MEDIFOCUS INC.

Consolidated Financial Statements
March 31, 2010 and 2009

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AUDITOR'S REPORT

To the Shareholders

Medifocus Inc.

I have audited the consolidated balance sheets of **Medifocus Inc.** as at March 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
July 29, 2010

T. Robert Hambley
Chartered Accountant
Licensed Public Accountant

Medifocus Inc.

CONSOLIDATED BALANCE SHEET

As at	**March 31, 2010**	March 31, 2009
	$	$
ASSETS		
Current		
Cash and cash equivalents	**60,181**	1,946,578
Restricted cash *[note 2]*	**373,027**	—
Prepaid expenses and sundry assets	**43,263**	27,433
Total current assets	**476,471**	1,974,011
Product development charges *[note 2]*	**2,652,167**	1,909,550
Fixed assets, net *[note 5]*	**22,754**	31,393
	3,151,392	3,914,954
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**740,091**	787,157
Advance subscriptions *[note 2]*	**373,027**	—
Due to Celsion Corporation *(USA) [note 6]*	**—**	249,900
Convertible promissory debt *[note 7]*	**216,325**	231,470
Total current liabilities	**1,329,443**	1,268,527
Long term		
Due to employees and consultants *[note 15]*	**463,329**	558,675
Shareholders' equity		
Capital stock *[note 8]*	**3,385,892**	3,385,892
Common shares to be issued *[note 8]*	**615,316**	463,816
Accumulated deficit	**(2,642,588)**	(1,761,956)
Total shareholders' equity	**1,358,620**	2,087,752
	3,151,392	3,914,954

See accompanying notes

On behalf of the Board:

Director
Joseph S.C. Chan

Director
Dr. Augustine Cheung

Medifocus Inc.

CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the Year Ended	***March 31, 2010***	*March 31, 2009*
	$	*$*
Revenue	**14,900**	33,177
Operating Expenses		
Development and investor relations	**497,343**	196,366
General and administrative	**183,221**	326,976
Professional fees	**370,395**	471,506
Listing fees	**20,689**	70,312
Accretion of discount	**—**	173,693
Interest	**38,685**	66,893
Foreign exchange (gain) loss	**(223,440)**	950,055
Amortization	**8,639**	13,046
	895,532	2,268,847
Net loss and comprehensive loss before the following;	**(880,632)**	(2,235,670)
Gain on settlement of debt *[note 8]*	**—**	1,907,047
Net loss and comprehensive loss	**(880,632)**	(328,623)
Accumulated deficit, beginning of year	**(1,761,956)**	(2,383,716)
Effect of reorganization	**—**	950,383
Accumulated deficit, end of year	**(2,642,588)**	(1,761,956)
Basic and fully diluted loss per share	**(0.036)**	(0.038)
Weighted average number of common shares outstanding *[note 11]*	**24,236,445**	8,606,180

See accompanying notes

Medifocus Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended	***March 31, 2010***	*March 31, 2009*
	$	*$*
OPERATING ACTIVITIES		
Net loss for the year	**(880,633)**	(328,623)
Items not involving cash		
Amortization	**8,639**	13,046
Accretion of discount	**—**	173,693
Foreign exchange (gain) loss	**(220,871)**	950,055
Gain on settlement of debt	**—**	(1,907,047)
Net change in non-cash working capital balances related to operations *[note 10]*	**265,958**	(2,352,046)
Cash provided by operating activities	**(826,907)**	(3,450,922)
INVESTING ACTIVITIES		
Additions to product development charges	**(742,617)**	(538,465)
Cash used in investing activities	**(742,617)**	(538,465)
FINANCING ACTIVITIES		
Issuance of common shares, net of transaction costs	**—**	1,913,196
Issuance of common shares for exercise of warrants	**—**	85,882
Shares to be issued in payment of services	**151,500**	—
Due to employees and consultants	**(95,346)**	558,675
Effect of reorganization	**—**	3,367,094
Cash provided by (used in) financing activities	**56,154**	5,924,847
Net increase in cash and cash equivalents during the year	**(1,513,370)**	1,935,460
Cash and cash equivalents, beginning of year	**1,946,578**	11,118
Cash and restricted cash, end of year	**433,208**	1,946,578

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010 and 2009

1. NATURE OF OPERATIONS

(a) The Company and Going Concern

Medifocus Inc. [the "Company"] was incorporated under the *Business Corporations Act* (Ontario) on April 25, 2005. Prior to completion of the Reverse Takeover [the "Acquisition"] with Celsion (Canada) Limited ["Celsion"] as discussed below, the Company was classified as a capital pool company pursuant to the policies of the TSX Ventures Exchange [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.

The Company is in the business of development and commercialization of minimally invasive, focused heat tumor targeting cancer treatment devices and systems. Medifocus owns a patented microwave focusing technology platform, the Adaptive Phased Array ("APA") thermotherapy system, which can precisely target and concentrate microwave energy to destroy cancer tumors without damaging healthy tissue when used alone or in conjunction with chemotherapy or radiation. The core technology has been exclusively licensed from MIT. The Company has also built a comprehensive Intellectual Property portfolio consisting of a total of 9 US and 20 international patents to protect the technology platform. The Company has advanced the commercial development of a dedicated system for the treatment of breast cancer to the pivotal Phase III stage and has received approval from both Health Canada and U.S. Food and Drug Administration to begin pivotal trials.

The accompanying consolidated financial statements have been prepared on the assumption that the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business and do not reflect any adjustments that may be required if this assumption proves to be incorrect. 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 develop its technologies. Management has anticipated that additional financing will be available and may be sourced in sufficient time to allow the Company to continue its product development activities. However, there can be no assurance that it will be successful.

Reverse Takeover

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

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

In addition 903,112 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 and 763,168 units were issued to the holders of the 2006 Bridge Notes Payable of Celsion with respect to the conversion of $310,556 in principal amount of such notes, plus accrued interest (on the same terms and conditions as the units being offered in connection with the private placement described below), valued at $0.50 per unit.

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

(b) The Stock Purchase Agreement and Asset Acquisition

On January 16, 2006 Celsion purchased from Celsion Corporation *(USA)* all of the assets relating to breast cancer Microfocus APA 1000 System ("System"), consisting of the microwave machine technology, the adaptive phased array ("APA") technology licensed from Massachusetts Institute of Technology ("MIT"), and all related intellectual and regulatory property (collectively, the "Business"). The Company has a commitment to pay a 5% royalty on the net sales of products sold by and patent royalties received by the Company and its successors and assignees, the 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. Celsion Corporation *(USA)* also agreed to provide certain services and financing to Celsion pursuant to a Transition Services Agreement between Celsion and Celsion Corporation *(USA)*.

(c) The Transition Services Agreement

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

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

expenses advanced above $100,000 at the rate of prime + 1%.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, particularly with respect to the valuation of product development costs, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Cash, cash equivalents and restricted cash

Cash and cash equivalents consist of commercial accounts, trust accounts and interest bearing bank deposits with maturities of 90 days or less at the time of purchase. As at March 31, 2010, the Company's cash and cash equivalents consist of cash on account of $60,181. The Company received $373,027 from private placement subscriptions in advance of the closing of the private placement. The private placement closed subsequent to the end of the year, and accordingly, the Company has recorded the money received as restricted cash, and recorded advance subscriptions of $373,027.

Capital assets

Property and equipment are recorded at cost less specifically related tax credits and are amortized on a declining balance basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	20%
Equipment	20% - 30%

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Patents and Licenses

The Company capitalizes the cost of acquiring patents and licenses from third parties.

Product Development Charges

The Company capitalizes the cost of preparing the Microfocus APA 1000 System to enter clinical trial, and the design of the trial, and will amortize that cost over the useful life of the APA System patents once the APA System is approved and placed in service. These charges are tested for impairment by comparing its net book value with the undiscounted projected future cash flows from their use. No amortization expense was recognized through March 31, 2010 because the APA Systems have not been placed into service. The Company has received approval from Health Canada and the US FDA to initiate clinical trials. Following the completion of the clinical trials, expected in fiscal 2013, the APA System will be placed into use.

Research and Development Costs

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

Tax Credits and Other Government Assistance Recoverable

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

Income Taxes

The Company follows the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted or substantively enacted income tax rates and laws in effect when the differences are expected to reverse. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by the use of a valuation allowance which is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Stock Based Compensation

The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as an expense in the consolidated statements of net loss and comprehensive loss and deficit and as contributed surplus on the consolidated balance sheets. On the exercise of stock options, consideration received and the respective accumulated contributed surplus amount are credited to share capital.

Stock options and warrants awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received.

Shares Issued for Commercial Transactions

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

Loss Per Share

Basic and diluted loss per share is calculated using the weighted average number of common shares outstanding during the year.

Foreign currency translation

The Company conducts business in Canada and USA. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet dates. Revenue and expenses denominated in foreign currencies are translated using the average exchange rate for the year. Foreign currency gains and losses arising from translation of balances are included in the determination of net loss for the year.

Comprehensive income

Section 1530 sets out reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is composed of net income and other comprehensive income ["OCI"]. The Company does not have any components of comprehensive income except for net loss and therefore this policy has had no impact on the Company's financial statements.

Financial instruments

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

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

The Company has made the following classifications:

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

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

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

Hedges

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

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

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

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

The Company had no such hedges for the year ended March 31, 2010.

3. 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 year ended March 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	$ 60,181	$ -	$ -
Restricted cash	$ 373,027	$ -	$ -

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.

4. 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 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 September 30, 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.

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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 third 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.

5. PROPERTY AND EQUIPMENT

Property and equipment are composed of the following:

	2010			2009		
	Cost $	**Accumulated amortization** $	**Net book value** $	Cost $	Accumulated amortization $	Net book value $
Equipment	**46,995**	**35,258**	**11,737**	46,995	30,228	16,767
Furniture and fixtures	**20,464**	**13,097**	**7,367**	20,464	11,255	9,209
Leasehold improvements	**10,600**	**6,950**	**3,650**	10,600	5,183	5,417
	78,059	**55,305**	**22,754**	78,059	46,666	31,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. DUE TO CELSION CORPORATION *(USA)*

Advances from Celsion Corporation *(USA)* (see Note 1) represent funds advanced to the Company under the Transition Services Agreement. On November 25, 2008, the Company converted $570,000 of the debt owing to Celsion Corporation into equity by issuing 903,112 common shares and 903,112 warrants to purchase 903,112 common shares at $0.60 during the following 24 months. The balance of advances owing to Celsion Corporation *(USA)* of $249,900 was repaid during the year.

7. FUNDING ARRANGEMENTS

Prior to completing the Qualifying Transaction, Celsion raised bridge financing in two transactions. The first bridge financing was done in 2006, which raised the principal amount of USD $279,500. The bridge financing investors paid for promissory notes from the Company at a 10% discount to their maturity value (the notes aggregate USD $310,556 in principal maturity value) and pay interest at 1% per month or portion thereof on the maturity value. The maturity value and accrued interest were converted into common stock of the Company on November 25, 2008 with the issuance of 763,168 units. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months at a price per share of $0.60.

In 2007 the Company raised additional bridge financing of USD $150,000. The bridge financing lender received a promissory note from the Company for USD $150,000 with interest payable at 1.5% per month on the face value. The face value and accrued interest were payable December 21, 2009, and were extended to September 30, 2010. The lender may convert the balance due into common stock of the Company at a discount to market as approved by the TSX-V.

8. CAPITAL STOCK

[a] Share capital

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

The continuity of share capital is as follows:

	Number #	**Amount** $
Celsion common shares, March 31, 2007	103.38	52,081
Reversal of Celsion common shares	(103.38)	
Medifocus common shares, March 31, 2008	6,650,000	1,125,000
Shares issued on exercise of warrants *[i]*	429,410	85,882
Effect of reorganization *[ii]*		(1,125,000)
		(165,000)
Medifocus shares issued in exchange of Celsion shares *[ii]*	11,200,000	
Shares issued for debt settlement *[iii]*	1,666,280	1,374,733

Shares issued in payment of professional fees *[iv]*	250,000	125,000
Shares issued in private placement, net of transaction costs *[v]*	4,140,755	1,913,196
Balance, March 31, 2009 and March 31, 2010	**24,336,445**	**3,385,892**

[i] On July 12, 2008, 429,410 broker warrants were exercised for proceeds of $85,882, and 30,590 broker warrants expired unexercised.

[ii] On November 25, 2008, the Company completed its Qualifying Transaction *[see note 1]* with a Reverse Takeover of Celsion. Pursuant to the terms and subject to the conditions of the Share Exchange Agreement, the Company paid $165,000 and issued an aggregate of 11,200,000 Medifocus Shares at a deemed issue price of $0.50 per share to the shareholders of Celsion.

[iii] On November 25, 2008, concurrently with the Acquisition, the Company issued 903,112 units, valued at $0.50 per common share to Celsion Corporation *(USA)* in respect of a portion of the indebtedness previously incurred by Celsion following its acquisition from Celsion Corporation *(USA)* of the business now being carried by Celsion and 763,168 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 (on the same terms and conditions as the units being offered in connection with the private placement described in note [v] below), valued at $0.50 per unit.

[iv] On November 25, 2008, the Company issued 250,000 common shares in payment of professional fees incurred in the completion of the Acquisition and Reverse Takeover.

[v] On November 25, 2008, the Company completed a private placement of 4,140,755 units, at a price of $0.50 per unit, for aggregate gross proceeds of $2,070,377.50. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months at a price per share of $0.60.

[vi] On August 13, 2009, the Company finalized its agreement to convert $2,370,863 of liabilities payable to employees, consultants and other vendors by issuing 3,092,105 common shares. The Company 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.

[vii] On February 26, 2010, the Company agreed to convert $151,500 of liabilities payable to consultants and other vendors by issuing 500,000 common shares.

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

	Purchase warrants			
	Number #	**Exercise price** $	**Expiry date** #	**Year of issue**
Share purchase warrants	**1,666,280**	**0.60**	11/25/2010	2008

Share purchase warrants	**4,140,755**	**0.60**	11/25/2010	2008
Outstanding, end of year	**5,807,035**			

The weighted average exercise price of the outstanding warrants as at March 31, 2010 was $0.60.

9. STOCK OPTIONS

The Company may grant stock options to directors, senior officers and service providers by resolution of the Board of Directors. The exercise price will reflect the market price of the Company's stock on the date of the grant. The Board plans to establish a maximum number of stock options issuable to employees and board members.

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

	2010		2009	
	Number #	**Weighted average exercise price** $	Number #	Weighted average exercise price $
Outstanding, beginning of year	**665,000**	**0.20**	**1,125,000**	**0.20**
Forfeited	—	**0.20**	**(30,590)**	**0.20**
Exercised	—	—	**(429,410)**	—
Granted	—	—	—	—
Outstanding, end of year	**665,000**	**0.20**	**665,000**	**0.20**
Options exercisable, end of year	**665,000**		**665,000**	

The following table summarizes information about stock options outstanding at March 31, 2010:

Exercise price $	**Options outstanding** #	**Weighted average remaining contractual life** [years]	**Options exercisable** #
0.20	**665,000**	1.25	665,000

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10. STATEMENT OF CASH FLOWS

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

	2010	2009
	$	$
Prepaid expenses	**(15,830)**	(7,030)
Accounts payable and accrued liabilities	**546,833**	(1,677,939)
Interest payable	—	(74,762)
Due to Celsion Corporation	**(249,900)**	(393,052)
Convertible promissory debt	**(15,145)**	(199,263)
	265,958	(2,352,046)

The Company paid interest expense of $39,145 [2009- $66,893] during the year.

11. DILUTED EARNING PER SHARE

The computation of loss per common share for the years ended March 31, 2010 and 2009 are as follows:

	March 31, 2010	March 31, 2009
	$	$
Net loss	**(880,633)**	(328,623)
Weighted average number of shares outstanding	**24,236,445**	8,606,180
Basic and diluted loss per share	**(0.036)**	(0.038)

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12. RELATED PARTY TRANSACTIONS

Included in liabilities is approximately $ 169,553 [2009 - $140,354] owed to the Chief Executive Officer for past salary and un-reimbursed expenses.

The Company has paid marketing fees of $90,000 [2009 - $60,000] and administrative fees of $31,500 [2009 - $56,000] to two Companies in which a Director of Medifocus is also a Director.

13. COMMITMENTS

The Company has a contractual commitment to pay a royalty to Celsion Corporation *(USA)* on the net sales of products as explained in Note 1. The Company has a commitment to pay a 5% royalty to MIT on the net sales of products. Neither the royalty payable to Celsion Corporation *(USA)* or to MIT are payable until the System can be placed in the market following successful completion of the pivotal clinical trial and receipt of approval to market the System in the US and Canada from the FDA and Health Canada. The Company will expense the royalties as paid. The contractual commitments of the Company obligating it for payments currently are its license agreement with MIT and the lease pertaining to its space in Columbia, Maryland.

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

	$
2011	122,838
2012	126,566

14. INCOME TAXES

The future income tax assets and liabilities consist of the following:

	2010	2009
	$	$
Future income tax assets		
Non-capital losses carried forward	**1,345,182**	1,072,186
Capital assets	**19,478**	16,800
Other	**57,520**	57,520
Gross future income tax assets	**1,422,180**	1,146,506
Valuation allowance	**(1,422,180)**	(1,146,506)
Net future income assets	**-**	-

In addition, the Company also has non-capital losses totaling approximately $4,071,158 that have not been tax benefited and expire as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010 and 2009

	$
2026	770,533
2027	1,206,770
2028	460,215
2029	540,776
	1,092,864
	4,071,158

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

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:

	2010 $	**2009** $
Loss before income taxes	**(880,632)**	(328,623)
Income tax recovery expected at average statutory rate	**(272,996)**	(118,000)
Unrecorded tax benefit of losses	**272,996**	118,000
Income tax expense (recovery)	**-**	-

15. DUE TO EMPLOYEES AND CONSULTANTS

The Company has liabilities of $463,329 [2009 - $558,675] owing to employees and consultants for past compensation. Of this amount, $186,973 bears interest at 5% per annum and is payable by April 1, 2011. Accrued interest of $18,693 to March 31, 2010 is included in the total liability.

The Company also has agreed with some employees and consultants to pay $281,915 owing to these employees in 4 equal payments each concurrent with the Company raising one million dollars in financing. The Company has made one quarterly payment during the year and has recognized the balance of $211,437 as a long-term liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, convertible debt due to Celsion USA, and convertible promissory notes. Unless otherwise noted, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Fair Value

The fair value of cash, accounts payable, accrued liabilities and debt due to Celsion USA approximates their carrying values, due to their short-term maturity.

The carrying value of convertible promissory notes approximates fair value, as the interest rate is consistent with current notes offered to the Company for debts under similar terms.

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is not presently subject to this risk as it is a development stage company.

Market Risk

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

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market rates. The Company borrowing is at fixed rates on all obligations except a portion of the debt due Celsion USA (as described in Note 1). Celsion USA has agreed to convert all but $200,000 of the debt, which amount is anticipated to be paid at the end of August 2008. Therefore, the Company considers itself to have very minimal exposure to interest rate risk.

Liquidity Risk

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

The Company's operating cash requirements include amounts necessary to conduct its pivotal clinical trial to obtain regulatory approval to commercialize the APA System in North America. The Company is currently pursuing closing the funding transaction described in Note 7 to address its liquidity risk.

Capital Risk

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is managing its capital structure to convert to equity as much of its current debt as possible and will issue equity to obtain funding to initiate its pivotal clinical trial (see Note 13). The Company is not subject to any externally imposed capital requirements. The Company's objective is to insure adequate working capital to commercialize its APA System for the treatment of cancer and will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully.

17. CAPITAL DISCLOSURES

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

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

18. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the presentation adopted at March 31, 2010.

19. SUBSEQUENT EVENT

Subsequent to the end of the year, the Company completed a private placement for 2,449,997 units at a price of $0.30 per unit raising gross proceeds of $734,999. Each unit consists 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 $0.50 for a period of 24 months.

Subsequent to the end of the year, 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 $0.25 per share for a three-year period. The options vest as to one-third immediately and one-third on each anniversary of the date of grant.

Subsequent to the end of the year, the Company granted 600,000 common shares to the Directors of the Company.