

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **April 30, 2012**

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **000-50346**

**COUNTERPATH CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Nevada**

(State or Other Jurisdiction of Incorporation or  
Organization)

**20-0004161**

(IRS Employer Identification No.)

**Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3**

(Address of principal executive offices) (Zip Code)

**(604) 320-3344**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class

**Common Stock, par value \$0.001**

Name of each exchange on which registered

**NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

**Nil**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  
[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                             |                                               |                               |
|-----------------------------|-----------------------------------------------|-------------------------------|
| Large accelerated filer [ ] |                                               | Accelerated filer [ ]         |
| Non-accelerated filer [ ]   | (Do not check if a smaller reporting company) | Smaller reporting company [X] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Approximately \$38,125,898 based on a price of \$1.78 per share, being the average of bid and ask prices on October 31, 2011 as quoted on stockwatch.com.

**APPLICABLE ONLY TO CORPORATE REGISTRANTS:**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 41,556,353 shares of common stock issued and outstanding as of July 15, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement relating to the registrant's annual meeting of stockholders to be held on September 27, 2012 are incorporated by reference into Part III of this annual report on Form 10-K.

**COUNTERPATH CORPORATION**  
**APRIL 30, 2012 ANNUAL REPORT ON FORM 10-K**

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## PART I

### Item 1. Business.

This annual report contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to our shares of common stock. As used in this annual report, and unless otherwise indicated, the terms "we", "us" and "our" refer to CounterPath Corporation and its wholly-owned subsidiaries.

#### *Summary*

Our business focuses on the design, development, marketing and sales of personal computer and mobile application software, gateway server software and related professional services, such as pre and post sales, technical support and customization services. Our software products are sold into the telecommunications sector, specifically the voice over Internet protocol (VoIP), unified communications and fixed-mobile convergence markets. VoIP, unified communications and fixed-mobile convergence are general terms for technologies that use Internet or mobile protocols for the transmission of packets of data which may include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network.

Our customers include: (1) telecommunications service providers and Internet telephony service providers; (2) original equipment manufacturers serving the telecommunication market; (3) small, medium and large sized businesses; and (4) end users. Telecommunication service providers deploy a VoIP service along with our applications to enable their customers to communicate using voice calls, video calls, instant messaging and presence monitoring (presence is the ability to monitor a person's availability). Original equipment manufacturers combine our applications with additional software, hardware and/or services as part of their solution offerings for their customers. Businesses deploy our personal computers to enable their workforces to communicate over VoIP and extend their business phone system's features to desktop and mobile devices. Typically, small and medium sized businesses, or individual end users, purchase our personal computer applications through our website and are then responsible for selecting their own Internet telephony service provider to allow them to communicate over VoIP.

Our software uses the session initiation protocol: a protocol standard for voice, video, instant messaging and presence communication. Certain of our applications can operate on personal computers running Windows, Mac OS X and Linux operating systems as well as on mobile devices running Symbian, RIM, Apple iOS and Google's Android operating systems.

We began selling our personal computer applications in 2003 and our mobile applications and gateway server software in 2008. Since that time, over 380 customers, in over 60 countries, have purchased our software products with a purchase value of at least \$10,000. This list includes several of the largest telecom service providers and original equipment manufacturers in the world.

Our mission is to be the dominant provider of unified communications software applications that enable people to connect, communicate and collaborate using voice, video, messaging and presence on multiple devices, over both fixed and mobile networks.

Our principal executive offices are located at Suite 300, 505 Burrard Street, Vancouver, British Columbia, V7X 1M3. Our telephone number is (604) 320-3344. Our website address is [www.counterpath.com](http://www.counterpath.com). Through a link on the investor relations section of our website, we make available the following filings after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and any amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge. The information contained in our website does not form part of this annual report.

### ***Corporate History***

We were incorporated under the laws of the State of Nevada on April 18, 2003.

On August 2, 2007, we completed the acquisition of all of the shares of NewHeights Software Corporation through the issuance of 7,680,168 shares of common stock and 369,836 preferred shares issued from a subsidiary of our company, which preferred shares were exchangeable into 369,836 shares of our common stock.

On February 1, 2008, we acquired FirstHand Technologies Inc., a private Ontario, Canada corporation, through the issuance of 5.9 million shares of our common stock.

On February 1, 2008, we acquired BridgePort Networks, Inc., a private Delaware corporation, by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

On February 5, 2008, NewHeights and our subsidiary, CounterPath Solutions R&D Inc., were amalgamated under the name CounterPath Technologies Inc.

On November 1, 2010, our wholly-owned subsidiary, FirstHand Technologies Inc., was amalgamated with CounterPath Technologies Inc., under the name CounterPath Technologies Inc.

### ***Our Software Applications***

#### ***CounterPath Multi-Media Communicator Product Suite***

The CounterPath softphone product suite includes eight applications: (1) Bria; (2) eyeBeam; (3) Bria iPhone Edition; (4) Bria iPad Edition; (5) Bria Android Edition; (6) Bria Android Tablet Edition; and (7) X-Lite; (8) Client Configuration Server. The Bria versions and eyeBeam are commercial products which we sell on a per seat or subscription basis, while X-Lite is a free version of our personal computer softphone application that can be downloaded from our website and connected to any SIP-compliant VoIP service or network. X-lite is typically used by end users wishing to test our product at no charge or evaluate a VoIP service or network.

Our softphone applications enable users to make voice or video calls over VoIP networks. Features include quality of service capabilities on both fixed and wireless networks. This includes the ability to automatically prioritize packets of information during both video and voice calls to ensure that other applications on the host computer and, if supported, on the Internet do not interfere with the quality of the voice or video transmissions. Our softphone applications also enable our customers to monitor audio quality in real-time. Our softphone applications also include security features such as server authentication, signalling encryption enabling confidentiality and integrity protection, as well as confidentiality and integrity protection of media streams through secure real-time transport protocol (SRTP). Secure real-time transport can be used to prevent unwanted monitoring of voice and video communications.

To enhance the ease of use of our software, Bria and eyeBeam offer no touch configuration for audio and video devices, such as headsets and web cams, enabling automatic configuration each time the application is started and whenever devices are changed. This capability reduces complications for softphone users and decreases the number of customer support calls to our customers deploying our software by their end users.

- *Bria*

Bria is our flagship personal computer softphone product. Bria has a number of usability and customization features designed to enable customers to present a flexible, user-friendly high definition VoIP, messaging and presence, multiple instant messaging and social network integration and high definition video softphone solution for consumer and enterprise markets. Bria has a contact-focused, versus a dial pad-focused, graphical user interface which highlights a user's address book rather than the more traditional telephone dial pad. Bria can also be minimized to a computer screen deskbar, enabling a user to manage their desktop space while still being able to make and receive calls. Bria may also be purchased as an integrated application to Microsoft's widely used Outlook application that enables users to expand on Outlook's contact and email features and to receive and make calls and use phone features directly from their contact list within the Outlook application. Bria's multiple panel layout enables our customers to specify areas for customer branding or revenue generating advertisements such as banner ads, click-to-call and interactive video messaging, as well as custom integration with network infrastructure.

- *eyeBeam*

eyeBeam is our original desktop softphone application. The graphical user interface of eyeBeam is designed as a dial pad similar to a cellular telephone handset and it has generally been targeted at early adopters of softphone technology due to its graphical familiarity.

- *Bria iPhone, Bria iPad and Android Mobile and Tablet Editions*

Bria iPhone, Bria iPad and Android mobile and tablet editions are secure, standards-based mobile VoIP softphone applications that work over both 3G and Wi-Fi networks on the Apple iPhone, iPad, iPod Touch or Android mobile and tablet devices. Bria iPhone, Bria iPad and Android mobile and tablet editions work with other CounterPath personal computer softphone and convergence solutions, as well as with enterprise and carrier infrastructure equipment from major vendors. The Bria iPhone and iPad editions are compatible with Apple's iPhone 4.3+ and iOS 5.0+ (for video) operating systems, and use the iPhone's native address book and its embedded Bluetooth Technology. Within a single application, the products enable voice calling, video calling, messaging and presence. The Bria Android mobile and tablet editions are compatible with a number of Android-based phones and tablets running Android 2.1 or greater operating systems and use the device's native address book and its embedded Bluetooth Technology.

- *X-Lite*

X-Lite is a free personal computer softphone available for download on our website and intended for non-commercial, demonstration and evaluation purposes. Some of the key elements that are not included in X-Lite compared to our commercial products are the ability to brand, the ability to import contacts, automatic or network based provisioning, royalty bearing codecs which enhance audio quality, multiple account support, and enhanced security and encryption.

The X-Lite graphical user interface has an area available for advertising although we have not attempted to generate advertising revenue with this feature to date. As well, X-Lite is only available with CounterPath branding and may not be redistributed by third parties.

We believe that our free X-Lite softphone serves as a marketing tool for our company as it allows potential customers to evaluate our software. In addition, we believe that making our free softphone widely available to companies which make session initiation protocol (SIP) compliant devices such as Internet based phones, public switched telephone network gateways, softphones, video phones, multipoint conference units and conference servers, improves the interoperability of our applications with these products.

- *Client Configuration Server (CCS)*

Our Client Configuration Server is a carrier-grade platform specifically designed for enterprises or service operators who have or intend to deploy our softphones. The Client Configuration Server enables enterprises and service providers to configure and manage their softphone deployments. The Client Configuration Server provides our customers with the ability to automatically apply the proper configuration to an end user's softphone device, perform configuration updates over time and upgrade softphone software.

We also offer a hosted service that enables enterprises and service operators to deploy softphone endpoints with ease and efficiency and with no investment in hardware, space, power or bandwidth. The cloud based hosted service enables customers to deploy and manage our softphones through a web interface. Bria softphone clients check in with the hosted infrastructure to receive their initial configuration and updates, as well as receive notifications of any available upgrades.

### *Mobility Gateways*

Our Mobility Gateways include: (1) a mobile service provider offering called the Network Convergence Gateway for Mobile Operators; and (2) a VoIP or wireline operator offering called the Network Convergence Gateway for Wireline Operators

- *Network Convergence Gateway for Mobile Operators*

The Network Convergence Gateway is a carrier-based server application that bridges communication between the broadband Internet and mobile networks. The Network Convergence Gateway enables mobile service providers to provide converged services across the broadband Internet and mobile networks including voice, text, multimedia messaging and video services. The Network Convergence Gateway makes it possible for end users to originate and receive mobile calls on a variety of IP-based telephones including CounterPath's softphone applications with the flexibility and low cost of VoIP. Our Network Convergence Gateway applications include:

#### *Single Number Identity*

By using the Network Convergence Gateway and our softphone applications, mobile service providers can extend mobile calls and instant messaging to a personal computer with the single identity of the end user's mobile phone number.

The service may be deployed whereby end users load our softphone application onto their personal computer or use a USB key device that contains a subscriber information module (SIM card) found in mobile phones that also includes our softphone application. In the case of the USB key device, the user can insert the device into any personal computer USB port and receive calls over the Internet initiated to their mobile phone number.

#### *Voice Call Continuity*

The seamless handover feature of the Network Convergence Gateway enables end users to automatically originate or receive voice calls on Wi-Fi networks, and seamlessly pass the call between mobile and broadband networks. Also referred to as voice call continuity, seamless handover is an important capability of fixed mobile convergence.

### NomadicPBX

NomadicPBX is a telecommunications application which combines mobile and VoIP network elements to enable the delivery of a unified, presence-based, fixed and mobile voice, and instant messaging/short message service (IM/SMS) communications experience across personal computers and mobile phones. The NomadicPBX provides increased device options for the user with a single number accessible on any mobile phone, softphone or desktop Internet protocol phone.

The NomadicPBX enables wireless operators and other service providers to extend their offerings to small and medium enterprises and increase their revenues. The telecom service providers that we are targeting for the NomadicPBX are mobile network operators and mobile virtual network operators.

The NCG for Mobile Network Operators enables mobile operators to replace an enterprise's existing phone system and wireline service with a wireless solution that increases the enterprise user's productivity and mobility.

- *Network Convergence Gateway for Wireline Operators*

The Network Convergence Gateway for Wireline Operators is a carrier-based core network, fixed mobile convergence server application that bridges broadband and mobile networks in both pre-IMS (IP Multimedia subsystem) and IMS environments. The Network Convergence Gateway combines the personalization and mobility of mobile phone services with the flexibility, innovation and cost economics of the rapidly growing VoIP sector.

With the Network Convergence Gateway, wireline service providers can extend single-number mobile voice, text multimedia messaging and video services to residential, corporate and hotspot locations with broadband access. This is achieved on a service provider's existing networks while preparing them for the IMS platform of the future. Some particular features include:

#### Wireline Messaging – SMS, Instant Messaging and Presence

Wireline Messaging provides VoIP users with the ability to send and receive text messages to and from the mobile network. It also enables an instant messaging service and presence capability.

#### Wireline Call Continuity

Wireline Call Continuity, enables users to move calls from their desktop PC or mobile VoIP phone to another device, including a standard mobile phone or smartphone. This eliminates the inconvenience with switching phones when leaving the office or home during a VoIP call.

#### Wireline Mobility

Wireline Mobility enables messaging over any mobile phone and any mobile network. It also allows extended wireline voice and messaging services to smartphones and low end mobile phones.

The Network Convergence Gateway enables wireline operators to offer mobile services to their wireline customers. As these services work on any mobile phone and on any mobile network, no relationship with the mobile operators and the wireline operator offering these services is required. This enables the wireline operators to seek additional revenue from their customer base.

### **Sales and Marketing**

We generate revenue from the sale of our products, any applicable related professional services and support through our sales team, our website and our partners and value added resellers who distribute our products through their independent distribution channels. We typically license our software on a one-time fee per user basis, or on a monthly subscription fee per user basis.

We focus on selling our software products to companies which provide VoIP Services or mobile services to end users and enterprises or to partners who sell telecommunication equipment to those companies and enterprises. Our customers include: (1) telecommunications service providers and Internet telephony service providers; (2) small, medium and large sized businesses; (3) original equipment manufacturers serving the telecommunication market; and (4) end users. We currently have sold software and related services to over 380 customers in more than 60 countries where the value of the sale has exceeded \$10,000.

We typically work with our customers to streamline the process of delivering our software to their end users. This includes pre-configuring the information required to connect to the customer's network and enabling or disabling certain features of our products. Our software products are typically co-labelled with our brand and our customer's brand, or privately labelled with our customer's brand. Co-labelling of our products means that the user interface that displays on the computer screen for the end user to see remains as is, but the customer's brand is also placed on the user interface. Private labelling of our products means that the customer can change any and all features of the user interface and can remove all references to our company from the user interface. We receive professional service revenue for configuration and customization of our software.

### *Marketing*

Our products are marketed through a variety of means including by:

- our customers and partners;
- advertising on our website;
- direct market campaigns;
- co-marketing with our partners, suppliers and customers;
- offering trial use of X-Lite, our free softphone with fewer features than our commercial versions;
- attending industry trade shows; and
- attending developer conferences.

### *End User Sales*

We also market our software directly to end users and enterprises through our website located at [www.counterpath.com](http://www.counterpath.com). The information contained in our website does not form part of this annual report.

### ***Intellectual Property***

We rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections to protect our intellectual property.

We own or hold the exclusive license to fourteen patents with counterparts granted or pending in other jurisdictions around the world. In addition, we are pursuing five in-house developed patent applications and one licensed patent application from Columbia University. These six U.S. patent applications are pending, with counterparts pending in other jurisdictions around the world.

In May 2012, we were granted patent No. US 8,184,590: Method and system for handoff between wireless networks. This patent describes the call handoff between two different wireless networks for dual-mode mobile devices.

In April 2012, we were granted patent No. US 8,165,576: Method and system for extending services to cellular devices. This patent describes a way to move services such as 4-digit extension dialing, ad hoc conferencing and call transfers to mobile smartphones and tablets.

In June 2011, we were granted patent No. US 7,958,276: Automatic configuration of peripheral devices. This patent describes a method for automatically configuring peripheral devices such as VoIP softphones, headsets and speakerphones both when the software is started and on important events such as a user unplugging or attaching a headset.

In October 2010, we were granted patent No. US 7,809,381: Presence detection for cellular and internet protocol telephony for presence detection in mobile and fixed broadband networks. This patent describes a way to automatically select the optimal network connection based on a user's location, to enable services such as least-cost routing and minimize dropped calls by streamlining the process of transferring calls from the cellular network to broadband network.

In September 2010, we were granted patent No. US 7,804,821: Circuit Switched Cellular Network to Internet Calling with Internet Antennas. This patent describes the assigning of single identity to multiple devices and how to route the communication services to those devices sharing single identity.

We also hold a number of registered trademarks in the United States.

In addition to the protections described above, we generally control access to, and use of our proprietary software and other confidential information through the use of internal and external controls. These controls include contractual protections with employees, contractors, customers and partners. Our software is protected by U.S. and certain international copyright laws.

We have acquired certain patent rights from Openwave Systems Inc. including a patent for maintaining Internet voice communication to mobile devices where the IP address changes from location to location. We also hold exclusive rights to a patent which is a continuation to previously granted patents. This patent teaches communication methods between mobile and packet networks using a gateway connected to both networks preserving single identity on both networks. We also hold the exclusive right to certain technologies developed at Columbia University for which we pay a license fee of 5% of net revenues where the technologies are incorporated into the products we sell. We incorporate a number of third party software programs into our software applications pursuant to license agreements.

We may not receive competitive advantages from the rights granted under our patents and other intellectual property rights. Our competitors may develop technologies that are similar or superior to our proprietary technologies, duplicate our proprietary technologies or design around the patents owned or licensed by us. Our existing and future patents may be circumvented, blocked, licensed to others or challenged as to inventorship, ownership, scope, validity or enforceability. Furthermore, our pending and future patent applications may not be issued with the scope of claims sought by us, if at all, or the scope of claims we are seeking may not be sufficiently broad to protect our proprietary technologies. Moreover, we have adopted a strategy of seeking limited patent protection with respect to the technologies used in or relating to our products. If our products, patents or patent applications are found to conflict with any patents held by third parties, we could be prevented from selling our products, our patents may be declared invalid or our patent applications may not result in issued patents. In foreign countries, we may not receive effective patent, copyright and trademark protection. We may be required to initiate litigation in order to enforce any patents issued to us, or to determine the scope or validity of a third party's patent or other proprietary rights. In addition, in the future we may be subject to lawsuits by third parties seeking to enforce their own intellectual property rights, as described in "Risk Factors—We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company."

We license our software pursuant to agreements that impose restrictions on customers' ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute nondisclosure and assignment of intellectual property agreements and by restricting access to our source code. Other parties may not comply with the terms of their agreements with us, and we may not be able to enforce our rights adequately against these parties.

## ***Research and Development***

Development of our products is primarily done through our Canadian wholly-owned subsidiary, CounterPath Technologies Inc., and our U.S. wholly-owned subsidiary, BridgePort Networks, Inc. Our research and development team consists of a core engineering department and a quality assurance department. Core engineering is responsible for designing, developing and maintaining our software across our supported operating systems. Quality assurance is responsible for testing the software before release to customers on all of our platforms. Total research and development expenditures for the year ended April 30, 2012 were \$4,782,908 (2011: \$4,469,979).

## ***After Sales Service and Support***

We sell our software on an as-is or limited warranty basis to end users, and we are not required to update or upgrade the software nor are we generally responsible for failure of our software to work on our customer's computer network; however, we offer two levels of renewable annual support to our non-end user customers for a specified percentage of the software license fees. Basic support includes product bug-fixes, nine (9) a.m. to five (5) p.m. Pacific Time (-8GMT), telephone support and email support during the one-year period following the date of sale. Bug-fixes are software updates which fix a known deficiency in the software product. Our extended support includes basic support and product upgrades. Product upgrades are separate from bug-fixes and include new or enhanced product features. For additional fees, we provide professional services, which include assisting our customers in customizing, deploying and implementing our applications. We currently maintain a support forum on the Internet at [www.counterpath.com/support.html](http://www.counterpath.com/support.html) and product user manuals are available online at [www.counterpath.com](http://www.counterpath.com).

## ***Warranty***

In circumstances where we provide a warranty on our software, we warrant that our software will perform substantially in accordance with the materials accompanying the software for periods of up to twelve months from the date of sale to cover defects in workmanship.

## ***Audio and Video Codecs***

Our softphones are integrated with audio and video codecs, which are provided by third-parties either as free open source software or under a royalty bearing license. A codec is a software application that encodes and decodes audio or video data according to a specification.

## ***Competition***

There are numerous developers that compete with our company for market share. Small software development companies, typically compete on the basis of price, while large original equipment manufacturers, typically compete by selling their proprietary software applications as part of a component to an overall proprietary communications system. We compete by offering applications that are compatible with a broad spectrum of communication systems and with various devices and operating systems.

## ***Government Approval***

We have obtained approval from the United States government to export our software that contains encryption technology to certain approved foreign countries. We are not aware of any permits that are specific to our industry which are required in order for our company to operate or to sell our products and services in such jurisdictions.

## ***Employees***

As of April 30, 2012, we employed 88 people full-time, 22 of whom are engaged in marketing and sales, 41 in research and development, 14 in services and support, 11 in general and administration, and contracted with 25 contractors. We are not subject to any collective bargaining agreements and we consider relations with our employees to be excellent.

We hire full-time employees and contractors who are authorized to work in the United States through our wholly-owned subsidiary, BridgePort Networks, Inc. Our wholly-owned subsidiary, CounterPath Technologies Inc. employs full-time employees and contractors who are authorized to work in Canada.

#### **Item 1A. Risk Factors.**

Much of the information included in this annual report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

#### **Risks Associated with our Business and Industry**

*The current economic environment has adversely affected business spending patterns, which may have an adverse effect on our business.*

The disruptions in the financial markets and challenging economic conditions have adversely affected the United States and world economy, and in particular, reduced consumer spending and reduced spending by businesses. Turmoil in global credit markets and recent turmoil in the geopolitical environment in many parts of the world and other disruptions, such as the European debt crisis, are and may continue to put pressure on global economic conditions. Our operating results in one or more segments may also be affected by uncertain or changing economic conditions particularly germane to that segment or to particular customer markets within that segment. If our customers delay or cancel spending on their IT infrastructure, that decision could result in reductions in sales of our products, longer sales cycles and increased price competition. There can be no assurances that government responses to the disruptions in the financial markets will restore spending to previous levels. If global economic and market conditions, or economic conditions in the United States or other key markets, remain uncertain or persist, spread, or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

*Our revenue, operating results and gross margin can fluctuate significantly and unpredictably from quarter to quarter and from year to year, and we expect that they will continue to do so, which could have a material adverse effect on our operating results.*

The rate at which our customers order our products, and the size of these orders, are highly variable and difficult to predict. In the past, we have experienced significant variability in our customer purchasing practices on a quarterly and annual basis, and we expect that this variability will continue, as a result of a number of factors, many of which are beyond our control, including:

- demand for our products and the timing and size of customer orders;
- length of sales cycles;
- length of time of deployment of our products by our customers;
- customers' budgetary constraints;

- competitive pressures; and
- general economic conditions.

As a result of this volatility in our customers' purchasing practices, our revenue has historically fluctuated unpredictably on a quarterly and annual basis and we expect this to continue for the foreseeable future. Our budgeted expense levels depend in part on our expectations of future revenue. Because any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time, if our revenue declines, our operating expenses and general overhead would likely be high relative to revenue, which could have a material adverse effect on our operating margin and operating results.

*If we are not able to control our operating expenses, then our financial condition may be adversely affected.*

Operating expenses increased to \$15,503,327 for the year ended April 30, 2012 from \$14,827,431 for the year ended April 30, 2011 while our revenue increased to \$14,083,496 for the year ended April 30, 2012 from \$11,040,298 for the year ended April 30, 2011. Our ability to reach profitability is conditional upon our ability to control our operating expenses. While we have been successful in containing our operating expenses, there is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

*We face larger and better-financed competitors, which may affect our ability to operate our business and achieve profitability.*

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. In addition to price competition, increased competition may result in other aggressive business tactics from our competitors, such as:

- emphasizing their own size and perceived stability against our smaller size and narrower recognition;
- providing customers "one-stop shopping" options for the purchase of network equipment and application software;
- offering customers financing assistance;
- making early announcements of competing products and employing extensive marketing efforts; and
- asserting infringement of their intellectual property rights.

Such competition may potentially affect our chances of achieving profitability and ultimately adversely affect our ability to continue as a going concern.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been partially financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

*The majority of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.*

The majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, investors may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

*We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company.*

We may be unaware of filed patent applications and issued patents that could relate to our products and services. Intellectual property litigation, if determined against us, could:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to lose access to key distribution channels;
- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect our brand in the market place and cause a substantial loss of goodwill;
- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our services and could cause us to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. If any of our competitors' copies or otherwise gains access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our family of registered and unregistered trademarks including CounterPath, Bria, eyeBeam and X-Lite, invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

*Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.*

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favorably received.

*Unless we can establish broad market acceptance of our current products, our potential revenues may be significantly reduced.*

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority of our revenue for the foreseeable future. Broad market acceptance of our software products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

*Our use of open source software could impose limitations on our ability to commercialize our products.*

We incorporate open source software into our products. Although we closely monitor our use of open source software, the terms of many open source software licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to sell our products. In such event, we could be required to make our proprietary software generally available to third parties, including competitors, at no cost, to seek licenses from third parties to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could adversely affect our revenues and operating expenses.

*We may not be able to obtain necessary licenses of third-party technology on acceptable terms, or at all, which could delay product sales and development and adversely impact product quality.*

We have incorporated third-party licensed technology into our current products. We anticipate that we are also likely to need to license additional technology from third parties to develop new products or product enhancements in the future. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to retain any third party licenses required in our current products or to obtain any new third-party licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitive position of our products.

*Our products must interoperate with many different networks, software applications and hardware products, and this interoperability will depend on the continued prevalence of open standards.*

Our products are designed to interoperate with our customers' existing and planned networks, which have varied and complex specifications, utilize multiple protocol standards, software applications and products from numerous vendors and contain multiple products that have been added over time. As a result, we must attempt to ensure that our products interoperate effectively with these existing and planned networks. To meet these requirements, we have and must continue to undertake development and testing efforts that require significant capital and employee resources. We may not accomplish these development efforts quickly or cost-effectively, or at all. If our products do not interoperate effectively, installations could be delayed or orders for our products could be cancelled, which would harm our revenue, gross margins and our reputation, potentially resulting in the loss of existing and potential customers. The failure of our products to interoperate effectively with our customers' networks may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our software development efforts and cause significant customer relations problems.

Additionally, the interoperability of our products with multiple different networks is significantly dependent on the continued prevalence of standards for IP multimedia services, such as SIP or Session Initiation Protocol. Some of our existing and potential competitors are network equipment providers who could potentially benefit from the deployment of their own proprietary non-standards-based architectures. If resistance to open standards by network equipment providers becomes prevalent, it could make it more difficult for our products to interoperate with our customers' networks, which would have a material adverse effect on our ability to sell our products to service providers.

*We are subject to the credit risk of our customers, which could have a material adverse effect on our financial condition, results of operations and liquidity.*

We are subject to the credit risk of our customers. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense. Additionally, to the degree that the ongoing turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our financial condition, results of operations and liquidity.

*We are exposed to fluctuations in interest rates and exchange rates associated with foreign currencies.*

A majority of our revenue activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the year ended April 30, 2012 is the Canadian dollar. We are primarily exposed to a strengthening Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction. There can be no assurance that our hedging program will not result in a negative impact on our earnings and earnings per share. We did not enter into any forward contracts during fiscal 2012 (2011:—none)

## **Risks Associated with our Common Stock**

*Our directors control a substantial number of shares of our common stock, decreasing your influence on stockholder decisions.*

Based on the 39,960,479 shares of common stock that were issued and outstanding as of April 30, 2012, our directors owned approximately 27.5% of our outstanding common stock. As a result, our directors as a group could have a significant influence in delaying, deferring or preventing any potential change in control of our company; they will be able to strongly influence the actions of our board of directors even if they were to cease being directors of our company and can effectively control the outcome of actions brought to our stockholders for approval. Such a high level of ownership may adversely affect the exercise of your voting and other stockholder rights.

*We do not expect to pay dividends in the foreseeable future.*

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our common stock.

*The exercise of all or any number of outstanding warrants or stock options or the issuance of other stock-based awards or any issuance of shares to raise funds may dilute your holding of shares of our common stock.*

If the holders of outstanding warrants, stock options and deferred share units exercise or convert all of their vested warrants, stock options and deferred share units as at April 30, 2012, then we would be required to issue an additional 8,307,148 shares of our common stock, which would represent approximately 20.0% of our issued and outstanding common stock after such issuances. The exercise of any or all outstanding warrants or stock options that are exercisable below market price will result in dilution to the interests of other holders of our common stock.

We may in the future grant to certain or all of our directors, officers, insiders, and key employees stock options to purchase the shares of our common stock, bonus shares and other stock based compensation as non-cash incentives to such persons. Subject to applicable stock exchange rules, if any, we may grant these stock options and other stock based compensation at exercise prices equal to or less than market prices, and we may grant them when the market for our securities is depressed. The issuance of any additional shares of common stock or securities convertible into common stock will cause our existing shareholders to experience dilution of their holding of our common stock.

In addition, shareholders could suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our shares of common stock or a change in the control of our company.

*Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.*

The SEC has adopted regulations which generally define “penny stock” to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities may be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors”. The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder's ability to buy and/or sell shares of our common stock.*

In addition to the “penny stock” rules described above, the FINRA has adopted rules that require that in recommending an investment to a customer, a broker–dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non–institutional customers, broker–dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker–dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

*Securities analysts may not publish favorable research or reports about our business or may publish no information which could cause our stock price or trading volume to decline.*

The trading market for our common stock will be influenced by the research and reports that industry or financial analysts publish about us and our business. We do not control these analyst reports. As a relatively small public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with our company, which could affect their ability to accurately forecast our results and make it more likely that we fail to meet their estimates. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us issue an adverse opinion regarding our stock price, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports covering us, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

**Item 1B. Unresolved Staff Comments.**

Not Applicable.

**Item 2. Properties.**

We do not own any real property. Our Canadian operations are conducted in three leased offices located in Vancouver and Victoria, British Columbia and Kanata, Ontario. Our U.S. operations are conducted in two leased offices located in Chicago, Illinois, and Charlestown, Massachusetts. Our head office is located on the 3<sup>rd</sup> Floor at Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M3. On January 11, 2011, we entered into a new lease for our head office premises comprising 12,379 square feet, which commenced on October 1, 2011 and expires on September 30, 2014 for which a deposit of \$52,615 was made. The monthly lease payment under the agreement is \$21,081 plus \$21,676 in operating costs. Management believes that this office space is adequate for the operations of our company for the foreseeable future.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the NASDAQ Capital Market and the TSX Venture Exchange. Our shares of common stock began quotation on the OTC Bulletin Board on March 2, 2004, the NASDAQ Capital Market on July 11, 2012 and trading on the TSX Venture Exchange on August 25, 2008. The following table sets forth, for the periods indicated, the high and low bids for our common stock on the OTC Bulletin Board and the high and low sale prices for our common stock on the TSX Venture Exchange based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions as reported by the OTC Bulletin Board and the TSX Venture Exchange, respectively.

| Quarter Ended    | OTC Bulletin Board <sup>(1)</sup><br>(U.S. dollars) |        | TSX Venture Exchange <sup>(2)</sup><br>(Canadian dollars) |        |
|------------------|-----------------------------------------------------|--------|-----------------------------------------------------------|--------|
|                  | High                                                | Low    | High                                                      | Low    |
| July 31, 2010    | \$1.35                                              | \$0.82 | \$1.34                                                    | \$0.85 |
| October 31, 2010 | \$1.50                                              | \$1.00 | \$1.50                                                    | \$1.01 |
| January 31, 2011 | \$2.70                                              | \$1.45 | \$2.60                                                    | \$1.50 |
| April 30, 2011   | \$2.60                                              | \$1.90 | \$2.45                                                    | \$1.95 |
| July 31, 2011    | \$2.16                                              | \$1.55 | \$2.25                                                    | \$1.70 |
| October 31, 2011 | \$2.30                                              | \$1.60 | \$2.35                                                    | \$1.60 |
| January 31, 2012 | \$1.85                                              | \$1.35 | \$1.80                                                    | \$1.60 |
| April 30, 2012   | \$2.95                                              | \$1.60 | \$2.85                                                    | \$1.62 |

(1) Between March 19, 2008 and July 10, 2012, our stock has been quoted on the OTC Bulletin Board under the trading symbol "CPAH".

(2) Since August 25, 2008, our stock has been quoted on the TSX Venture Exchange under the trading symbol "CCV".

Our shares of common stock are issued in registered form. Valiant Trust Company of 3rd Floor, 750 Cambie Street, Vancouver, British Columbia, Canada V6B 0A2 (Telephone: 604.699.4884; Facsimile: 604.681.3067) is the registrar and transfer agent for our shares of common stock.

On July 15, 2012, the shareholders' list of our shares of common stock showed 100 registered shareholders and 41,556,353 shares outstanding.

#### **Dividend Policy**

To date, we have not declared or paid any dividends on our shares of common stock and do not expect to declare or pay any dividends on our shares of common stock in the foreseeable future. Payment of any dividends will depend upon our future earnings, if any, our financial condition, and other factors as deemed relevant by our board of directors. Although there are no restrictions that limit the ability to pay dividends on our shares of common stock, our intention is to retain future earnings for use in our operations and the expansion of our business.

#### **Equity Compensation Plan Information**

The following table provides a summary of the number of options granted, shares purchasable or deferred share units granted under our various compensation plans, as well as warrants granted outside of our compensation plan, the weighted average exercise price and the number of options remaining available for grant, shares purchasable or deferred share units available for grant all as at April 30, 2012.

| Plan Category                                                     | Number of Securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-Average exercise price of outstanding options, warrants and rights | Number of Securities remaining available for future issuance under equity compensation plans |
|-------------------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Equity compensation plans approved by security holders:</b>    |                                                                                             |                                                                             |                                                                                              |
| 2010 Stock Option Plan                                            | 4,925,979 <sup>(1)(2)</sup>                                                                 | \$1.15                                                                      | 1,224,265 <sup>(3)</sup>                                                                     |
| Employee Share Purchase Plan                                      | 143,599                                                                                     | N/A                                                                         | 556,401                                                                                      |
| Deferred Share Unit Plan                                          | 1,588,064                                                                                   | N/A                                                                         | 411,936                                                                                      |
| <b>Equity compensation plans not approved by security holders</b> | N/A                                                                                         | N/A                                                                         | N/A                                                                                          |
| <b>Total</b>                                                      | 6,657,642                                                                                   | \$1.15                                                                      | 2,192,602                                                                                    |

(1) As of April 30, 2012, we had issued stock options to purchase 3,925,979 shares of our common stock pursuant to our 2010 Stock Option Plan.

(2) Includes 3,925,979 options outstanding as at April 30, 2012 and 1,000,000 warrants issued to a customer during fiscal year ended April 30, 2012, which warrants were issued against securities available to be issued under the 2010 Stock Option Plan.

(3) As of April 30, 2012, there were 1,224,265 underlying shares of our common stock remaining and available to be issued under our 2010 Stock Option Plan.

### **2010 Stock Option Plan**

On August 13, 2010, the board of directors of our company approved the consolidation of the 2004 stock option plan (the “2004 Plan”) and the amended and restated 2005 stock option plan (the “2005 Plan”) into one plan referred to as the 2010 Stock Option Plan. On September 27, 2010, our shareholders approved the consolidation of the 2004 Plan and the 2005 Plan into one plan referred to as the 2010 Stock Option Plan. Similar to the 2004 Plan and the 2005 Plan, the purpose of the 2010 Stock Option Plan is to retain the services of valued key employees, directors, officers and consultants and to encourage such persons with an increased initiative to make contributions to our company. Under the 2010 Stock Option Plan, eligible employees, consultants and certain other persons who are not eligible employees, may receive awards of “non-qualified stock options”. Individuals, who, at the time of the option grant, are employees of our company or any related company (as defined in the 2010 Stock Option Plan) who are subject to tax in the United States may receive “incentive stock options”, and stock options granted to non-United States residents may receive awards of “options”.

On September 27, 2011, our shareholders approved the increase in the number of shares of common stock issuable under the 2010 Stock Option Plan by 1,000,000 permitting us to issue up to 6,860,000 shares of our common stock under the 2010 Stock Option Plan. As of April 30, 2012, there were 3,925,979 stock options outstanding entitling the holders thereof the right to purchase one common share for each option held.

### **Employee Share Purchase Plan**

On October 1, 2008, our shareholders approved the employee share purchase plan for employees, directors, officers and consultants of our company and our subsidiaries. The purpose of the plan is to give employees access to an equity participation vehicle in addition to our stock option plans by way of an opportunity to purchase shares of our common stock through payroll deductions and encourage them to use their combined best efforts on behalf of our company to improve its profits through increased sales, reduction of costs and increased efficiency. Participation in the plan is voluntary. Within the limits of the plan, our company matches fifty percent (50%) of the aggregate number of shares purchased by the participants. We are permitted to issue up to 700,000 shares of our common stock under the plan. As of April 30, 2012, we have issued 143,599 shares of our common stock under the plan.

## ***Deferred Share Unit Plan***

Under the terms of the deferred share unit plan (the "DSUP") as approved by the shareholders on October 22, 2009, each deferred share unit is equivalent to one share of common stock. The maximum number of shares of common stock that may be reserved for issuance to any one participant pursuant to deferred share units granted under the DSUP and any share compensation arrangement is 5% of the number of shares of common stock of our company outstanding at the time of reservation and, as applicable, any grants of deferred share units to any one participant may not exceed a value of \$100,000 per annum on the date of grant. A deferred share unit (DSU) granted to a participant who is a director of the board of our company shall vest immediately on the award date. A deferred share unit granted to a participant other than a director will generally vest as to one-third (1/3) of the number of deferred share units granted on the first, second and third anniversaries of the award date. Fair value of the DSU's, which is based on the closing price of our company's common stock on the date of grant, is recorded as compensation expense in the period of grant. We are permitted to issue up to 2,000,000 deferred share units under the DSUP. As of April 30, 2012, we have issued 1,588,064 deferred share units under the plan.

## ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

None.

## ***Recent Sales of Unregistered Securities***

On March 8, 2012, we granted 25,000 stock options pursuant to our 2010 Stock Option plan to one employee. Each stock option entitles the holder thereof the right to purchase one share of common stock at a price equal to \$2.55. The options vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested. We issued the stock options to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in a offshore transaction(s) relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

## **Item 6. Selected Financial Data.**

Not Applicable.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this annual report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions.

In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those identified below, in "Risk Factors" and elsewhere in this annual report. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in accordance with United States generally accepted accounting principles. All references to "common shares" refer to our shares of common stock. As used in this annual report, the terms "we", "us" and "our" means CounterPath Corporation, unless otherwise indicated.

## **Overview**

### ***Background***

We were incorporated under the laws of the State of Nevada on April 18, 2003.

On August 2, 2007, we acquired all of the shares of NewHeights Software Corporation through the issuance of 7,680,168 shares of our common stock and 369,836 preferred shares issued from a subsidiary of our company, which preferred shares were exchangeable into 369,836 shares of common stock.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. through the issuance of 5.9 million shares of our common stock. On February 1, 2008, we acquired all of the issued and outstanding shares of BridgePort Networks, Inc. by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

### ***Business of CounterPath***

Our business focuses on the design, development, marketing and sales of personal computer and mobile application software, gateway server software and related professional services, such as pre and post sales, technical support and customization services. Our software products are sold into the telecommunications sector, specifically the voice over Internet protocol (VoIP), unified communications and fixed-mobile convergence markets. VoIP, unified communications and fixed-mobile convergence are general terms for technologies that use Internet or mobile protocols for the transmission of packets of data which may include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network.

Our strategy is to sell our software to our customers to allow such customers to deliver session initiation protocol and voice over Internet protocol (VoIP) services. Customers that we are targeting include: (1) telecommunications service providers, Internet telephony service providers, (2) original equipment manufacturers serving the networking and telecommunication market; (3) small, medium and large sized businesses; and (4) end users. Our software enables voice communication from the end user through the network to another end user and enables the service provider to deliver other streaming content to end users such as video.

### ***Revenue***

We derive revenue from the sale of software licenses and software customization and services associated with software such as technical support services, implementation and training. We recognize software and services revenue at the time of delivery, provided all other revenue recognition criteria have been met.

Post contract customer support services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

We offer our products and services directly through our sales force and indirectly through distribution partners. Our distribution partners include networking and telecommunications equipment vendors throughout the world.

The amount of product configuration and customization, which reflects the requested features, determines the price for each sale. The number of software licenses purchased has a direct impact on the average selling price. Services may vary depending upon a customer's requirements for technical support, implementation and training.

We believe that our revenue and results of operations may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering patterns.

## **Operating Expenses**

Operating expenses consist of cost of sales, sales and marketing, research and development, and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories.

Cost of sales primarily consists of: (a) salaries and benefits related to personnel, (b) related overhead, (c) amortization of intangible assets, (d) billable and non-billable travel, lodging, and other out-of-pocket expenses, (e) payments to third party vendors for compression/decompression software known as codecs, (f) amortization of capitalized software that is implemented into our products and (g) warranty expense. Amortization of intangible assets consists of the amortization expense related to the intangible assets acquired from NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. comprising acquired technologies and customer assets. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years from acquisition, which is management's estimate of the useful life of the customer asset.

Sales and marketing expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as trade shows and (e) other related overhead. Commissions are recorded as expense when earned by the employee. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) payments to suppliers for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing and (e) other related overhead. To date, all of our research and development costs have been expensed as incurred.

General and administrative expense consists primarily of: (a) salaries and personnel costs including stock-based compensation related to our executive, finance, human resource and information technology functions, (b) accounting, legal, tax advisory and regulatory fees and (c) other related overhead.

## **Application of Critical Accounting Policies and Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this annual report.

We believe that of our significant accounting policies, which are described in Note 2 to our annual financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, the following policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

## **Revenue Recognition**

We recognize revenue in accordance with the American Institute of Certified Public Accountants (AICPA) ASC 985-605 "Software Revenue Recognition", as amended by SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions."

In all of our arrangements, we do not recognize any revenue until we can determine that persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and we deem collection to be probable. For distribution and reseller arrangements, fees are fixed or determinable and collection probable when there are no rights to exchange or return and fees are not dependable upon payment from the end-user. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

A substantial percentage of our revenue is generated by multiple-element arrangements, such as products, maintenance and support, professional services and training. When arrangements include multiple elements, we allocate the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor-specific objective evidence, or VSOE, of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires us to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically includes maintenance and services. Revenue is allocated to each of the undelivered elements based on its respective fair value, with the fair value determined by the price charged when that element is sold separately.

For contracts with elements related to customized network solutions and certain network build-outs, we apply FASB Emerging Issues Task Force Issue ASC 605-25, "Revenue Arrangements with Multiple Deliverables" and revenues are recognized under ASC 605-35, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", generally using the percentage-of-completion method.

In using the percentage-of-completion method, revenues are generally recorded based on a completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Post contract customer support (PCS) services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized ratably over the term of the service period, which is generally twelve months.

PCS service revenue generally is deferred until the related product has been accepted and all other revenue recognition criteria have been met. Professional services and training revenue is recognized as the related service is performed.

We have a bad debt and a warranty provision in the amount of 2% and 1%, respectively, of software sales, which is amortized over a twelve-month term. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale.

### ***Stock-Based Compensation***

Stock options granted are accounted for under ASC 718 (prior authoritative literature: SFAS No. 123R) "Share-Based Payment" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. ASC 718 replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the fair value of those instruments on the measurement date which generally is the grant date, with limited exceptions.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee consultants. We measure stock-based compensation cost at measurement date, based on the estimated fair value of the award, and generally recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or the period during which the related services are provided by the non-employee consultants and the options are earned. We estimate the fair value of stock options using a Black-Scholes option valuation model.

The expected volatility of options granted has been determined using the volatility of our company's stock. The expected volatility for options granted during the year ended April 30, 2012 was 74.20% . The expected life of options granted after April 30, 2006 has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin ("SAB") No. 107 Share-Based Payment, and SAB 110 Share-Based Payment, beginning January 1, 2008. The expected term of options granted during the year ended April 30, 2012 was 3.7 years. For the year ended April 30, 2012, the weighted-average risk-free interest rate used was 0.86% . The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. We applied an estimated forfeiture rate of 15% in the year ended April 30, 2012, in determining the expense recorded in our consolidated statement of operations. Cost of sales and operating expenses include stock-based compensation expense. For the year ended April 30, 2012, we recorded an expense of \$738,803 in connection with share-based payment awards. A future expense of non-vested options of \$1,252,011 and non-vested deferred share units of \$308,812 is expected to be recognized over a weighted-average period of 3.08 years and 1.84 years respectively.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable are periodically reviewed for collectability on an individual basis.

### ***Goodwill and Intangible Assets***

We have goodwill and intangible assets on our balance sheet related to the acquisitions of NewHeights Software Corporation, FirstHand Technologies Inc. and BridgePort Networks, Inc. Intangible assets are carried and reported at acquisition cost, net of accumulated amortization subsequent to acquisition. The intangible assets acquired are comprised of acquired technologies and customer assets relating to customer relationships. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management's estimate of the future cash flows from this asset over approximately five years, which is management's estimate of the useful life of the customer asset. The intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets." Projected undiscounted net cash flows expected to be derived from the use of those assets are compared to the respective net carrying amounts to determine whether any impairment exists. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

The determination of the net carrying value of goodwill and intangible assets and the extent to which, if any, there is impairment, are dependent on material estimates and judgments on our part, including the useful life over which the intangible assets are to be amortized and the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

### ***Goodwill and Intangible Assets—Impairment Assessments***

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with FASB ASC 350, *Goodwill and Other Intangible Assets*. The provisions of ASC 350 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of our reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of our reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for our reporting unit. Our most recent annual goodwill impairment analysis, which was performed at the end of the fourth quarter of fiscal 2012, did not result in an impairment charge for fiscal year 2012, nor did we record any goodwill impairment in fiscal 2011.

We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that other than temporary impairment may exist. Each period we evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk adjusted discounted rates and future economic and market conditions. Our updated long-term financial forecast represents the best estimate that our management has at this time and we believe that its underlying assumptions are reasonable. As a result of our review of the recoverability of intangibles assets there was no impairment charge for the current year (2011 – \$nil).

### ***Derivative Instruments***

On June 14, 2011, we issued an aggregate of 3,145,800 units under a brokered private placement for aggregate gross proceeds of \$5,636,170 (CDN\$5,505,150) at a price of \$1.79 (CDN\$1.75) per unit, with each unit consisting of one share of our common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional share of our common stock at an exercise price of CDN\$2.25 per share until June 14, 2013. In connection with the offering, we issued an aggregate of 220,206 broker warrants, with each broker warrant entitling the holder thereof to purchase one share of our common stock at an exercise price of CDN\$1.75 per share until December 14, 2012. We follow the guidance in ASC 815-40-15, and record the warrants issued as derivative instruments due to their exercise price being denominated in a currency other than our U.S. Dollar functional currency. The fair value of the derivative instruments is revalued at the end of each reporting period using the Binomial method, and the change in fair value of the derivative liability is recorded as a gain or loss in our consolidated statements of operations.

### ***Use of Estimates***

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions which affect the amounts reported in these consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### ***Results of Operations***

Our operating activities during the year ended April 30, 2012, consisted primarily of selling our IP telephony software and related services to telecom service providers and original equipment manufacturers serving the telecom industry, and the continued development of our IP telephony software products.

## Selected Consolidated Financial Information

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below for the fiscal years ended April 30, 2012 and 2011, and as at April 30, 2012 and April 30, 2011, has been derived from the consolidated financial statements and accompanying notes for the fiscal years ended April 30, 2012 and 2011. Each investor should read the following information in conjunction with those statements and the related notes thereto. We believe the presentation of non-GAAP operating expenses provides useful information to our investors. In particular, we disclose that we utilize non-GAAP operating expenses to internally measure our operating performance and also present such measure to allow investors to analyze our operating performance utilizing the same measure as used by our management.

### Selected Consolidated Statements of Operations Data

|                                                | Years Ended April 30, |                          |               |                          |
|------------------------------------------------|-----------------------|--------------------------|---------------|--------------------------|
|                                                | 2012                  |                          | 2011          |                          |
|                                                | Amount                | Percent of Total Revenue | Amount        | Percent of Total Revenue |
| Revenue                                        | \$ 14,083,496         | 100%                     | \$ 11,040,298 | 100%                     |
| Non-GAAP operating expenses <sup>1</sup>       | 13,977,813            | 99%                      | 13,161,269    | 119%                     |
| Stock-based compensation                       | 738,802               | 5%                       | 812,485       | 7%                       |
| Amortization of intangible assets              | 786,712               | 6%                       | 853,677       | 8%                       |
| GAAP operating expenses                        | 15,503,327            | 110%                     | 14,827,431    | 134%                     |
| Loss from operations                           | (1,419,831)           | (11%)                    | (3,787,133)   | (36%)                    |
| Interest and other income, net                 | (1,007)               | 0%                       | 165,036       | 1%                       |
| Fair value adjustment on derivative instrument | (715,803)             | 5%                       | –             | –%                       |
| Gain on settlement of debt                     | –                     | –%                       | 246,715       | 2%                       |
| Foreign exchange gain/(loss)                   | 13,280                | –%                       | (166,949)     | 2%                       |
| Net loss                                       | \$(2,123,361)         | (15%)                    | \$(3,542,331) | (32%)                    |
| Loss per share                                 | (\$0.05)              |                          | (\$0.11)      |                          |
| Weighted average common shares outstanding     | 38,792,066            |                          | 33,191,749    |                          |

1. Non-GAAP operating expense is equal to GAAP operating expense less stock-based compensation and amortization of intangible assets.

### Selected Consolidated Balance Sheet Data

|                     | April 30,<br>2012 | April 30,<br>2011 |
|---------------------|-------------------|-------------------|
| Cash                | \$ 8,154,139      | \$ 1,707,397      |
| Current assets      | 12,339,167        | 4,835,997         |
| Current liabilities | 5,850,427         | 3,448,409         |
| Total liabilities   | 6,005,084         | 4,854,460         |
| Total assets        | \$ 21,543,944     | \$ 15,210,969     |

## Revenue

Revenue for the year ended April 30, 2012 and 2011 were as follows:

|                          | 2012          |                          | 2011          |                          | Period-to-Period Change |                               |
|--------------------------|---------------|--------------------------|---------------|--------------------------|-------------------------|-------------------------------|
|                          | Amount        | Percent of Total Revenue | Amount        | Percent of Total Revenue | Amount                  | Percent Increase / (Decrease) |
| <b>Revenue by Type</b>   |               |                          |               |                          |                         |                               |
| Software                 | \$ 8,494,852  | 60%                      | \$ 7,205,947  | 65%                      | \$ 1,288,905            | 18%                           |
| Service                  | 5,588,644     | 40%                      | 3,834,351     | 35%                      | 1,754,293               | 46%                           |
| Total revenue            | \$ 14,083,496 | 100%                     | \$ 11,040,298 | 100%                     | \$ 3,043,198            | 28%                           |
| <b>Revenue by Region</b> |               |                          |               |                          |                         |                               |
| International            | \$ 4,866,119  | 35%                      | \$ 4,652,784  | 42%                      | \$ 213,335              | 5%                            |
| North America            | 9,217,377     | 65%                      | 6,387,514     | 58%                      | 2,829,863               | 44%                           |
| Total revenue            | \$ 14,083,496 | 100%                     | \$ 11,040,298 | 100%                     | \$ 3,043,198            | 28%                           |

For the year ended April 30, 2012, we generated \$14,083,496 in revenue compared to \$11,040,298 for the year ended April 30, 2011, representing an increase of \$3,043,198. We generated \$8,494,852 in software revenue for the year ended April 30, 2012 compared to \$7,205,947 for the year ended April 30, 2011, representing an increase of \$1,288,905. The increase in software revenue for the year ended April 30, 2012, was primarily a result of increases in sales to original equipment manufacturers and service providers, as well as, sales from our online store. Software sales from our online store grew by approximately \$240,000 to approximately \$1,855,000, in part as a result of various online promotions offered throughout the year. For the year ended April 30, 2012, service revenue was \$5,588,644 compared to \$3,834,351 for the year ended April 30, 2011, representing an increase of \$1,754,293. The increase in service revenue for the year ended April 30, 2012, was primarily attributable to the increase in software sales as well as the customization services delivered to two significant customers in preparation of their deployment of our software applications. International revenue outside of North America increased by 5% during the year ended April 30, 2012 compared to the year ended April 30, 2011, due to primarily to moderate increases in sales in Europe. North American revenue increased by 44% during the year ended April 30, 2012, compared to year ended April 30, 2011, primarily as a result of an increase in sales of software and services to North American original equipment manufacturers.

## Operating Expenses

### Cost of Sales

Cost of sales for the year ended April 30, 2012 and 2011 were as follows:

|            | April 30, 2012 |                    | April 30, 2011 |                    | Period-to-Period Change |                               |
|------------|----------------|--------------------|----------------|--------------------|-------------------------|-------------------------------|
|            | Amount         | Percent of Revenue | Amount         | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Year ended | \$ 2,818,570   | 20%                | \$ 2,864,838   | 26%                | (\$46,268)              | (2%)                          |

Cost of sales was \$2,818,570 for the year ended April 30, 2012, compared to \$2,864,838 for the year ended April 30, 2011. The decrease of \$46,268 was primarily the result of a decrease of approximately \$30,000 in license costs due to a decrease in third party software and hardware costs, a decrease of approximately \$68,000 in amortization of intangible assets and a decrease of approximately \$38,000 in warranty expense. This decrease was offset by an increase in personnel-related expenses of approximately \$93,000. Cost of sales expressed as a percent of revenue was 20% of revenue for the year ended April 30, 2012, as compared to 26% for the year ended April 30, 2011. This decrease in percentage was the result of a substantial increase in revenue of \$3,043,198 for the year ended April 30, 2012 as compared to revenue for the year ended April 30, 2011 while cost of sales decreased by \$46,268 year over year. The decrease in percentage was primarily due to a reduction of approximately \$68,000 in amortization of intangible assets, a decrease of approximately \$38,000 in warranty expense, which was offset by an increase of \$93,000 in personnel related costs.

## Sales and Marketing

Sales and marketing expenses for the year ended April 30, 2012 and 2011 were as follows:

|            | April 30, 2012 |                    | April 30, 2011 |                    | Period-to-Period Change |                               |
|------------|----------------|--------------------|----------------|--------------------|-------------------------|-------------------------------|
|            | Amount         | Percent of Revenue | Amount         | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Year ended | \$ 3,869,815   | 27%                | \$ 3,495,274   | 32%                | \$ 374,541              | 11%                           |

Sales and marketing expenses were \$3,869,815 for the year ended April 30, 2012, compared to \$3,495,274 for the year ended April 30, 2011. The increase of \$374,541 was primarily the result of an increase in personnel-related expenses of approximately \$259,000 and travel-related expenses of approximately \$40,000. Other sales and marketing related expenses including stock-based compensation, office supplies, and tradeshow increased by approximately \$75,000 during the year ended April 30, 2012, compared to the year ending April 30, 2011.

## Research and Development

Research and development expenses for the year ended April 30, 2012 and 2011 were as follows:

|            | April 30, 2012 |                    | April 30, 2011 |                    | Period-to-Period Change |                               |
|------------|----------------|--------------------|----------------|--------------------|-------------------------|-------------------------------|
|            | Amount         | Percent of Revenue | Amount         | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Year ended | \$ 4,782,908   | 34%                | \$ 4,469,979   | 40%                | \$ 312,929              | 7%                            |

Research and development expenses were \$4,782,908 for the year ended April 30, 2012, compared to \$4,469,979 for the year ended April 30, 2011. The increase of \$312,929 resulted primarily from an increase of approximately \$179,000 in personnel-related expenses, and an increase of approximately \$174,000 in professional services partially offset by a decrease of approximately \$41,000 in other costs.

## General and Administrative

General and administrative expenses for the years ended April 30, 2012 and 2011 were as follows:

|            | April 30, 2012 |                    | April 30, 2011 |                    | Period-to-Period Change |                               |
|------------|----------------|--------------------|----------------|--------------------|-------------------------|-------------------------------|
|            | Amount         | Percent of Revenue | Amount         | Percent of Revenue | Amount                  | Percent Increase / (Decrease) |
| Year ended | \$ 4,032,035   | 29%                | \$ 3,997,340   | 36%                | \$ 34,695               | 1%                            |

General and administrative expenses for the year ended April 30, 2012, were \$4,032,035 compared to \$3,997,340 for the year ended April 30, 2011. The increase of \$34,695 in general and administrative expenses was primarily attributable to an increase in personnel-related expenses of approximately \$98,000, an increase of approximately \$66,000 in travel and an increase of approximately \$12,000 in other expenses. These increases were partially offset by a \$44,000 decrease in amortization of capital assets as a number of capital assets became fully amortized in the year ended April 30, 2012, a decrease of approximately \$65,000 in rent expense and a decrease of approximately \$32,000 in public relations related expense.

## Interest and Other Income

Interest and other income for the year ended April 30, 2012, was \$171,453 compared to \$245,401 for the year ended April 30, 2011. Interest expense for the year ended April 30, 2012, was \$172,460 compared to \$80,365 for the year ended April 30, 2011. Interest expense during the year ended April 30, 2012 primarily relates to the accretion of a convertible debenture discount of approximately \$159,800 and cash interest expense of approximately \$12,600.

Foreign exchange gain for the year ended April 30, 2012, was \$13,280 compared to a foreign exchange loss of \$166,949 for the year ended April 30, 2011. The foreign exchange gain/loss represents the gain/loss on account of translation of the intercompany accounts of subsidiaries who maintain their records in currencies other than U.S. dollars as well as transactional losses and gains.

Fair value adjustment on derivative instruments for the year ended April 30, 2012 resulted in a non-cash charge of \$715,803 compared to nil for the year ended April 30, 2011. On June 14, 2011, we issued 1,579,900 common share purchase warrants exercisable at CDN\$2.25 per share and 220,206 broker warrants exercisable at CDN\$1.75 per share under a brokered private placement. We recorded the warrants issued as a derivative instrument due to their exercise price being denominated in a currency other than our U.S. dollar functional currency. The fair value of the derivative instruments is revalued at the end of each reporting period, and the change in fair value of the derivative instruments is recorded as a gain or loss in our consolidated statements of operations.

During the year ended April 30, 2011, we recorded a gain on settlement of debt of \$246,715 as a result of the transfer of certain non-core intellectual property rights (having no book value) licensed from an institution in settlement of a \$246,715 liability for research fees performed by the institution.

### **Liquidity and Capital Resources**

As of April 30, 2012, we had \$8,154,139 in cash compared to \$1,707,397 at April 30, 2011, representing an increase of \$6,446,742. Our working capital was \$6,488,740 at April 30, 2012 compared to \$1,387,588 at April 30, 2011, representing an increase of \$5,101,152. Management anticipates that the future capital requirements of the Company will be primarily funded through cash flows generated from operations and from working capital, and we may seek additional funding to meet ongoing operating expenses.

The Company has \$1,077,526 in cash held outside of the US, and there is no intent to repatriate at this time. Should we decide to repatriate in the future, taxes would need to be accrued and paid.

### ***Operating Activities***

Our operating activities resulted in a net cash outflow of \$301,331 for the year ended April 30, 2012. This compares with a net cash outflow of \$1,369,630 for the year ended April 30, 2011, representing a \$1,068,299 decrease in cash outflows from operations. The net cash outflow from operating activities for the year ended April 30, 2012 was primarily a result of a net loss of \$2,123,361, and an increase in accounts receivable of \$993,898 attributable to higher year over year revenue. The net cash outflow was offset by adjustment for non-cash expenses including \$738,803 for stock-based compensation, \$786,712 for amortization of intangible assets, \$715,803 for change in fair value of derivative instruments and \$109,243 for depreciation and amortization.

The net cash outflow from operating activities resulted in a net cash outflow of \$1,369,630 for the year ended April 30, 2011. The net cash outflow from operating activities for the year ended April 30, 2011 was primarily a result of a net loss of \$3,542,331, and an increase in accounts receivable of \$529,447 attributable to higher year over year revenue. The net cash outflow was offset by adjustment for non-cash expenses including \$812,485 for stock-based compensation, \$853,677 for amortization of intangible assets, and \$134,880 for depreciation and amortization.

### ***Investing Activities***

Investing activities resulted in a net cash outflow of \$81,743 for the year ended April 30, 2012, primarily due to the purchase of equipment, offset by a return of deposits during the year. This compares with a net cash outflow of \$132,005 for the year ended April 30, 2011, primarily due to the purchase of equipment and deposits. At April 30, 2012, we did not have any material commitments for future capital expenditures.

## **Financing Activities**

Financing activities resulted in a net cash inflow of \$6,718,987 for the year ended April 30, 2012, compared to a net cash inflow of \$1,660,373 for the year ended April 30, 2011.

On June 14, 2011, we issued an aggregate of 3,145,800 units under a brokered private placement for aggregate gross proceeds of \$5,636,170 (CDN\$5,505,150) at a price of \$1.79 (CDN\$1.75) per unit, with each unit consisting of one share of our common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional share of our common stock at an exercise price of CDN\$2.25 per share until June 14, 2013.

On July 28, 2011, we received total proceeds of \$750,001 from the exercise of 833,334 warrants issued pursuant to a private placement that closed October 29, 2009. On August 24, 2011, we received total proceeds of \$750,001 from the exercise of 833,334 warrants issued pursuant to a private placement that closed October 29, 2009. On May 14, 2012, we received total proceeds of \$114,086 (CDN\$112,500) from the exercise of 50,000 warrants issued pursuant to a private placement that closed June 14, 2011.

On June 19, 2012, we issued an aggregate of 1,465,000 units under a non-brokered private placement for aggregate gross proceeds of \$3,597,000 (CDN\$3,662,500) at a price of \$2.46 (CDN\$2.50) per unit, with each unit consisting of one share of our common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of our common stock at an exercise price of \$3.25 per share until June 19, 2014.

## **Off-Balance Sheet Arrangements**

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

## **New Accounting Pronouncements**

In October 2009, FASB's Emerging Issues Task Force issued ASU 2009-14 "Certain Revenue Arrangements That Include Software Elements." ASU 2009-14 addresses certain revenue arrangements that include software elements. This guidance states that tangible products with hardware and software components that work together to deliver the product functionality are considered non-software products, and the accounting guidance under the revenue arrangements with multiple deliverables is to be followed. This guidance is effective for arrangements entered into, or materially modified, in periods beginning on or after June 15, 2010, with earlier adoption permitted, and we were required to adopt this guidance in its first quarter of fiscal 2012. The adoption of ASU 2009-14 did not have a material impact on our financial statements.

In April 2010, the FASB issued Accounting Standards Update No. 2010-13, *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*, amends Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. It is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The adoption of ASC 2010-13 did not have a material impact on our financial statements.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605) – Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive.

ASU 2010–17 is effective for fiscal years and interim periods within those fiscal years, beginning June 15, 2010. The adoption of ASU 2010–17 did not have a material impact on the Company's financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011–04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which aligns the fair value measurement and disclosure requirements in U.S. GAAP and the International Financial Reporting Standards (IFRSs). Many of the amendments in this ASU will not result in a change in requirements, but simply clarify existing requirements. The amendments in this ASU that do change a principle or requirement for measuring fair value or disclosing information about fair value measurements include the following: (1) the ASU permits an exception for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than gross exposure, to those risks; (2) the ASU clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value; (3) the ASU prohibits blockage discounts for level 2 and 3 investments; and (4) the amendments expand the fair value measurement disclosures. The ASU is to be applied prospectively. For public entities, the ASU is effective during interim and annual periods beginning after December 15, 2011. We early implemented the requirements and present net income and comprehensive income in a single continuous statement.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011–04, "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." There are few differences between the ASU and IFRS 13. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. The amendments in the update became effective for fiscal years and interim periods beginning after December 15, 2011.

In June 2011 the FASB issued Accounting Standards Update 2011–05, *Presentation of Comprehensive Income*, which eliminates the option of presenting the components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The ASU instead permits an entity to present the total of comprehensive income, the components of net income and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. With either format, the entity is required to present each component of net income along with total net income, each component of OCI along with the total for OCI, and a total amount for comprehensive income. Also, the ASU requires entities to present, for either format, reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. This ASU is to be applied retrospectively. For public entities, the ASU is effective for interim and annual periods beginning after December 15, 2011. We do not anticipate that the adoption of ASU 2011–05 will have any impact on its consolidated financial statements.

In September 2011, the FASB issued accounting Standards Update 2011–08 to simplify how tests for potential goodwill impairment are performed. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform further goodwill impairment testing as required under the previous standards. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011 if an entity's financial statements had not yet been issued. We have early adopted this standard on September 30, 2011, and it did not materially impact our consolidated financial statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not Applicable.

**Item 8. Financial Statements and Supplementary Data.**

**COUNTERPATH CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**April 30, 2012**

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## Report of Independent Registered Public Accounting Firm

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### To the Directors and Stockholders of CounterPath Corporation:

We have audited the accompanying consolidated balance sheets of CounterPath Corporation (the "Company") as of April 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive loss, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CounterPath Corporation at April 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/s/ BDO Canada LLP

Chartered Accountants

Vancouver, Canada  
July 19, 2012

**COUNTERPATH CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

|                                                                                                     | April 30,<br>2012    | April 30,<br>2011    |
|-----------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Assets</b>                                                                                       |                      |                      |
| Current assets:                                                                                     |                      |                      |
| Cash                                                                                                | \$ 8,154,139         | \$ 1,707,397         |
| Accounts receivable (net of allowance for doubtful accounts of \$334,294 (2011 – \$49,883) )        | 4,014,472            | 3,018,188            |
| Investment tax credits recoverable                                                                  | –                    | –                    |
| Prepaid expenses and deposits                                                                       | 170,556              | 110,412              |
| Total current assets                                                                                | 12,339,167           | 4,835,997            |
| Deposits                                                                                            | 62,521               | 159,433              |
| Equipment – Note 3                                                                                  | 101,024              | 59,574               |
| Intangible assets (net of accumulated amortization of \$5,890,282 (2011 – \$5,097,578)) – Note 2(b) | 38,853               | 859,664              |
| Goodwill – Note 2(b)                                                                                | 8,957,977            | 9,247,993            |
| Other assets                                                                                        | 44,402               | 48,308               |
| Total Assets                                                                                        | <u>\$ 21,543,944</u> | <u>\$ 15,210,969</u> |
| <b>Liabilities and Stockholders' Equity</b>                                                         |                      |                      |
| Current liabilities:                                                                                |                      |                      |
| Accounts payable and accrued liabilities – Note 4                                                   | \$ 2,416,489         | \$ 2,340,897         |
| Derivative instruments – Note 8                                                                     | 2,026,944            | –                    |
| Unearned revenue                                                                                    | 1,308,174            | 958,626              |
| Customer deposits                                                                                   | 13,872               | 2,018                |
| Accrued warranty – Note 2(b)                                                                        | 84,948               | 146,868              |
| Total current liabilities                                                                           | 5,850,427            | 3,448,409            |
| Convertible debentures – Note 6                                                                     | –                    | 1,305,002            |
| Deferred lease inducements                                                                          | 56,082               | 2,474                |
| Unrecognized tax benefit – Notes 2(b) and 9                                                         | 98,575               | 98,575               |
| Total liabilities                                                                                   | 6,005,084            | 4,854,460            |
| Stockholders' equity:                                                                               |                      |                      |
| Preferred stock, \$0.001 par value – Note 7                                                         |                      |                      |
| Authorized: 100,000,000                                                                             |                      |                      |
| Issued and outstanding: April 30, 2012 – 1; April 30, 2011 – 1                                      | –                    | –                    |
| Common stock, \$0.001 par value – Note 8                                                            |                      |                      |
| Authorized: 83,076,900                                                                              |                      |                      |
| Issued and outstanding: April 30, 2012 – 39,960,479; April 30, 2011 – 33,439,906                    | 39,961               | 33,440               |
| Additional paid-in capital                                                                          | 61,025,529           | 53,420,601           |
| Accumulated deficit                                                                                 | (45,446,771)         | (43,323,410)         |
| Accumulated other comprehensive income (loss) – currency translation adjustment                     | (79,859)             | 225,878              |
| Total stockholders' equity                                                                          | 15,538,860           | 10,356,509           |
| Liabilities and Stockholders' Equity                                                                | <u>\$ 21,543,944</u> | <u>\$ 15,210,969</u> |
| Commitments – Note 12                                                                               |                      |                      |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Stated in U.S. Dollars)

|                                                                                                                                                       | <b>Years Ended<br/>April 30,</b> |                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------------|
|                                                                                                                                                       | <b>2012</b>                      | <b>2011</b>           |
| Revenue – Note 10:                                                                                                                                    |                                  |                       |
| Software                                                                                                                                              | \$ 8,494,852                     | \$ 7,205,947          |
| Service                                                                                                                                               | 5,588,644                        | 3,834,351             |
| Total revenue                                                                                                                                         | <u>14,083,496</u>                | <u>11,040,298</u>     |
| Operating expenses:                                                                                                                                   |                                  |                       |
| Cost of sales (includes depreciation of \$25,485 (2011 – \$22,017) and amortization of intangible assets of \$786,712 (2011 – \$853,677)) – Note 2(b) | 2,818,569                        | 2,864,838             |
| Sales and marketing                                                                                                                                   | 3,869,815                        | 3,495,274             |
| Research and development                                                                                                                              | 4,782,908                        | 4,469,979             |
| General and administrative                                                                                                                            | 4,032,035                        | 3,997,340             |
| Total operating expenses                                                                                                                              | <u>15,503,327</u>                | <u>14,827,431</u>     |
| Loss from operations                                                                                                                                  | (1,419,831)                      | (3,787,133)           |
| Interest and other income (expense), net                                                                                                              |                                  |                       |
| Interest and other income                                                                                                                             | 171,453                          | 245,401               |
| Interest expense                                                                                                                                      | (172,460)                        | (80,365)              |
| Foreign exchange gain (loss)                                                                                                                          | 13,280                           | (166,949)             |
| Fair value adjustment on derivative instruments – Note 8                                                                                              | (715,803)                        | –                     |
| Gain on settlement of debt – Note 13                                                                                                                  | –                                | 246,715               |
| Net loss for the year                                                                                                                                 | <u>\$ (2,123,361)</u>            | <u>\$ (3,542,331)</u> |
| Other comprehensive income (loss):                                                                                                                    |                                  |                       |
| Foreign currency translation adjustments                                                                                                              | (305,737)                        | 639,560               |
| Comprehensive loss                                                                                                                                    | <u>\$ (2,429,098)</u>            | <u>\$ (2,902,771)</u> |
| Net loss per share:                                                                                                                                   |                                  |                       |
| Basic and diluted                                                                                                                                     | <u>\$ (0.05)</u>                 | <u>\$ (0.11)</u>      |
| Weighted average common shares outstanding:                                                                                                           | 38,792,066                       | 33,191,749            |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in U.S. Dollars)

|                                                                             | <b>Years Ended<br/>April 30,</b> |                     |
|-----------------------------------------------------------------------------|----------------------------------|---------------------|
|                                                                             | <b>2012</b>                      | <b>2011</b>         |
| <b>Cash flows from operating activities:</b>                                |                                  |                     |
| Net loss for the year                                                       | \$ (2,123,361)                   | \$ (3,542,331)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                  |                     |
| Depreciation and amortization                                               | 109,243                          | 134,880             |
| Amortization of intangible assets                                           | 786,712                          | 853,677             |
| Shares issued as part of share purchase plan                                | –                                | 25,327              |
| Stock-based compensation                                                    | 738,803                          | 812,485             |
| Warrant expense                                                             | –                                | 269,633             |
| Fair value adjustment on derivative instruments                             | 715,803                          | –                   |
| Foreign exchange loss                                                       | (13,280)                         | 166,949             |
| Accretion of debenture discount                                             | 159,798                          | 55,738              |
| Changes in assets and liabilities:                                          |                                  |                     |
| Accounts receivable                                                         | (993,898)                        | (529,447)           |
| Prepaid expenses and deposits                                               | (65,701)                         | 111,801             |
| Accounts payable and accrued liabilities                                    | 95,448                           | (35,745)            |
| Other assets                                                                | (10,380)                         | (18,658)            |
| Unearned revenue                                                            | 349,548                          | 303,265             |
| Customer deposits                                                           | 11,854                           | (3,109)             |
| Accrued warranty                                                            | (61,920)                         | 25,905              |
| Net cash used in operating activities                                       | <u>(301,331)</u>                 | <u>(1,369,630)</u>  |
| <b>Cash flows from investing activities:</b>                                |                                  |                     |
| Purchase of equipment                                                       | (150,727)                        | (83,304)            |
| Deposits                                                                    | 68,984                           | (48,701)            |
| Net cash used in investing activities                                       | <u>(81,743)</u>                  | <u>(132,005)</u>    |
| <b>Cash flows from financing activities:</b>                                |                                  |                     |
| Common stock issued, net of transaction costs                               | 6,718,987                        | 195,573             |
| Convertible debenture                                                       | –                                | 1,464,800           |
| Net cash provided by financing activities                                   | <u>6,718,987</u>                 | <u>1,660,373</u>    |
| Foreign exchange effect on cash                                             | 110,829                          | (8,154)             |
| Increase (decrease) in cash                                                 | 6,446,742                        | 150,584             |
| Cash, beginning of the year                                                 | 1,707,397                        | 1,556,813           |
| Cash, end of the year                                                       | <u>\$ 8,154,139</u>              | <u>\$ 1,707,397</u> |
| <b>Supplemental disclosure of cash flow information</b>                     |                                  |                     |
| Cash paid for:                                                              |                                  |                     |
| Interest                                                                    | \$ 12,662                        | \$ 25,835           |
| Taxes                                                                       | \$ –                             | \$ –                |
| Non cash transactions – Notes 7 and 8                                       |                                  |                     |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**for the Years Ended April 30, 2012 and 2011**  
(Stated in U.S. Dollars)

|                                                  | Common shares          |           | Preferred Shares       |           | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total         |
|--------------------------------------------------|------------------------|-----------|------------------------|-----------|----------------------------------|------------------------|--------------------------------------------------------|---------------|
|                                                  | Number<br>of<br>Shares | Par Value | Number<br>of<br>Shares | Par Value |                                  |                        |                                                        |               |
| Balance, April 30, 2010                          | 33,015,627             | \$ 33,016 | 1                      | \$ –      | 51,902,471                       | \$ (39,781,079)        | \$ (413,682)                                           | \$ 11,740,726 |
| Shares issued:                                   |                        |           |                        |           |                                  |                        |                                                        |               |
| Exercise of stock options                        | 307,837                | 308       | –                      | –         | 145,236                          | –                      | –                                                      | 145,244       |
| Employee Share Purchase Plan                     | 55,571                 | 56        | –                      | –         | 75,300                           | –                      | –                                                      | 75,356        |
| Exchange of subsidiary preferred shares – Note 7 | 60,871                 | 60        | –                      | –         | (60)                             | –                      | –                                                      | –             |
| Stock-based compensation – Note 8                | –                      | –         | –                      | –         | 812,485                          | –                      | –                                                      | 812,485       |
| Share purchase warrants – Note 8                 | –                      | –         | –                      | –         | 269,633                          | –                      | –                                                      | 269,633       |
| Discount on convertible debenture                |                        |           |                        |           |                                  |                        |                                                        |               |
| beneficial conversion feature – Note 6           | –                      | –         | –                      | –         | 215,536                          | –                      | –                                                      | 215,536       |
| Net loss for the year                            | –                      | –         | –                      | –         | –                                | (3,542,331)            | –                                                      | (3,542,331)   |
| Foreign currency translation adjustment          | –                      | –         | –                      | –         | –                                | –                      | 639,560                                                | 639,560       |
| Balance, April 30, 2011                          | 33,439,906             | 33,440    | 1                      | –         | 53,420,601                       | (43,323,410)           | 225,878                                                | 10,356,509    |
| Shares issued:                                   |                        |           |                        |           |                                  |                        |                                                        |               |
| Private placements                               | 3,145,800              | 3,146     | –                      | –         | 5,633,024                        | –                      | –                                                      | 5,636,170     |
| Less: Proceeds allocated to warrants –Note 8     | –                      | –         | –                      | –         | (1,311,141)                      | –                      | –                                                      | (1,311,141)   |
| Less: Share issue costs                          | –                      | –         | –                      | –         | (605,922)                        | –                      | –                                                      | (605,922)     |
| Issued on conversion of debentures               | 1,332,261              | 1,332     | –                      | –         | 1,463,468                        | –                      | –                                                      | 1,464,800     |
| Shares issued on exercise of warrants            | 1,666,668              | 1,667     | –                      | –         | 1,498,334                        | –                      | –                                                      | 1,500,001     |
| Exercise of stock options                        | 375,844                | 376       | –                      | –         | 188,362                          | –                      | –                                                      | 188,738       |
| Stock-based compensation – Note 8                | –                      | –         | –                      | –         | 738,803                          | –                      | –                                                      | 738,803       |
| Net loss for the year                            | –                      | –         | –                      | –         | –                                | (2,123,361)            | –                                                      | (2,123,361)   |
| Foreign currency translation adjustment          | –                      | –         | –                      | –         | –                                | –                      | (305,737)                                              | (305,737)     |
| Balance, April 30, 2012                          | 39,960,479             | \$ 39,961 | 1                      | \$ –      | 61,025,529                       | \$ (45,446,771)        | \$ (79,859)                                            | \$ 15,538,860 |

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 1**      **Nature of Operations**

CounterPath Corporation (the “Company”) was incorporated in the State of Nevada on April 18, 2003. The Company changed its name from CounterPath Solutions, Inc. to CounterPath Corporation on October 17, 2007. The Company’s common shares are quoted for trading on the NASDAQ Capital Market in the United States of America and on the TSX Venture Exchange in Canada.

On August 2, 2007, the Company acquired all of the shares of NewHeights Software Corporation (“NewHeights”) through the issuance of 7,680,168 shares of the Company’s common stock and 369,836 preferred shares issued from a subsidiary of the Company exchangeable into 369,836 shares of common stock of the Company. For accounting purposes, the Company was deemed to be the acquirer of NewHeights based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired FirstHand Technologies Inc. (“FirstHand”), a private Ontario, Canada corporation, through the issuance of 5,900,014 shares of the Company’s common stock. For accounting purposes, the Company was deemed to be the acquirer of FirstHand based on certain factors including the number of common shares issued in the transaction as a proportion of the total common shares outstanding, and the composition of the board after the transaction.

On February 1, 2008, the Company acquired BridgePort Networks, Inc. (“BridgePort”), a private Delaware corporation, by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort. For accounting purposes, the Company was deemed to be the acquirer of BridgePort based on certain factors primarily being the composition of the board after the transaction.

On February 5, 2008, the Company’s wholly-owned subsidiaries, NewHeights and CounterPath Solutions R&D Inc. were amalgamated under the name CounterPath Technologies Inc.

On November 1, 2010, the Company’s wholly-owned subsidiaries, FirstHand Technologies Inc. and CounterPath Technologies Inc. were amalgamated under the name CounterPath Technologies Inc.

The Company focuses on the design, development, marketing and sales of personal computer and mobile communications application software, conferencing software, gateway (server) software and related professional services, such as pre and post sales technical support and customization services. The Company’s products are sold into the Voice over Internet Protocol (VoIP) market primarily to telecom carriers, telecom original equipment manufacturers and businesses in North America, Central and South America, Europe and Asia.

**Note 2**      **Significant Accounting Policies**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars except where otherwise disclosed. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may vary from these estimates.

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 2**      **Significant Accounting Policies – (cont’d)**

a)      Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, and BridgePort Networks, Inc. incorporated under the laws of the state of Delaware. The results of NewHeights Software Corporation (which subsequently was amalgamated with another subsidiary to become CounterPath Technologies Inc.) are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. (which subsequently was amalgamated with CounterPath Technologies Inc.) and BridgePort Networks, Inc. are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

b)      Significant Accounting Policies

*Revenue Recognition:*

The Company recognizes revenue in accordance with the ASC 985-605 (prior authoritative literature: American Institute of Certified Public Accountants (AICPA) Statement of Position (“SOP”) 97-2) “Software Revenue Recognition”, as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions”. In accordance with these standards, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection of the related accounts receivable is deemed probable. In making these judgments, management evaluates these criteria as follows:

- *Persuasive evidence of an arrangement.* The Company considers a noncancelable agreement signed by the Company and the customer to be representative of persuasive evidence of an arrangement.
- *Delivery has occurred.* The Company considers delivery to have occurred when the product has been delivered to the customer and no post-delivery obligations exist. In instances where customer acceptance is required, delivery is deemed to have occurred when customer acceptance has been achieved.
- *Fees are fixed or determinable.* The Company considers the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within normal payment terms. If the fee is subject to refund or adjustment, the Company recognizes revenue when the refund or adjustment right lapses. If offered payment terms exceed the Company’s normal terms, the Company recognizes revenue as the amounts become due and payable or upon the receipt of cash when extended payment terms beyond 180 days are offered.
- *Collection is deemed probable.* Collection is deemed probable if, based upon the Company’s evaluation, the Company expects that the customer will be able to pay amounts under the arrangement as payments become due. If the Company determines that collection is not probable, revenue is deferred and recognized upon the receipt of cash.

A substantial amount of the Company’s sales involve multiple element arrangements, such as products, support, professional services, and training. When arrangements include multiple elements, the Company allocates the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor specific objective evidence (VSOE) of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires the Company to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically represents support services.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 2      Significant Accounting Policies – (cont'd)**

b)      Significant Accounting Policies – (cont'd)

Revenue is allocated to each of the undelivered elements based on its respective fair value.

For contracts with elements related to customized network solutions and certain network build-outs, for transactions accounted for as sales of products or services, we apply FASB Accounting Standards Codification ("ASC") Subtopic 605-25 (Prior authoritative literature: Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables") and revenues are recognized under ASC 605-35, for long-term transactions entered to supply software, or software systems, that require significant modification or customization (prior authoritative literature: SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts"), generally using the percentage-of-completion method.

In using the percentage-of-completion method, revenues are generally recorded based on completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Service revenue includes sales of support and other services, including professional services, training, and reimbursable travel. Support services include telephone support, e-mail support and unspecified rights to product updates and upgrades, and are recognized ratably over the term of the service period, which is generally 12 months. Support revenue is generally deferred until the related product has been accepted and all other revenue recognition criteria have been met. Professional services and training revenue is recognized as the related service has been performed.

*Stock-Based Compensation:*

The Company adopted ASC 718 (prior authoritative literature: Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation"), using the modified prospective method on May 1, 2006. Under this application, the Company is required to record compensation expense, based on the fair value of the awards, for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as at the date of adoption. In accordance with ASC 718, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period.

Stock options granted to non-employees were accounted for in accordance with ASC 718 and ASC 505-50 (prior authoritative literature: EITF No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling Goods or Services") and were measured at the fair value of the options as determined by an option pricing model on the measurement date and compensation expense is amortized over the vesting period or, if none exists, over the service period. Compensation expense for unvested options to non-employees is revalued at each balance sheet date and is being amortized over the vesting period of the options.

With the adoption of ASC 718, the Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. The Company has estimated the fair value of option awards to employees and non-employees for the years ended April 30, 2012 and April 30, 2011 using the assumptions more fully described in Note 8.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 2**      **Significant Accounting Policies – (cont’d)**

b)      Significant Accounting Policies – (cont’d)

*Use of Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company’s management to make estimates and assumptions which affect the amounts reported in these consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

*Equipment and Amortization:*

Equipment is recorded at cost. Depreciation is provided for using the straight-line method over the estimated useful lives as follows:

|                        |                                                  |
|------------------------|--------------------------------------------------|
| Computer hardware      | Two years                                        |
| Computer software      | Two years                                        |
| Leasehold improvements | Shorter of lease term or estimated economic life |
| Office furniture       | Five years                                       |
| Website                | Three years                                      |

*Research and Development:*

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. Management has determined that technological feasibility is established at the time a working model of software is completed. Because management believes that the current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

*Website Development Costs:*

The Company recognizes the costs associated with developing a website in accordance with ACS Topic 350-40 (prior authoritative literature: the American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”). Relating to website development costs, the Company follows the guidance pursuant to ASC Topic 350-50 (prior authoritative literature: Emerging Issues Task Force (EITF) No. 00-2, “Accounting for Website Development Costs”).

Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, are expensed as incurred.

These capitalized costs are amortized based on their estimated useful life over three years. Payroll and other related costs are not capitalized, as the amounts principally relate to maintenance.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 2      Significant Accounting Policies – (cont’d)**

b)      Significant Accounting Policies – (cont’d)

*Impairment of Long-Lived Assets:*

In accordance with ASC Topic 360–10–15 (prior authoritative literature: Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”), the carrying value of intangible assets and other long-lived assets are reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value. Intangible assets include the intangibles purchased in connection with the acquisition of NewHeights on August 2, 2007, and FirstHand and BridgePort on February 1, 2008.

The intangible assets of NewHeights are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$3,454,839 (CDN\$3,678,100) and customer assets of \$2,283,908 (CDN\$2,431,500). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management’s estimate of the future cash flows from this asset over approximately five years, which is management’s estimate of the useful life of the customer asset.

The intangible assets of FirstHand are reported at acquisition cost and include amounts initially allocated to acquired technologies of \$2,804,700 (CDN\$2,804,700) and customer asset of \$587,000 (CDN\$587,000). The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management’s estimate of the future cash flows from this asset over approximately five years, which is management’s estimate of the useful life of the customer asset.

The intangible assets of BridgePort are being carried and reported at acquisition cost and include amounts initially allocated to acquired technologies of \$476,703 and customer asset of \$43,594. The acquired technologies are amortized based on their estimated useful life of four years and the customer asset is amortized on the basis of management’s estimate of the future cash flows from this asset over approximately five years, which is management’s estimate of the useful life of the customer asset. The expected amortization to be recorded for year ended April 30, 2013, of the acquired technologies and customer asset is as follows:

| <b>Fiscal Year</b> | <b>NewHeights</b> | <b>FirstHand</b> | <b>BridgePort</b> | <b>Total</b> |
|--------------------|-------------------|------------------|-------------------|--------------|
| 2013               | \$ 38,853         | \$ –             | \$ –              | 38,853       |

The above intangible assets are expected to be fully amortized as at April 30, 2013.

In accordance with ASC Topic 360–10–15 (prior authoritative literature: SFAS 144), the Company performed an assessment as of April 30, 2012 and determined that there was no impairment of its intangible assets (2011 – \$nil).

The Company performed its assessment at the asset group level which represented the lowest level of cash flows that are largely independent of cash flows of other assets and liabilities. For the Company, this asset grouping is deemed to be at the reporting unit level and consists of acquired technology and customer relationships (which were recorded as a result of the acquisitions of FirstHand and NewHeights), and equipment. When performing this test at the reporting unit level, goodwill is included in the carrying value of the asset group. The Company assessed the recoverability of the carrying value of its long-lived assets based on estimated undiscounted cash flows to be generated from such assets. For the year ended April 30, 2012, the carrying value of the asset group was less than the undiscounted cash flows, indicating no impairment (2011 – \$nil).

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**Note 2**      **Significant Accounting Policies – (cont’d)**

b)      Significant Accounting Policies – (cont’d)

A summary of the Company’s intangible assets, net, at April 30, 2012, is as follows:

|                                   | <b>Cost</b>         | <b>Accumulated<br/>Amortization</b> | <b>Impairment<br/>Charge</b> | <b>Net Carrying<br/>Amount</b> |
|-----------------------------------|---------------------|-------------------------------------|------------------------------|--------------------------------|
| Acquired technologies             | \$ 6,306,336        | \$ 4,417,678                        | \$ 1,888,658                 | \$ –                           |
| Customer assets                   | 2,727,485           | 1,472,604                           | 1,216,028                    | 38,853                         |
| Intangible assets, April 30, 2012 | <u>\$ 9,033,821</u> | <u>\$ 5,890,282</u>                 | <u>\$ 3,104,686</u>          | <u>\$ 38,853</u>               |

A summary of the Company’s intangible assets, net at April 30, 2011 is as follows:

|                                   | <b>Cost</b>         | <b>Accumulated<br/>Amortization</b> | <b>Impairment<br/>Charge</b> | <b>Net Carrying<br/>Amount</b> |
|-----------------------------------|---------------------|-------------------------------------|------------------------------|--------------------------------|
| Acquired technologies             | \$ 6,314,811        | \$ 4,038,003                        | \$ 1,888,658                 | \$ 388,150                     |
| Customer assets                   | 2,747,117           | 1,059,575                           | 1,216,028                    | 471,514                        |
| Intangible assets, April 30, 2011 | <u>\$ 9,061,928</u> | <u>\$ 5,097,578</u>                 | <u>\$ 3,104,686</u>          | <u>\$ 859,664</u>              |

*Accounts Receivable and Allowance for Doubtful Accounts:*

Accounts receivable are presented net of an allowance for doubtful accounts. The allowance was \$334,294 at April 30, 2012 (2011 – \$49,883). Bad debt expense for the year ended April 30, 2012, was \$169,736 (2011 – \$183,893).

The Company evaluates, on a periodic basis, the collectability of its accounts receivable balances on an individual customer basis considering a number of factors including the length of time accounts receivable are beyond the contractual payment terms, the Company’s previous loss history with the customer and the customer’s ability to pay its obligation to the Company.

The Company determines the allowance for doubtful debts by considering a number of factors, including the length of time the accounts receivable are beyond the contractual payment terms, previous loss history, and the customer’s current ability to pay its obligation. When the Company becomes aware of a specific customer’s inability to meet its financial obligations to the Company, the Company records a charge to the allowance to reduce the customer’s related accounts.

*Foreign Currency Translation:*

The Company’s functional currency is the U.S. dollar. The Company’s wholly-owned subsidiaries with a functional currency other than the U.S. dollar are translated into amounts to the reporting currency, United States dollars, in accordance with ASC Topic 830 (prior authoritative literature: SFAS No. 52, “Foreign Currency Translation”). At each balance sheet date, assets and liabilities that are denominated in a currency other than U.S. dollars are adjusted to reflect the current exchange rate which may give rise to a foreign currency translation adjustment accounted for as a separate component of stockholders’ equity and included in comprehensive loss.

For transactions undertaken by the Company in foreign currencies, monetary assets and liabilities are translated into the functional currency at the exchange rate in effect at the end of the year. Non-monetary assets and liabilities are translated at the exchange rate prevailing when the assets were acquired or the liabilities assumed. Revenues and expenses are translated at the rate approximating the rate of exchange on the transaction date. Exchange gains and losses are included in the determination of net income (loss) for the year.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2      Significant Accounting Policies – (cont'd)**

b)      Significant Accounting Policies – (cont'd)

*Accrued Warranty:*

The Company's warranty policy generally provides for one year of warranty for its products. The Company records a liability for estimated warranty obligations at the date products are sold. The estimated cost of warranty coverage is based on the Company's actual historical experience with its current products or similar products. For new products, the required reserve is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Estimated liabilities for warranty exposures, which relate to normal product warranties and a one-year obligation to provide for potential future liabilities for product sales for the years ended April 30, 2012 and 2011 were as follows:

|                            | <b>Years Ended April 30,</b> |                   |
|----------------------------|------------------------------|-------------------|
|                            | <b>2012</b>                  | <b>2011</b>       |
| Balance, beginning of year | \$ 146,868                   | \$ 120,963        |
| Change                     | (61,920)                     | 25,905            |
| Balance, end of year       | <u>\$ 84,948</u>             | <u>\$ 146,868</u> |

*Trademarks:*

Costs related to trademark applications have been deferred and are included in other assets. Once granted, trademark costs will be amortized over their useful lives.

*Fair Value of Financial Instruments:*

The Company's financial instruments, consist of cash, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrued warranty, and derivative liabilities. The fair value of the financial instruments approximate book value

As a basis for considering market participant assumptions in fair value measurements, ASC 820-10 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy, as defined by ASC 820-10, contains three levels of inputs that may be used to measure fair value as follows:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2      Significant Accounting Policies – (cont’d)**

b)      Significant Accounting Policies – (cont’d)

The Company’s derivative financial instruments are valued using observable market-based inputs to industry valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility obtained from various market sources.

The Company measures certain financial assets, including any foreign currency option or forward contracts at fair value. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

*Income Taxes:*

The Company accounts for income taxes by the asset and liability method in accordance with ASC Topic 740 (prior authoritative literature: SFAS 109, “*Accounting for Income Taxes*”). Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company has not recorded a deferred tax liability related to its investment in foreign subsidiaries. The Company has determined that its investment in these subsidiaries is permanent in nature and it does not intend to dispose of these investments in the foreseeable future. The amount of the deferred tax liability related to the Company’s investment in foreign subsidiaries is not reasonably determinable.

On May 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) interpretation No. 48 (“FIN 48”), “*Accounting for Uncertainty in Income Taxes*”, (codified in FASB ASC Topic 740). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company recognizes interest and penalties accrued on unrecognized tax benefits within general and administrative expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction in general and administrative expenses in the period that such determination is made.

*Comprehensive Loss:*

The Company has adopted ASC Topic 220 (prior authoritative literature: SFAS No. 130 “*Reporting Comprehensive Income*”). Comprehensive loss is comprised of foreign currency translation adjustments.

*Basic and Diluted Loss per Share:*

The Company computes net loss per share in accordance with ASC Topics 260 and ASC 260–10 (prior authoritative literature: SFAS No. 128, “*Earnings Per Share*”, and EITF No. 03–06, “*Participating Securities and the Two-Class Method under FASB Statement No. 128*”, respectively).

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**Note 2**      **Significant Accounting Policies – (cont'd)**

b)      Significant Accounting Policies – (cont'd)

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income to the preferred shares issued from 6789722 Canada Inc., a subsidiary of the Company, that are exchangeable into shares of common stock of the Company (Note 7) for the period or portion of the period that this security is outstanding. There are no exchangeable shares remaining as all have been exchanged into shares of common stock of the Company as of April 30, 2012.

ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS gives effect to all dilutive potential common shares outstanding during the year including stock options and warrants using the treasury stock method. In computing diluted EPS, the average stock price for the year is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. For the year ended April 30, 2012, loss per share excludes 8,307,148 (April 30, 2011 – 9,054,175) potentially dilutive common shares (related to stock options, deferred share units, warrants, exchangeable shares and convertible debt) as their effect was anti-dilutive.

*Investment tax credits:*

Investment tax credits are accounted for under the cost reduction method whereby they are netted against the expense or property and equipment to which they relate. Investment tax credits are recorded when the qualifying expenditures have been incurred and if it is more likely not that the tax credits will be realized.

*Goodwill:*

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. ASC Topic 350 (prior authoritative literature: Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets*" ("SFAS No. 142")). ASC 350 requires goodwill to be tested for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company's business enterprise below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis.

Management has determined that the Company currently has a single reporting unit which is CounterPath Corporation. If the recorded value of the assets, including goodwill, and liabilities ("net book value") of the reporting unit exceeds its fair value, an impairment loss may be required.

Goodwill of \$6,339,717 (CDN\$6,704,947) and \$2,083,960 (CDN\$2,083,752) was initially recorded in connection with the acquisition of NewHeights Software Corporation on August 2, 2007 and FirstHand Technologies Inc. on February 1, 2008. Translated to U.S. dollars using the period end rate, the goodwill balance at April 30, 2012 was \$6,834,353 (CDN\$6,704,947) (April 30, 2011 – \$7,055,616) and \$2,123,624 (CDN\$2,083,752) (April 30, 2011 – \$2,192,377), respectively. During the fourth quarter of its fiscal year ended April 30, 2012, the Company performed its annual impairment test. In the first step, Management compared the fair value of the Company to its carrying value based upon an analysis of a number of factors including the market multiples of comparable companies as at April 30, 2012. On this basis Management determined that the Company's implied fair value exceeded its carrying value and has not recognized any impairment of goodwill in the consolidated financial statements for the year ended April 30, 2012 (2011 – \$nil).

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2**      **Significant Accounting Policies – (cont’d)**

b)      Significant Accounting Policies – (cont’d)

*Derivative Instruments and Hedging Activities:*

The Company accounts for derivative instruments, consisting of foreign currency forward contracts, pursuant to the provisions of Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133” (“SFAS 161”), effective at the beginning of the first quarter of fiscal year 2010. SFAS No. 161 was incorporated into ASC 815, Derivatives and Hedging (“ASC 815”). ASC 815 requires the Company to measure derivative instruments at fair value and record them in the balance sheet as either an asset or liability and expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, results of operations and cash flows. The Company does not use derivative instruments for trading purposes. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Following the guidance in ASC 815-40-15, the Company recorded the warrants issued as derivative instruments due to their exercise price being denominated in a currency other than the Company’s U.S.dollar functional currency initially at fair value. Subsequent changes in the fair value of the derivative instruments are recorded as a gain or loss in the Company’s consolidated statements of operations.

The Company manages foreign currency market risk using option or forward contracts to offset the risk associated with the effects of certain foreign currency exposures primarily related to non-functional currency intercompany loans and advances between our international subsidiaries as well as other balance sheet accounts, particularly accounts receivable, accounts payable and certain accrual accounts. The Company revalues all contracts to their current market value at the end of each reporting period and unrealized gains and losses are included in other comprehensive income (OCI). These gains and losses largely offset gains and losses recorded from the revaluation of our non-functional currency balance sheet exposures. We expect this to mitigate some foreign currency transaction gains or losses in future periods. Our net realized gain or loss with respect to currency fluctuations will depend on the currency exchange rates and other factors in effect as the contracts mature.

We record our foreign currency forward contracts on our Consolidated Balance Sheets as other current assets or other current liabilities depending on whether the net fair value of such contracts is a net asset or net liability, respectively (see Note 11 “Derivative Instruments and Hedging Activities,” of the Notes to the Consolidated Financial Statements). The Company did not enter into any forward contracts during the year ended April 30, 2012 (2011:none).

c)      New Accounting Pronouncements

In October 2009, FASB’s Emerging Issues Task Force issued ASU 2009-14 “Certain Revenue Arrangements That Include Software Elements.” ASU 2009-14 addresses certain revenue arrangements that include software elements. This guidance states that tangible products with hardware and software components that work together to deliver the product functionality are considered non-software products, and the accounting guidance under the revenue arrangements with multiple deliverables is to be followed. This guidance is effective for arrangements entered into, or materially modified, in periods beginning on or after June 15, 2010, with earlier adoption permitted, and the Company was required to adopt this guidance in its first quarter of fiscal 2012. The adoption of ASU 2009-14 did not have a material impact on the Company’s financial statements.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**Note 2      Significant Accounting Policies – (cont'd)**

c)      New Accounting Pronouncements – (cont'd)

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-13, *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*, amends Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. It is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The adoption of ASU 2010-13 did not have a material impact on the Company's financial statements.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605) – Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for fiscal years and interim periods within those fiscal years, beginning June 15, 2010. The adoption of ASU 2010-17 did not have a material impact on the Company's financial statements.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which aligns the fair value measurement and disclosure requirements in U.S. GAAP and the International Financial Reporting Standards (IFRSs). Many of the amendments in this ASU will not result in a change in requirements, but simply clarify existing requirements. The amendments in this ASU that do change a principle or requirement for measuring fair value or disclosing information about fair value measurements include the following: (1) the ASU permits an exception for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than gross exposure, to those risks; (2) the ASU clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value; (3) the ASU prohibits blockage discounts for level 2 and 3 investments; and (4) the amendments expand the fair value measurement disclosures. The ASU is to be applied prospectively. For public entities, the ASU is effective during interim and annual periods beginning after December 15, 2011. We early implemented the requirements and present net income and comprehensive income in a single continuous statement.

In June 2011 the FASB issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income*, which eliminates the option of presenting the components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The ASU instead permits an entity to present the total of comprehensive income, the components of net income and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. With either format, the entity is required to present each component of net income along with total net income, each component of OCI along with the total for OCI, and a total amount for comprehensive income. Also, the ASU requires entities to present, for either format, reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. This ASU is to be applied retrospectively. For public entities, the ASU is effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-05 will have any impact on its consolidated financial statements.

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**Note 2**      **Significant Accounting Policies – (cont'd)**

c)      **New Accounting Pronouncements – (cont'd)**

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." There are few differences between the ASU and IFRS 13. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. The amendments in the update became effective for fiscal years and interim periods beginning after December 15, 2011.

In September 2011, the FASB issued Accounting Standards Update (ASU) 2011-08 to simplify how tests for potential goodwill impairment are performed. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform further goodwill impairment testing as required under the previous standards. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011 if an entity's financial statements had not yet been issued. We have early adopted this standard on September 30, 2011, and it did not materially impact our consolidated financial statements.

**Note 3**      **Equipment**

|                        | <b>April 30, 2012</b> |                                 |                   |
|------------------------|-----------------------|---------------------------------|-------------------|
|                        | <b>Cost</b>           | <b>Accumulated Depreciation</b> | <b>Net</b>        |
| Computer hardware      | \$ 811,231            | \$ 786,338                      | \$ 24,893         |
| Computer software      | 799,751               | 779,149                         | 20,602            |
| Leasehold improvements | 250,192               | 211,191                         | 39,001            |
| Office furniture       | 229,798               | 213,270                         | 16,528            |
| Websites               | 49,915                | 49,915                          | –                 |
|                        | <u>\$ 2,140,887</u>   | <u>\$ 2,039,863</u>             | <u>\$ 101,024</u> |
|                        | <b>April 30, 2011</b> |                                 |                   |
|                        | <b>Cost</b>           | <b>Accumulated Depreciation</b> | <b>Net</b>        |
| Computer hardware      | \$ 730,148            | \$ 730,148                      | \$ –              |
| Computer software      | 774,769               | 753,298                         | 21,471            |
| Leasehold improvements | 206,941               | 193,303                         | 13,638            |
| Office furniture       | 228,422               | 203,957                         | 24,465            |
| Websites               | 49,915                | 49,915                          | –                 |
|                        | <u>\$ 1,990,195</u>   | <u>\$ 1,930,621</u>             | <u>\$ 59,574</u>  |

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**Note 4**      **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at April 30, 2012 and 2011 are comprised of the following:

|                                | <b>April 30,</b>    |                     |
|--------------------------------|---------------------|---------------------|
|                                | <b>2012</b>         | <b>2011</b>         |
| Accounts payable – trade       | \$ 441,014          | \$ 658,904          |
| Accrued commissions            | 218,212             | 162,147             |
| Accrued vacation               | 555,742             | 472,830             |
| Third party software royalties | 516,100             | 462,423             |
| Accrued severance – Note 12    | 84,107              | 225,719             |
| Other accrued liabilities      | 601,314             | 358,874             |
|                                | <u>\$ 2,416,489</u> | <u>\$ 2,340,897</u> |

**Note 5**      **Related Party Transactions**

The Company's Chairman is the Chairman and founding shareholder of Mitel Networks Corporation ("Mitel"). On July 31, 2008 the Company entered into a source code license agreement whereby the Company licensed to Mitel the source code for the Your Assistant product in consideration of a payment of \$650,000. Associated with the agreement, as amended on April 6, 2009, are ongoing license fees to be paid by Mitel of \$13.50 per copy deployed, declining to \$9.00 per copy deployed after two years and declining from \$9.00 to nil after four years. In addition, the agreement provides Mitel with a first right to match any third party offer to purchase the source code software and related intellectual property. The Company's software license revenue for the year ended April 30, 2012, pursuant to the terms of these agreements, was \$606,149 (2011 – \$525,968).

As at April 30, 2012, the Company had an accounts receivable balance from Mitel of \$242,469 (April 30, 2011 – \$114,369).

During the year ended April 30, 2012, the Company through its wholly owned subsidiary, CounterPath Technologies Inc., paid \$79,612 (2011 – \$84,121) to Kanata Research Park Corporation ("KRP") for leased office space. KRP is controlled by the Chairman of the Company.

In connection with a non-brokered private placement which closed on October 29, 2010, the Company issued a convertible debenture in the principal amount of \$490,750 (CDN\$500,000) to Wesley Clover Corporation, a company controlled by the Chairman of the Company. In connection with a subsequent private placement on June 14, 2011, Wesley Clover Corporation converted its outstanding convertible debentures of the Company in the aggregate principal amount of \$490,750 to 358,211 shares of common stock. The debenture was convertible by the holder at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.37 per share. The convertible debenture was unsecured, bearing interest at the prime bank rate as quoted by the Bank of Montreal with interest payable monthly and maturing on July 30, 2012. During the year ended April 30, 2012, the Company paid interest of \$1,775 (2011 – \$7,381) to Wesley Clover towards interest on convertible debentures.

In connection with a non-brokered private placement of 3,333,334 units which closed on October 29, 2009, Wesley Clover Corporation purchased 1,666,667 units, at a price of \$0.56 (CDN\$0.60) per unit, for aggregate proceeds of \$933,881 (CDN\$1,000,000). Each unit consisted of one share of common stock and one-half of one non-transferable common share purchase warrant. In the event that Wesley Clover did not exercise all of the warrants on or before August 31, 2011, a default amount of \$250,000 would have been immediately due and payable to the Company and such default amount would have incurred interest at the rate of 2% per month (on a pro-rata basis) on the default amount until the default amount is paid in full.

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**Note 5**      **Related Party Transactions – (cont’d)**

On August 24, 2011, Wesley Clover Corporation exercised 833,334 warrants at the original exercise price of \$0.90 per common share.

The Company’s Chairman is a beneficial shareholder of Mitel Trade s.r.o. On January 30, 2012 the Company sold products and services to Mitel Trade s.r.o. for consideration of \$208,992. The Company’s revenue for the year ended April 30, 2012, pursuant to the terms of this sale, was \$175,705 (2011 – \$nil).

As at April 30, 2012, the Company had an accounts receivable balance from Mitel Trade s.r.o. of \$206,500 (April 30, 2011 – \$nil).

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

**Note 6**      **Convertible Debentures**

On July 30, 2010 and October 29, 2010, the Company issued two convertible debentures in the principal amounts of \$483,300 and \$490,750, respectively, to an investor. The debentures were convertible by the holder, at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.00 per share. On October 29, 2010, the Company issued a third convertible debenture in the principal amount of \$490,750 to a company controlled by the Chairman of the Company. The debenture was convertible by the holder at any time prior to maturity, in whole or in part into common shares of the Company at a conversion price of \$1.37 per share. The three convertible debentures were unsecured, bearing interest at the prime bank rate as quoted by the Bank of Montreal with interest payable monthly and maturing on July 30, 2012.

The convertible debentures could be prepaid in whole or in part by the Company by paying 105% of the principal to be prepaid together with accrued and unpaid interest on or before July 30, 2011, or by paying 102.5% of the principal to be prepaid together with accrued and unpaid interest between July 31, 2011 and April 30, 2012, or by paying 100% of the principal to be prepaid together with accrued and unpaid interest between May 1, 2012 and July 30, 2012.

Pursuant to ASC Topic 470–20, “Debt with Conversion and Other Options,” the Company determined that the convertible debentures issued on October 29, 2010 contained a beneficial conversion feature, as the fair value of the Company’s common stock on the date of issuance was greater than the initial conversion price. Accordingly, the Company allocated \$765,964 to the convertible debentures and \$215,536 to the beneficial conversion feature. The amounts allocated to the beneficial conversion feature represented a discount on the debt financing which was accreted to income over the term of the debt. During the year ended April 30, 2012, the Company accreted \$159,798 (2011–\$55,738) by way of discount on the debentures issued.

The convertible debentures issued on July 30, 2010 did not contain a beneficial conversion feature, as the fair value of the Company’s common stock on the date of issuance was equal to or less than the initial conversion price.

On June 14, 2011 all the outstanding convertible debentures of the Company in the aggregate principal amount of \$1,464,800 were converted with a total of 1,332,261 common shares being issued to the holders. In addition, the Company accreted \$159,798 by way of discount on the debentures issued.

The following table summarizes the Company’s outstanding debentures for the year ended April 30, 2012, and April 30, 2011.

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**Note 6**      **Convertible Debentures-- (cont'd)**

|                                             | <b>April 30,</b> |                     |
|---------------------------------------------|------------------|---------------------|
|                                             | <b>2012</b>      | <b>2011</b>         |
| Convertible debentures as at April 30, 2011 | \$ 1,305,002     | \$ –                |
| Issuance of convertible debenture           | –                | 1,464,800           |
| Beneficial conversion feature               | –                | (215,536)           |
| Accretion of debenture discount             | 159,798          | 55,738              |
| Converted to common shares                  | (1,464,800)      | –                   |
| Convertible debentures as at April 30, 2012 | <u>\$ –</u>      | <u>\$ 1,305,002</u> |

**Note 7**      **Exchangeable Shares**

On August 2, 2007, the Company entered into a voting and exchange trust agreement among its subsidiary, 6789722 Canada Inc., and Valiant Trust Company whereby the Company issued and deposited with Valiant Trust a special preferred voting share of the Company in order to enable Valiant Trust to execute certain voting and exchange rights as trustee from time to time for and on behalf of the registered holders of the preferred shares of 6789722 Canada Inc. Each preferred share of 6789722 Canada Inc. was exchangeable into one share of common stock of the Company at the election of the shareholder, or, in certain circumstances, of the Company.

On October 9, 2008, and November 19, 2008, the Company issued 50,000 shares each totaling to 100,000 shares of common stock pursuant to a holder of 100,000 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. There were 269,841 outstanding exchangeable shares as of April 30, 2009 (April 30, 2008 – 369,841). As the exchangeable shares have already been recognized in connection with the acquisition of NewHeights, the value ascribed to these shares on exchange is \$nil.

On May 11, 2009, the Company issued 50,000 shares of common stock pursuant to a holder of 50,000 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. On December 16, 2009, the Company issued 154,546 shares of common stock pursuant to a holder of 154,546 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. On April 27, 2010, the Company issued 4,424 shares of common stock pursuant to a holder of 4,424 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. On May 14, 2010, the Company issued 50,000 shares of common stock pursuant to a holder of 50,000 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights. On January 27, 2011, the Company issued 1,122 shares of common stock pursuant to a holder of 1,122 shares of exchangeable preferred shares of its subsidiary 6789722 Canada Inc. exercising their exchange rights.

On January 28, 2012, the Company redeemed all of the remaining 9,749 exchangeable shares outstanding pursuant to the Company's redemption call right under the provisions attaching to the exchangeable shares of 6789722 Canada Inc. As a result there were no outstanding exchangeable shares as of April 30, 2012 (April 30, 2011 – 60,871).

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**Note 8**      **Common Stock**

Private Placement

On June 14, 2011, the Company issued an aggregate of 3,145,800 units under a brokered private placement for aggregate gross proceeds of \$5,636,170 (CDN\$5,505,150) at a price of \$1.79 (CDN\$1.75) per unit, with each unit consisting of one share of the Company's common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company's common stock at an exercise price of CDN\$2.25 per share until June 14, 2013. In connection with the offering, the Company issued an aggregate of 220,206 broker warrants, with each broker warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of CDN\$1.75 per share until December 14, 2012. In addition, the Company incurred \$605,922 in share issue costs.

Stock Options

The Company has a stock option plan (the "2010 Stock Option Plan") under which options to purchase common shares of the Company may be granted to employees, directors and consultants. This plan is effectively a merging of the Company's 2004 and 2005 stock option plans. Stock options entitle the holder to purchase common stock at a subscription price determined by the Board of Directors of the Company at the time of the grant. The options generally vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

The maximum number of shares of common stock authorized by the stockholders and reserved for issuance by the Board of Directors of the Company under the stock option plan is 6,860,000 under the 2010 Stock Option Plan.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with ASC 718 for employees, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period. Compensation expense for stock options granted to non-employees is amortized over the vesting period or, if none exists, over the service period. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model. The expected volatility of options granted has been determined using the method described under ASC 718 using the historical stock price.

The expected term of options granted to employees in the current fiscal year has been determined utilizing the "simplified" method as prescribed by SAB No. 107, Share-Based Payment, as amended by SAB No. 110 on January 1, 2008. The simplified method was used because the Company does not have sufficient detailed information about employee exercise behaviour. For non-employees, the expected term of the options approximates the full term of the options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company has not paid and does not anticipate paying dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas prior to the adoption of ASC 718 the Company recorded forfeitures based on actual forfeitures and recorded a compensation expense recovery in the period when the awards were forfeited. As a result, based on the Company's experience, the Company applied an estimated forfeiture rate of 15% in fiscal 2012 and 2011 in determining the expense recorded in the accompanying consolidated statement of operations.

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**Note 8**      **Common Stock – (cont'd)**

**Stock Options – (cont'd)**

The weighted-average fair values of options granted during the year ended April 30, 2012 and 2011 were \$0.92 and \$1.14 respectively. The weighted-average assumptions utilized to determine such values are presented in the following table:

|                         | <b>Year Ended<br/>April 30, 2012</b> | <b>Year Ended<br/>April 30, 2011</b> |
|-------------------------|--------------------------------------|--------------------------------------|
| Risk-free interest rate | 0.86%                                | 2.00%                                |
| Expected volatility     | 74.20%                               | 77.5%                                |
| Expected term           | 3.7 yrs                              | 3.7 yrs                              |
| Dividend yield          | 0%                                   | 0%                                   |

The following is a summary of the status of the Company's stock options as of April 30, 2012 and the stock option activity during the years ended April 30, 2012 and 2011:

|                               | <b>Number of<br/>Options</b> | <b>Weighted-Average<br/>Exercise Price per<br/>Share</b> |
|-------------------------------|------------------------------|----------------------------------------------------------|
| Outstanding at April 30, 2010 | 4,617,707                    | \$ 1.03                                                  |
| Granted                       | 827,000                      | \$ 1.93                                                  |
| Exercised                     | (308,037)                    | \$ 0.47                                                  |
| Forfeited / Cancelled         | (1,093,407)                  | \$ 1.80                                                  |
| Expired                       | (435,600)                    | \$ 1.76                                                  |
| Outstanding at April 30, 2011 | 3,607,663                    | \$ 0.97                                                  |
| Granted                       | 1,025,000                    | \$ 1.72                                                  |
| Exercised                     | (375,844)                    | \$ 0.50                                                  |
| Forfeited / Cancelled         | (317,440)                    | \$ 1.71                                                  |
| Expired                       | (13,400)                     | \$ 0.47                                                  |
| Outstanding at April 30, 2012 | 3,925,979                    | \$ 1.15                                                  |
| Exercisable at April 30, 2012 | 2,087,742                    | \$ 0.85                                                  |
| Exercisable at April 30, 2011 | 1,930,647                    | \$ 0.78                                                  |

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 8**      **Common Stock – (cont'd)**

**Stock Options – (cont'd)**

The following table summarizes information regarding stock options outstanding as of April 30, 2012:

| Exercise Price | Number of Options Outstanding | Aggregate Intrinsic Value | Expiry Date                             | Number of Options Exercisable | Aggregate Intrinsic Value |
|----------------|-------------------------------|---------------------------|-----------------------------------------|-------------------------------|---------------------------|
| \$0.44         | 391,591                       | \$951,566                 | December 15, 2013<br>May 1, 2012 to     | 321,910                       | \$782,241                 |
| \$0.47         | 450,722                       | 1,081,733                 | September 26, 2016                      | 450,305                       | 1,080,732                 |
| \$0.60         | 426,791                       | 968,816                   | December 14, 2014                       | 253,861                       | 576,264                   |
| \$0.62         | 850,000                       | 1,912,500                 | April 17, 2014                          | 637,500                       | 1,434,375                 |
| \$1.70         | 1,000,000                     | 1,170,000                 | December 14, 2016                       | –                             | –                         |
| \$1.90         | 421,875                       | 409,218                   | December 14, 2015<br>October 1, 2012 to | 138,540                       | 134,384                   |
| \$2.00         | 18,000                        | 15,660                    | February 28, 2015                       | 18,000                        | 15,660                    |
| \$2.15         | 240,000                       | 172,800                   | September 7, 2016                       | 240,000                       | 172,800                   |
| \$2.27         | 102,000                       | 61,200                    | March 10, 2016                          | 27,626                        | 16,576                    |
| \$2.55         | 25,000                        | 8,000                     | March 8, 2017                           | –                             | –                         |
| April 30, 2012 | <u>3,925,979</u>              | <u>\$6,751,493</u>        |                                         | <u>2,087,742</u>              | <u>\$4,213,032</u>        |
| April 30, 2011 | <u>3,607,663</u>              | <u>\$3,984,765</u>        |                                         | <u>1,930,647</u>              | <u>\$2,485,779</u>        |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of \$2.87 per share as of April 30, 2012 (April 30, 2011 – \$2.06), which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of April 30, 2012 was 2,087,742 (April 30, 2011 – 1,690,647). The total intrinsic value of options exercised during the year ended April 30, 2012 was \$555,923 (2011 – \$488,907). The grant date fair value of options vested during the year ended April 30, 2012 was \$345,803 (April 30, 2011 – \$302,915).

The following table summarizes information regarding the non-vested stock purchase options outstanding as of April 30, 2012:

|                                      | Number of Options | Weighted Average Grant-Date Fair Value |
|--------------------------------------|-------------------|----------------------------------------|
| Non-vested options at April 30, 2010 | 2,015,088         | \$ 0.39                                |
| Granted                              | 827,000           | \$ 1.14                                |
| Vested                               | (690,011)         | \$ 0.44                                |
| Forfeited                            | <u>(475,061)</u>  | <u>\$ 0.57</u>                         |
| Non-vested options at April 30, 2011 | 1,677,016         | \$ 0.69                                |
| Granted                              | 1,025,000         | \$ 0.92                                |
| Vested                               | (615,699)         | \$ 0.56                                |
| Forfeited                            | <u>(248,080)</u>  | <u>\$ 1.01</u>                         |
| Non-vested options at April 30, 2012 | <u>1,838,237</u>  | <u>\$ 0.82</u>                         |

As of April 30, 2012 there was \$1,252,011 of total unrecognized compensation cost related to unvested stock options. This unrecognized compensation cost is expected to be recognized over a weighted average period of 3.08 years.

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**Note 8**      **Common Stock – (cont’d)**

Stock Options – (cont’d)

Employee and non-employee stock-based compensation amounts classified in the Company’s consolidated statements of operations for the year ended April 30, 2012 and 2011 are as follows:

|                                | <b>Years Ended<br/>April 30,</b> |                   |
|--------------------------------|----------------------------------|-------------------|
|                                | <b>2012</b>                      | <b>2011</b>       |
| Cost of sales                  | \$ 35,510                        | \$ 27,399         |
| Sales and marketing            | 132,938                          | 111,636           |
| Research and development       | 37,987                           | 35,335            |
| General and administrative     | 159,223                          | 165,944           |
| Total stock-based compensation | <u>\$ 365,658</u>                | <u>\$ 340,314</u> |

Warrants

On June 14, 2011, the Company issued an aggregate of 3,145,800 units under a brokered private placement for aggregate gross proceeds of \$5,636,170 (CDN\$5,505,150) at a price of \$1.79 (CDN\$1.75) per unit, with each unit consisting of one share of the Company’s common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company’s common stock at an exercise price of CDN\$2.25 per share until June 14, 2013. In connection with the offering, the Company issued an aggregate of 220,206 broker warrants, with each broker warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of CDN\$1.75 per share until December 14, 2012.

Following the guidance in ASC 815-40-15, the Company recorded the warrants issued as derivative instruments due to their exercise price being denominated in a currency other than the Company’s U.S. dollar functional currency. The fair value of the derivative instruments are revalued at the end of each reporting period, and the change in fair value of the derivative instruments are recorded as a gain or loss in the Company’s consolidated statements of operations.

The warrant liability is accounted for at its fair value as follows:

|                                                          | <b>April 30,<br/>2012</b> | <b>April 30,<br/>2011</b> |
|----------------------------------------------------------|---------------------------|---------------------------|
| Fair value of warrant liability, at issuance             | \$ 1,311,141              | \$ –                      |
| Change in fair value of warrant liability for the period | 715,803                   | –                         |
| Fair value of warrant liability at April 30, 2012        | <u>\$ 2,026,944</u>       | <u>\$ –</u>               |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 8**      **Common Stock – (cont'd)**

**Warrants – (cont'd)**

The Company uses the Binomial method to estimate the fair value of the warrants with the following assumptions:

|                         | <b>As at<br/>April 30, 2012</b> | <b>As at the date of<br/>issuance<br/>June 14, 2011</b> |
|-------------------------|---------------------------------|---------------------------------------------------------|
| Risk-free interest rate | 0.19%                           | 1.60%                                                   |
| Expected volatility     | 70%                             | 70%                                                     |
| Expected term           | 0.62 years to 1.12 years        | 1.5 years to 2 years                                    |
| Dividend yield          | 0%                              | 0%                                                      |

The warrant liability is revalued at the end of each reporting period with the change in the fair value of the derivative instruments recorded as a gain or loss in the Company's consolidated statement of operations. The fair value of the warrants will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

At the time of the private placement offering, the Company allocated the proceeds to each of the common shares and the one-half of one common share purchase warrants. Because the warrants were classified as a liability and are subsequently marked to fair value through earnings in each reporting period, the Company allocated the proceeds of \$1,311,141 to the warrants at inception with the residual proceeds of \$3,773,946 allocated to common stock.

During the year ended April 30, 2011, the Company entered into a warrant agreement, as amended, with a customer whereby the Company issued 1,000,000 stock purchase warrants as part of a software licensing contract that the Company entered into with the customer. The warrants enable the holder thereof the right to purchase up to 1,000,000 shares of the Company's common stock, exercisable for two years at a price of \$1.50 per share until July 30, 2012. Under an amendment agreement, 50% of the warrants vest on a proportional basis to invoices delivered by the Company at the rate of one warrant for every \$3.00 invoiced and 50% of the warrants vest on a change of control of the Company. As the likelihood of a change of control was not determinable at the time of revenue recognition, the value of the applicable warrants subject to vesting on change of control was deemed to be nil during the year ended April 30, 2012. The warrants are held in trust and delivered once vested and payment, as applicable, has been received by the Company. During the year ended April 30, 2011, the fair value of the 500,000 stock purchase warrants was determined to be \$269,633, and this was charged to revenue. The remaining 500,000 warrants will be valued and charged against revenue if and when a change of control of the Company occurs.

**COUNTERPATH CORPORATION**  
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**Note 8**      **Common Stock – (cont'd)**

**Warrants – (cont'd)**

The following table summarizes information regarding the warrants outstanding as of April 30, 2012 and April 30, 2011.

|                            | <b>Number of<br/>Warrants</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Expiry Dates</b>                |
|----------------------------|-------------------------------|------------------------------------------------|------------------------------------|
| Warrants at April 30, 2010 | 2,932,088                     | \$ 1.50                                        | July 31, 2010 to October 29, 2011  |
| Granted                    | 1,000,000                     | \$ 1.50                                        | July 31, 2012                      |
| Expired                    | (1,265,421)                   | \$ 2.25                                        | July 31, 2010 to October 28, 2010  |
| Warrants at April 30, 2011 | 2,666,667                     | \$ 1.12                                        | October 29, 2011 to July 30, 2012  |
| Granted                    | 1,793,106                     | \$ 2.19                                        | December 14, 2012 to June 14, 2013 |
| Exercised                  | (1,666,668)                   | \$ 0.90                                        | October 29, 2011                   |
| Warrants at April 30, 2012 | 2,793,105                     | \$ 1.94                                        | July 30, 2012 to June 14, 2013     |

**Employee Share Purchase Plan**

Under the terms of the ESPP all regular salaried (non-probationary) employees can purchase up to 6% of their base salary in common shares of the Company at market price. The Company will match 50% of the shares purchased by issuing or purchasing in the market up to 3% of the respective employee's base salary in shares. During the year ended April 30, 2012, the Company matched \$36,303 (2011 – \$25,327) in shares purchased by employees under the ESPP.

A total of 700,000 shares have been reserved for issuance under the ESPP. As of April 30, 2012, a total of 556,401 shares were available for issuance under the ESPP. During the years ended April 30, 2012, 55,571 (2011 – 55,571) shares were sold or issued to employees under the ESPP.

**Deferred Share Unit Plan**

Under the terms of the DSUP which is effective as at October 22, 2009, each deferred share unit is equivalent to one share of common stock. The maximum number of shares of common stock that may be reserved for issuance to any one participant pursuant to deferred share units granted under the DSUP and any share compensation arrangement is 5% of the number of shares of common stock of the Company outstanding at the time of reservation and, as applicable, any grants of deferred share units to any one participant may not exceed a value of \$100,000 per annum on the date of grant. A deferred share unit (DSU) granted to a participant who is a director of the board of the Company shall vest immediately on the award date. A deferred share unit granted to a participant other than a director will generally vest as to one-third (1/3) of the number of deferred share units granted on the first, second and third anniversaries of the award date. Fair value of the DSU's, which is based on the closing price of the Company's common stock on the date of grant, is recorded as compensation expense over the vesting period.

A total of 2,000,000 shares have been reserved for issuance under the DSUP. During the year ended April 30, 2012, 201,351 (2011 – 866,552) deferred share units were issued under the DSUP, of which 108,108 were granted to officers and 93,243 were granted to directors. For the year ended April 30, 2012, a total of 411,936 shares were available for issuance under the DSUP.

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**Note 8**      **Common Stock – (cont'd)**

**Deferred Share Unit Plan – (cont'd)**

The following table summarizes the Company's outstanding deferred share unit (DSU) awards as of April 30, 2012, and changes during the period then ended:

|                               | <u>Number of DSU's</u> | <u>Weighted Average<br/>Grant Date Fair<br/>Value per Unit</u> |
|-------------------------------|------------------------|----------------------------------------------------------------|
| DSU's at April 30, 2010       | 520,161                | \$ 0.60                                                        |
| Granted                       | 866,552                | \$ 0.96                                                        |
| Conversions                   | –                      | \$ –                                                           |
| DSU's at April 30, 2011       | 1,386,713              | \$ 0.83                                                        |
| Granted                       | 201,351                | \$ 1.85                                                        |
| Conversions                   | –                      | \$ –                                                           |
| Outstanding at April 30, 2012 | <u>1,588,064</u>       | <u>\$ 0.83</u>                                                 |

As of April 30, 2012 there was \$308,812 (2011 – \$309,459) of total unrecognized compensation cost related to unvested deferred share units awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 1.84 years (2011 – 1.38) . The total fair value of DSUs that vested during the year was \$307,856 (2011 – \$313,906).

Employee and non-employee deferred share unit based compensation amounts classified in the Company's consolidated statements of operations for the year ended April 30, 2012 and 2011 are as follows:

|                                              | <u>Year Ended<br/>April 30,</u> |                   |
|----------------------------------------------|---------------------------------|-------------------|
|                                              | <u>2012</u>                     | <u>2011</u>       |
| General and administrative                   | \$ 373,145                      | \$ 472,171        |
| Total deferred share unit-based compensation | <u>\$ 373,145</u>               | <u>\$ 472,171</u> |

The following table summarizes information regarding the non-vested deferred share units outstanding as of April 30, 2012:

|                                    | <u>Number of DSU's</u> | <u>Weighted Average<br/>Grant Date Fair<br/>Value per Unit</u> |
|------------------------------------|------------------------|----------------------------------------------------------------|
| Non-vested DSU's at April 30, 2010 | 241,935                | \$ 0.60                                                        |
| Granted                            | 866,552                | \$ 0.96                                                        |
| Vested                             | <u>(682,404)</u>       | <u>\$ 0.46</u>                                                 |
| Non-vested DSU's at April 30, 2011 | 426,083                | \$ 0.89                                                        |
| Granted                            | 201,351                | \$ 1.85                                                        |
| Vested                             | <u>(293,097)</u>       | <u>\$ 1.05</u>                                                 |
| Non-vested DSU's at April 30, 2012 | <u>334,337</u>         | <u>\$ 1.33</u>                                                 |

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 9**      **Income Taxes**

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Significant components of the Company's deferred tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

|                                               | <b>Years Ended<br/>April 30,</b> |               |
|-----------------------------------------------|----------------------------------|---------------|
|                                               | <b>2012</b>                      | <b>2011</b>   |
| Tax loss carry forwards                       | \$ 14,175,000                    | \$ 15,189,000 |
| Capital losses carried forward                | 304,000                          | 314,000       |
| Equipment                                     | 113,000                          | 91,000        |
| Other                                         | 158,000                          | 72,000        |
| Undeducted research and development expenses  | 3,794,000                        | 3,916,000     |
| Investment tax credits                        | 605,000                          | 625,000       |
| Cumulative unrealized foreign exchange gain   | 681,000                          | 704,000       |
| Acquired technology and other intangibles     | (579,000)                        | (751,000)     |
| Valuation allowance established by management | (19,251,000)                     | (20,160,000)  |
| Net deferred tax assets                       | <u>\$ —</u>                      | <u>\$ —</u>   |

The provision for income taxes differ from the amount calculated using the U.S. federal and state statutory income tax rates as follows:

|                                                                        | <b>Years Ended<br/>April 30,</b> |                |
|------------------------------------------------------------------------|----------------------------------|----------------|
|                                                                        | <b>2012</b>                      | <b>2011</b>    |
| Benefit from net loss, at U.S. rates                                   | \$ (722,000)                     | \$ (1,204,000) |
| Foreign tax rate differential                                          | 158,000                          | —              |
| Non-deductible expenses                                                | 431,000                          | (191,000)      |
| Non-deductible stock option compensation                               | 251,000                          | 295,000        |
| Effect of reduction in foreign statutory rates                         | 18,000                           | 19,000         |
| Foreign exchange gain (losses) on revaluation of deferred tax balances | 393,000                          | (1,613,000)    |
| Other                                                                  | —                                | (347,000)      |
| Expiry of non-operating losses                                         | 380,000                          | —              |
| Increase (decrease) in valuation allowance                             | (909,000)                        | 3,041,000      |
| Income tax expense for year                                            | <u>\$ —</u>                      | <u>\$ —</u>    |

The Company establishes its valuation allowance based on projected future operations. Management has determined that the allowance should be 100% of the deferred tax assets. When circumstances cause a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation allowance will be reflected in current income.

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 9**      **Income Taxes – (cont’d)**

As at April 30, 2012, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

| <b>Country</b>       | <b>Amount</b>  | <b>Expiration Dates</b> |
|----------------------|----------------|-------------------------|
| United States – US\$ | \$ 25,683,000  | 2026 – 2032             |
| Canada – CDN\$       | \$ 21,358,000* | 2012 – 2032             |

\*These losses are subject to tax legislation that limits the use of the losses against future income of the Company’s Canadian subsidiaries.

On May 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) interpretation No. 48, “*Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement*”, (codified in FASB ASC Topic 740). The Company is subject to taxation in the U.S., Canada, and the U.K. It is subject to tax examinations by tax authorities for all taxation years commencing in or after 2002. The Company does not expect any material increase or decrease in its income tax expense in the next twelve months related to examinations or changes in uncertain tax positions.

Changes in the Company’s uncertain tax positions for the year ended April 30, 2012 and April 30, 2011 were as follows:

|                                                                          | <b>Years Ended<br/>April 30,</b> |                  |
|--------------------------------------------------------------------------|----------------------------------|------------------|
|                                                                          | <b>2012</b>                      | <b>2011</b>      |
| Balance at beginning of year                                             | \$ 98,575                        | \$ 98,575        |
| Increases related to prior year tax positions (interest and penalties)   | –                                | –                |
| Increases related to current year tax positions (interest and penalties) | –                                | –                |
| Settlements                                                              | –                                | –                |
| Lapses in statute of limitations                                         | –                                | –                |
| Balance at end of year                                                   | <u>\$ 98,575</u>                 | <u>\$ 98,575</u> |

**Note 10**      **Segmented Information**

Our chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by desegregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, we have concluded that we have one reportable operating segment. The Company has determined that it is impracticable to report the revenues from external customers for each product and service or each group of similar products and services.

Foreign revenues are based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the years ended April 30, 2012 and 2011:

|                           | <b>Years Ended<br/>April 30,</b> |                      |
|---------------------------|----------------------------------|----------------------|
|                           | <b>2012</b>                      | <b>2011</b>          |
| North America             | \$ 9,217,377                     | \$ 6,387,514         |
| Europe                    | 3,574,671                        | 3,200,291            |
| Asia and Africa           | 834,348                          | 955,713              |
| Central and South America | 457,100                          | 496,780              |
|                           | <u>\$ 14,083,496</u>             | <u>\$ 11,040,298</u> |

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**Note 10**      **Segmented Information – (cont'd)**

Contained within the results of North America for the year ended April 30, 2012 are revenues from the United States of \$5,522,996 (2011 – \$4,049,673) and from Canada of \$3,694,381 (2011 – \$2,337,841).

Contained within the results of Europe for the year ended April 30, 2012 are revenues from the United Kingdom of \$1,621,108 (2011 – \$1,627,526), from Norway of \$304,321 (2011 – \$86,459), from Germany of \$240,106 (2011 – \$210,002), from Czech Republic of \$186,964 (2011 – \$28,248), and from France of \$173,444 (2011 – \$185,441).

Contained within the results of Central and South America for the year ended April 30, 2012 are revenues from Mexico of \$119,390 (2011 – \$163,318), from Brazil of \$103,475 (2011 – \$63,254), from Dominican Republic of \$75,334 (2011 – \$nil), from Colombia of \$69,694 (2011 – \$82,847), and from Chile of \$40,573 (2011 – \$134,798).

Contained within the results of Asia and Africa for the year ended April 30, 2012 are revenues from Australia of \$177,041 (2011 – \$73,633), from South Africa of \$117,374 (2011 – \$87,282), from China of \$94,996 (2011 – \$45,720), from Russian Federation of \$90,943 (2011 – \$216,944), and from Japan of \$81,218 (2011 – \$270,926).

All of the Company's long-lived assets, which includes equipment, goodwill, intangible assets and other assets, are located in Canada and the United States as follows:

|               | <b>As at<br/>April 30,</b> |                      |
|---------------|----------------------------|----------------------|
|               | <b>2012</b>                | <b>2011</b>          |
| Canada        | \$ 9,117,687               | \$ 10,190,468        |
| United States | 24,569                     | 25,071               |
|               | <u>\$ 9,142,256</u>        | <u>\$ 10,215,539</u> |

Revenue from significant customers for the years ended April 30, 2012 and 2011 is summarized as follows:

|            | <b>Years Ended<br/>April 30,</b> |             |
|------------|----------------------------------|-------------|
|            | <b>2012</b>                      | <b>2011</b> |
| Customer A | 12%                              | 12%         |
| Customer B | 7%                               | 11%         |
| Customer C | 2%                               | 12%         |
|            | <u>21%</u>                       | <u>35%</u>  |

Accounts receivable balance for Customer A was \$79,100 as at April 30, 2012 (April 30, 2011 – \$881,400). Accounts receivable balance for Customer B was \$179,250 as at April 30, 2012 (April 30, 2011 – \$311,100). Accounts receivable balance for Customer C was \$nil as at April 30, 2012 (April 30, 2011 – \$93,837).

**COUNTERPATH CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 11**      **Derivative Instruments and Hedging Activities**

In the normal course of business, the Company is exposed to fluctuations in interest rates and the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk.

Foreign Currency Exchange Rate Risk

The Company accounts for derivative instruments, consisting of foreign currency forward contracts, pursuant to the provisions of Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS 161"), effective at the beginning of the first quarter of fiscal year 2010. SFAS No. 161 was incorporated into ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires the Company to measure derivative instruments at fair value and record them in our balance sheet as either an asset or liability and expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. The Company does not use derivative instruments for trading purposes. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

A majority of our revenue activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the year ended April 30, 2012 is the Canadian dollar. We are primarily exposed to a strengthening Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction.

The Company did not enter into any forward contracts during the year ended April 30, 2012 (2011—none).

Fair Value Measurements

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

**COUNTERPATH CORPORATION**  
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**Note 11**      **Derivative Instruments and Hedging Activities – (cont'd)**

**Fair Value Measurements – (cont'd)**

Fair value measurement includes the consideration of non-performance risk. Non-performance risk refers to the risk that an obligation (either by a counterparty or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the non-performance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

The fair value of the derivative instrument is primarily based on standard industry accepted binomial model (see Note 8).

The following table presents the Company's assets and liabilities, that are measured at fair value on a recurring basis as of April 30, 2012 and 2011:

| <b>As at April 30, 2012</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|-----------------------------|-------------------|----------------|----------------|----------------|
| Derivative Instruments      | \$ 2,026,944      | \$ –           | \$ –           | \$ 2,026,944   |
| Total Liabilities           | \$ 2,026,944      | \$ –           | \$ –           | \$ 2,026,944   |

  

| <b>As at April 30, 2011</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|-----------------------------|-------------------|----------------|----------------|----------------|
| Derivative Instruments      | \$ –              | \$ –           | \$ –           | \$ –           |
| Total Liabilities           | \$ –              | \$ –           | \$ –           | \$ –           |

Below are roll-forwards of assets and liabilities measured at fair value using Level 3 inputs for the twelve months ended April 30, 2012 and 2011. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions of a marketplace participant.

|                                                          | <b>April 30,<br/>2012</b> | <b>April 30,<br/>2011</b> |
|----------------------------------------------------------|---------------------------|---------------------------|
| Balance at beginning of year                             | –                         | –                         |
| Fair value of warrant liability, at issuance             | \$ 1,311,141              | \$ –                      |
| Change in fair value of warrant liability for the period | 715,803                   | –                         |
| Fair value of warrant liability at April 30, 2012        | \$ 2,026,944              | \$ –                      |

**Fair Values of Financial Instruments**

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair Value Measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments.

**Cash** – carrying amount approximates fair value.

**Accounts receivables, net** – carrying amount approximates fair value.

**Convertible debenture** – fair value on fixed rate debt was estimated based on quoted market prices. The Company has no floating rate debt.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 11**      **Derivative Instruments and Hedging Activities– (cont'd)**

Fair Value Measurements – (cont'd)

| <b>As at April 30, 2012</b> | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Fair Value Levels</b> | <b>Reference</b> |
|-----------------------------|------------------------|-------------------|--------------------------|------------------|
| Cash                        | \$ 8,154,139           | \$ 8,154,139      | 1                        |                  |
| Accounts receivable         | 4,014,472              | 4,014,472         | 2                        |                  |
| Convertible debentures      | –                      | –                 | 2                        | Note 6           |
| Derivative instruments      | 2,026,944              | 2,026,944         | 3                        | Note 8           |

| <b>As at April 30, 2011</b> | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Fair Value Levels</b> | <b>Reference</b> |
|-----------------------------|------------------------|-------------------|--------------------------|------------------|
| Cash                        | \$ 1,707,397           | \$ 1,707,397      | 1                        |                  |
| Accounts receivable         | 3,018,188              | 3,018,188         | 2                        |                  |
| Convertible debentures      | 1,305,002              | 1,305,002         | 2                        | Note 6           |
| Derivative instruments      | –                      | –                 | 3                        | Note 8           |

**Note 12**      **Commitments**

- a) On April 29, 2005, the Company entered into a lease for office premises, which commenced on October 1, 2005 and expires on September 30, 2012 for which a deposit of \$10,120 was made. The monthly lease payment under this agreement is \$10,120 plus \$8,868 in operating costs. The Company is subleasing part of these premises for a monthly charge of \$7,650. The sublease commenced on August 1, 2007 and expires on September 30, 2012. The lease expense net of rental revenue for the year ended April 30, 2012 was \$77,448 (2011 – \$59,792).
- b) On January 11, 2011, the Company entered into a lease agreement, which commenced on October 1, 2011, and expires September 30, 2014 for which a deposit of \$50,965 was made. The monthly lease payment under the agreement is \$22,081 plus \$21,676 in operating costs. The lease expense for the year ended April 30, 2012 was \$537,184 (2011 – \$531,550). Management believes that this office space is adequate for the operations of the Company for the foreseeable future.
- c) On May 1, 2009, the Company modified its existing lease agreement for office premises, as a result of which it surrendered a substantial part of the previously leased area. The new agreement commenced on May 1, 2009 and expires on April 20, 2012. The monthly lease payment under this agreement is \$6,790 (CDN\$6,662). This lease expense is a related party transaction as it was incurred with a company with a director in common with the Company. The lease expense for the year ended April 30, 2012 was \$81,480 (2011 – \$84,121). On December 9, 2011, the Company signed a fifth amendment to the existing lease agreement to extend the lease starting May 1, 2012 to April 30, 2014. The monthly lease payment under the new lease extension will be \$7,171 (CDN\$7,034).
- d) On March 12, 2009, the Company and its wholly-owned subsidiary, CounterPath Technologies Inc., entered into a settlement agreement with a founder and former officer of the Company. Under the settlement agreement, the Company will pay a total of \$504,554 (CDN\$495,000) over 45 months at a rate of CDN\$11,000 per month.

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**Note 12**      **Commitments – (cont'd)**

- e)      On August 2, 2011, the Company entered into extension of an existing operating lease agreement which commenced on August 1, 2011 and expires on February 28, 2013. The monthly lease payment under the new extension agreement is \$6,700. The lease expense for the year ended April 30, 2012 was \$80,400 (2011 – \$93,075).

Total rent expense for the year ended April 30, 2012 was \$935,833 (2011 – \$1,011,913). Total sublease income for the year ended April 30, 2012 was \$167,310 (2011 – \$223,098).

|      | Office Leases –<br>Related Party | Office Leases<br>– Unrelated<br>Party | Sub Lease<br>Income | Total Office<br>Leases | Settlement<br>Agreement |
|------|----------------------------------|---------------------------------------|---------------------|------------------------|-------------------------|
| 2013 | \$ 86,057                        | \$ 669,495                            | \$ (38,252)         | \$ 717,300             | \$ 84,092               |
| 2014 | 86,057                           | 507,558                               | –                   | 593,615                | –                       |
| 2015 | –                                | 211,482                               | –                   | 211,482                | –                       |
|      | <u>\$ 172,114</u>                | <u>\$ 1,388,535</u>                   | <u>\$ (38,252)</u>  | <u>\$ 1,522,397</u>    | <u>\$ 84,092</u>        |

**Note 13**      **Gain on Settlement of Debt**

During the year ended April 30, 2011, the Company recorded a gain on settlement of debt of \$246,715 as a result of the transfer of certain of non-core intellectual property rights (having no book value) licensed from an institution in settlement of a \$246,715 liability for research fees performed by the institution.

**Note 14**      **Subsequent Events**

- (a)      On June 10, 2012, a warrant holder exercised 50,000 share purchase warrants at the original exercise price of CDN\$2.25 (\$2.19) per share of common stock prior to the expiry of warrants on June 14, 2013. Accordingly, the Company issued 50,000 shares of common stock.
- (b)      On June 19, 2012, the Company issued an aggregate of 1,465,000 units under a non-brokered private placement for aggregate gross proceeds of CDN \$3,662,500 (\$3,580,156) at a price of CDN \$2.50 (\$2.24) per unit, with each unit consisting of one share of the Company's common stock and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share of the Company's common stock at an exercise price of \$3.25 per share until June 19, 2014.
- (c)      On July 19, 2012, pursuant to its deferred share unit plan, the Company granted \$215,000 of deferred share units to six non-employee directors and \$175,000 of deferred share units to two officers and one employee. The number of deferred share units issued is based on the dollar amount granted divided by the closing market share price on July 19, 2012. Each deferred share unit provides the holder thereof the right to exchange the unit into one share of common stock of the Company under the terms and conditions of the plan. \$215,000 of the deferred share units vest immediately and \$175,000 of the deferred share units vest as to 1/3 of the deferred share units on the first, second and third anniversary of the date of the grant, at which time the deferred share units are fully vested.
- (d)      On July 19, 2012, the Company granted 305,000 stock options to various employees pursuant to its 2010 Stock Option Plan. Each stock option entitles the holder thereof the right to purchase one share of common stock at a price equal to the closing market share price on July 19, 2012. The options vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

***Disclosure Controls and Procedures***

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

In connection with this annual report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of April 30, 2012, our disclosure controls and procedures are effective as at the end of the period covered by this report.

***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to 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 and procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on certain criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting is effective as of April 30, 2012.

***Changes in Internal Control Over Financial Reporting***

There has been no change in our internal controls over financial reporting that occurred during our latest fiscal quarter ended April 30, 2012 that has materially affected, or is reasonably likely to materially affect our internal controls over financial reporting.

**Item 9B. Other Information.**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference from our Proxy Statement for the Annual Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2012.

### Item 11. Executive Compensation.

The information required by this Item, is incorporated herein by reference from our Proxy Statement for the Annual Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2012.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference from our Proxy Statement for the Annual Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2012.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference from our Proxy Statement for the Annual Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2012.

### Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated herein by reference from our Proxy Statement for the Annual Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2012.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

#### *List of documents filed as part of the report*

The following documents are filed as part of this report:

#### **(a)(1) Financial Statements:**

1. [Report of Independent Registered Public Accounting Firm;](#)
2. [Consolidated Balance Sheets;](#)
3. [Consolidated Statements of Operations and Comprehensive Loss;](#)
4. [Consolidated Statements of Cash Flows;](#)
5. [Consolidated Statement of Changes in Stockholders' Equity; and](#)
6. [Notes to the Consolidated Financial Statements.](#)

#### **(a)(2) Financial Statement Schedules:**

None.

**(a)(3) Exhibits:**

**(3) Articles of Incorporation and By-laws**

3.1 Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

3.2 Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

3.3 Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003).

3.4 Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005).

3.5 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 28, 2006).

3.6 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 22, 2008).

3.7 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on July 2, 2012).

**(4) Instruments defining the rights of security holders, including indentures**

4.1 2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.2 Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.3 2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.4 Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.5 Form of Amended & Restated Stock Option and Subscription Agreement (Canadian) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).

4.6 Form of Amended & Restated Stock Option and Subscription Agreement (US) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).

4.7 2010 Stock Option Plan effective September 27, 2010 (incorporated by reference from our Definitive Proxy Statement filed on August 31, 2010).

4.8 Employee Share Purchase Plan adopted October 1, 2008, and amended November 6, 2008 (incorporated by reference from our Registration Statement on Form S-8 filed on January 30, 2009).

4.9 Deferred Share Unit Plan effective October 22, 2009 (incorporated by reference from our Definitive Proxy Statement on Schedule 14A filed on September 8, 2009).

|             |                                                                                                                                                                                                                                                                            |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(10)</b> | <b>Material Contracts</b>                                                                                                                                                                                                                                                  |
| 10.1        | Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006).                                                                         |
| 10.2        | Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).                                                                   |
| 10.3        | Form of Stock Option and Subscription Agreement dated August 2, 2007, between our company and each of the former optionees of NewHeights Software Corporation (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007).                     |
| 10.4        | Amended Employment Agreement between Donovan Jones and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated September 13, 2007 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2007). |
| 10.5        | Settlement Agreement amongst Mark Bruk, CounterPath Corporation, and CounterPath Technologies Inc. dated March 12, 2009 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 12, 2009).                                                        |
| 10.6        | Form of Debt Conversion Agreement dated July 17, 2009 between our company and The Trustees of Columbia University in the City of New York (incorporated by reference from our Annual Report on Form 10-K filed on July 28, 2009).                                          |
| 10.7        | Form of Subscription Agreement dated October 29, 2009 between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on November 4, 2009).                                                                                 |
| 10.8        | Form of Subscription Agreement and Form of Convertible Debenture dated July 30, 2010 between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on August 4, 2010).                                                    |
| 10.9        | Agency Agreement dated June 14, 2011 amongst National Bank Financial Inc., Canaccord Genuity Corp. and our company (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 14, 2011).                                                         |
| 10.10       | Form of Registration Rights Agreement between our company and various investors in connection with the brokered private placement completed on June 14, 2011 (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 14, 2011).               |
| 10.11       | Form of Subscription Agreement between our company and various investors in connection with the brokered private placement completed on June 14, 2011 (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 14, 2011).                      |
| 10.12       | Form of Broker Warrant Certificate issued to National Bank Financial Inc. and Canaccord Genuity Corp. pursuant to the Agency Agreement dated June 14, 2011 (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 14, 2011).                 |
| 10.13       | Form of Warrant Certificate issued to various investors in connection with the brokered private placement completed on June 14, 2011 (incorporated by reference from our Quarterly Report on Form 10-Q filed on September 14, 2011).                                       |
| 10.14       | <a href="#"><u>Form of Subscription Agreement between our company and various investors in connection with the brokered private placement completed on June 19, 2012 (filed herewith).</u></a>                                                                             |

|                              |                                                                                                                                                                               |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>10.15</u></a> | <a href="#"><u>Form of Warrant Certificate issued to various investors in connection with the brokered private placement completed on June 19, 2012 (filed herewith).</u></a> |
| <b>(14)</b>                  | <b>Code of Ethics</b>                                                                                                                                                         |
| 14.1                         | Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10–KSB filed on July 29, 2004).                                                 |
| 14.2                         | Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10–QSB filed on September 15, 2008).                  |
| <b>(21)</b>                  | <b><a href="#"><u>Subsidiaries of CounterPath Corporation</u></a></b>                                                                                                         |
|                              | <a href="#"><u>CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)</u></a>                                                               |
|                              | <a href="#"><u>BridgePort Networks, Inc. (incorporated in the state of Delaware)</u></a>                                                                                      |
|                              | <a href="#"><u>BridgePort Networks (Europe) Ltd. (incorporated in the United Kingdom)</u></a>                                                                                 |
| <b>(23)</b>                  | <b>Consent of Experts and Counsel</b>                                                                                                                                         |
| <a href="#"><u>23.1</u></a>  | <a href="#"><u>Consent of Independent Registered Public Accounting Firm (filed herewith)</u></a>                                                                              |
| <b>(31)</b>                  | <b>Section 302 Certifications</b>                                                                                                                                             |
| <a href="#"><u>31.1</u></a>  | <a href="#"><u>Section 302 Certification of Donovan Jones (filed herewith).</u></a>                                                                                           |
| <a href="#"><u>31.2</u></a>  | <a href="#"><u>Section 302 Certification of David Karp (filed herewith).</u></a>                                                                                              |
| <b>(32)</b>                  | <b>Section 906 Certifications</b>                                                                                                                                             |
| <a href="#"><u>32.1</u></a>  | <a href="#"><u>Section 906 Certification of Donovan Jones (filed herewith).</u></a>                                                                                           |
| <a href="#"><u>32.2</u></a>  | <a href="#"><u>Section 906 Certification of David Karp (filed herewith).</u></a>                                                                                              |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### COUNTERPATH CORPORATION

By: /s/ Donovan Jones  
Donovan Jones  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: July 19, 2012

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b><u>Signature</u></b>                           | <b><u>Title</u></b>                                                               | <b><u>Date</u></b> |
|---------------------------------------------------|-----------------------------------------------------------------------------------|--------------------|
| <u>/s/ Terence Matthews</u><br>Terence Matthews   | Chairman and Director                                                             | July 19, 2012      |
| <u>/s/ Donovan Jones</u><br>Donovan Jones         | President, Chief Executive Officer and<br>Director (Principal Executive Officer)  | July 19, 2012      |
| <u>/s/ David Karp</u><br>David Karp               | Chief Financial Officer, Treasurer and<br>Secretary (Principal Financial Officer) | July 19, 2012      |
| <u>/s/ Owen Matthews</u><br>Owen Matthews         | Vice Chairman and Director                                                        | July 19, 2012      |
| <u>/s/ Peter Charbonneau</u><br>Peter Charbonneau | Director                                                                          | July 19, 2012      |
| <u>/s/ Chris Cooper</u><br>Chris Cooper           | Director                                                                          | July 19, 2012      |
| <u>/s/ William Jin</u><br>William Jin             | Director                                                                          | July 19, 2012      |
| <u>/s/ Larry Timlick</u><br>Larry Timlick         | Director                                                                          | July 19, 2012      |

**COUNTERPATH CORPORATION**

**SUBSCRIPTION AGREEMENT**

**UNITS**

**INSTRUCTIONS TO PURCHASER**

**ALL SUBSCRIBERS:**

1. Complete and sign pages 2, 3 and 4 of the Subscription Agreement.
2. If you are purchasing less than CDN\$150,000, complete and sign the Accredited Investor Status Certificate which is attached as Schedule “A” to the Subscription Agreement.
3. If you are not an individual (that is, the Subscriber is a corporation, trust, portfolio manager or other entity that (i) is purchasing more than 5% of the outstanding Common Shares of the Corporation, (ii) is currently an Insider, (iii) will become an Insider upon completion of the Offering, or (iv) is a member of the Pro Group), then complete and sign the “Corporate Placee Registration Form” (Form 4C) which is attached as Schedule “C” to the Subscription Agreement. If you have previously submitted this form to the TSX Venture Exchange and there have been no changes to its content then please check the box to that effect on page 4.

**U.S. SUBSCRIBERS ONLY:**

Complete items 1, 2 and 3 above, as applicable. Also complete and sign the U.S. Accredited Investor Status Certificate which is attached as Schedule “B” to the Subscription Agreement.

THE SECURITIES SUBSCRIBED FOR HEREIN WILL BE SUBJECT TO A HOLD PERIOD UNDER THE APPLICABLE SECURITIES LAWS IN CANADA OF FOUR MONTHS AND ONE DAY FROM THE CLOSING DATE (AS DEFINED IN THIS SUBSCRIPTION AGREEMENT) AND THE CERTIFICATES EVIDENCING THE SECURITIES WILL BEAR A LEGEND TO THAT EFFECT, AS APPLICABLE. CONSEQUENTLY, THE SECURITIES MAY ONLY BE RESOLD DURING SUCH PERIOD IN ACCORDANCE WITH APPROPRIATE STATUTORY EXEMPTIONS FROM THE PROSPECTUS REQUIREMENTS OF THE APPLICABLE SECURITIES LAWS. THE SUBSCRIBER IS ADVISED TO CONSULT ITS OWN LEGAL ADVISORS IN THIS REGARD.

WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL FOUR MONTHS AND ONE DAY FROM THE CLOSING DATE (AS DEFINED IN THIS SUBSCRIPTION AGREEMENT);

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT.

#### SUBSCRIPTION FOR UNITS

**TO: COUNTERPATH CORPORATION** (the "**Corporation**")

The undersigned (the "**Subscriber**") hereby irrevocably subscribes for and agrees to purchase the number of units (the "**Units**") of the Corporation set forth below at a price of CDN\$2.50 per Unit on the terms and conditions set out herein and in the applicable schedules attached hereto. Each Unit shall consist of one (1) common share in the capital of the Corporation (each a "**Share**") and one-half (½) of one non-transferable common share purchase warrant (each whole warrant, a "**Warrant**"). Each whole Warrant shall entitle the holder to purchase one common share in the capital of the Corporation (a "**Warrant Share**") at a price of CDN\$3.25 per Warrant Share for a period of two years following the Closing Date (as defined below).

The Units are immediately severable into their constituent Shares and Warrants upon issuance. The Units, Shares, Warrants and Warrant Shares are herein collectively referred to as the "**Securities**." The Units are part of an offering (the "**Offering**") of up to 1,400,000 Units for gross aggregate proceeds of up to CDN\$3,500,000, or such other number as the Corporation may determine in its sole discretion.

|                                                                                   |                 |
|-----------------------------------------------------------------------------------|-----------------|
| <b><u>Subscriber Information</u></b>                                              |                 |
| (Name of Subscriber)                                                              |                 |
| Account Reference (if applicable): _____                                          |                 |
| X                                                                                 |                 |
| (Signature of Subscriber – if the Subscriber is an Individual)                    |                 |
| X                                                                                 |                 |
| (Signature of Authorized Signatory – if the Subscriber is not an Individual)      |                 |
| (Name and Title of Authorized Signatory – if the Subscriber is not an Individual) |                 |
| (Subscriber's Address, including city and Postal Code)                            |                 |
|                                                                                   |                 |
| (Telephone Number)                                                                | (Email Address) |
| <b>Register the Shares, Warrants and Warrant Shares as set forth below:</b>       |                 |
|                                                                                   |                 |
| (Name to Appear on Share and Warrant Certificate)                                 |                 |
|                                                                                   |                 |
| (Account Reference, if applicable)                                                |                 |
|                                                                                   |                 |
| (Address, including Postal Code)                                                  |                 |
|                                                                                   |                 |

|                                     |                          |
|-------------------------------------|--------------------------|
| <b><u>Units to be Purchased</u></b> |                          |
| Number of Units:                    | _____ <b>x CDN\$2.50</b> |
|                                     |                          |
| Aggregate Subscription Price:       | _____                    |
| (the "Subscription Price")          |                          |

|                                                                                                                                                                                                    |  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <b>Please complete if purchasing as agent or trustee for a principal (beneficial purchaser) (a "Disclosed Principal") and not purchasing as trustee or agent for accounts fully managed by it.</b> |  |
|                                                                                                                                                                                                    |  |
| (Name of Disclosed Principal)                                                                                                                                                                      |  |
|                                                                                                                                                                                                    |  |
| (Address of Disclosed Principal)                                                                                                                                                                   |  |
|                                                                                                                                                                                                    |  |
| (Account Reference, if applicable)                                                                                                                                                                 |  |
|                                                                                                                                                                                                    |  |
| <b>Deliver the Shares, Warrants and Warrant Shares as set forth below:</b>                                                                                                                         |  |
|                                                                                                                                                                                                    |  |
| (Attention - Name)                                                                                                                                                                                 |  |
|                                                                                                                                                                                                    |  |
| (Account Reference, if applicable)                                                                                                                                                                 |  |
|                                                                                                                                                                                                    |  |
| (Address, including Postal Code)                                                                                                                                                                   |  |
|                                                                                                                                                                                                    |  |
| (Telephone Number)                                                                                                                                                                                 |  |
|                                                                                                                                                                                                    |  |

\* \* \* \*

**Note:** The Subscriber must either be:

- (a) purchasing the securities offered hereunder as principal; or
- (b) deemed to be purchasing such securities as principal, by virtue of being:
  - (i) a trust company or trust corporation described in paragraph (16) of the definition of “accredited investor” in Schedule “A” (other than a trust company or trust corporation registered under the laws of Prince Edward Island that is not registered or authorized under the Trust and Loan Companies Act (Canada) or under comparable legislation in another jurisdiction of Canada) (and, if a U.S. Person, a trust as described in Schedule “B”); or
  - (ii) a person described in paragraph (17) of the definition of “accredited investor” in Schedule “A”.

**Present Ownership of Securities**

The Subscriber either ***[check appropriate box]:***

- ☐ [ ] beneficially owns **NO** common shares of the Corporation (“**Common Shares**”) or securities convertible into Common Shares; or
- ☐ [ ] beneficially owns Common Shares which includes Common Shares and/or convertible securities entitling the Subscriber to acquire an additional Common Shares.

**Insider Status**

The Subscriber either ***[check appropriate box]:***

- ☐ [ ] is an “Insider” of the Corporation as defined in the Policies of the TSX Venture Exchange (the “**Exchange**”); or
- ☐ [ ] is not an Insider of the Corporation.

“Insider” means:

- (a) a director or senior officer of the Corporation;
- (b) a director or senior officer of a company that is an Insider or subsidiary of the Corporation; and
- (c) a person that beneficially owns or controls, directly or indirectly, Common Shares carrying more than 10% of the voting rights attached to all outstanding Common Shares.

**Member of “Pro Group”**

The Subscriber either ***[check appropriate box]:***

- ☐ [ ] is a member of the “Pro Group” as defined in the Policies of the Exchange and below; or
- ☐ [ ] is not a Member of the Pro Group.

The definition of “Pro Group” is as follows:

- (a) Subject to subparagraphs (b), (c) and (d), “Pro Group” will include, either individually or as a group:

- (i) the member (i.e. a member of the Exchange under the applicable Exchange requirements) (the “**Member**”);
  - (ii) employees of the Member;
  - (iii) partners, officers and directors of the Member;
  - (iv) Affiliates (as defined in applicable Exchange policies) of the Member; and
  - (v) Associates (as defined in applicable Exchange policies) of any parties referred to in subparagraphs (i) through (iv).
- (b) The Exchange may, in its discretion, include a person or party in the Pro Group for the purposes of a particular calculation where the Exchange determines that the person is not acting at arm’s length to the Member.
- (c) The Exchange may, in its discretion, exclude a person from the Pro Group for the purposes of a particular calculation where the Exchange determines that the person is acting at arm’s length to the Member.
- (d) The Exchange may deem a person who would otherwise be included in the Pro Group pursuant to subparagraph (a) to be excluded from the Pro Group where the Exchange determines that:
- (i) the person is an affiliate or associate of the Member acting at arm’s length of the Member;
  - (ii) the associate or affiliate has a separate corporate and reporting structure;
  - (iii) there are sufficient controls on information flowing between the Member and the associate or affiliate; and
  - (iv) the member maintains a list of such excluded persons.

**Corporate Placee Form**

The Subscriber, if a corporation, trust, portfolio manager or other entity that (i) is purchasing more than 5% of the outstanding Common Shares of the Corporation, (ii) is currently an Insider, (iii) will become an Insider upon completion of the Offering, or (iv) is a member of the Pro Group, either ***[check appropriate box]***:

☐ has a current Corporate Placee Registration Form on file with the Exchange; or

☐ has completed and returned with this Subscription Agreement a duly executed Corporate Placee Registration Form (Schedule “C” to this Subscription Agreement).

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This subscription is accepted by the Corporation this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

**COUNTERPATH CORPORATION**

Per: \_\_\_\_\_  
Authorized Signatory

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1. **Defined Terms.**

In addition to the terms defined throughout this Subscription Agreement, the following capitalized terms used in this Subscription Agreement have the following meanings:

**“1933 Act”** means the United States Securities Act of 1933, as amended;

**“1934 Act”** means the United States Securities Exchange Act of 1934, as amended;

**“Accredited Investor Status Certificate”** means the accredited investor status certificate in the form attached hereto as Schedule “A”;

**“beneficial purchaser”** means a person for whom the Subscriber is acting in purchasing the Units who will be the beneficial owner of the Securities within the meaning attributed to such term by Rule 13d-3 adopted by the SEC under the 1934 Act;

**“beneficial ownership”** has the meaning attributed to it by Rule 13d-3 adopted by the SEC under the 1934 Act;

**“BC Act”** means the *Securities Act* (British Columbia);

**“Business Day”** means any day except Saturday, Sunday or a statutory holiday in Vancouver, British Columbia or Toronto, Ontario;

**“Closing”** means the closing on the Closing Date of the transaction of purchase and sale of the Units as contemplated by this Subscription Agreement;

**“Closing Date”** means June <>, 2012, or such later date as may be determined by the Corporation;

**“Closing Time”** means 8:00 a.m. (Vancouver time) or such other time as may be determined by the Corporation;

**“Commissions”** has the meaning ascribed thereto in Section 16 of this Subscription Agreement;

**“Common Share”** has the meaning ascribed thereto on page 3 of this Subscription Agreement;

**“Corporation”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“EDGAR”** means the SEC’s electronic data gathering and retrieval system;

**“Exchange”** has the meaning ascribed thereto on page 3 of this Subscription Agreement;

**“International Jurisdiction”** has the meaning ascribed thereto in Section 7(f)(i) of this Subscription Agreement;

**“NI 45-106”** means National Instrument 45-106 – *Prospectus and Registration Exemptions*;

**“Offering”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“OTCBB”** means the OTC Bulletin Board;

**“PCMLTFA”** has the meaning ascribed thereto in Section 5 of this Subscription Agreement;

**“Public Record”** means the registration statements, prospectuses, annual reports, quarterly reports, proxy statements, current reports, press releases and any other documents or reports filed by the Corporation on SEDAR or with the SEC on EDGAR during the 18 months preceding the date hereof;

**“Regulation D”** means Regulation D adopted by the SEC under the 1933 Act;

**“Regulation S”** means Regulation S adopted by the SEC under the 1933 Act;

**“SEC”** means the United States Securities and Exchange Commission;

**“Securities”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“Securities Laws”** means the securities laws, regulations, rules, rulings and orders and the blanket rulings and policies and written interpretations of, and multilateral or national instruments adopted by, the Securities Regulators and the policies and rules of any applicable stock exchange or quotation or stock reporting system, including the Exchange and the OTCBB;

**“Securities Regulators”** means the securities commissions or other securities regulatory authorities of all of the Selling Jurisdictions or the relevant Selling Jurisdiction as the context so requires;

**“SEDAR”** means the System for Electronic Document Analysis and Retrieval operated by CDS, Inc.;

**“Selling Jurisdictions”** means all of the Provinces of Canada, the United States, the state of the United States in which the Subscriber is resident, if applicable, and any other jurisdictions which are agreed to by the Corporation; and **“Selling Jurisdiction”** means, in the case of any Subscriber, the jurisdiction(s) in which such Subscriber is resident;

**“Shares”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“Subscriber”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“Subscription Agreement”** means this subscription agreement and the schedules attached hereto;

**“Subscription Price”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“Units”** has the meaning ascribed thereto on page 1 of this Subscription Agreement;

**“United States”** means the United States, as that term is defined in Rule 902 of Regulation S;

**“U.S. Accredited Investor”** means an “accredited investor” as defined in Rule 501 of Regulation D;

**“U.S. Accredited Investor Status Certificate”** means the accredited investor status certificate in the form attached hereto as Schedule “B”;

**“U.S. Person”** means a U.S. person as that term is defined in Rule 902 of Regulation S;

**“U.S. Subscriber”** means (a) any person purchasing the Units in the United States, (b) any U.S. Person, (c) any person purchasing the Units on behalf of any person in the United States or any U.S. Person, (d) any person that receives or received an offer for the Units while in the United States, or (e) any person that is in the United States at the time the buy order was made or this Subscription Agreement was executed;

**“Warrant”** has the meaning ascribed thereto on page 1 of this Subscription Agreement; and

**“Warrant Share”** has the meaning ascribed thereto on page 1 of this Subscription Agreement.

2. **Delivery and Payment.** The Subscriber agrees to deliver to the Corporation by no later than 1:00 p.m. (Vancouver time) on June <>, 2012, as applicable, the following:

- (a) a completed and duly executed copy of this Subscription Agreement;

- (b) if the Subscriber is purchasing less than CDN\$150,000, a completed and duly executed copy of the Accredited Investor Status Certificate which is attached hereto as Schedule "A";
- (c) if the Subscriber is a U.S. Subscriber, a completed and duly executed copy of the U.S. Accredited Investor Status Certificate which is attached hereto as Schedule "B";
- (d) if applicable, a completed and duly executed copy of the Corporate Placee Registration Form (Form 4C) which is attached hereto as Schedule "C";
- (e) all other documents as may be required by the Securities Laws or reasonably requested by the Corporation; and
- (f) a certified cheque or bank draft drawn on a Canadian chartered bank or wire transfer in immediately available funds payable to the Corporation or such other person as the Corporation shall direct the Subscriber, representing the Subscription Price payable by the Subscriber for the Units set out on the second page of this Subscription Agreement.

3. **Closing.** The Closing will be held at the offices of the Corporation's legal counsel, Clark Wilson LLP, at 885 West Georgia Street, Suite 800, Vancouver, British Columbia at the Closing Time on the Closing Date, all in accordance with this Subscription Agreement. The Subscriber acknowledges that the certificates representing Shares and Warrants will be available for delivery upon Closing provided that the Subscriber has satisfied the requirements of Section 2 hereof and the Corporation has accepted this Subscription Agreement.

The Subscriber authorizes the Corporation to treat the Subscription Price as an interest free loan until the Closing Date and the Subscriber authorizes the Corporation and its lawyers to release the Subscription Price to the Issuer prior to the Closing. The Subscriber acknowledges and agrees that this Subscription Agreement, the Subscription Price and any other documents delivered in connection herewith will be held by or on behalf of the Corporation. In the event that this Subscription Agreement is not accepted by the Corporation for whatever reason, which the Corporation expressly reserves the right to do, the Subscription Price (without interest thereon) and any other documents delivered in connection herewith will be returned to the Subscriber at the address of the Subscriber as set forth on page 2 of this Agreement.

The Subscriber acknowledges and agrees that Clark Wilson LLP has acted as counsel only to the Corporation and is not protecting the rights and interests of the Subscriber. The Subscriber acknowledges and agrees that the Corporation and Clark Wilson LLP have given the Subscriber the opportunity to seek, and have recommended that the Subscriber obtain, independent legal advice with respect to the subject matter of this Subscription Agreement and, further, the Subscriber hereby represents and warrants to the Corporation and Clark Wilson LLP that the Subscriber has sought independent legal advice or it hereby waives such advice.

4. **Certain Subscriber Acknowledgements.** The Subscriber acknowledges and agrees (on its own behalf and, if applicable, on behalf of each beneficial purchaser for whom the Subscriber is contracting hereunder) with the Corporation (which acknowledgements and agreements shall survive the Closing) that:

- (a) no securities commission, agency, governmental authority, regulatory body, stock exchange or other entity has made any finding or determination as to the merit of an investment in, nor have any such agencies or governmental authorities, regulatory bodies, stock exchanges or other entities made any recommendation or endorsement with respect to, the Securities;
- (b) the offer, sale and delivery of the Units is conditional upon such being exempt from the prospectus requirements and any requirement to deliver an offering memorandum in connection with the distribution of the Units under the Securities Laws or upon the issuance of such orders, consents or approvals as may be required to permit such sale without a prospectus;
- (c) the financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles of the United States, which differ in some respects from generally accepted accounting principles of Canada, and thus may not be comparable to financial statements of Canadian companies;

- (d) no prospectus or offering memorandum within the meaning of the Securities Laws has been delivered to or summarized for or seen by the Subscriber (and, if applicable, others for whom it is contracting hereunder) in connection with the Offering and the Subscriber (and, if applicable, others for whom it is contracting hereunder) is not aware of any prospectus or offering memorandum having been prepared by the Corporation;
- (e) in purchasing the Units, the Subscriber (and, if applicable, others for whom it is contracting hereunder) has relied solely upon the Public Record relating to the Corporation and this Subscription Agreement, and not upon any verbal or written representation as to any fact or otherwise made by or on behalf of the Corporation or any employee, agent or affiliate thereof or any other person associated therewith. The Subscriber, on its own behalf and on behalf of others for whom the Subscriber is contracting hereunder, has acknowledged that the decision to purchase the Units was made on the basis of the Public Record and this Subscription Agreement;
- (f) the Units are being offered for sale on a “private placement” basis;
- (g) none of the Securities have been registered under the 1933 Act or the securities laws of any state, and the Securities may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, a U.S. Person or a person in the United States unless registered under the 1933 Act and the securities laws of all applicable states or unless an exemption from such registration requirements is available;
- (h) hedging transactions involving the Securities may not be conducted unless such transactions are in compliance with the provisions of the 1933 Act and in each case only in accordance with applicable Securities Laws;
- (i) in accepting this Subscription Agreement, the Corporation is relying upon the representations and warranties and acknowledgements of the Subscriber set out herein including, without limitation, in connection with determining the eligibility of the Subscriber or, if applicable, the eligibility of others on whose behalf the Subscriber is contracting hereunder to purchase Units under the Securities Laws. The Subscriber hereby agrees to notify the Corporation immediately of any change in any representation, warranty, covenant or other information relating to the Subscriber or the beneficial purchaser contained in this Subscription Agreement which takes place prior to Closing;
- (j) no documents in connection with the sale of the Securities hereunder have been reviewed by any Securities Regulators;
- (k) there is no government or other insurance covering the Securities;
- (l) there are risks associated with the purchase of the Securities;
- (m) the Subscriber will indemnify and hold harmless the Corporation and, where applicable, its directors, officers, employees, agents, advisors and shareholders, from and against any and all loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all fees, costs and expenses whatsoever reasonably incurred in investigating, preparing or defending against any claim, lawsuit, administrative proceeding or investigation whether commenced or threatened) arising out of or based upon any representation or warranty of the Subscriber contained in this Subscription Agreement or in any document furnished by the Subscriber to the Corporation in connection herewith being untrue in any material respect or any breach or failure by the Subscriber to comply with any covenant or agreement made by the Subscriber to the Corporation in connection therewith;

- (n) the Subscriber has been advised to consult the Subscriber's own legal, tax and other advisors with respect to the merits and risks of an investment in the Securities and with respect to applicable resale restrictions, and it is solely responsible (and the Corporation is not in any way responsible) for compliance with:
  - (i) any applicable laws of the jurisdiction in which the Subscriber is resident in connection with the distribution of the Securities hereunder; and
  - (ii) applicable resale restrictions;
- (o) the statutory and regulatory basis for the exemption claimed for the offer and sale of the Securities, although in technical compliance with Regulation S, would not be available if the Offering is part of a plan or scheme to evade the registration provisions of the 1933 Act;
- (p) the Securities are subject to the terms, conditions and provisions of this Subscription Agreement (including the schedules hereto), the constating documents of the Corporation and the Agency Agreement;
- (q) the Warrants are non-transferable, and the certificates evidencing the Shares and Warrants will bear a legend, and the Warrant Shares may bear a legend, regarding restrictions on transfer as required pursuant to applicable Securities Laws as set out in Section 7 of this Subscription Agreement;
- (r) the Subscriber consents to the Corporation making a notation on its records or giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer set forth and described herein and the Corporation will refuse to register any transfer of the Securities not made in accordance with Regulation S, pursuant to an effective registration statement under the 1933 Act or pursuant to an exemption from the registration requirements of the 1933 Act and any applicable state or other law;
- (s) the Corporation has advised the Subscriber that the Corporation is relying on an exemption from the requirements to provide the Subscriber with a prospectus under the Securities Laws or other applicable securities legislation and, as a consequence of acquiring Units pursuant to this exemption: (i) certain protections, rights and remedies provided by the Securities Laws or other applicable securities legislation including statutory rights of rescission or damages, will not be available to the Subscriber, (ii) the common law may not provide the Subscriber with an adequate remedy in the event that it suffers investment losses in connection with securities acquired in the Offering, (iii) the Subscriber may not receive information that would otherwise be required to be given under the Securities Laws, and (iv) the Corporation is relieved from certain obligations that would otherwise apply under the Securities Laws; and
- (t) no person has made to the Subscriber any written or oral representations:
  - (i) that any person will resell or repurchase the Subscriber's Securities;
  - (ii) that any person will refund the purchase price of the Subscriber's Securities; or
  - (iii) as to the future price or value of any of the Subscriber's Securities.

5. **Conditions of Closing.** It is a condition of Closing that (i) all documents required to be completed and signed in accordance with Section 2 hereof be received prior to the Closing Date, (ii) the Corporation will have obtained all necessary approvals and consents, including regulatory approvals, (iii) the issue and sale of the Units be exempt from the requirement to file a prospectus and any requirement to deliver an offering memorandum under applicable Securities Laws relating to the sale of the Units, or the Corporation will have received such orders, consents or approvals as may be required to permit such sale without the requirement to file a prospectus or deliver an offering memorandum; and (iv) the Corporation will have obtained conditional approval of the Exchange for the listing of the Shares and the Warrant Shares.

The Subscriber acknowledges and agrees that the Corporation may be required to provide the Securities Regulators or other authorities pursuant to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) (the “**PCMLTFA**”) with a list setting forth the identities of the beneficial purchasers of the Units. Notwithstanding that the Subscriber may be purchasing Units as agent on behalf of an undisclosed principal, the Subscriber agrees to provide, on request, particulars as to the identity of such undisclosed principal as may be required by the Corporation in order to comply with the foregoing.

**6. Representations, Warranties, Acknowledgements and Covenants.** The Subscriber hereby represents and warrants to, and covenants with (on its own behalf and, if applicable, on behalf of those for whom the Subscriber is contracting hereunder) the Corporation (and acknowledges that the Corporation is relying on them), which representations, warranties and covenants shall survive the Closing, that as at the execution date of this Subscription Agreement and the Closing Date:

- (a) the Subscriber and any beneficial purchaser for whom it is acting is resident in, or if not an individual, has its head office in, the jurisdiction set out on the execution page of this Subscription Agreement, such address was not created and is not used solely for the purpose of acquiring the Securities and the Subscriber was solicited to purchase in such jurisdiction;
- (b) the Subscriber complies with one of the following:
  - (i) the Subscriber is an “accredited investor” within the meaning of NI 45-106 and:
    - A. is either purchasing the Securities (I) as principal and not for the benefit of any other person, or is deemed under NI 45-106 to be purchasing the Securities as principal, or (II) as agent for a beneficial purchaser disclosed in this Subscription Agreement, and is an agent or trustee with proper authority to execute all documents required in connection with the purchase of the Securities on behalf of such disclosed beneficial purchaser and such disclosed beneficial purchaser for whom the Subscriber is contracting hereunder is purchasing as principal and not for the benefit of any other person, or is deemed under NI 45-106 to be purchasing the Securities as principal, and such disclosed beneficial purchaser is an “accredited investor” within the meaning of NI 45-106;
    - B. if the Subscriber is, or the beneficial purchaser for whom the Subscriber is contracting hereunder is, as the case may be, a person, other than an individual or investment fund, that has net assets of at least CDN\$5,000,000, the Subscriber was not, or the beneficial purchaser for whom the Subscriber is contracting hereunder was not, as the case may be, created or used solely to purchase or hold securities as an accredited investor; and
    - C. the Subscriber has concurrently executed and delivered a certificate in the form attached as Schedule “A” hereto; or
  - (ii) the Subscriber is purchasing as principal and has purchased that number of Units having an acquisition cost to the Subscriber of not less than CDN\$150,000 to be paid in cash on the Closing Date;
- (c) the Subscriber is not a person created, or used solely, to purchase or hold the Units in order to comply with an exemption from the prospectus requirements of Securities Laws and if the Subscriber is not an individual, it pre-existed the Offering and has a bona fide purpose other than investment in the Units;

- (d) the Subscriber will only offer, sell or otherwise transfer the Securities pursuant to an effective registration statement under the 1933 Act or pursuant to an exemption from the registration requirements imposed by the 1933 Act and in compliance with applicable state Securities Laws (and, in each case where there is no effective registration statement, only if an opinion of counsel of recognized standing reasonably satisfactory to the Corporation has been provided to the Corporation to that effect, if applicable);
- (e) **the Subscriber acknowledges and agrees that the Securities will be “restricted securities” within the meaning of Rule 144(a)(3) under the 1933 Act and will remain “restricted securities” notwithstanding any resale within or outside the United States unless the sale is completed pursuant to an effective registration statement under the 1933 Act or is made in compliance with the exemption from registration provided by Rule 144 promulgated under the 1933 Act;**
- (f) the Subscriber has no contract, undertaking, agreement or arrangement with any person to sell, transfer or pledge to such person, or anyone else, the Securities or any part thereof, or any interest therein, and has no present plans to enter into any such contract, undertaking, agreement or arrangement;
- (g) if the Subscriber is not a U.S. Subscriber and unless the Subscriber has made the representations set forth below in Section 7(e) hereof and has completed Schedule “B” attached hereto:
  - (i) the Subscriber is not a person in the United States or a U.S. Person and is not acquiring the Securities for the account or benefit of any person in the United States or any U.S. Person;
  - (ii) the Subscriber did not receive an offer to buy or sell the Securities in the United States;
  - (iii) at the time the buy order for the Securities was originated, the Subscriber was outside the United States and this Subscription Agreement was not executed or delivered in the United States; and
  - (iv) the Subscriber has not acquired the Securities as a result of, and will not itself engage in, any “directed selling efforts” (as defined in Regulation S under the 1933 Act) in the United States in respect of any of the Securities, which would include any activities undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the resale of any of the Securities; provided, however, that the Subscriber may sell or otherwise dispose of any of the Shares or the Warrant Shares pursuant to registration of any of the Shares or the Warrant Shares pursuant to the 1933 Act and any applicable securities laws or under an exemption from such registration requirements and as otherwise provided herein;
  - (v) the Subscriber understands and agrees that offers and sales of any of the Securities prior to the expiration of the period specified in Regulation S (such period hereinafter referred to as the “Distribution Compliance Period”), shall only be made in compliance with the safe harbor provisions set forth in Regulation S, pursuant to the registration provisions of the 1933 Act or pursuant to an exemption therefrom, and that all offers and sales after the Distribution Compliance Period shall be made only in compliance with the registration provisions of the 1933 Act or an exemption therefrom and in each case only in accordance with applicable Securities Laws and in the case of an offer or sale pursuant to an exemption from the registration provisions of the 1933 Act, the Corporation may require, as a condition of granting its consent, a legal opinion of a firm reasonably acceptable to the Corporation confirming that the sale is not subject to the registration requirements of the 1933 Act;

- (vi) the Subscriber understands and agrees not to engage in any hedging transactions involving any of the Securities unless such transactions are in compliance with the provisions of the 1933 Act and in each case only in accordance with applicable Securities Laws; and
  - (vii) except as otherwise permitted by Regulation S, the Subscriber agrees that it will not, during the Distribution Compliance Period, act as a distributor (as such term is defined in Regulation S), either directly or through any affiliate, or sell, transfer, hypothecate or otherwise convey the Securities other than to or for the account or benefit of a non-U.S. Person;
- (h) if the Subscriber is a U.S. Subscriber, then:
- (i) the Subscriber understands and acknowledges that the Securities have not been registered under the 1933 Act or any state securities laws and that the sale of the Units contemplated hereby is being made to a limited number of U.S. Accredited Investors in transactions not requiring registration under the 1933 Act; accordingly the Securities are “restricted securities” within the meaning of Rule 144(a)(3) under the 1933 Act;
  - (ii) the Subscriber acknowledges that the Corporation has not registered the offer and sale to the Subscriber of the Securities under the 1933 Act and the Subscriber acknowledges that there may be substantial restrictions on the transferability of, and that it may not be possible to liquidate its investment readily in, the Shares or the Warrant Shares;
  - (iii) the Subscriber is a U.S. Accredited Investor and acknowledges that it is acquiring the Units as an investment for its own account or for the account of a U.S. Accredited Investor as to which it exercises sole investment discretion and not with a view to any resale, distribution or other disposition of the Units in violation of the federal or state Securities Laws and the Subscriber has concurrently executed and delivered a certificate in the form attached as Schedule “B” hereto. The Subscriber acknowledges that it will be required to confirm its status as a U.S. Accredited Investor and make similar representations to those contained in this Section 7(e) at the time of exercise of any Warrants;
  - (iv) the Subscriber understands and agrees that there may be material tax consequences to it of an acquisition, holding or disposition of the Securities. The Corporation gives no opinion and makes no representation with respect to the tax consequences under United States, state, local or foreign tax law of the acquisition, holding or disposition of the Securities, and the Subscriber acknowledges that it is solely responsible for determining the tax consequences of its investment;
  - (v) the Subscriber understands that none of the Shares or the Warrant Shares may be sold or transferred in the United States or to a U.S. Person unless an exemption is available from the registration requirements of the 1933 Act and any other applicable Securities Laws;
  - (vi) the Subscriber understands that if it decides to offer, sell, pledge or otherwise transfer the Shares or the Warrant Shares, such securities may be offered, sold or otherwise transferred only: (A) to the Corporation; (B) pursuant to an effective registration statement under the 1933 Act, (C) in accordance with Rule 144 under the 1933 Act, if available, and in compliance with applicable state Securities Laws, (D) in accordance with the provisions of Regulation S, if available, or (E) in a transaction that does not otherwise require registration under the 1933 Act or any other applicable Securities Laws and in the case of an offer or sale pursuant to an exemption from the registration requirements of the 1933 Act, the Corporation may require, as a condition of granting its consent, a legal opinion of a firm reasonably acceptable to the Corporation confirming that the sale is not subject to the registration requirements of the 1933 Act; and

- (vii) the purchase of the Units has not been made through or as a result of any general solicitation or general advertising (as such terms are defined in Rule 502(c) of Regulation D), any press release, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising and the distribution of the Units has not been accompanied by any advertisement, including, without limitation, in printed public media, radio, television or telecommunications, including electronic display or as part of a general solicitation;
- (i) if the Subscriber is resident outside of Canada and the United States, the Subscriber:
  - (i) is knowledgeable of, or has been independently advised as to, the applicable Securities Laws of the Securities Regulators having application in the jurisdiction in which the Subscriber is resident (the “**International Jurisdiction**”) which would apply to the acquisition of the Subscriber’s Units;
  - (ii) the Subscriber is purchasing the Units pursuant to exemptions from prospectus or equivalent requirements under applicable Securities Laws or, if such are not applicable, the Subscriber is permitted to purchase the Units under the applicable Securities Laws of the Securities Regulators in the International Jurisdiction without the need to rely on any exemptions;
  - (iii) the applicable Securities Laws of the authorities in the International Jurisdiction do not require the Corporation to make any filings or seek any approvals of any kind whatsoever from any Securities Regulator of any kind whatsoever in the International Jurisdiction in connection with the issue and sale or resale of the Securities; and
  - (iv) the purchase of the Subscriber’s Units by the Subscriber does not trigger:
    - A. any obligation to prepare and file a prospectus or similar document, or any other report with respect to such purchase in the International Jurisdiction; or
    - B. any continuous disclosure reporting obligation of the Corporation in the International Jurisdiction; andthe Subscriber will, if requested by the Corporation, deliver to the Corporation a certificate or opinion of local counsel from the International Jurisdiction which will confirm the matters referred to in subparagraphs (iii), (iv) and (v) above to the satisfaction of the Corporation, acting reasonably;
- (j) neither the Subscriber nor any party on whose behalf it is acting has been created or is being used primarily to permit the purchase of the Units without a prospectus in reliance on an exemption from the prospectus requirements of applicable securities legislation;
- (k) if the Subscriber is an individual, the Subscriber has attained the age of majority and is legally competent to execute this Subscription Agreement and to take all actions required pursuant hereto and if the Subscriber is not an individual, this Subscription Agreement has been duly and validly authorized, executed and delivered by the undersigned and if the Subscriber is a corporation, it has been duly incorporated and validly exists under the laws of its jurisdiction of incorporation or continuance and this Subscription Agreement has been duly and validly authorized by all necessary corporate action;
- (l) this Subscription Agreement has been duly and validly authorized, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation of the Subscriber;

- (m) the entering into of this Subscription Agreement and the transactions contemplated hereby will not result in the violation of any of the terms and provisions of any law applicable to, or the constating documents of, the Subscriber or of any agreement, written or oral, to which the Subscriber may be a party or by which it is or may be bound or the termination of any such agreement;
- (n) the Subscriber is capable of assessing and evaluating the risks and merits of this investment as a result of the Subscriber's financial, investment or business experience or as a result of advice received from a registered person other than the Corporation or an affiliate thereof, and the Subscriber or, where it is not purchasing as principal, each beneficial purchaser is able to bear the economic loss of its investment;
- (o) the delivery of this Subscription Agreement, the acceptance of it by the Corporation and the issuance of the Securities to the Subscriber complies with all applicable laws of the Subscriber's jurisdiction of residence or domicile and all other applicable laws and will not cause the Corporation to become subject to or comply with any disclosure, prospectus or reporting requirements under any such applicable laws;
- (p) the Subscriber is not a "control person" of the Corporation as defined in the applicable Securities Laws, will not become a "control person" by virtue of this purchase of any of the Securities, and does not intend to act in concert with any other person to form a control group of the Corporation;
- (q) neither the Subscriber nor any party on whose behalf it is acting is an investment club;
- (r) the Subscriber (or, if applicable, others for whom it is contracting hereunder) has been advised to consult its own legal and tax advisors with respect to applicable resale restrictions and tax considerations, and it (or, if applicable, others for whom it is contracting hereunder) is solely responsible for compliance with applicable resale restrictions and applicable tax legislation;
- (s) the Subscriber has no knowledge of a "material fact" or "material change" (as those terms are defined in the applicable Securities Laws) in the affairs of the Corporation that has not been generally disclosed to the public, save knowledge of this particular transaction;
- (t) the Subscriber will execute and deliver within the approved time periods, all documentation as may be required by applicable Securities Laws and any other applicable law to permit the purchase of the Units on terms herein set forth;
- (u) if required by applicable Securities Laws or any other applicable law, the Subscriber will execute, deliver, file and otherwise assist the Corporation in filing such reports, undertakings and other documents with respect to the issuance of the Units as may be required;
- (v) other than as approved by the Corporation, there is no person acting or purporting to act in connection with the transactions contemplated herein who is entitled to any brokerage or finder's fee and if any person establishes a claim that any fee or other compensation is payable in connection with this subscription for the Units, the Subscriber covenants to indemnify and hold harmless the Corporation with respect thereto and with respect to all costs reasonably incurred in the defence thereof;
- (w) the Subscriber (and, if applicable, others for whom it is contracting hereunder) is not:
  - (i) a licensed broker or dealer in the United States,
  - (ii) an affiliate of a licensed broker or dealer in the United States,
  - (iii) acting as an underwriter (as that term is defined in Section 2(11) of the 1933 Act) in respect of the Securities, or

- (iv) an affiliate of any person that is acting as an underwriter (as that term is defined in Section 2(11) of the 1933 Act) in respect of the Securities; and
- (x) the funds representing the Subscription Price which will be advanced by the Subscriber to the Corporation hereunder will not represent proceeds of crime for the purposes of the PCMLTFA and the Subscriber acknowledges that the Corporation may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best of the Subscriber's knowledge (i) none of the subscription funds to be provided by the Subscriber (a) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada, the United States, or any other jurisdiction, or (b) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (ii) the Subscriber shall promptly notify the Corporation if the Subscriber discovers that any of such representations ceases to be true, and provide the Corporation with appropriate information in connection therewith.

## 7. Legends.

### (a) Shares:

- (i) the Subscriber acknowledges that, in addition to the other legends that may be required by Securities Laws, the certificates representing the Shares will bear the following legend mandated by Canadian Securities Laws:

#### CANADIAN LEGEND:

**"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [INSERT THE DATE THAT IS FOUR MONTHS AND ONE DAY AFTER THE CLOSING DATE].";**

and, if applicable, the following Exchange legend:

#### TSX VENTURE EXCHANGE LEGEND:

**"WITHOUT PRIOR WRITTEN APPROVAL OF THE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL [INSERT THE DATE THAT IS FOUR MONTHS AND ONE DAY AFTER THE CLOSING DATE]."**

provided that subsequent to the expiry of such period, the certificate representing such securities may be exchanged for a certificate not bearing these legends.

The certificates representing the Shares will also bear the following legend mandated by the Securities Laws in the United States:

#### U.S. LEGEND:

**"THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT."**

(b) Warrants:

- (i) the Subscriber acknowledges that, in addition to the other legends that may be required by Securities Laws, the certificates representing the Warrants will bear the following legend:

**“THESE WARRANTS ARE NOT TRANSFERABLE.”**

In addition, the certificates representing the Warrants will bear the following legend mandated by the Securities Laws in the United States:

**“THESE WARRANTS AND THE SECURITIES ISSUABLE UPON EXERCISE OF THESE WARRANTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”), AND, ACCORDINGLY, THE SECURITIES ISSUABLE UPON EXERCISE OF THESE WARRANTS MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT. THESE WARRANTS MAY NOT BE EXERCISED BY OR ON BEHALF OF A U.S. PERSON OR PERSON IN THE UNITED STATES UNLESS THE SECURITIES ISSUABLE UPON EXERCISE OF THESE WARRANTS HAVE BEEN REGISTERED UNDER THE 1933 ACT AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE OR AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. “UNITED STATES” AND “U.S. PERSON” ARE AS DEFINED BY REGULATION S UNDER THE 1933 ACT.”**

(c) Warrant Shares:

- (i) the Subscriber acknowledges that, in addition to the other legends that may be required by Securities Laws, the certificates representing any Warrant Shares issued upon exercise of Warrants on or before the date that is four months and one day after the Closing Date will bear the following legend mandated by Canadian Securities Laws:

CANADIAN LEGEND:

**“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [INSERT THE DATE THAT IS FOUR MONTHS AND ONE DAY AFTER THE CLOSING DATE].”**

and, if applicable, the following Exchange legend:

TSX VENTURE EXCHANGE LEGEND:

**“WITHOUT PRIOR WRITTEN APPROVAL OF THE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL [INSERT THE DATE THAT IS FOUR MONTHS AND ONE DAY AFTER THE CLOSING DATE].”**

provided that subsequent to the expiry of such period, the certificate representing such securities may be exchanged for a certificate not bearing these legends.

In addition, the certificates representing any Warrant Shares issued upon exercise of the Warrants will bear the following legend mandated by the U.S. securities laws:

U.S. LEGEND:

**“THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT.”**

8. **Representations, Warranties and Covenants of the Corporation.** The Corporation hereby represents, warrants, covenants and agrees with the Subscriber as follows:

- (a) the Corporation will promptly comply with all filing and other requirements under all applicable Securities Laws in connection with the Offering; and
- (b) on the Closing Date, the Corporation will have taken all necessary steps to duly and validly create and issue the Shares and the Warrants (and the Warrant Shares issuable upon exercise thereof).

9. **Acknowledgements.** The Subscriber acknowledges and agrees that the foregoing representations and warranties are made by it with the intention that they may be relied upon by the Corporation and its legal counsel in determining its eligibility or (if applicable) the eligibility of others on whose behalf it is contracting hereunder to purchase the Units under applicable Securities Laws. The Subscriber further agrees that by accepting delivery of the Shares and the Warrants on the Closing Date, it shall be representing and warranting that the foregoing representations and warranties are true and correct as at the Closing Time with the same force and effect as if they had been made by the Subscriber at the Closing Time and that they shall survive the purchase by the Subscriber of the Units and still continue in full force and effect notwithstanding any subsequent disposition by the Subscriber of the Securities. The Corporation and its respective legal counsel shall be entitled to rely on the representations and warranties of the Subscriber contained in this Subscription Agreement, and the Subscriber shall indemnify and hold harmless the Corporation and its legal counsel for any loss, costs or damages any of them may suffer as a result of any misrepresentations or any breach or failure to comply with any covenant or agreement herein of the Subscriber.

10. **Nature of Subscription.** This subscription is irrevocable.

11. **Delivery of Securities.** The Subscriber hereby authorizes and directs the Corporation to deliver certificates representing the Shares and the Warrants to be issued to such Subscriber pursuant to this Subscription Agreement to the residential or business address indicated in this Subscription Agreement.

12. **Return of Subscription Funds.** The Subscriber hereby authorizes and directs the Corporation to return any funds for unaccepted subscriptions to the same account from which the funds were drawn, without interest or penalty.

13. **Acceptance of Subscription.** This subscription may be accepted in whole or in part by the Corporation at its sole discretion and the right is reserved to the Corporation at its sole discretion to allot to any Subscriber less than the amount of Units subscribed for. Confirmation of acceptance or rejection of this subscription will be forwarded to the Subscriber promptly after the acceptance or rejection of the subscription by the Corporation. If this subscription is rejected in whole, the funds delivered by the Subscriber to the Corporation representing the purchase price for the Units subscribed for herein will be promptly returned to the same account from which the funds were drawn. If this subscription is accepted only in part, the funds representing the portion of the Subscription Price representing that portion of the subscription for the Units which is not accepted will promptly be similarly returned.

14. **Costs.** All costs and expenses incurred by the Subscriber (including any fees and disbursements of any special counsel obtained by the Subscriber) relating to the sale of the Units to the Subscriber shall be borne by the Subscriber.

15. **Execution of Subscription Agreement.** The Corporation shall be entitled to rely on delivery by facsimile machine or e-mail of an executed copy of this Subscription Agreement, and acceptance by the Corporation of such facsimile or e-mail copy shall be equally effective to create a valid and binding agreement between the Subscriber and the Corporation in accordance with the terms hereof. If less than a complete copy of this Subscription Agreement is delivered to the Corporation at Closing, the Corporation and its counsel are entitled to assume that the Subscriber accepts and agrees to all of the terms and conditions of the pages not delivered at Closing unaltered. This Subscription Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same Subscription Agreement.

16. **Collection of Personal Information.** The Subscriber acknowledges and consents to the fact that the Corporation is collecting the Subscriber's personal information for the purpose of fulfilling this Subscription Agreement and completing the Offering. The Subscriber's personal information (and, if applicable, the personal information of those on whose behalf the Subscriber is contracting hereunder) may be disclosed by the Corporation to (a) stock exchanges or securities regulatory authorities, (b) the Corporation's registrar and transfer agent, (c) Canadian tax authorities, (d) authorities pursuant to the PCMLTFA and (e) any of the other parties involved in the Offering, including legal counsel, and may be included in record books in connection with the Offering. By executing this Subscription Agreement, the Subscriber is deemed to be consenting to the foregoing collection, use and disclosure of the Subscriber's personal information (and, if applicable, the personal information of those on whose behalf the Subscriber is contracting hereunder) for the foregoing purposes and for the purposes described in Schedule "D" to this Subscription Agreement and to the retention of such personal information for as long as permitted or required by law or business practice. Notwithstanding that the Subscriber may be purchasing Units as agent on behalf of an undisclosed principal, the Subscriber agrees to provide, on request, particulars as to the nature and identity of such undisclosed principal, and any interest that such undisclosed principal has in the Corporation, all as may be required by the Corporation in order to comply with the foregoing.

Furthermore, the Subscriber is hereby notified that:

- (a) the Corporation may deliver to any securities commission having jurisdiction over the Corporation, the Subscriber or this subscription, including the British Columbia Securities Commission, the Alberta Securities Commission and the Ontario Securities Commission and/or the SEC (collectively, the “**Commissions**”) certain personal information pertaining to the Subscriber, including such Subscriber’s full name, residential address and telephone number, the number of shares or other securities of the Corporation owned by the Subscriber, the number of Units purchased by the Subscriber and the total purchase price paid for such Units, the prospectus exemption relied on by the Corporation and the date of distribution of the Units,
- (b) such information is being collected indirectly by the Commissions under the authority granted to them in securities legislation,
- (c) such information is being collected for the purposes of the administration and enforcement of the securities laws, and
- (d) the Subscriber may contact the following public official in Ontario with respect to questions about the Ontario Securities Commission’s indirect collection of such information at the following address and telephone number:

Administrative Assistant to the Director of Corporate Finance  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, ON M5H 3S8  
Telephone: (416) 593-8086

17. **Anti-Money Laundering Legislation.** In order to comply with legislation aimed at the prevention of money laundering, the Corporation may require additional information concerning investors from time to time and the Subscriber agrees to provide all such information. The Subscriber acknowledges that if, as a result of any information or other matter which comes to the Corporation’s attention, any director, officer or employee of the Corporation or any investment advisor, or their respective professional advisors, knows or suspects that an investor is engaged in money laundering, such person is required to report such information or other matter to the Financial Transactions and Reports Analysis Centre of Canada and such report shall not be treated as a breach of any restriction upon the disclosure of information imposed by Canadian law or otherwise.

18. **Governing Law.** The contract arising out of this Subscription Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

19. **Survival of Representations and Warranties.** The covenants, representations and warranties contained herein shall survive the Closing and continue in full force and effect for a period of two years following the Closing.

20. **Assignment.** The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber, the Corporation and their respective heirs, executors, administrators, successors and assigns; provided however, that: (a) this Subscription Agreement may not be assigned by the Subscriber without the consent of the Corporation, in their discretion, other than the assignment by a Subscriber who is acting as nominee or agent to the beneficial owner; and (b) this Subscription Agreement may not be assigned by the Corporation without the consent of the Subscriber, acting reasonably. The benefits and the obligations of this Subscription Agreement, insofar as they apply to the Subscriber, shall pass with any assignment or transfer of the Securities.

21. **Entire Agreement and Headings.** Except as otherwise stated herein, this Subscription Agreement (including the schedules hereto) constitutes the entire agreement between the Subscriber and the Corporation relating to the subject matter hereof and there are no representations, warranties, covenants, understandings or other agreements relating to the subject matter hereof except as stated or referred to herein. This Subscription Agreement may be amended or modified in any respect by written instrument only. The headings contained herein are for convenience only and shall not affect the meanings or interpretation hereof.

22. **Effective Date.** The Subscription Agreement is intended to and shall take effect on the date it has been accepted by the Corporation.

23. **Time of Essence.** Time shall be of the essence of this Subscription Agreement.

24. **Language.** It is the express wish of the Subscriber that the Subscription Agreement and any related documentation be drawn up in English only. Il est de la volonté expresse du souscripteur que la convention de souscription ainsi que tout document connexe soient rédigés en langue anglaise uniquement.

25. **Currency.** All references herein to monetary amounts are to lawful money of Canada, unless otherwise specified.

## SCHEDULE "A"

### ACCREDITED INVESTOR STATUS CERTIFICATE

Capitalized terms not specifically defined in this certificate have the meaning ascribed to them in the Subscription Agreement to which this certificate is attached.

The undersigned Subscriber hereby represents, warrants and certifies to the Corporation, as an integral part of the attached Subscription Agreement, that he, she or it is and at Closing will be, correctly and in all respects described by the category or categories set forth directly next to which the Subscriber has marked below:

- ☐ (1) a Canadian financial institution, or a Schedule III bank.
- ☐ (2) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada).
- ☐ (3) a subsidiary of any person referred to in paragraphs (1) or (2), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.
- ☐ (4) a person registered under the securities legislation of a jurisdiction of Canada as an adviser or dealer, other than a person registered solely as a limited market dealer under one or both of the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador).
- ☐ (5) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (4).
- ☐ (6) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada.
- ☐ (7) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l'île de Montréal or an intermunicipal management board in Québec.
- ☐ (8) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government.
- ☐ (9) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada.
- ☐ (10) an individual who, either alone or with a spouse, beneficially owns, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds CDN\$1,000,000.
- ☐ (11) an individual whose net income before taxes exceeded CDN\$200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded CDN\$300,000 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year.
- ☐ (12) an individual who, either alone or with a spouse, has net assets of at least CDN\$5,000,000.
- ☐ (13) a person, other than an individual or investment fund, that has net assets of at least CDN\$5,000,000 as shown on its most recently prepared financial statements.
- ☐ (14) an investment fund that distributes or has distributed its securities only to
  - (a) a person that is or was an accredited investor at the time of the distribution,

- (b) a person that acquires or acquired securities in the circumstances referred to in sections 2.10 [*Minimum amount investment*], or 2.19 [*Additional investment in investment funds*] of NI 45-106, or
  - (c) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 [*Investment fund reinvestment*] of NI 45-106.
- [ ] (15) an investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the regulator or, in Québec, the securities regulatory authority, has issued a receipt.
- [ ] (16) a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be.
- [ ] (17) a person acting on behalf of a fully managed account managed by that person, if that person
- (a) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction, and
  - (b) in Ontario, is purchasing a security that is not a security of an investment fund.
- [ ] (18) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded.
- [ ] (19) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (1) to (4) or paragraph (9) in form and function.
- [ ] (20) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors.
- [ ] (21) an investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser.
- [ ] (22) a person that is recognized or designated by the securities regulatory authority or, except in Ontario and Québec, the regulator as
- (a) an accredited investor, or
  - (b) an exempt subscriber in Alberta or British Columbia after NI 45-106 comes into force.

*Note: A summary of the meanings of some of the terms used in this Accredited Investor Status Certificate follows the signature block below.*

Dated \_\_\_\_\_, 20\_\_\_\_.

X  
\_\_\_\_\_  
Signature of individual (if Subscriber is an individual)

X  
\_\_\_\_\_  
Authorized signatory (if Subscriber is not an individual)

\_\_\_\_\_  
Name of Subscriber (please print)

\_\_\_\_\_  
Name of authorized signatory (please print)

For the purposes of this Accredited Investor Status Certificate, the following definitions are included for convenience:

- (a) “affiliate” means that an issuer is an affiliate of another issuer if:
  - (i) one of them is the subsidiary of the other, or
  - (ii) each of them is controlled by the same person.
- (b) “Canadian financial institution” means
  - (i) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act, or
  - (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada.
- (c) “company” means any corporation, incorporated association, incorporated syndicate or other incorporated organization;
- (d) “control” means as follows: a person (first person) is considered to control another person (second person) if:
  - (i) the first person beneficially owns or directly or indirectly exercises control or direction over securities of the second person carrying votes which, if exercised, would entitle the first person to elect a majority of the directors of the second person, unless that first person holds the voting securities only to secure an obligation,
  - (ii) the second person is a partnership, other than a limited partnership, and the first person holds more than 50% of the interests of the partnership, or
  - (iii) the second person is a limited partnership and the general partner of the limited partnership is the first person;
- (e) “entity” means a company, syndicate, partnership, trust or unincorporated organization;
- (f) “financial assets” means cash, securities, or any contract of insurance or deposit or evidence thereof that is not a security for the purposes of the securities legislation;
- (g) “fully managed account” means an account of a client for which a person makes the investment decisions if that person has full discretion to trade in securities for the account without requiring the client’s express consent to a transaction;
- (h) “mutual fund” means:
  - (i) for the purposes of British Columbia law,
    - (A) an issuer of a security that entitles the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in a part of the net assets, including a separate fund or trust account, of the issuer of the security,

- (B) an issuer described in an order that the commission may make under section 3.2 of the Securities Act (BC), and
- (C) an issuer that is in a class of prescribed issuers,

but does not include an issuer, or a class of issuers, described in an order that the commission may make under section 3.1 of the Securities Act (BC);

- (ii) for the purposes of Alberta law,

- (A) an issuer whose primary purpose is to invest money provided by its security holders and whose securities entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets, including a separate fund or trust account, of the issuer, or
- (B) an issuer that is designated as a mutual fund under section 10 of the Alberta Securities Act (Alberta) or in accordance with the regulations,

but does not include an issuer, or class of issuers, that is designated under section 10 of the Alberta Securities Act (Alberta) not to be a mutual fund;

- (iii) for the purposes of Ontario law, an issuer whose primary purpose is to invest money provided by its security holders and whose securities entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value as a proportionate interest in the whole or in part of the net assets, including a separate fund or trust account, of the issuer;

- (iv) for the purposes of Quebec law, a company issuing shares which must, on request of the holder, redeem them at their net asset value;

- (i) “non-redeemable investment fund” means an issuer:

- (i) whose primary purpose is to invest money provided by its security holders;
- (ii) that does not invest,
  - (A) for the purpose of exercising or seeking to exercise control of an issuer, other than an issuer that is a mutual fund or a non-redeemable investment fund, or
  - (B) for the purpose of being actively involved in the management of any issuer in which it invests, other than an issuer that is a mutual fund or a non-redeemable investment fund, and

- (iii) that is not a mutual fund;

- (j) “person” includes

- (i) an individual,
- (ii) a corporation,
- (iii) a partnership, trust, fund and an association, syndicate, organization or other organized group of persons, whether incorporated or not, and

- (iv) an individual or other person in that person's capacity as a trustee, executor, administrator or personal or other legal representative;
- (k) "portfolio adviser" means:
  - (i) a portfolio manager; or
  - (ii) a broker or investment dealer exempted from registration as an adviser under section 148 of the regulation made under the Securities Act (Ontario) if that broker or investment dealer is not exempt from the by-laws or regulations of the Toronto Stock Exchange or the Investment Dealers' Association of Canada referred to in that section;
- (l) "related liabilities" means liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets or liabilities that are secured by financial assets; and
- (m) "spouse" means an individual who:
  - (i) is married to another individual and is not living separate and apart within the meaning of the Divorce Act (Canada) from the other individual,
  - (ii) is living with another individual in a marriage-like relationship, including a marriage-like relationship between individuals of the same gender, or
  - (iii) in Alberta, is an individual referred to in paragraph (i) or (ii), or is an adult interdependent partner within the meaning of the Adult Interdependent Relationships Act (Alberta);
- (n) "subsidiary" means an issuer that is controlled directly or indirectly by another issuer and includes a subsidiary of that subsidiary.

## SCHEDULE "B"

### U.S. ACCREDITED INVESTOR STATUS CERTIFICATE

Capitalized terms not specifically defined in this certificate have the meaning ascribed to them in the Subscription Agreement to which this certificate is attached. In this certificate, dollar amounts are stated in U.S. dollars.

The Subscriber hereby represents, warrants and certifies to the Corporation, as an integral part of the attached Subscription Agreement, that he, she or it is and at Closing will be correctly and in all respects described by the category or categories set forth directly next to which the Subscriber has marked below:

- ☐ (1) a natural person whose individual net worth, or joint net worth with that person's spouse, at the date of this certificate exceeds \$1,000,000, excluding the value of the primary residence of such person(s) and the related amount of indebtedness secured by the primary residence up to its fair market value;
- ☐ (2) a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- ☐ (3) an organization described in Section 501(c)(3) of the *Internal Revenue Code* (United States), a corporation, a Massachusetts or similar business trust or partnership, not formed for the specific purpose of acquiring the Securities, with total assets in excess of \$5,000,000;
- ☐ (4) a "bank" as defined in Section 3(a)(2) of the 1933 Act or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the 1933 Act acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the *Securities Exchange Act of 1934* (United States); an insurance company as defined in Section 2(a)(13) of the 1933 Act; an investment company registered under the *Investment Company Act of 1940* (United States) or a business development company as defined in Section 2(a)(48) of such Act; a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the *Small Business Investment Act of 1958* (United States); a plan with total assets in excess of \$5,000,000 established and maintained by a state, a political subdivision thereof, or an agency or instrumentality of a state or a political subdivision thereof, for the benefit of its employees; an employee benefit plan within the meaning of the *Employee Retirement Income Security Act of 1974* (United States) whose investment decisions are made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000, or, if a self-directed plan, whose investment decisions are made solely by persons that are accredited investors;
- ☐ (5) a private business development company as defined in Section 202(a)(22) of the *Investment Advisers Act of 1940* (United States);
- ☐ (6) a director or executive officer of the Corporation,
- ☐ (7) a trust with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Shares, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) under the 1933 Act; or

☐ (8) an entity in which all of the equity owners satisfy the requirements of one or more of the foregoing categories.

Dated \_\_\_\_\_, 20\_\_\_\_.

X

Signature of individual (if Subscriber is an individual)

X

Authorized signatory (if Subscriber is not an individual)

\_\_\_\_\_  
Name of Subscriber (please print)

\_\_\_\_\_  
Name of authorized signatory (please print)

**SCHEDULE “C”**

**FORM 4C**

**CORPORATE PLACEE REGISTRATION FORM**

This Form will remain on file with the Exchange and must be completed if required under section 4(b) of Part II of Form 4B. The corporation, trust, portfolio manager or other entity (the “Placee”) need only file it on one time basis, and it will be referenced for all subsequent Private Placements in which it participates. If any of the information provided in this Form changes, the Placee must notify the Exchange prior to participating in further placements with Exchange listed Issuers. If as a result of the Private Placement, the Placee becomes an Insider of the Issuer, Insiders of the Placee are reminded that they must file a Personal Information Form (2A) or, if applicable, Declarations, with the Exchange.

1. Placee Information:
  - (a) Name: \_\_\_\_\_
  - (b) Complete Address: \_\_\_\_\_
  - (c) Jurisdiction of Incorporation or Creation: \_\_\_\_\_
2.
  - (a) Is the Placee purchasing securities as a portfolio manager: (Yes/No)? \_\_\_\_\_
  - (b) the Placee carrying on business as a portfolio manager outside of Canada: (Yes/No)? \_\_\_\_\_
3. If the answer to 2(b) above was “Yes”, the undersigned certifies that:
  - (a) it is purchasing securities of an Issuer on behalf of managed accounts for which it is making the investment decision to purchase the securities and has full discretion to purchase or sell securities for such accounts without requiring the client’s express consent to a transaction;
  - (b) it carries on the business of managing the investment portfolios of clients through discretionary authority granted by those clients (a “portfolio manager” business) in \_\_\_\_\_ [jurisdiction], and it is permitted by law to carry on a portfolio manager business in that jurisdiction;
  - (c) it was not created solely or primarily for the purpose of purchasing securities of the Issuer;
  - (d) the total asset value of the investment portfolios it manages on behalf of clients is not less than \$20,000,000; and
  - (e) it has no reasonable grounds to believe, that any of the directors, senior officers and other insiders of the Issuer, and the persons that carry on investor relations activities for the Issuer has a beneficial interest in any of the managed accounts for which it is purchasing.

4. If the answer to 2(a). above was “No”, please provide the names and addresses of Control Persons of the Placee:

| Name * | City | Province or State | Country |
|--------|------|-------------------|---------|
|        |      |                   |         |
|        |      |                   |         |
|        |      |                   |         |
|        |      |                   |         |

\* If the Control Person is not an individual, provide the name of the individual that makes the investment decisions on behalf of the Control Person.

5. Acknowledgement - Personal Information and Securities Laws

- (a) “Personal Information” means any information about an identifiable individual, and includes information contained in sections 1, 2 and 4, as applicable, of this Form.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (i) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to this Form; and
  - (ii) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.
- (b) The undersigned acknowledges that it is bound by the provisions of applicable Securities Law, including provisions concerning the filing of insider reports and reports of acquisitions.

Dated and certified (if applicable), acknowledged and agreed, at \_\_\_\_\_ on \_\_\_\_\_

\_\_\_\_\_  
(Name of Purchaser - please print)

\_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
(Official Capacity - please print)

\_\_\_\_\_  
(Please print name of individual whose signature appears above)

**THIS IS NOT A PUBLIC DOCUMENT**

**SCHEDULE “D”**

**ACKNOWLEDGEMENT – PERSONAL INFORMATION**

1. TSX Venture Exchange Inc. and its affiliates, authorized agents, subsidiaries and divisions, including the TSX Venture Exchange (collectively referred to as the “Exchange”) collect Personal Information in certain Forms that are submitted by the individual and/or by an Issuer or Applicant and use it for the following purposes:
  - (a) to conduct background checks;
  - (b) to verify the Personal Information that has been provided about each individual;
  - (c) to consider the suitability of the individual to act as an officer, director, insider, promoter, investor relations provider or, as applicable, an employee or consultant, of the Issuer or Applicant;
  - (d) to consider the eligibility of the Issuer or Applicant to list on the Exchange;
  - (e) to provide disclosure to market participants as to the security holdings of directors, officers, other insiders and promoters of the Issuer, or its associates or affiliates;
  - (f) to conduct enforcement proceedings; and
  - (g) to perform other investigations as required by and to ensure compliance with all applicable rules, policies, rulings and regulations of the Exchange, securities legislation and other legal and regulatory requirements governing the conduct and protection of the public markets in Canada.

As part of this process, the Exchange also collects additional Personal Information from other sources, including but not limited to, securities regulatory authorities in Canada or elsewhere, investigative, law enforcement or self-regulatory organizations, regulations service providers and each of their subsidiaries, affiliates, regulators and authorized agents, to ensure that the purposes set out above can be accomplished.

The Personal Information the Exchange collects may also be disclosed:

- (a) to the agencies and organizations in the preceding paragraph, or as otherwise permitted or required by law, and they may use it in their own investigations for the purposes described above; and
- (b) on the Exchange’s website or through printed materials published by or pursuant to the directions of the Exchange.

The Exchange may from time to time use third parties to process information and/or provide other administrative services. In this regard, the Exchange may share the information with such third party service providers.

2. The Commissions may indirectly collect the Personal Information under the authority granted to them by securities legislation. The Personal Information is being collected for the purposes of the administration and enforcement of the securities legislation of the jurisdiction of each such Commission.

For questions about the collection of Personal Information by the British Columbia Securities Commission, please contact the Administrative Assistant to the Director of Corporate Finance, 12th Floor, 701 West Georgia Street, Box 10142, Vancouver, BC V7Y 1L2, phone: (604) 899-6854.

THE SECURITIES REPRESENTED HEREBY HAVE BEEN OFFERED IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED HEREIN) PURSUANT TO REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT").

NONE OF THE SECURITIES REPRESENTED HEREBY HAVE BEEN REGISTERED UNDER THE 1933 ACT, OR ANY U.S. STATE SECURITIES LAWS, AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES (AS DEFINED HEREIN) OR TO U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE 1933 ACT, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN EACH CASE ONLY IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE 1933 ACT.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THE SECURITIES SHALL NOT TRADE THE SECURITIES BEFORE OCTOBER 20, 2012.

WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL OCTOBER 20, 2012.

COUNTERPATH CORPORATION  
(A Nevada Corporation)

**WARRANT CERTIFICATE**

CERTIFICATE NO. 06/19/2012-  
NUMBER OF WARRANTS: <>

**RIGHT TO PURCHASE <> COMMON SHARES**

THESE WARRANTS WILL EXPIRE AND BECOME NULL AND VOID  
AT THE TIME OF EXPIRY (AS DEFINED BELOW).

COMMON SHARE PURCHASE WARRANTS  
TO PURCHASE COMMON SHARES OF COUNTERPATH CORPORATION

This is to certify that, for value received, <> (the "**Holder**") is the registered holder of <> Common Share Purchase Warrants (the "**Warrants**"). Each Warrant will entitle the Holder, upon and subject to the terms and conditions attached to this certificate or any replacement certificate (in either case the "**Warrant Certificate**") as Appendix "A" (the "**Terms and Conditions**"), to acquire from CounterPath Corporation (the "**Company**") one fully paid and non-assessable common share of the Company (a "**Warrant Share**"), at any time before 5:00 pm (Vancouver time) on June 19, 2014 (the "**Time of Expiry**"), by surrendering to the Company, at Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, V7X 1M3, this Warrant Certificate with a subscription in the form attached hereto as Appendix "A" (a "**Subscription Form**"), duly completed and executed, and cash, bank draft, certified cheque, money order or wire transfer or other immediately available funds in lawful money of the United States, payable to the order of the Company in Vancouver, British Columbia, in an amount equal to the purchase price per Warrant Share multiplied by the number of Warrant Shares being purchased. Subject to adjustment thereof in the events and in the manner set forth in the Terms and Conditions, the purchase price per Warrant Share on the exercise of each Warrant evidenced hereby shall be US\$3.25 per Warrant Share.

These Warrants are issued subject to the Terms and Conditions and the Holder may exercise the right to purchase Warrant Shares only in accordance with the Terms and Conditions.

Nothing contained herein or in the Terms and Conditions will confer any right upon the Holder or any other person to subscribe for or purchase any Warrant Shares at any time subsequent to the Time of Expiry, and from and after such time, this Warrant Certificate and all rights hereunder will be void and of no value.

IN WITNESS WHEREOF the Company has caused this Warrant Certificate to be executed.

DATED at the City of Vancouver, in the Province of British Columbia, the 19th day of June, 2012.

**COUNTERPATH CORPORATION**

Per: \_\_\_\_\_  
David Karp

PLEASE NOTE THAT ALL SHARE CERTIFICATES ISSUED UPON EXERCISE HEREOF MUST BE LEGENDED AS FOLLOWS DURING THE CURRENCY OF APPLICABLE HOLD PERIODS:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN OFFERED IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED HEREIN) PURSUANT TO REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT").

NONE OF THE SECURITIES REPRESENTED HEREBY HAVE BEEN REGISTERED UNDER THE 1933 ACT, OR ANY U.S. STATE SECURITIES LAWS, AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES (AS DEFINED HEREIN) OR TO U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE 1933 ACT, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN EACH CASE ONLY IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE 1933 ACT.

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THE SECURITIES SHALL NOT TRADE THE SECURITIES BEFORE OCTOBER 20, 2012.

WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL OCTOBER 20, 2012.

## APPENDIX “A”

TERMS AND CONDITIONS dated June 19, 2012 (the “**Terms and Conditions**”), attached to the Common Share Purchase Warrants issued by CounterPath Corporation.

### 1. Definitions

In these Terms and Conditions, unless there is something in the subject matter or context inconsistent therewith:

- (a) “**Affiliate**” or “**affiliate**” means, unless otherwise specified, an affiliate within the meaning of Section 1.2 of National Instrument 45-106 – *Prospectus and Registration Exemptions*;
- (b) “**Business Day**” means any day of the year, other than a Saturday, a Sunday or any day on which banks are required or authorized to close in Vancouver, British Columbia;
- (c) “**Company**” means CounterPath Corporation or a successor corporation as a result of a consolidation, amalgamation or merger with or into any other corporation or corporations, or as a result of the conveyance or transfer of all or substantially all of the properties and estates of the Company as an entirety to any other corporation and thereafter “Company” will mean such successor corporation;
- (d) “**Exercise Date**” has the meaning given to such term in Section 5(a);
- (e) “**Exercise Price**” means US\$3.25 per Warrant Share, subject to adjustment as provided in the Terms and Conditions;
- (f) “**Expiry Date**” means June 19, 2014;
- (g) “**herein**”, “**hereby**” and similar expressions refer to these Terms and Conditions as the same may be amended or modified from time to time;
- (h) “**Holder**” or “**Holders**” has the meaning ascribed to it on page 1 of the Warrant Certificate;
- (i) “**Issuance Date**” means the date hereof;
- (j) “**Lien**” means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement; (ii) any trust arrangement; (iii) any arrangement which creates a right of set-off out of the ordinary course of business; (iv) any option, warrant, right or privilege capable of becoming a transfer; or (v) any agreement to grant any such rights or interests;
- (k) “**person**” means a natural person, corporation, limited liability corporation, unlimited liability corporation, joint stock corporation, partnership, limited partnership, limited liability partnership, trust, trustee, any unincorporated organization, joint venture or any other entity and words importing persons have a similar meaning;
- (l) “**Section**” followed by a number refers to the specified Section of these Terms and Conditions;
- (m) “**Shares**” means the common shares in the capital of the Company;
- (n) “**Subscription Form**” means the form attached to these Terms and Conditions as Appendix “B”;
- (o) “**Time of Expiry**” means 5:00 pm (Vancouver Time) on the Expiry Date;

- (p) “**Transfer Agent**” means Valiant Trust Company, Suite 600 – 750 Cambie Street, in the City of Vancouver, Province of British Columbia, V6B 0A2;
- (q) “**Warrants**” means the Common Share Purchase Warrants of the Company issued and presently authorized and for the time being outstanding;
- (r) “**Warrant Certificate**” means the warrant certificate representing the Warrants and issued to the Holder; and
- (s) “**Warrant Shares**” means the Shares issuable upon exercise of the Warrants.

2. Interpretation

The division of these Terms and Conditions into sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation thereof. Words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders.

3. Adjustment of Exercise Price and Number of Warrant Shares

The Exercise Price and the number of Warrant Shares deliverable upon the exercise of the Warrants shall be subject to adjustment in the event and in the manner following:

- (a) Adjustments for Subdivision and/or Consolidation of Outstanding Shares. If the Company at any time after the Issuance Date subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding Shares into a greater number of Shares, any Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares obtainable upon exercise of this Warrant Certificate will be proportionately increased. If the Company at any time after the Issuance Date consolidates (by combination, reverse stock split or otherwise) one or more classes of its outstanding Shares into a smaller number of Shares, any Exercise Price in effect immediately prior to such consolidation will be proportionately increased and the number of Warrant Shares issuable upon exercise of this Warrant Certificate will be proportionately decreased. Any adjustment under this Section 3(a) shall become effective at the close of business on the date the subdivision or consolidation becomes effective.
- (b) Adjustment for Merger or Reorganization, etc. If at any time after the Issuance Date there occurs:
  - (i) a reclassification or redesignation of the Shares, any change of the Shares into other shares or securities or any other capital reorganization involving the Shares other than transactions covered by Subsections 3(a);
  - (ii) a consolidation, amalgamation or merger of the Company with or into any other body corporate, or plan of arrangement involving the Company, which results in a reclassification or redesignation of the Shares or a change or exchange of the Shares into other shares or securities; or
  - (iii) the transfer of the undertaking or assets of the Company as an entirety or substantially as an entirety to another corporation or entity;(any of such events being herein called a “**Capital Reorganization**”), after the effective date of the Capital Reorganization:
  - (iv) the Holder will be entitled to receive upon exercise of the Warrants, in lieu of the number of Warrant Shares to which the Holder was theretofore entitled upon the exercise of the Warrants, the kind and aggregate number of shares and other securities or property resulting from the Capital Reorganization which the Holder would have been entitled to receive as a result of the Capital Reorganization if, on the effective date thereof, the Holder had been the registered holder of the number of Shares to which the Holder was theretofore entitled to purchase or receive upon the exercise of the Warrants; and

- (v) the Exercise Price shall, on the effective date of the Capital Reorganization, be adjusted by multiplying the Exercise Price in effect immediately prior to such Capital Reorganization by the number of Warrant Shares purchasable pursuant to this Warrant Certificate immediately prior to the Capital Reorganization, and dividing the product thereof by the number of successor securities determined in Subsection 3(b)(iv) above.

If necessary, as a result of any Capital Reorganization, appropriate adjustments will be made in the application of the provisions of this Warrant Certificate with respect to the rights and interest thereafter of the Holder to the end that the provisions of this Warrant Certificate will thereafter correspondingly be made applicable as nearly as may reasonably be possible in relation to any shares or other securities or property thereafter deliverable upon the exercise of the Warrants.

- (c) Notices Of Record Date. Upon (i) the establishment by the Company of a record date of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger or consolidation of the Company with or into any other Company, or any transfer of all or substantially all the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall courier to the Holder at least ten (10) days prior to the record date specified therein a notice specifying (A) the date on which any such record date is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of Shares (or other securities), shall be entitled to exchange their Shares (or other securities), for securities or other property deliverable upon such reorganization, reclassification transfer, consolidation, merger, dissolution, liquidation or winding up.
- (d) Certificate Of Adjustment. In each case of an adjustment or readjustment of the Exercise Price or the number of Warrant Shares or other securities issuable upon conversion of this Warrant Certificate, the Company, at its own expense, shall cause its Secretary or Treasurer to compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall send such certificate by courier to the Holder at the Holder's address set forth in Section 13. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based. No adjustment in the Exercise Price shall be required to be made unless it would result in an increase or decrease of at least one cent, but any adjustments not made because of this sentence shall be carried forward and taken into account in any subsequent adjustment otherwise required hereunder.

#### 4. Method of Exercise of Warrants

The right to purchase Shares conferred by this Warrant may be exercised at any time, and from time to time, before the Time of Expiry, in whole or in part, by the Holder of this Warrant by surrendering it to the Company, with a duly completed and executed Subscription Form together with cash, a bank draft, certified cheque, money order, wire transfer or other immediately payable funds, payable to or to the order of the Company at par in Vancouver, British Columbia, for the aggregate Exercise Price applicable at the time of surrender in respect of the Warrant Shares subscribed for in lawful money of the United States.

5. Effect of Exercise of Warrants

- (a) On the date the Company receives a duly executed Subscription Form and the aggregate Exercise Price for the number of Warrant Shares specified in the Subscription Form (the “**Exercise Date**”), the Warrant Shares so subscribed for will be deemed to have been issued and such persons will be deemed to have become the Holder (or Holders) of record of such Warrant Shares on such date.
- (b) As promptly as practicable after the Exercise Date and, in any event, within ten (10) business days of the Exercise Date, the Company shall forthwith cause to be delivered to the person or persons in whose name or names the Warrant Shares so subscribed for are to be issued as specified in such Subscription Form or couriered to him or them at his or their respective addresses specified in such Subscription Form, a certificate or certificates for the appropriate number of fully paid and non- assessable Warrant Shares not exceeding those which the Holder is entitled to purchase pursuant to the Warrant surrendered.

6. Subscription for Less than Entitlement

The Holder of any Warrant may subscribe for and purchase a number of Warrant Shares less than the number which the Holder is entitled to purchase pursuant to the surrendered Warrant Certificate. In the event of any purchase of a number of Warrant Shares less than the number which can be purchased pursuant to the Warrant Certificate, the Holder, upon exercise thereof, shall be entitled to receive a new Warrant Certificate in respect of the balance of the Warrant Shares which the Holder was entitled to purchase pursuant to the surrendered Warrant Certificate and which were not then purchased.

7. Warrants for Fractions of Shares

To the extent that the Holder of any Warrant is entitled to receive on the exercise or partial exercise thereof a fraction of a Share, such right may be exercised in respect of such fraction only in combination with another Warrant or other Warrants which in the aggregate entitle the Holder to receive a whole number of such Shares.

8. Expiration of Warrants

After the expiration of the period within which a Warrant is exercisable, all rights thereunder shall wholly cease and terminate and such Warrants shall be void and of no further force and effect.

9. Replacement of Lost Warrants

- (a) In case a Warrant Certificate shall become mutilated, lost, destroyed or stolen, the Company shall issue and deliver a new Warrant Certificate of like date and tenure as the one mutilated, lost, destroyed or stolen, in exchange for and in place of and upon cancellation of such mutilated Warrant Certificate, or in lieu of, and in substitution for such lost, destroyed or stolen Warrant Certificate and the substituted Warrant Certificate shall be entitled to all benefits hereunder and rank equally in accordance with its terms with all other Warrants issued or to be issued by the Company.
- (b) The applicant for the issue of a new warrant certificate pursuant hereto shall bear the cost of the issue thereof and in case of loss, destruction or theft shall furnish to the Company evidence of ownership and of loss, destruction or theft of the Warrant Certificate so lost, destroyed or stolen as will be satisfactory to the Transfer Agent in accordance with its usual policies and procedures and such applicant may also be required to furnish indemnity in the amount and form satisfactory to the Transfer Agent in accordance with its usual policies and procedures, and shall pay the reasonable charges of the Company in connection therewith.

10. Warrant Holder Not a Shareholder

The holding of a Warrant Certificate shall not constitute the Holder thereof a shareholder of the Company, nor entitle him to any right or interest in respect thereof except as expressly provided in the Warrant Certificate.

11. Exchange of Warrants

- (a) Warrants in any authorized denomination may, upon compliance with the reasonable requirements of the Company, be exchanged for Warrants in any other authorized denomination of the same series and date of expiry entitling the Holder thereof to purchase any equal aggregate number of Warrant Shares at the same exercise price and on the same terms as the Warrants so exchanged.
- (b) Warrants may be exchanged at the office of the Company. Any Warrants tendered for exchange shall be surrendered to the Company and cancelled.

12. Ownership and Transfer of Warrants

- (a) The Holder may not transfer the Warrants, except to one or more Affiliates of the Holder (an “**Approved Transferee**”).
- (b) Subject to applicable law, the Holder may transfer the Warrants to an Approved Transferee by delivering to the Company, at any time prior to the Time of Expiry, at its principal office, this Warrant Certificate with the transfer form duly completed and executed by the Holder or its legal representative or attorney, duly appointed by an instrument in writing in form and manner satisfactory to the Company. Notwithstanding the foregoing, the Company may refuse to permit the transfer of any Warrants if such transfer would constitute a violation of the securities laws of any jurisdiction. Subject to the foregoing, the Company shall issue a new Warrant Certificate, representing the transferred Warrants, registered in the name of Approved Transferee or as the Approved Transferee may direct and, if not all Warrants represented by a surrendered Warrant Certificate are transferred, a new Warrant Certificate, representing the Warrants not so transferred, and registered in the name of the Holder.

13. Notice to the Company and the Holder

- (a) Any notice, direction or other communication (each a “**Notice**”) given regarding the matters contemplated by the Terms and Conditions must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

To the Holder at the address set forth on page 1 of the Warrant Certificate

To the Company at:

CounterPath Corporation  
Suite 300, One Bentall Centre  
505 Burrard Street  
Vancouver, BC, V7X 1M3  
Attention: David Karp  
Facsimile No.: 1.604.320.3399  
Email: dkarp@counterpath.com

With a copy to:

Clark Wilson LLP  
Barristers and Solicitors  
800 – 885 West Georgia Street  
Vancouver, BC V6C 3H1  
Attention: Virgil Hlus  
Facsimile No: 1.604.687.6314  
Email: vzh@cwilson.com

- (b) A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day; (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day; (iii) if sent by overnight courier, on the next Business Day; or (iv) if sent by facsimile or electronic mail, on the Business Day following the date of confirmation of transmission by the originating facsimile or electronic mail message. A Party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the Party at its changed address. Any element of a Party's address that is not specifically changed in a Notice will be assumed not to be changed.

14. Covenants of the Company

The Company represents and warrants that it is authorized to create and issue the Warrants and covenants and agrees that it will cause the Warrant Shares from time to time subscribed for and purchased in the manner provided in this Warrant Certificate, and the certificate representing such Warrant Shares, to be issued in accordance with the terms of this Warrant Certificate and that at all times prior to the Time of Expiry, it will reserve and there will remain unissued a sufficient number of Warrant Shares to satisfy the right of purchase provided for in this Warrant Certificate. All Warrant Shares which are issued upon the exercise of the right of purchase provided in this Warrant Certificate, upon payment therefor of the amount at which such Warrant Shares may be purchased pursuant to the provisions of this Warrant Certificate, shall be issued and be deemed to be issued as fully paid and non-assessable shares, free and clear of any and all Liens, charges or taxes.

15. Applicable Law

This Warrant Certificate and the Warrants shall be construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable thereto and shall be treated in all respects as British Columbia contracts. The Holder irrevocably attorns to the jurisdiction of the courts of the Province of British Columbia.

16. Time of the Essence

Time shall be of the essence of this Warrant Certificate.

17. Severability

If any provision of this Warrant Certificate is determined to be illegal, invalid or unenforceable, by an arbitrator or any court of competent jurisdiction from which no appeal exists or is taken, that provision will be severed from this Warrant Certificate and the remaining provisions will remain in full force and effect.

18. Currency

Unless otherwise provided, all dollar amounts referred to in this Warrant Certificate and these Terms and Conditions are in lawful money of the United States of America.

19. Successors

This Warrant Certificate will enure to the benefit of and will be binding upon the Company and its heirs, administrators, executors, legal personal representatives and successors.

APPENDIX "A"

**SUBSCRIPTION FORM**

(ONE COMMON SHARE PURCHASE WARRANT IS  
REQUIRED TO SUBSCRIBE FOR EACH COMMON SHARE)

**TO:** CounterPath Corporation  
Suite 300, One Bentall Centre  
505 Burrard Street  
Vancouver, BC V7X 1M3

The undersigned, bearer of the attached Common Share Purchase Warrants, hereby subscribes for \_\_\_\_\_ of the common shares of CounterPath Corporation (the "**Company**") referred to in the Warrant Certificate according to the conditions thereof and herewith makes payment of the purchase price in full for the said number of shares at the price of US\$3.25 per share (or the adjusted price of \$\_\_\_\_\_ per share). Cash, a bank draft, a certified cheque, a money order, a wire transfer or other immediately available funds is enclosed herewith, or have been otherwise delivered to you, for such amount. The undersigned represents that, at the time of exercise of the Warrants, all of the representations and warranties contained in the Subscription Agreement between the Company and the undersigned Holder pursuant to which these Warrants were issued are true and accurate.

The undersigned hereby directs that the shares hereby subscribed for be issued and delivered as follows:

| Name(s) in Full | Address(es) | Number of Shares |
|-----------------|-------------|------------------|
| _____           | _____       | _____            |
| _____           | _____       | _____            |

(Please print full names in which share certificates are to be issued.)

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

X  
\_\_\_\_\_  
Signature of individual (if Subscriber is an individual)

X  
\_\_\_\_\_  
Authorized signatory (if Subscriber is not an individual)

\_\_\_\_\_  
Name of Subscriber (please print)

\_\_\_\_\_  
Name of authorized signatory (please print)

**TERMS AND CONDITIONS**

The Warrants are issued subject to the Terms and Conditions for the time being governing the holding of Warrants in the Company.

**LEGENDS**

The certificates representing the shares acquired on the exercise of the Warrants will bear the following legend:

**THE SECURITIES REPRESENTED HEREBY HAVE BEEN OFFERED IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED HEREIN) PURSUANT TO REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT").**

**NONE OF THE SECURITIES REPRESENTED HEREBY HAVE BEEN REGISTERED UNDER THE 1933 ACT, OR ANY U.S. STATE SECURITIES LAWS, AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES (AS DEFINED HEREIN) OR TO U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE 1933 ACT, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND IN EACH CASE ONLY IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE 1933 ACT. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE 1933 ACT.**

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THE SECURITIES SHALL NOT TRADE THE SECURITIES BEFORE OCTOBER 20, 2012.**

**WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL OCTOBER 20, 2012.**

LIST OF SUBSIDIARIES OF COUNTERPATH CORPORATION

| <u>Name</u>                       | <u>State/Jurisdiction of Incorporation</u> | <u>Name Under Which Subsidiary Does Business</u> |
|-----------------------------------|--------------------------------------------|--------------------------------------------------|
| CounterPath Technologies Inc.     | British Columbia, Canada                   | CounterPath Technologies Inc.                    |
| BridgePort Networks, Inc.         | Delaware                                   | BridgePort Networks, Inc.                        |
| BridgePort Networks (Europe) Ltd. | United Kingdom                             | BridgePort Networks (Europe) Ltd.                |



Tel: 604 688 5421  
Fax: 604 688 5132  
[www.bdo.ca](http://www.bdo.ca)

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

Consent of Independent Registered Public Accounting Firm

Counterpath Corporation  
Vancouver, Canada

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 and Form S8/A (No.333-157036 and No. 333-125812, respectively) of CounterPath Corporation of our report dated July 19, 2012 relating to the consolidated financial statements which appears in this Form 10-K.

/s/ BDO Canada LLP

Vancouver, Canada  
July 19, 2012

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended April 30, 2012 of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 19, 2012

/s/ Donovan Jones  
\_\_\_\_\_  
Donovan Jones  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Karp, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended April 30, 2012 of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 19, 2012

/s/ David Karp  
\_\_\_\_\_  
David Karp  
Chief Financial Officer, Treasurer and Secretary  
(Principal Financial Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT  
TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, Chief Executive Officer of CounterPath Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report of the Company on Form 10-K for the year ended April 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donovan Jones  
Donovan Jones  
President and Chief Executive Officer  
(Principal Executive Officer)

July 19, 2012

I, David Karp, Chief Financial Officer of CounterPath Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report of the Company on Form 10-K for the year ended April 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Karp  
David Karp  
Chief Financial Officer, Treasurer and Secretary  
(Principal Financial Officer)

July 19, 2012