Medifocus Inc.

FORM 51-102FI

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED
JUNE 30, 2012 AND JUNE 30, 2011

August 29, 2012

1. Date

The following discussion of the results of operations of Medifocus Inc. ("the Company") for the three months ended June 30, 2012, dated August 29, 2012, should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended June 30, 2012.

All dollar amounts are presented in Canadian dollars. Additional information relating to the Company is available on SEDAR at *www.sedar.com*.

2. Overview

Medifocus Inc. ["Medifocus" or the "Company"] was incorporated under the *Business Corporation Act* (Ontario) on April 25, 2005, and is considered to be in the development stage. The Company is conducting Phase III clinical trials of its proprietary breast cancer treatment (APA 1000) system. Medifocus is listed in Canada on the TSX Venture Exchange Inc. [the "Exchange"] under the symbol "MFS and in the United States on the OTC QX market under the symbol "MDFZF".

Forward-Looking Statements

This management's discussion and analysis may contain statements that are "Forward-looking Statements". These include statements about the Company's expectations, beliefs, plans, objectives and assumptions about future events or performance. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue". "anticipate", "believes", "estimate", "intend", "plan", "would", and "outlook" or statements to the effect that actions, events or results "will", "may", "should" or "would" be taken, occur or be achieved. Forward-looking statements are not historical facts, and are subject to a number of risks and uncertainties beyond the Company's control. Accordingly, the Company's actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this analysis. Forward-looking statements are made on the basis of the beliefs, opinions and estimates of the Company's management on the date the statements are made and, other than in compliance with applicable securities laws, the Company does not undertake any obligation to update forward-looking statements if the circumstances or

management's beliefs, opinions or estimates should change. Readers should not place undue reliance on forward-looking statements.

The Company incurred a loss of $284,500 for the three months ended June 30, 2012, compared to a net loss of $227,829 for the same period of 2011. The Company did not realize any stock-based compensation expense for 2012, reducing expenses by $17,797 from 2011. Development and investor relations expenditures increased to $50,062 in 2012 from $15,159 in 2011, with the addition of a sales and marketing consultant. Foreign exchange losses of $3,072 were incurred in 2012 compared to a loss of $408 in 2011. The Company was listed on the OTC QX market in the United States, which together with increased capital activity, generated higher listing fees for the period.

In June 2012, the Company issued 40,567,263 units pursuant to a private placement, raising gross proceeds of $6,085,088.

To date, the Company has raised funds principally through the issuance of shares. In the foreseeable future the Company will likely remain dependent on the issuance of shares to raise funds to complete its clinical trials, and on the availability of financing for the development of the Company's technology. Subsequent to the end of the period, The Company purchased the productive and revenue generating assets (Prolieve - see page 20) from Boston Scientific Corporation. Management anticipates that additional financing will be available and may be sourced to allow the Company to continue its research and development activities. However, there can be no assurance that it will be successful.

Clinical Milestones Accomplished

In July 2011, Medifocus initiated its first two clinical study sites to begin its pivotal Phase III study for the treatment of large breast cancers in the USA. The two clinical sites are at the University of Oklahoma Breast Institute in Oklahoma City and the Comprehensive Breast Center of Coral Springs Florida, a division of 21st Century Oncology.

Medifocus is currently working with Dr. John R. Keyserlingk, the Principal Investigator at the Ville Marie Multidisciplinary Breast Center in Montreal, Quebec to secure approval of the Institutional Review Board ["IRB"] and initiate the pivotal Phase III study.

3. Clinical Study Development

The Company has completed a complete series of clinical studies. The excellent clinical safety and efficacy results of the studies was the basis of what was used in obtaining the approval of both Health Canada and the USA FDA for the Company to begin its pivotal Phase III Study. Below is the list of completed clinical studies.

Phase I FDA Safety Study
Safely heats breast tumors of up to 8cm in diameter to treatment temperature (10 patients)
(Gardner, Annals of Surgical Oncology, vol.9, No. 4, April 2002)

Phase II FDA Dose Escalation Study
Established optimum safe heat treatment dose (25 patients)
(Vargas, Annals of Surgical Oncology, Vol.11, No.2, February 2004)

Phase II FDA Multi-center Randomized Study (Early State Breast Cancer – Heat Alone)
0 of 34 had positive margins with Pre-operative Focused Heat and 4 of 41 or almost 10% had positive margins in the control arm. (75 patients)
(Cancer Therapy, Vol.65, published online Aug 25, 2008)

Phase II FDA Multi-Center Randomized Study (Large Breast Tumors)
Patients indicated for mastectomy and neo-adjuvant chemotherapy (34 patients) experienced a 50% improvement in overall tumor shrinkage (and 3X for eradication) when the APA System was used in conjunction with neo- adjuvant Chemotherapy
(Dooley, Annals of Surgical Oncology, Vol.17, No.4, April 2010

Clinical Sites for the Pivotal study in Canada and the USA.
The Company has selected six clinical study sites in Canada and the USA as the core centers to begin the Pivotal trial. The principal investigator for the Canadian approved study is Dr. J. Keyserlingk (Ville Marie Medical Center, Montreal, Quebec). The principal investigator for the USA approved study is Dr. W. Dooley (Health Science Center, University of Oklahoma, Oklahoma City, Oklahoma). In July, 2011 the USA study has been initiated with both Dr. W. Dooley and Dr. M. Tomeselli (Comprehensive Breast Center, Coral Springs, Florida).

4. Results of Operations

The Company incurred a loss of $284,500 for the three months ended June 30, 2012, compared to a net loss of $227,829 for the same period of 2011. The Company did not realize any stock-based compensation expense for 2012, reducing expenses by $17,797 from 2011. Development and investor relations expenditures increased to $50,062 in 2012 from $15,159 in 2011, with the addition of a sales and marketing consultant. Foreign exchange losses of $3,072 were incurred in 2012 compared to a loss of $408 in 2011. The Company was listed on the OTC QX market in the United States, which together with increased capital activity, generated higher listing fees for the period.

In June 2012, the Company issued 40,567,263 units pursuant to a private placement, raising gross proceeds of $6,085,088. of this amount, $2,000,000 was held in trust until August 13, 3012 at which time final Exchange approval was given.

Nature of Business

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

Medifocus, Inc. is in the business of development and commercialization of minimally invasive, focused-heat tumor targeted cancer treatment devices and systems. It plans to raise the standards of breast cancer care and treatment by using focused microwave heating to enhance neo-adjuvant chemotherapy to provide better tumor shrinkage and control, leading to improved surgical outcomes and ultimately breast preservation.

Medifocus' patented APA microwave focusing technology platform licensed from MIT provides the design of the Company's unique focused heat treatment systems with the capability to direct precision-focused microwave energy at targeted tumors, to induce thermotherapy to shrink or eradicate tumors without undue harm to surrounding tissue.

The Company's goal is to improve outcomes and standards of care in cancer treatment. Its first indication, locally advanced breast cancer ("LABC"), involves large tumors that are generally treated first with neo-adjuvant chemotherapy to induce tumor shrinkage and then followed by either radical surgery or breast conservation surgery. Depending on the final size of the tumor Medifocus' focused-heat treatment can significantly improve the efficacy of neo-adjuvant chemotherapy in shrinking LABC, reducing tumor burden and increasing the chance of breast conservation by decreasing the need for radical breast surgery. Focused microwaves can be used to shrink breast tumors up to 8 cm in diameter, vastly improving the chance of breast conservation for these patients who under normal circumstances will have no option but to undergo radical breast surgery.

The APA System can target heat treatment to cancer tumors any place in the body reliably and repeatedly. The ability to target tumors with controlled dosages of heat can be used to destroy tumors at higher temperatures, to treat tumors in combination with chemotherapy and radiation at moderate temperatures, and for increased effectiveness over those treatments individually. In addition, the APA System is able to trigger the targeted release of therapeutic drugs and genes at tumor sites at lower temperatures.

The technical breakthrough of the APA System is its ability to precisely focus microwave heating anywhere in the body. It has been demonstrated that heat alone can kill cancer tumors and increase the effectiveness of chemotherapy and radiation when used in conjunction with those treatments (Seegenschmiedt et al (editors), *Thermoradiotherapy and Thermochemotherapy, Vol. 1, Biology, Physiology, and Physics, Vol. 2, Clinical Applications,* Springer, Berlin, 1995). The problem historically with heat treatment for cancer tumors has not been the effectiveness of the treatment, but the technical problem of delivering the heat dosage accurately in a repeatable manner in patients.

The proprietary APA System solves this problem by incorporating "APA" technology. The term "APA" refers to Adaptive Phased Array technology developed by MIT for military applications in the "Star Wars Program" to focus

microwave energy on missiles, in order to detect and destroy them. The aspects of the APA technology relevant to Medifocus' purposes have been licensed exclusively to Medifocus, Inc.. These aspects are primarily related to the focusing of microwave energy, with the generation of energy as a secondary consideration. Medifocus' APA System incorporates further refinements in the precise focusing of microwaves and in detection feedback and mechanisms.

Although Medifocus believes the APA System can be adapted to treat additional forms of cancer, it has chosen to initially pursue commercialization of the APA System for the treatment of large breast cancer tumors and potentially other forms of breast cancer as well. The Company plans to raise the standards of breast cancer care and treatment by using focused microwave heating to enhance neo-adjuvant chemotherapy to provide better tumor shrinkage and control, leading to improved surgical outcomes and ultimately breast preservation.

Company's Business Strategy

Even though the APA focused heat technology platform can be used to develop systems to treat many cancers, the Company decided to focus initially on commercializing a system to treat breast cancer using the following strategy:

1. Develop the system as a tool for breast surgeons to use in combination with standard of care (SOC) neo-adjuvant chemotherapy to increase shrinkage of large and medium sized breast tumors to facilitate conversion from mastectomy to breast conservation surgery, a treatment outcome desired by both the patients and the surgeons.

2. Focus the initial marketing efforts to target surgeon- owned private comprehensive breast care centers in the USA and Canada.

3. The marketing approach is to place the system to recover cost and derive a recurring revenue stream from sales of treatment disposable sensors.

4. Secure adequate insurance reimbursement for focused heat treatment of breast cancer by obtaining from the American Medical Association (AMA) a temporary Category-III CPT code. This would allow clinical investigators to bill for insurance reimbursements during clinical trials, and to build an insurance reimbursement reference data base for use in the Company's filing for an official reimbursement CPT code after receipt of the PMA. Based on insurance reimbursements already received from prior clinical investigators, the Company

believes that the insurance reimbursement for focused heat treatment of breast cancer should exceed $5,000 for each treatment.

5. Select and secure strategic partners who will assist in obtain regulatory approval and provide distribution sales for the breast cancer treatment systems worldwide.

6. Collaborate with strategic R&D partners to expand the clinical indications for the breast cancer treatment system to cover treatments for other types of breast cancer such as small tumors, DCIS, benign lesions and recurrent chest wall cancer.

7. Using the demonstrated commercial success of the breast cancer system to attract other strategic partners for additional investments and collaborative R&D efforts to build a pipeline of focused heat cancer treatment products for cancers.

Future Growth Strategy

The first clinical indication to which Medifocus will apply the APA System is the treatment of large breast cancer tumors in combination with chemotherapy. Medifocus has calculated that large breast cancer tumor patients represent approximately 25% of the total population of breast cancer patients. Medifocus believes it can grow its business significantly by expanding the clinical indication of the APA System to include other forms and stages of breast cancer (including Ductal Carcinoma In Situ or "DCIS", early stage breast tumors, recurrent chest wall and benign lesions). Medifocus plans to conduct pilot studies on these additional indications, followed by clinical trials in order to gain regulatory approval for the expanded indications of use. Successful receipt of regulatory approval for additional indications would greatly expand the potential markets for the APA System.

Breast cancer is a worldwide disease. Assuming Pre-market Approval from the FDA and Health Canada for the APA System is obtained; Medifocus plans to seek necessary regulatory approvals and distributors for the APA System outside of North America, in particular in Europe and Asia, to expand the market distribution. Medifocus believes that the APA System can be adopted to treat additional forms of cancer and it is Medifocus' intention, if funds are available and conditions are right, to seek strategic partners internationally to develop various APA-based focused heating systems for other major cancers.

Successful implementation of Medifocus' growth strategy would result in Medifocus becoming a global medical device cancer treatment company.

On July 25, 2012 the Company acquired the Prolieve assets from Boston Scientific Corporation, see "Subsequent Events". The Company's future strategy will include the integration of the Prolieve assets.

Significant Milestones

Medifocus has completed a series of Clinical studies , from Phase I, Phase II, and Phase IIA and B studies under an Investigational Device Exemption (IDE) approval from the FDA.

Using the clinical safety and efficacy data from the above studies, Medifocus submitted applications to Health Canada and the FDA in the US, and received approval to conduct a pivotal Phase III study. Upon successful completion of the pivotal Phase III Study, Medifocus will then submit for commercial approval.

In June of 2009, Medifocus was granted the Investigational Testing Authorization (ITA) from Health Canada's Medical Device Bureau (MDB) for initiating Medifocus' pivotal trial with the Microfocus APA 1000 Breast Thermotherapy System for the treatment of breast cancer. The ITA application has already been reviewed by the MDB and has fulfilled Part 3 of the Medical Devices Regulations and is now authorized to conduct the pivotal trial in Canada.

In March of 2010, Medifocus was granted an IDE approval from the Food and Drug Administration (FDA) to initiate a pivotal Phase III clinical trial upon obtaining IRB approval from the clinical sites, using the Company's APA 1000 System for the treatment of breast cancer.

In May of 2010, Health Canada approved an amended pivotal Phase III study so that it will be the same as that approved by the FDA. The Company's strategy is to obtain the PMA from both Canada and the USA to best position the APA 1000 for commercial marketing and sales worldwide.

In order to begin the actually clinical studies in Canada and the USA, after allowance by the respective regulatory agencies, each clinical site must gain IRB approval.

In October of 2010, Medifocus announced it has recently received notice of allowances for two additional international patents to expand its extensive Intellectual Properties (IP) portfolio in addition to the patents Medifocus has exclusively licensed from the MIT.

In October of 2010, University of Oklahoma Health Sciences Center's IRB has granted final approval to conduct Medifocus' pivotal Phase III Breast Cancer Treatment Study at the University of Oklahoma Breast Institute, in Oklahoma City, under the supervision of William C. Dooley, M.D. the Principal Investigator for the FDA-approved study.

In March of 2011, Medifocus announced that its company information was accepted to be made available via Standard & Poor's Market Access Program, an information distribution service that enables subscribing publicly traded companies to have their company information disseminated to users of Standard & Poor's Advisor Insight.

In July of 2011, the Western Institutional Review Board (WIRB) granted IRB approval to the Comprehensive Breast Center of Coral Springs Florida, a division of 21st Century Oncology, to conduct Medifocus' pivotal Phase III Breast Cancer Treatment Study, under the supervision of Dr. Mary Beth Tomaselli, M.D.

In July of 2011, Medifocus initiated its first two clinical study sites to begin its pivotal Phase III study for the treatment of large breast cancers. The two clinical sites are at the University of Oklahoma Breast Institute in Oklahoma City and at the Comprehensive Breast Center of Coral Springs Florida, a division of 21st Century Oncology.

Risk Factors

The Company is, and will continue to be, subject to numerous risk factors, including the risks associated with: funding, planning and conducting clinical trials; the possibility of changes in applicable regulatory requirements, competition; technological change; implementation of business strategies; reliance on key personnel; protection of intellectual property; future acquisitions; and capital requirements.

For detailed review of the risk factors, please refer to the filing statement dated August 26, 2008 and filed with SEDAR.

5. Summary of Quarterly Results

The following table sets forth, for the quarters indicated, information relating to the Company's revenue, net loss and loss per common shares.

	Revenues	Net Loss	Basic and Diluted Net Loss / Share
September 30, 2010	—	(175,640)	(0.0069)
December 31, 2010	—	(105,121)	(0.0041)
March 31, 2011	—	(1,039,444)	(0.0400)
June 30, 2011	—	(227,829)	(0.0074)
September 30, 2011	—	(267,746)	(0.0083)
December 31, 2011	—	(246,929)	(0.0097)
March 31, 2012	—	(183,479)	(0.0054)
June 30, 2012	—	(284,500)	(0.004)

For further quarterly financial information, please refer to the Company's consolidated interim consolidated financial statements that have been filed on SEDAR. Any variations from quarter to quarter reflect normal variations in expenditures, except for the quarter ended March 31, 2011. In this quarter the Company issued stock options and share grants that increased expenditures significantly.

6. Liquidity

The Company's objective is to maintain sufficient liquid resources to meet operational requirements. As at June 30, 2012, the Company had cash of $2,377,343 [March 31, 2012 - $60,713]. In addition, the Company held $2,000,000 in restricted cash until final Exchange approval of the private placement of June 2012 was given on August 13, 2012. The Company's working capital position at June 30, 2012 was positive 3,094,753 [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.

Management anticipates that additional financing will be available and may be sourced to allow the Company to continue its research activities. However, there can be no assurance that it will be successful.

7. Capital Resources

As at June 30, 2012, the Company had sufficient capital resources to meet its desired development programs for fiscal 2012. On July 6, 2012, the Company announced plans to raise $4 million through a private placement. The completion of this financing would allow the Company to realize its development programs in 2012 and into 2013.

8. Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or reasonably likely to have, a current or future effect upon the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

9. Transactions with Related Parties

The following amounts were earned as consulting fees and management salaries for the three months ended June 30:

	2012	2011
Chief Executive Officer	$ 61,377	$ 60,937
Chief Financial Officer	$ 15,000	$ 15,000
Chief Operating Officer	$ 50,000	$ 50,000

The following amounts owing to officers are included in accounts payable as at June 30, 2012:

	2012	2011
Chief Executive Officer	$ 126,218	$ 269,263
Chief Financial Officer	$ 30,000	$ 78,000
Chief Operating Officer	$ 92,102	$ 216,652

There were no share based payments to Directors or Officers during the three months ended June 30, 2012.

10. Critical Accounting Estimates

The Company's significant accounting policies are presented in Note 2 of the condensed interim consolidated financial statements for the three months ended June 30, 2012. To prepare financial statements in conformity with IFRS, the Company must necessarily make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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 property, plant and equipment, amortization of intangible assets, valuation of intangible assets, 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.

11. Proposed transactions

The Company has not entered into any significant transaction, nor is it currently reviewing any such transaction, which requires board approval, shareholder approval or regulatory approval that has not been discussed within this MD&A. Please refer to "Subsequent Events" for a discussion on the acquisition of the Prolieve assets from Boston Scientific Corporation.

12. Future changes in Accounting Policies

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.

13. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable, amounts due to employees and consultants and convertible promissory debt 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, and restricted cash

The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major Canadian and US banks. 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 June 30, 2012 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 and certain of the amounts due to employees and consultants, all of which is at fixed interest rates, and considers itself to have very minimal exposure to interest rate risk.

Liquidity risk

Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business of commercializing the APA System for the treatment of cancer.

As at June 30, 2012, the Company had cash of $2,377,343 [March 31, 2012 - $60,713]. In addition, the Company held $2,000,000 in restricted cash until final Exchange approval of the private placement of June 2012 was given on August 13, 2012. The Company's working capital position at June 30, 2012 was positive 3,094,753 [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 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 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.

14. Other MD&A Disclosure

Outstanding Share Data as at August 29, 2012

	Number or Principal Amount Outstanding	Maximum Number of Common Shares Issuable, if Convertible, Exercisable or Exchangeable
Common Shares	74,752,442	N/A
Stock Options	3,000,000	3,000,000
Shares to be issued	4,355,545	4,355,545
Warrants outstanding	50,853,015	50,853,015
Maximum common shares outstanding		132,961,002

15. Disclosure Controls and Procedures

Disclosure controls and processes have been designed to ensure that information required to be disclosed by the Company is compiled and reported to Company management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of June 30, 2012, that the

Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by employees and third party consultants working for the Company. There have been no significant changes in the Company's disclosure control and processes during the three months ended June 30, 2012.

The Company's Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and processes will provide a reasonable level of assurance and that they are effective; nevertheless, they do not expect that the disclosure controls and processes will prevent all errors and frauds. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

16. Internal controls over Financial Reporting

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings". ICFR is intended to provide reasonable assurance regarding the preparation and presentation of financial statements for external purposes in accordance with applicable generally accepted accounting principles ("GAAP") or IFRS. Internal control systems, no matter how well designed, have inherent limitations.

Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the design of the Company's ICFR as of June 30, 2012, pursuant to the requirements of National Instrument 52-109. The Company has designed appropriate ICFR for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS GAAP.

Management has determined that the Company's internal controls over financial reporting have been effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS GAAP.

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

17. Subsequent Events

Acquisition of assets

On July 25, 2012, the Company closed an agreement with Boston Scientific Corporation for the purchase of all of the assets of its Prolieve business, which sells devices for the treatment of Benign Prostatic Hyperplasia (BPH). The total purchase price is US $5 million. Medifocus will pay Boston Scientific Corporation US $2.5 million upon closing of the transaction and the remainder will be paid in quarterly instalments contingent upon the sales performance of the Prolieve business, up to a maximum of US $2.5 million. A refundable deposit of US $250,000 had been paid by the Company on March 16, 2012.

The Prolieve System is an in-office technology, a medical device that both heats the prostate and dilates the prostatic urethra. The purpose of the Prolieve System is to treat the symptoms of enlarged prostate (BPH) in men who would benefit from drug or surgical therapy. The Prolieve System is FDA approved. Prolieve was originally developed and commercialized by the current Medifocus management and scientific teams. The assets acquired by Medifocus include all Prolieve hardware inventories, Rocky Mountain Mobile Services and its mobile distribution assets, as well as the intellectual property portfolio associated with the Prolieve technology. The Prolieve design is based on a platform technology from which other disposable microwave heating catheters for various deep seated anatomical sites can also be developed.

The purchase of the Prolieve business assets is a significant business enhancement event for the Company. With Prolieve, Medifocus now transforms from a development stage cancer treatment medical device company to a mature medical treatment systems and devices company with a revenue-generating commercial product for treatment of BPH and an innovative focused-heat breast cancer treatment system in advanced phase III clinical development. Using the Prolieve technology platform and the APA focused-heat platform, the Company is well positioned to develop a rich pipeline of minimally invasive and side

effect-free focused-heat treatment systems and devices for cancer and other diseases.

Subsequent to the end of the period, the Company converted USD $155,000 of the convertible debentures to common shares at $0.11 per share and paid the remaining USD $125,000 in cash.

18. Approvals

The Directors of the Company have approved the disclosure contained in this MD&A and a copy will be provided to anyone who requests it.