Medifocus Inc.

FORM 51-102FI

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2010

February 28, 2011

1. Date

This Management Discussion and Analysis ("MD&A") for the three and nine months ended December 31, 2010 is dated February 28, 2011 and should be read in conjunction with the Company's interim consolidated financial statements for the three and nine months ended December 31, 2010, and the Company's annual audited financial statements dated March 31, 2010. All financial information is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is expressed in Canadian dollars.

2. Overview

Medifocus Inc. ["Medifocus" or the "Company"] was incorporated under the *Business Corporation Act* (Ontario) on April 25, 2005. Prior to completion of the Reverse Takeover with Celsion (Canada) Limited ["Celsion"], the Company was classified as a Capital Pool Company pursuant to the policies of the TSX Ventures Exchange Inc. [the "Exchange"]. The company was a non-operating public enterprise and did not meet the definition of a business under the provision of EIC –124; therefore the acquisition did not constitute a business combination under the provisions of EIC- 10. Accordingly, the acquisition has been accounted for as a capital transaction rather than a business combination.

Qualifying Transaction

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

Pursuant to the terms and subject to the conditions of the Share Exchange Agreement, the Company issued an aggregate of 11,200,000 Medifocus Shares at a deemed issue price of $0.50 per share to the shareholders of Celsion and agreed to pay to such shareholders an amount of $165,000 following the completion of the Qualifying Transaction. The Share Exchange Agreement was negotiated at arm's length among Medifocus, Celsion and the shareholders of Celsion. An additional 100,000 common

shares were issued to Infund Management Limited for past services rendered to Celsion.

In addition 903,112 units, valued at $0.50 per unit were issued to Celsion Corporation *(USA)* in respect of a portion of the indebtedness previously incurred by Celsion following its acquisition from Celsion Corporation *(USA)* of the business now being carried by Celsion. Another 763,168 units were issued to the holders of the 2006 Bridge Notes of Celsion with respect to the conversion of $310,556 in principal amount of such notes, plus accrued interest. In both cases the units bear the same terms and conditions as the units being offered in connection with the private placement described below.

Following the Qualifying Transaction, Celsion is a wholly-owned subsidiary of Medifocus. Medifocus will carry on the business of Celsion under current Celsion management. Dr. Augustine Cheung serves as chief executive officer and director, and John Mon serves as chief operating officer of Medifocus.

Concurrently with the closing of the Qualifying Transaction, Medifocus completed a private placement of 4,140,755 units, at a price of $0.50 per unit, for aggregate gross proceeds of $2,070,377.50. Each unit consists of one common share of Medifocus and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Medifocus for a period of 24 months at a price per share of $0.60. On November 23, the Company announced that it will extend the expiry date of 5,807,035 outstanding common share purchase warrants by two years. The warrants were issued by Medifocus in November 2008 by way of private placement. Each warrant entitles the holder to acquire one common share of Medifocus at a price of $0.60.

Management has negotiated with employees and consultants, payment of the monies owed to each for past services. The Company has issued, subsequent to the end of the year, 3,092,105 common shares to employees and consultants in settlement of $2,370,863 of these liabilities. The Company has recorded the value of $463,816 for the shares and recognized a gain on the settlement of debt of $1,907,047 in fiscal 2009.

3. Clinical Development Milestones Accomplished

Clinical Study Details.

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 leading up to the approval by both Health Canada and the USA FDA in allowing the Company to begin its Phase III Pivotal Study. Below is the list of completed clinical study.

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) 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

Significant Milestones

Medifocus has completed a series of Clinical studies , from Phase I, Phase II, and Phase IIA and B studies under IDE approval from the FDA.

Using the excellent clinical safety and efficacy data from the above studies, in order to commercialize the APA Breast Cancer treatment system in both Canada and the USA, Medifocus must submit an application with the respective regulatory agencies in those countries in order to gain approval a pivotal Phase III study. Upon successful completion of the pivotal Phase IIIl 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 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 Investigational Device Exemption (IDE) approval from the Food and Drug Administration (FDA) to initiate a pivotal Phase III clinical trial upon obtaining institutional review board (IRB) approval from the clinical sites, using the Company's Microfocus 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 was approved by 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 Institutional Review Board (IRB) approval .

In October of 2010, University of Oklahoma Health Sciences Center's Institutional Review Board (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 Food and Drug Administration (FDA) approved study.

We are currently working with our Principal Investigator in Canada, Dr. John R. Keyserlingk, at Ville Marie Multidisciplinary Breast Center, Montreal, Ontario with his IRB and will be working with our other sites who plan to participate in our pivotal Phase III study with their IRB .

Clinical Sites for the Pivotal study in Canada and the USA are placed

The Company has selected six clinical study sites in Canada and the USA as the core centers to begin the Pivotal trial. The two sites in Canada are led by two very active and experienced breast surgeons; Dr. J. Keyserlingk (Ville Marie Medical Center, Montreal, Quebec) and Dr. N. Downs (North York General Hospital, Toronto, Ontario). In the USA, the sites and investigators are Dr. H. Vargas (Harbor Medical Center, UCLA, Los Angeles, California), Dr. J. Harness (St. Joseph Hospital, Orange, California), Dr. W. Dooley (Health Science Center, University of Oklahoma, Oklahoma City, Oklahoma), and Dr. M. Tomeselli (Comprehensive Breast Center, Coral Springs, Florida). The four USA sites selected were the most active participants of the Company's FDA phase1, Phase 2 and randomized Phase2 studies which established the safety and efficacy of focused heat for treatment of breast cancer. Dr. J Harness is the current president of the American College of Breast Surgeons. Both Dr. Dooley and Dr. Harness are considered by many to be thought leaders in treatment of breast cancer.

Memorandum of Understanding signed with University of Hong Kong to begin clinical studies.

Medifocus has also signed a memorandum of understanding with the Queen Mary Hospital in Hong Kong as an additional participant of the trial once the IDE approval from the FDA to begin the pivotal trial in the USA has been received. The addition of The Queen Mary Hospital in Hong Kong is for two strategic reasons. First the Company will rely on Queen Mary to provide the majority of the data for smaller sized tumors to support expanding the clinical indications to include medium sized tumors and second, clinical data from Queen Mary may be used to support an application for commercial market approval from the Chinese

SFDA to begin commercial sales of the breast cancer systems in China. The Company plans to use eight clinical sites for the pivotal study.

Clinical Sites

Medifocus entered into a memorandum of understanding with six clinical investigational sites, two in Canada and four in the United States, to conduct the proposed pivotal clinical trial and is preparing the clinical APA Systems to be deployed to the clinical sites as soon as approval is received for the pivotal trial to commence. Medifocus has selected these sites for their expertise and interest in Medifocus technology. Medifocus may add additional sites or change sites, if warranted, in order to complete the pivotal trial more expeditiously.

The clinical sites and principal investigators for the proposed clinical trial of the APA System are set out in the following table:

Investigators/Investigational Sites for Large Breast Cancer Tumor Pivotal Study

Clinical site	**Principal Investigator**
Ville Marie Multidisciplinary Breast Center, Montreal, Canada	John R. Keyserlingk, MD
North York General Hospital Toronto, Ontario	Nancy Down, MD
Univ. of Oklahoma Health Sciences Center Oklahoma City, Oklahoma	William C. Dooley, MD
Comprehensive Breast Center of Coral Springs Coral Springs, Florida	Mary Beth Tomaselli, MD
St. Joseph's Hospital Orange, California	Jay Harness, MD

4. Results of Operations

The net loss for the nine-month period is $603,273 compared to a loss of $550,243 in the previous year. Foreign exchange gains during the period amounted to only $8,000 compared to $245,297 of foreign exchange gains in the same period of 2009. Reductions in professional fees of $68,892 and general and administrative expenses of $87,910 mitigated the losses during the period.

Interest income is earned on cash balances maintained in the accounts. Revenue from interest income in the current period was nil compared to $13,855 in the same period of 2009.

Nature of Business

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, 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.

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 for increased effectiveness over those treatments alone and 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. 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 Company's purposes have been licensed exclusively to the Company. These aspects relate primarily to the focusing of microwave energy, with the generation of energy as a secondary consideration. The company's APA System incorporates further refinements in the precise focusing of microwaves and in detection feedback and mechanisms.

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 to allow clinical investigators to bill for insurance reimbursements during clinical trials 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.

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; 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.

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.

5. Summary of Quarterly Results

The following table sets forth, for the quarter indicated, information relating to the Company's revenue, net loss and loss per common share as prepared under generally accepted accounting principles in Canada.

	Revenues	Net Loss	Basic and Diluted Net Loss / Share
March 31, 2009	**14,889**	951,535	0.111
June 30, 2009	**9,970**	(142,042)	(0.005)
September 30, 2009	**3,534**	(278,367)	(0.0114)
December 31, 2009	**351**	(115,979)	(0.005)
March 31, 2010	**1,045**	(344,244)	(0.0141)
June 30, 2010	—	(322,512)	(0.0131)
September 30, 2010	—	(175,640)	(0.0069)
December 31, 2010	—	(105,121)	(0.0041)

For further quarterly financial information, please refer to the Company's financial statements that have been filed on SEDAR.

6. Liquidity

The Company had a working capital deficiency of $1,179,277 at December 31, 2010. The Company is actively seeking financing to fund its clinical trials and working capital for the year.

7. Capital Resources

The Company does not have sufficient capital resources to meet its desired development programs for fiscal 2011. Financing plans have been delayed with the collapse in financial markets. The Company raised

$527,499 in gross proceeds through a private placement during the period and $207,500 in gross proceeds through a private placement subsequent to the end of the period, however, further funding is required. An additional $280,000 was raised in December 2010 and January 2011 through the issuance of a Convertible Debenture. The Convertible Debentures mature 12 months after the date of issue and bear interest at 15% per annum, payable upon the earliest to occur of the maturity date or conversion in full into common shares of the Company. The principal amount of the Convertible Debentures is convertible into common shares of the Company, at any time from the date of issuance until the maturity date, at a price equal to $0.11 per common share. The Company may also at any time, without penalty, prepay in whole or in part the principal amount and accrued interest of the Convertible Debentures. The Company is currently considering various alternatives to raise the required funds.

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 results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

9. Transactions with Related Parties

Included in long-term liabilities is approximately $162,974 owed to the Chief Executive Officer for past salary and un-reimbursed expenses.

The Company has paid marketing fees of $45,000 and administrative fees of $10,500 during the period, to two Companies in which a Director of Medifocus is also a Director.

10. Critical Accounting Estimates

The Company's significant accounting policies are presented in Note 2 of the consolidated financial statements for the period ended March 31, 2010.

11. Changes in Accounting Policies

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The Company has evaluated the EIC and determined that adoption of these requirements had no impact on the Company's consolidated financial statements.

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets" which replaces CICA Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-operating Period", and part of Accounting Guideline 11, "Enterprises in the development stage". Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ["IFRS"]. The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA 3064 are: [1] to reinforce the principle-based approach to the recognition of assets; [2] to establish the criteria for asset recognition; and [3] to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the recognition criteria is eliminated. The standard also provides guidance for the recognition of internally developed intangible assets [including research and development activities], ensuring consistent treatment of all intangible assets. The portions in the standard relating to goodwill remain unchanged.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations for the period ended December 31, 2010.

Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applied to the Company's fiscal year ending March 31, 2010. This adoption resulted in additional disclosure as provided below.

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

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

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

	Level One	Level Two	Level Three
Cash and cash equivalents	$ 108,217	$ -	$ -

Future accounting changes

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

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

12. International Financial Reporting Standards ["IFRS"]

In January 2006, the CICA's Accounting Standards Board ["AcSB"] formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The Company will be required to have prepared, in time for its first quarter of fiscal 2011 filing, comparative financial statements in accordance with IFRS for the three months ended June 30, 2010. Accordingly, the Company will report interim and annual financial statements in accordance with IFRS beginning with the year ended March 31, 2011. The Company's 2011 interim and annual financial statements will include comparative 2010 financial statements, adjusted to comply with IFRS. It is expected that the overall presentation of the financial statements will change significantly, as the Company complies with increased disclosure requirements under IFRS and differing presentations of the balance sheet and statements of loss and cash flows. The Company is currently assessing the impact of transition to IFRS on its consolidated financial statements.

Management anticipates completing its conversion to IFRS on a timely basis under the following convergence plan. The conversion to IFRS is being led by the Company's Vice-President and Chief Financial Officer, who along with outside consultants and the Company's auditor, will execute the conversion project in accordance with the following phases

Phase 1; Review and Assessment

In this phase, management will conduct a detailed review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices, give separate consideration of one-time accounting policy alternatives that must be addresses at the IFRS adoption date, and address those accounting policy choices that will be applied on an ongoing basis in periods subsequent to adoption of IFRS.

Management is currently in the 'review and assessment' stage and is evaluating the impact of IFRS on its financial statement and prioritizing those differences that could have a significant impact on our financial statements. Management expects to complete its review and assessment by December 31, 2010.

Phase 2; Implementation

In this phase, management will implement the changes to affected accounting policies and practice, business processes, systems and internal controls. The changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are properly addressed at the time for the changeover to IFRS.

This phase is scheduled to start early in the fourth quarter of 2010 allowing management ample time to comply with reporting under IFRS in 2011.

Significant accounting impacts of conversion to IFRS

Management expects differences between Canadian GAAP and IFRS to impact the Company's accounting activities at varying degrees, some of which are dependent on policy-choice decisions available in the transition period. The Company's main objective in the selection of IFRS policies and transition elections is to become IFRS compliant while ensuring it

provides meaningful and transparent information to stakeholders. The audit committee of the Company will be kept informed of management's decisions on accounting policy choices under IFRS, project status and significant IFRS developments.

The Company will complete its assessment of all accounting policy differences that may arise on conversion to IFRS in the third quarter of 2010. The following is a summary of potential accounting policy differences that have been identified to date. The Company has not yet quantified the impact of these differences on its consolidated financial statements.

Product Development Costs

The Company is in the research and clinical trials stage and under Canadian GAAP currently capitalizes all costs related to product development. Management regularly reviews the carrying value of its product development costs for evidence of impairment, and makes a provision when the carrying values are estimated to exceed their net recoverable amounts.

Under IFRS product development costs shall continue to be measured at cost, but the Company will have to determine an accounting policy specifying which expenditures are to be recognized as product development assets, and then apply that policy consistently.

In addition, under IFRS and under International Accounting Standard (IAS) 36, "*Impairment f Assets*", the Company will be required to assess at the end of each reporting period whether there is any indication that the asset may be impaired. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist. Canadian GAAP prohibits reversal of impairment losses. It is expected therefore, that there will be increased volatility in impairment recognition due to increase in frequency of assessment and possibility of reversal of impairments.

Equipment

IFRS requires that the Company identify the different components of fixed assets and record amortization based on the useful life of each component. The Company has reviewed the depreciation of its existing equipment and does not expect any material differences between IFRS and the Company's current depreciation policies.

Other Policy Differences

A number of differences between Canadian GAAP and IFRS have been identified, but their applicability and potential impact to the Company have not yet been assessed, including the accounting for income taxes, foreign currency transactions, stock-based compensation, financial instruments and disclosure requirements. These differences may have a material impact on the Company's financial statements. A more detailed review of the impact of IFRS on the Company's consolidated financial statements is in progress and will be completed by the end of the third quarter.

Management will continue to monitor current IFRS developments as changes are expected to come into effect as the Company transitions to IFRS.

Other impacts of conversion to IFRS: Information Technology and Data Systems, Internal Controls Over Financial Reporting, Disclosure Controls and Procedures, and Business Activities and Key Performance Measures

In addition to the impact of IFRS on accounting policies, management is also in the process of assessing the impact of IFRS adoption on the Company's internal controls over financial reporting, disclosure controls and procedures, information technology and data systems. As a preliminary assessment, the Company does not expect that the conversion to IFRS will have a significant impact on its accounting processes and internal controls, information technology and data systems.

The conversion from Canadian GAAP to IFRS will require the implementation of a new set of accounting standards, and the internal controls over financial reporting will need to address the initial reporting of IFRS financial statements, including related note disclosures, as well as

on-going financial reporting. As the review of the accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting will be made. For example, under IFRS 6 and IAS 36, discussed above, the Company will be required to assess at the end of each reporting period whether there has been any indication that the asset may be impaired. Additional controls will be need to be designed and implemented to ensure that the recorded balance is fairly stated at each reporting period. It is anticipated that such controls will include senior management oversight on the development of key assumptions and variables. The certifying officers plan to complete the design, and initially evaluate the effectiveness of these controls in the third and fourth quarter of 2010 to prepare for conversion under IFRS in 2011.

In the implementation phase of the IFRS conversion plan commencing in the fourth quarter of 2010, the Company will be updating its disclosure controls and procedures to ensure that they are appropriate for reporting under IFRS. The Company will also ensure that its key stakeholders are informed about anticipated effects of the IFRS transition.

Financial Reporting Expertise

Management will be relying on outside consultants and auditors to assist with the transition where sufficient technical expertise does not exist in-house.

13. Financial Instruments and Other Instruments

The Company is not involved in any hedging program, nor is it party to any financial instruments that may have an impact on its financial position.

14. Other MD&A Disclosure

Outstanding Share Data as at February 28, 2011

	Number or Principal Amount Outstanding	Maximum Number of Common Shares Issuable, if Convertible, Exercisable or Exchangeable
Common Shares	**26,786,442**	**N/A**
Stock Options	**2,465,000**	**2,465,000**
Shares to be issued	**6,267,130**	**6,267,130**
Warrants outstanding	**8,257,032**	**8,257,032**
Maximum common shares outstanding		**43,775,604**

15. Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2008. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

16. Subsequent Events

Subsequent to the end of the period, the Company granted options to acquire an aggregate of 1,800,000 common shares to officers of the Company under its Plan. Each option is exercisable to acquire one common share at a price of $0.24 per share for a three-year period.

Subsequent to the end of the period, the Company granted 850,000 common shares to Directors and Officers of the Company. Each option is exercisable to acquire one common share at a price of $0.24 per share for a five-year period.

Subsequent to the end of the period, the Company issued and additional $65,000 of convertible debentures (the "Convertible Debentures"). The Convertible Debentures mature 12 months after the date of issue, and bear interest at 15% per annum, payable upon the earliest to occur of the maturity date or conversion in full into common shares of the Company. The principal amount of the Convertible Debentures is convertible into common shares of the Company, at any time from the date of issuance until the maturity date, at a price equal to $0.11 per common share. The Company may also at any time, without penalty, prepay in whole or in part the principal amount and accrued interest of the Convertible Debentures.

17. 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.