant and equipment or intangible assets -Prolieve intellectual property

(i) Provisions

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and it can make a reliable estimate of the amount of the obligation. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(j) Income taxes

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

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

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

(k) Share-based payments

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

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

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in comprehensive loss, unless they are related to the issuance of shares. Amounts

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

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

(l) Convertible debenture and promissory debt

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

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

(m) Comprehensive income

Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a year except those resulting from investments by owners and distributions to owners. Comprehensive income consists of net profit or loss for the period and other comprehensive income. This standard requires certain gains and losses that would otherwise be recorded as part of profit or loss to be presented in "other comprehensive income"; however, they may be reclassified as part of profit or loss in subsequent periods.

(n) Earnings per share

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

(o) Financial instruments

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

Financial assets are initially measured at fair value and classified into one of the following specified categories: fair value through profit or loss (“FVTPL”), held-to-maturity (“HTM”), available-for-sale (“AFS”) and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Other financial liabilities, including borrowings, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

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

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

The Company's current financial instruments include cash and equivalents, accounts receivable, refundable deposits, accounts payable and accrued liabilities, promissory notes and the liability portion of its convertible debentures. The respective accounting policies are described below.

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

The Company's other current financial instruments are all measured at amortized cost.

The Corporation has classified its financial instruments as follows:

Financial instrument	Classification
Cash and cash equivalents	FVTPL
Account receivable	Loans and receivables
Refundable deposits	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Promissory note	Other financial liabilities
Interest payable on financial instruments	Other financial liabilities
Liability portion of convertible debenture	Other financial liabilities

(p) Revenue recognition

The Company provides its customers with products which are used in the treatment of Benign Prostate Hyperplasia. Revenues from sale of products in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns. The Company recognizes revenue from the sale of Prolieve catheters upon delivery to the customer. Revenue is recognized from the sale of Prolieve consoles upon shipment to the customer. Revenue from catheters used through the mobile service is recognized upon treatment of the patient. The Company records a provision for estimated sales returns on product sales in the same period as the related revenue is recorded. The provision for estimated sales returns is based on historical sales returns, analysis of credit memo data and specific customer-based circumstances.

(q) 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. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. 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 profit or loss. Acquisition costs are expensed as in profit or loss.

(r) Warranty provisions

Prolieve products are covered by warranties against defects in material and workmanship for periods of up to 12 months. The Company records a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of product failure rates, material usage and service delivery costs to sales, the historical length of time between the sale and resulting warranty claim and other factors. The warranty provision as at March 31, 2014 is $31,600 [March 31, 2013 - 20,000].

(s) Investment in associate

Associates are entities over which the Company is able to exert significant influence but which it does not control and which are not interests in a joint venture. The Company reassesses such investments on an ongoing basis. It initially recognizes investments in associates at cost and subsequently measures them using the equity method. Under this method, changes resulting from the profits or losses generated by the associate are reported within (name of caption) in the Company's profit or loss. Changes resulting from items recognized in the associate's other comprehensive income or loss are recognized in the Company's other comprehensive income or loss. When the Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses it had previously not recognized.

3. NEW ACCOUNTING STANDARDS

(a) Standards adopted in the current reporting period

During the year, the Company adopted the following standards, with no impact on its reported financial position or financial performance:

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.

(b) Standards to be adopted in future reporting periods

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 for the Company are as follows:

IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after January 1, 2018, and sets out revised requirements for recognizing and measuring financial instruments. Among other things, the standard replaces the current requirements for classifying financial assets with a new model for measuring such assets at either amortized cost or at fair value, based on an entity's business model for managing the assets and on their contractual cash flow characteristics. It also introduces a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The Company intends to adopt the new Standard on its effective date and has yet to consider the impact on its financial reporting.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2017, and provides new requirements for recognizing revenue. The new Standard's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard sets out enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements. The Company intends to adopt the new Standard on its effective date and has yet to consider the impact on its financial reporting.

4. BUSINESS ACQUISITION

On July 24, 2012 the Company purchased from Boston Scientific Corporation all of the assets, and assumed certain liabilities, relating to the Prolieve Thermodilatation System ("Prolieve"), a FDA approved device for the treatment of Benign Prostatic Hyperplasia ("BPH"). The total purchase consideration consisted of the following:

Cash	$ 2,535,610
Fair value of contingent consideration	1,170,439
Total consideration	$ 3,706,049

The maximum amount payable pursuant to the terms of the contingent consideration is $2.5 million; its fair value was determined by calculating its present value based on its payment terms using an interest rate of 24% (the Company's estimated unsecured borrowing rate). The contingent consideration is paid quarterly at a rate of 10% of sales of Prolieve products. The fair value of the contingent consideration is adjusted for changes in the estimated future payments with the amount of adjustment reflected in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounted for its acquisition of Prolieve by recording all tangible assets and intangible assets acquired, and liabilities assumed, at their respective fair values on the acquisition date. The fair value of acquired tangible assets (other than inventory), acquired intangible assets (other than intellectual property and customer relationships) and assumed liabilities was not material. The fair value assigned to identifiable intangible assets acquired was determined using a cost approach and was based on the Company's best estimates; this intangible asset is being amortized on a straight-line basis over its estimated useful life of ten years. The following summarizes the fair value of the assets acquired and liabilities assumed in the transaction:

Inventory	$1,200,000
Intangible assets	2,506,049
Total consideration	$ 3,706,049

All of the Company’s revenue recognized in the years ended March 31, 2013 resulted from this acquisition.

5. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, refundable deposits, accounts payable and accrued liabilities, promissory notes and the liability portion of its convertible 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 the Company's financial instruments carried at amortized cost 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 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.
The company is exposed to credit risk primarily through its cash, accounts receivable, and refundable deposits. The company has cash deposits with a reputable financial institution, from which management believes the risk of loss to be remote. The risk inherent to accounts receivable is effectively mitigated by the company’s close, frequent monitoring of accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

Foreign currency risk

The prices paid by the Company for services and supplies are primarily paid in U.S. dollars, and sales and accounts receivable are primarily in U.S. dollars. As of March 31, 2014 the Company believes the currency risk is limited and not a risk to be hedged at the present time.

Interest rate risk

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

Liquidity risk

Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business of commercializing Prolieve and completing development, testing and commercialization of the APA System for the treatment of cancer. The Company's operating cash requirements include amounts necessary to conduct its pivotal clinical trial to obtain regulatory approval to commercialize the APA System in North America. The Company's objective is to maintain sufficient liquid resources to meet operational requirements, including marketing and sales of Prolieve. As at March 31, 2014, the Company had cash of $1,292,527 [2013 - $1,756,23]. In addition, at March 31, 2014, the Company's working capital position was $1,571,318 [2013 - $2,574,886]. 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 (currently a deficiency - see note 1), is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is managing its capital structure to convert to equity as much of its current debt as possible and will issue equity to obtain funding to initiate its pivotal clinical trial. The Company is not subject to any externally imposed capital requirements. The Company's objective is to insure adequate working capital to commercialize its APA System for the treatment of cancer, and the sales and marketing of its Prolieve technology, and it will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully. There were no changes to the Company's management of capital from the prior year.

Sensitivity analysis

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

6. INVENTORY

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

	2014 $	2013 $
Catheters	518,763	283,179
Consoles	180,997	1,026,250
	699,760	1,309,429

7. INTANGIBLE ASSETS

Intangible assets include intellectual properties and patents relating to the Prolieve technology for the treatment of Benign Prostatic Hyperplasia acquired from Boston Scientific Corporation on July 24, 2012. Medifocus allocated $2,506,049 of the consideration given for the Prolieve patents and technology to intangible assets. Intangible assets are amortized using the straight-line method over their estimated remaining useful lives. Patents and technology related to the Prolieve system are being amortized over 10 years.

	Total
	$
As at July 25, 2012	2,506,049
Amortization	187,954
As at March 31, 2013	2,318,095
Amortization	250,605
As at March 31, 2014	2,067,490

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

8. EQUIPMENT

Plant and equipment are composed of the following:

	Equipment	Furniture and fixtures	Prolieve Consoles	**Total**
	$	$	$	**$**
Cost				
As at March 31, 2012	45,929	20,000	—	**65,929**
Additions	30,581	—	—	**30,581**
As at March 31, 2013	76,510	20,000	—	**96,510**
Additions	16,050	—	723,991	**740,041**
Disposals	—	—	—	—
As at March31, 2014	92,560	20,000	723,991	**836,551**
Accumulated depreciation				
As at March 31, 2012	40,204	15,390	—	**55,594**
Depreciation for the year	6,312	944	—	**7,256**
As at March 31, 2013	46,516	16,334	—	**62,850**
Depreciation for the year	11,270	782	120,665	**132,717**
As at March 31, 2014	57,786	17,116	120,665	**195,667**
Net book value				
As at March 31, 2012	5,725	4,610	—	**10,335**
As at March 31, 2013	29,994	3,666	—	**33,660**
As at March 31, 2014	34,774	2,884	603,326	**640,984**

9. DEBT

2012 Promissory Notes. On July 23, 2012 the Company raised bridge financing of CAD $500,000. The bridge financing lender received a promissory note from the Company for CAD $550,000, with interest payable at 2% per month after October 23, 2012. The original maturity date of the promissory note was October 23, 2013 but has been subsequently extended until June 30, 2014. Additional interest of 9% per annum is payable on the past due interest following October 23, 2013.

2013 Convertible Debentures. In December 2013, the Company issued 354 Units of 8% Redeemable Promissory Convertible Notes (the "Notes") together with Series C stock Purchase Warrants (the "Warrants") to various accredited investors receiving gross proceeds of $3,540,000. The Notes and Warrants are subject to a four-month holding/trading restriction period in Canada. The notes are convertible into 14,160,000 shares of common stock. Each warrant entitles the holder to acquire 20,000 common shares (for a total of 7,080,000 common shares) at an exercise price of $0.30 per share and expire on December 18, 2016.

In a second closing in March 2014, the Company issued 200 additional Units to the investors, receiving gross proceeds of $2,000,000. The additional notes are convertible into 8,000,000 shares of common

stock. Each warrant entitles the holder to acquire 20,000 common shares (for a total of 4,000,000 common shares) at an exercise price of $0.30 per share and expire on December 18, 2016.

The equity portion of the warrants were classified as equity and were charged to contributed surplus at their estimated fair value of $1,164,590. The equity portion of the convertible debenture was not material.

10. CONTINGENT CONSIDERATION

The maximum amount payable to Boston Scientific Corporation pursuant to the terms of the purchase agreement is $2,500,000 to be paid quarterly at a rate of 10% of sales of Prolieve products. The estimated future payments remaining are as follows:

	$
2015	595,775
2016	1,413,064
2017	182,028
subtotal	2,190,387

The fair value of the contingent consideration was initially determined by calculating its present value based on the payment terms using an interest rate of 24%, the Company's estimated unsecured borrowing rate, and an estimated payment stream extending for 94 months. During 2014, the estimated future stream of payments was reduced to 49 months and accordingly, the fair value of the contingent consideration was adjusted through profit and loss.

The continuity of the fair value of the contingent consideration is:

	$
Total amount of contingent consideration	2,500,000
Less discount	(1,329,561)
Fair market value at July 25, 2012	1,170,439
Less: payments in 2013	(104,741)
Balance at March 31, 2013	1,065,698
Less: payments in 2014	(204,392)
Change in fair market value	741,857
Balance at March 31, 2014	1,603,163
Allocated as:	
Fair value of contingent consideration - current	498,750
Fair value of contingent consideration - long term	1,104,413

11. 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, March 31, 2012	**34,218,053**	**4,542,801**
Extension of warrants *[note c]*		(278,964)
Shares issued in private placement, net of issuance costs *[i]*	18,367,263	2,755,088
Less allocation to contributed surplus *[i]*		(1,024,758)
Shares issued in private placement, net of issuance costs *[ii]*	22,200,000	3,330,000
Less allocation to contributed surplus *[ii]*		(1,238,597)
Shares issued in private placement, net of issuance costs *[iii]*	22,196,795	3,182,169
Less allocation to contributed surplus *[iii]*		(1,284,137)
Shares issued in private placement *[iv]*	13,056,997	1,958,030
Less allocation to contributed surplus *[iv]*		(743,924)
Shares issued for convertible debentures *[v]*	1,409,091	166,670
Shares issued to officers and directors *[vi]*	3,500,000	635,000
Cancellation of shares issued in error	(33,333)	
Shares issued on extinguishment of debt *[vii]*	1,255,545	204,832
Shares issued on extinguishment of debt *[viii]*	1,090,000	272,500
Balance, March 31, 2013	**117,260,411**	**12,476,710**
Extension of warrants *[note c]*		(172,236)
Balance, March 31, 2014	**117,260,411**	**12,304,474**

[i] On June 8, 2012, the Company completed a private placement of 18,367,263 units at a price of CAD $0.15 per unit raising gross proceeds of $2,755,088. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of CAD $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%

[ii] On June 21, 2012, the Company completed a private placement of 22,200,000 units at a price of CAD $0.15 per unit raising gross proceeds of $3,330,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of CAD $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%

[iii] On September 21, 2012, the Company completed a private placement of 22,196,795 units at a price of CAD $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 CAD $0.20 until September 21, 2014. Management determined the warrants to have a fair value of $0.058 per warrant and accordingly, $1,284,137 of the proceeds from the issuance was allocated to the warrants, and the balance of the proceeds was allocated to common shares. The Company paid finder's fees of $147,352.

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

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

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

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

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

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

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

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

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

[b] Share capital to be issued

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

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

	Number \#	**Amount** $
Balance as at March 31, 2011	**6,867,615**	**1,207,815**
For settlement of accounts payable *[i]*	175,000	35,000
Shares issued on debt extinguishment *[ii]*	(2,787,070)	(497,983)
Shares to be issued for professional fees	100,000	50,000
Balance, March 31, 2012	**4,355,545**	**794,832**
Cancellation of shares to be issued for professional fees *[ii]*	(100,000)	(50,000)
For officers and directors*[iii]*	(3,000,000)	(540,000)
Shares to be issued to a director*[iv]*	500,000	95,000
Shares issued to a director *[iv]*	(500,000)	(95,000)
Shares issued on debt extinguishment *[v]*	(1,255,545)	(204,832)
Balance, March 31, 2013 and March 31, 2014	—	—

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

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

past professional fees from share capital to shares to be issued. The Company cancelled the issuance of these shares during the year.

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

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

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

[c] Warrants

As at March 31, 2014, the Company had the following warrants outstanding:

	Purchase warrants				
	Number **#**	**Exercise price** **$**	**Black-Scholes Values** **$**	**Expiry date**	**Year of issue**
Share purchase warrants	**2,449,997**	**0.50**	583,702	4/24/2014	2011
Share purchase warrants	**3,745,000**	**0.30**	192,180	2/24/2016	2011
Share purchase warrants	**18,367,263**	**0.20**	1,024,758	6/8/2014	2012
Share purchase warrants	**22,200,000**	**0.20**	1,238,597	6/21/2014	2012
Share purchase warrants	**22,196,795**	**0.20**	1,284,137	9/21/2014	2012
Share purchase warrants	**13,056,997**	**0.20**	743,924	1/14/2015	2013
Share purchase warrants	**8,336,400**	**0.30**	745,316	17/12/2016	2013
Share purchase warrants	**4,626,400**	**0.30**	419,274	7/3/2017	2014
Outstanding, end of year	**94,978,852**		6,231,888		

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

	Purchase warrants				
	Number **#**	**Exercise price** **$**	**Black-Scholes Values** **$**	**Expiry date**	**Year of issue**
Share purchase warrants	**4,090,755**	**0.60**	572,375	11/25/2013	2009
Share purchase warrants	**2,449,997**	**0.50**	411,466	4/24/2014	2011
Share purchase warrants	**3,745,000**	**0.30**	192,180	2/24/2016	2011
Share purchase warrants	**18,367,263**	**0.20**	1,024,758	6/8/2014	2012
Share purchase warrants	**22,200,000**	**0.20**	1,238,597	6/21/2014	2012
Share purchase warrants	**22,196,795**	**0.20**	1,284,137	9/21/2014	2012
Share purchase warrants	**13,056,997**	**0.20**	743,924	1/14/2015	2013
Outstanding, end of year	**86,106,807**		5,467,437		

On April 24, 2012, the Company extended the expiry date of 2,449,997 warrants to April 24, 2013, and accordingly, $187,305 was allocated to contributed surplus. A relative fair value calculation was used to determine the carrying value of the extension of the warrants. The fair value of the extension of the warrants was estimated using a Black-Scholes pricing model and assumptions of a risk free interest rate of 1.10%, an expected life of 1 year, an expected volatility of 174% and a zero dividend rate. In April 2013, the Company again extended the expiration of the outstanding stock purchase warrants to April 24, 2014 and, accordingly $172,236 (representing the incremental value of the warrants as a result of the modification) was transferred from common stock to contributed surplus.

On November 25, 2012, the Company extended the expiry date of 4,090,755 warrants to November 25, 2013, and accordingly, $91,659 was allocated to contributed surplus. A relative fair value calculation was used to determine the carrying value of the extension of the warrants. The fair value of the extension of the warrants was estimated using a Black-Scholes pricing model and assumptions of a risk free interest rate of 1.10%, an expected life of 1 year, an expected volatility of 174% and a zero dividend rate. On November 25, 2013, 4,090,755 warrants expired without exercise.

The weighted average exercise price of the outstanding warrants as at March 31, 2014 was $0.23.

[d] Stock options

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

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

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. 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 immediately. The fair value of the options was estimated using a Black-Scholes pricing model with the following assumptions: Risk free interest rate of 1.10% Expected life of 3 years; Expected volatility of 156.0%

On January 9, 2013, the Company granted incentive stock options to employees of the Company to purchase an aggregate of 1,000,000 common shares. The options are exercisable at a price of $0.24 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. The fair value of the options was estimated using a Black-Scholes pricing

model with the following assumptions: Risk free interest rate of 1.20%; Expected life of 3 years; Expected volatility of 158.0%

A summary of the Plan as at March 31, 2014 and changes therein are presented below:

	2014		2013	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**8,525,000**	**0.20**	3,000,000	0.20
Cancelled	**(160,000)**	**—**	—	—
Expired	**—**	**0.20**	(300,000)	0.20
Granted to officer and directors	**—**	**0.19**	4,825,000	0.19
Granted	**—**	**0.24**	1,000,000	0.24
Outstanding, end of year	**8,365,000**	**0.21**	8,525,000	0.20
Options exercisable, end of year	**8,365,000**			

[e] Diluted earnings per share

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

12. STATEMENTS OF CASH FLOWS

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

	2014	2013
	$	$
Accounts receivable	(1,273,318)	(512,385)
Inventory	(114,322)	(388,589)
Prepaid expenses	(8,000)	(688)
Refundable deposit	45,600	(50,750)
HST recoverable	(18,405)	(133,401)
Accounts payable and accrued liabilities	850,687	(1,251,207)
Interest payable	61,007	(28,261)
Due to employees and consultants	—	(268,409)
	(456,751)	(2,633,690)

13. RELATED PARTY TRANSACTIONS

The following amounts, were paid for management salaries and consulting fees (CFO) for the years ended March 31, 2014 and March 31, 2013:

	2014	2013
Chief Executive Officer	$ 240,000	$ 240,000
Chief Financial Officer	$ 75,000	$ 75,000
Chief Operating Officer	$ 212,000	$ 200,000
	$ 527,000	$ 515,000

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

	2014	2013
Chief Financial Officer	$ 840	$ 840
Other directors and officers	$ 146,650	$ 52,083

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

	2014	2013
Director fees settled in cash	$ 158,316	$ 175,000
Director fees settled with issuance of shares	—	95,000
Stock options issued (cancelled) to officers and directors	—	4,825,000
Common shares issued to officers and directors	—	3,000,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014 and 2013

14. PRIOR PERIOD ADJUSTMENTS - CORRECTION OF ERRORS

Fair value of contingent consideration

Management of Medifocus, while preparing financial statements for the year ended March 31, 2014, reviewed their presentation of the fair value of the contingent consideration payable to Boston Scientific Corporation pursuant to the purchase of the Prolieve Thermodilapitation System. The full value of the contingent consideration of $2,395,529 had been presented as interest and debt payable to Boston Scientific Corporation. The Company should have shown the fair value of the contingent consideration.

The Company determined that the fair value of the contingent consideration was $1,065,698. The discount of the contingent consideration to fair value of $1,329,561 adjusted the purchase price of the intangible assets.

Accordingly, the Company has adjusted all comparative amounts presented in the current financial statements affected by the accounting error as follows:

	As Previously Recorded	Adjustment	As Restated
Consolidated Statements of Financial Position			
Intangible assets- Prolieve intellectual properties	3,835,610	(1,329,561)	2,506,049
Payable to Boston Scientific Corporation - Current	(254,032)		
Interest payable to BSC - Current	(149,301)		
Payable to Boston Scientific Corporation	(811,666)		
Interest payable to BSC	(1,180,260)		
Contingent consideration payable to Boston Scientific Corporation	(2,395,529)	1,329,561	(1,065,698)
Deficit - end of year	14,964,244	(97,046)	14,867,198

	As Previously Recorded	Adjustment	As Restated
Consolidated Statements of Loss and Comprehensive Loss			
Amortization of intangible assets	285,000	(97,046)	187,954
Net loss and comprehensive loss	(5,848,643)	97,046	(5,751,597)
Loss per share, basic and diluted	0.049		0.049

15. INVESTMENT IN ASSOCIATE

During the year, the Company acquired a 40% interest in Medifocus Holding Limited, ["MH Ltd."]a company incorporated in the British Virgin Islands (BVI) engaged in clinical testing of the Company's technology platforms in the Asia Pacific, as well as their production, marketing and distribution. The other 60% interest in MH Ltd. is held by Ideal Concept Group Limited (ICG), a company also incorporated in the BVI. ICG and Medifocus are entitled to appoint three and two of MH Ltd. directors respectively. The Company has concluded that it has significant influence but not control over MH Ltd. and therefore measures its investment in MH Ltd. using the equity method. For the year ended March 31, 2014, the Company's share of MH Ltd. losses of are $198,000. Medifocus recognized $159,000 of the loss in profit and loss, which is the value of Medifocus' investment in MH Ltd. at March 31, 2014. The balance of the lossof $39,000 has not been recognized by Medifocus as at March 31, 2014. MH Ltd. has $208,000 in cash and deposits , and $204,000 in accounts payable as at March 31, 2014.

16. COMMITMENTS

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

The Company has an additional commitment to pay a 5% royalty to MIT on the net sales of products, upon commercialization.

Future minimum payments under operating leases are as follows:

2015	US $ 144,614
2016	US $ 149,475
2017	US $ 155,528
2018	US $ 145,751
	US $ 595,368

17. CONTINGENCIES

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

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

18. 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:

	2014 $	2013 $ *Restated* *(note 14)*
Loss before income taxes	**(6,134,301)**	(5,731,597)
Income tax recovery at average statutory rate (2014; 26.5% 2013: 26.5%)	**(1,625,547)**	(1,518,873)
Add: Gain in settlement of debt	—	—
Add: other non-deductible amounts for income-tax purposes	**109,941**	267,169
Valuation allowance	**1,515,606**	1,251,704
Income tax expense (recovery)	—	—

Deferred income tax assets and liabilities consist of the following:

	2014 $	2013 $ *Restated* *(note 17)*
Deferred tax assets		
Non-capital losses	**4,025,503**	2,565,454
Other	—	57,927
Research and development expenses	**(976,078)**	(976,078)
Valuation allowance	**(3,049,425)**	(1,647,303)
Net deferred tax assets	—	—

In addition, the Company also has non-capital losses totaling approximately $14,102,012 that have not been tax benefited and expire as follows:

	$ *Restated* *(note 17)*
2026	12,462
2027	147,253
2028	14,902
2029	540,776
2030	1,112,000
2031	1,422,328
2032	224,996
2033	6,787,095
2034	5,840,1985
	16,102,012

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

U.S. Income Tax Status

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

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

19. SUBSEQUENT EVENTS

On April 22, 2014 the Company extended until April 25, 2015 the expiry of 2,449,997 outstanding common share purchase warrants.

On June 8, 2014 the Company extended until June 8 2015 the expiry of 40,567,253 outstanding common share purchase warrants.