

**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, 2013

☐ 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 ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 \$58,201,667 based on a price of \$2.38 per share, being the average of bid and ask prices on October 31, 2012 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: 41,897,842 shares of common stock issued and outstanding as of July 15, 2013.

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 25, 2013 are incorporated by reference into Part III of this annual report on Form 10-K.

COUNTERPATH CORPORATION
APRIL 30, 2013 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 applications to enable their workforces to communicate over VoIP and extend their business phone system's features to personal computers and mobile devices. Typically, small and medium sized businesses, or individual end users, purchase our 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 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 400 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.

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

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. 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 Reports 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.

Our Software Applications

Product Suite

Our softphone product suite includes the following products: Bria for Desktop; eyeBeam; Bria iPhone Edition; Bria iPad Edition; Bria Android Edition; Bria Android Tablet Edition; X-Lite; Client Configuration Server (CCS); and Network Convergence Gateway (NCG). The Bria versions and eyeBeam are softphone products which we sell on a per seat or subscription basis, while X-Lite is a free version of our desktop softphone application that can be downloaded from our website. X-lite is typically used by end users wishing to test our product at no charge or evaluate a VoIP service or network. The CCS and NCG products are server-based applications that can be deployed on a customer's premise or from our cloud-based Software as a Service (SaaS) offering.

Our softphone applications enable users to make voice or video calls over IP networks, as well as supporting the presence status of contacts, and advanced messaging capabilities. Our softphone applications have undergone rigorous interoperability testing against leading PBXs, (Session Initiation Protocol) SIP application servers and IMS cores, ensuring that our products can be readily deployed in our customers' networks. Our products support a broad range of advanced codecs, such as H.264, AMR-Wideband and Opus, and include support for High Definition (HD) voice and HD video. Our softphone applications include specialized features for traversing firewalls, advanced debugging tools to assist operations teams in efficiently managing our products in the field, built-in integration with social networks such as Facebook and Twitter, and security features to prevent unwanted monitoring of voice, video and messaging communications. Our products support multiple accounts so that a user can simultaneously register with multiple telephony and social networking service providers.

To enhance the ease of use of our software, our softphone products offer no touch configuration for audio and video devices, such as headsets and web cams, enabling automatic softphone 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.

- *Bria*

Bria is our flagship desktop personal computer softphone product. Bria has a number of usability and customization features designed to enable customers to provide a flexible and intuitive user interface for delivering VoIP, video and messaging services to consumer and enterprise markets. Bria has a contact- focused graphical user interface to highlight the user's address book rather than the more traditional telephone dial pad. Bria can also be minimized to the desktop task bar, enabling a user to manage their desktop space while still being able to make and receive calls. 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 in which the graphical user interface is designed as a dial pad similar to a cellular telephone handset.

- *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 cellular (3G, 4G) and Wi-Fi networks. These products enable voice calling, video calling, advanced messaging and presence, as well as supporting integration with social networking service providers. The Bria mobile products are fully interoperable with enterprise and carrier infrastructure equipment from major vendors, and all of the Bria mobile products can be readily customized to meet the needs of our customer base. The Bria iPhone and iPad Editions are compatible with Apple's iOS 5.0, or greater operating systems. The Bria Android Mobile and Tablet Editions are compatible with an extensive list of Android-based mobile phones and tablets running Android 2.3.3 or greater operating systems.

- *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 our 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 providers 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 configure an end user's softphone devices, perform configuration updates over time and upgrade softphone software.

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

The Client Configuration Server also provides value-added software modules to assist customer operation staff in managing their installed base of softphone clients. These modules include (1) Simplified Client Debug Logs for collecting debugging data from all Bria softphone clients, to be used by operations staff when troubleshooting end user issues and (2) Voice Quality Monitoring, for analyzing voice quality data collected from the Bria end points.

Our mobility gateway, the Network Convergence Gateway (NCG), is deployed by both mobile operators and wireline / VoIP operators to deliver a variety of fixed mobile convergence applications to their subscribers. The NCG augments the capabilities of our Bria clients by providing network services that enhance the overall end user experience.

- *Network Convergence Gateway for Mobile Operators*

The Network Convergence Gateway is a carrier-based server application that enables mobile operators to deliver 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 our 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 products, mobile operators can extend mobile calls and Instant Messaging to a personal computer using the single identity of the end user's 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 (VCC), seamless call handover represents a critical component of fixed mobile convergence.

NomadicPBX

NomadicPBX is a telecommunications application which combines mobile and VoIP network elements to enable the delivery of a unified communications experience across personal computers and mobile devices, including Presence, VoIP and Instant Messaging / Short Message Service (SMS).

- *Network Convergence Gateway for Wireline Operators*

The Network Convergence Gateway for Wireline Operators is a carrier-based Fixed mobile convergence application server 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 operators can extend single-number voice, video and multimedia messaging services to residential, corporate and hotspot locations with broadband access. 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 / 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 of switching devices when leaving the office or home during a call.

Wireline Mobility

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

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 license basis, or on a subscription fee per license 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 400 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.

We also market our software directly to end users and enterprises through our website located at 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 sixteen U.S. patents with counterparts granted or pending in other jurisdictions around the world. In addition, we are pursuing five in-house developed patent applications and three licensed patent applications from Columbia University. These eight U.S. patent applications are pending, with counterparts pending in other jurisdictions around the world.

In December 2012, we were granted patent No. US 8,335,187: Routing mobile voice calls. This patent outlines the process by which a Network Convergence Gateway (NCG) detects and monitors a mobile subscriber's location and automatically routes calls to either a packet-based (IP) endpoint or the traditional circuit switched entity.

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.

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, 2013 were \$5,503,928 (2012: \$4,782,908).

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 and product user manuals are available online at 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, 2013, we employed 86 people full-time, 26 of whom are engaged in marketing and sales, 36 in research and development, 14 in services and support, 10 in general and administration, and contracted with 32 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, Europe and the 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, Europe 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, which may be extended by selling our products through channel partners;
- 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 manage our operating expenses, then our financial condition may be adversely affected.

Operating expenses increased to \$16,696,211 for the year ended April 30, 2013 from \$15,503,327 for the year ended April 30, 2012 while our revenue increased to \$15,239,923 for the year ended April 30, 2013 from \$14,083,496 for the year ended April 30, 2012. Our ability to reach and maintain profitability is conditional upon our ability to manage 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 or maintain 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 profitability.

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, or a delisting from a stock exchange on which our common stock trades. 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;
- affect our ability to raise additional capital;
- 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 products or 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, X-Lite, and Softphone.com 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 divert resources from intended uses. 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, 2013 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. We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. 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 for hedging purposes during fiscal 2013 (2012: none)

We also routinely enter into foreign currency forward contracts, not designated as hedging instruments, to protect us from fluctuations in exchange rates. As of April 30, 2013, we had \$2,000,000 of notional value foreign currency forward contracts maturing through October 1, 2013. Notional amounts do not quantify risk or represent assets or liabilities of our company, but are used in the calculation of cash settlements under the contracts. The fair value of forward contracts as of April 30, 2013 is \$9,830. The Company did not enter into any foreign currency forward contracts during the year ended April 30, 2012.

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 41,958,350 shares of common stock that were issued and outstanding as of April 30, 2013, our directors owned approximately 26.2% 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, 2013, then we would be required to issue an additional 6,361,961 shares of our common stock, which would represent approximately 13.3 % 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.

We may be considered a “Penny stock.” 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. In addition, since our common stock commenced quotation on the NASDAQ Capital Market below the \$4.00 minimum bid price per share requirement, our common stock would be considered a penny stock if we fail to satisfy the net tangible assets and revenue tests in Rule 30-51-1 under the exchange act. 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.

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. If any of the analysts who cover us issue an adverse opinion regarding our stock price, our stock price may 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 3rd 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 Toronto Stock 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 commenced trading on the TSX Venture Exchange on August 25, 2008, and on the Toronto Stock Exchange on August 20, 2012. The following table sets forth, for the periods indicated, the high and low bids for our common stock on the OTC Bulletin Board and on the NASDAQ Capital Market and the high and low sale prices for our common stock on the TSX Venture Exchange and Toronto Stock 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, the NASDAQ Capital Market, the TSX Venture Exchange, and the Toronto Stock Exchange, respectively.

Quarter Ended	OTC Bulletin Board ⁽¹⁾ (U.S. dollars)		TSX Venture Exchange ⁽²⁾ (Canadian dollars)		NASDAQ ⁽³⁾ (U.S. dollars)		The Toronto Stock Exchange ⁽⁴⁾ (Canadian dollars)	
	High	Low	High	Low	High	Low	High	Low
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	-	-	-	-
July 31, 2012	-	-	\$3.90	\$1.30	\$3.96	\$1.30	-	-
October 31, 2012	-	-	-	-	\$2.70	\$2.10	\$2.70	\$2.10
January 31, 2013	-	-	-	-	\$2.55	\$1.69	\$2.55	\$1.69
April 30, 2013	-	-	-	-	\$2.40	\$1.75	\$2.39	\$1.75

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

⁽²⁾ Between August 25, 2008 and August 19, 2012, our stock was trading on the TSX Venture Exchange under the trading symbol "CCV."

- (3) Since July 11, 2012, our stock has been quoted on the NASDAQ Capital Market under the trading symbol "CPAH".
- (4) Since August 20, 2012, our stock has been trading on the Toronto Stock 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, 2013, the shareholders' list of our shares of common stock showed 100 registered shareholders and 41,897,842 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, 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, 2013.

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
Equity compensation plans approved by security holders:			
2010 Stock Option Plan	3,930,818	\$1.33	1,990,254
Employee Share Purchase Plan	-	N/A	556,401
Deferred Share Unit Plan	1,643,119	N/A	778,493
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	5,573,937	\$1.33	3,325,148

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, 2013, there were 3,930,818 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, 2013, 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 (each, a “DSU”) 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 DSU’s 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 DSU’s to any one participant may not exceed a value of \$100,000 per annum on the date of grant. A DSU granted to a participant who is a director of the board of our company shall vest immediately on the award date. A DSU granted to a participant other than a director will generally vest as to one-third (1/3) of the number of DSU’s 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 2,500,000 DSU’s under the DSUP. As of April 30, 2013, we have issued 1,721,507 DSU’s under the DSUP. As of April 30, 2013, 78,388 DSU’s have been converted.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Dec 1, 2012 to Dec 31, 2012 ⁽¹⁾	13,168	\$1.98	13,168	1,982,246
Jan 1, 2013 to Jan 31, 2013 ⁽¹⁾	26,620	\$1.96	26,620	1,955,626
Feb 1, 2013 to Feb 28, 2013 ⁽¹⁾	32,504	\$2.04	32,504	1,923,122
Mar 1, 2013 to Mar 31, 2013 ⁽²⁾	29,508	\$2.24	29,508	2,432,365
Apr 1, 2013 to Apr 30, 2013 ⁽³⁾	20,180	\$1.92	20,180	2,412,677
Total	121,980	\$2.03	121,980	2,412,677

(1) Pursuant to a normal course issuer bid, which commenced on August 20, 2012 and expired on March 18, 2013 to purchase up to 1,995,414 common shares of the Company.

(2) Pursuant to a normal course issuer bid, which commenced on March 19, 2013 and expiring on March 18, 2014 to purchase up to 2,462,365 common shares of the Company.

Recent Sales of Unregistered Securities

On March 14, 2013, we granted 200,000 stock options pursuant to our 2010 Stock Option plan to an employee. Each stock option entitles the holder thereof the right to purchase one share of common stock at a price equal to \$2.26. 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 a U.S. person (as that term is defined in Regulation S of the Securities Act of 1933) in reliance upon Rule 506 of Regulation D and/or Section 4(2) of the Securities Act of 1933.

Item 6. Selected Financial Data.

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, 2013 and 2012, and as at April 30, 2013 and April 30, 2012, has been derived from the consolidated financial statements and accompanying notes for the fiscal years ended April 30, 2013 and 2012. Each investor should read the following information in conjunction with those statements and the related notes thereto.

Selected Consolidated Balance Sheet Data		April 30, 2013	April 30, 2012
Cash		\$ 11,229,595	\$ 8,154,139
Current assets		16,009,806	12,339,167
Current liabilities		3,999,583	5,850,427
Total liabilities		4,128,268	6,005,084
Total assets		\$ 25,055,877	\$ 21,543,944

Selected Consolidated Statements of Operations Data

	Years Ended April 30,			
	2013		2012	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 15,239,923	100%	\$ 14,083,496	100%
Operating expenses	16,696,211	110%	15,503,327	110%
Loss from operations	(1,456,288)	(10%)	(1,419,831)	(10%)
Interest and other income, net	140,256	1%	(1,007)	0%
Fair value adjustment on derivative instrument	1,785,773	12%	(715,803)	(5%)
Gain on settlement of debt	-	-%	-	-%
Foreign exchange gain/(loss)	2,539	-%	13,280	-%
Net income/(loss)	\$ 472,280	3%	(\$2,123,361)	(15%)
Net income/loss per share				
-Basic	\$0.01		(\$0.05)	
-Diluted ⁽¹⁾	(\$0.01)		(\$0.05)	
Weighted average common shares outstanding				
-Basic	41,519,117		38,792,066	
-Diluted ⁽¹⁾	41,637,025		38,792,066	

- As at April 30, 2013 and 2012 common share equivalents of 5,996,437 and 8,307,148, respectively, were not included in the computation of diluted weighted average common shares as the effect was anti-dilutive.

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 rateably 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. All the intangible assets are fully amortized as at April 30, 2013.

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 contractors 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 rateably 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.

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 life of options granted after April 30, 2006 has been determined based on analysis of historical data. 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 15.0% in the year ended April 30, 2013 in determining the expense recorded in our consolidated statement of operations. Cost of sales and operating expenses include stock-based compensation expense, and deferred share unit plan expense. For the year ended April 30, 2013, we recorded an expense of \$1,008,004 in connection with share-based payment awards. A future expense of non-vested options of \$1,201,855 is expected to be recognized over a weighted-average period of 2.81 years. A future expense of non-vested deferred share units of \$252,204 is expected to be recognized over a weighted-average period of 1.67 years.

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 assets. 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. All the intangible assets are fully amortized as at April 30, 2013.

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 2013, did not result in an impairment charge for fiscal year 2013, nor did we record any goodwill impairment in fiscal 2012.

We make judgments about the recoverability of purchased intangible assets whenever events or changes in circumstances indicate that an 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 (2012 - \$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.

We periodically enter into foreign currency forward contracts, not designated as hedging instruments, to protect us from fluctuations in exchange rates. As of April 30, 2013, we had \$2,000,000 of notional value foreign currency forward contracts maturing through October 1, 2013. Notional amounts do not quantify risk or represent assets or liabilities of our company, but are used in the calculation of cash settlements under the contracts. The fair value marked to market gain (loss) of forward contracts as of April 30, 2013 is \$9,830.

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, 2013, consisted primarily of selling our IP telephony software and related services to telecom service providers, enterprises and original equipment manufacturers serving the telecom and enterprise segments, and the continued development of our IP telephony software products.

Revenue

Revenues for the year ended April 30, 2013 and 2012 were as follows:

	2013		2012		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Revenue by Type						
Software	\$ 9,164,107	60%	\$ 8,494,852	60%	\$ 669,255	8%
Service	6,075,816	40%	5,588,644	40%	487,172	9%
Total revenue	\$ 15,239,923	100%	\$ 14,083,496	100%	\$ 1,156,427	8%
Revenue by Region						
International	\$ 4,959,354	33%	\$ 4,866,119	35%	\$ 93,235	2%
North America	10,280,569	67%	9,217,377	65%	1,063,192	12%
Total revenue	\$ 15,239,923	100%	\$ 14,083,496	100%	\$ 1,156,427	8%

For the year ended April 30, 2013, we generated \$15,239,923 in revenue compared to \$14,083,496 for the year ended April 30, 2012, representing an increase of \$1,156,427. We generated \$9,164,107 in software revenue for the year ended April 30, 2013 compared to \$8,494,852 for the year ended April 30, 2012, representing an increase of \$669,255. The increase in software revenue for the year ended April 30, 2013, was primarily a result of an increase in sales to service providers, enterprises, as well as online sales. This increase was offset by lower sales to original equipment manufacturers. For the year ended April 30, 2013, service revenue was \$6,075,816 compared to \$5,588,644 for the year ended April 30, 2012, representing an increase of \$487,172. The increase in service revenue for the year ended April 30, 2013, was primarily a result of an increase in customization sales to service providers, offset by weaker customization sales to original equipment manufacturers. International revenue outside of North America increased by 2% during the year ended April 30, 2013 compared to the year ended April 30, 2012, due primarily to significant increases in sales in Asia, Africa and Latin America. These increases were offset by a decrease in sales in Europe. North American revenue increased by 12% during the year ended April 30, 2013, compared to year ended April 30, 2012, primarily as a result of an increase in sales of software and services to North American service providers.

Operating Expenses

Cost of Sales

Cost of sales for the year ended April 30, 2013 and 2012 were as follows:

	April 30, 2013		April 30, 2012		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Year ended	\$ 2,276,777	15%	\$ 2,818,569	20%	(\$541,792)	(19%)

Cost of sales was \$2,276,777 for the year ended April 30, 2013, compared to \$2,818,569 for the year ended April 30, 2012. The decrease of \$541,792 was primarily the result of a decrease of approximately \$748,000 in amortization of intangible assets as the intangible asset were fully amortized in 2013, a decrease of approximately \$29,000 in rent expense, and a decrease of approximately \$17,000 in personnel related expenses. This decrease was offset by an increase of approximately \$97,000 in consulting costs, an increase of approximately \$68,000 in warranty expense, an increase of approximately \$45,000 in third party software and hardware costs and an increase of approximately \$42,000 in depreciation. Cost of sales expressed as a percent of revenue was 15% of revenue for the year ended April 30, 2013, as compared to 20% for the year ended April 30, 2012. This decrease in percentage was the result of an increase in revenue of \$1,156,427 for the year ended April 30, 2013 compared to revenue for the year ended April 30, 2012 while cost of sales decreased by \$541,792 year over year.

Sales and Marketing

Sales and marketing expenses for the year ended April 30, 2013 and 2012 were as follows:

	April 30, 2013		April 30, 2012		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Year ended	\$ 4,463,292	29%	\$ 3,869,815	27%	\$ 593,477	15%

Sales and marketing expenses were \$4,463,292 for the year ended April 30, 2013, compared to \$3,869,815 for the year ended April 30, 2012. The increase of \$593,477 was primarily the result of an increase in personnel-related expenses comprising principally wages and commissions of approximately \$400,000, an increase in stock-based compensation expense of approximately \$171,000, an increase in travel-related expenses of approximately \$46,000 and an increase in other sales and marketing related expenses of approximately \$35,000 during the year ended April 30, 2013, compared to the year ended April 30, 2012.

Research and Development

Research and development expenses for the year ended April 30, 2013 and 2012 were as follows:

	April 30, 2013		April 30, 2012		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Year ended	\$ 5,503,928	36%	\$ 4,782,908	34%	\$ 721,020	15%

Research and development expenses were \$5,503,928 for the year ended April 30, 2013, compared to \$4,782,908 for the year ended April 30, 2012. The increase of \$721,020 resulted primarily from an increase of approximately \$655,000 in personnel-related expenses, an increase of approximately \$58,000 in rent expense, and an increase of approximately \$45,000 in telephone expenses partially offset by a decrease of approximately \$37,000 in consulting costs.

General and Administrative

General and administrative expenses for the years ended April 30, 2013 and 2012 were as follows:

	April 30, 2013		April 30, 2012		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Year ended	\$ 4,452,214	29%	\$ 4,032,035	29%	\$ 420,179	10%

General and administrative expenses for the year ended April 30, 2013, were \$4,452,214 compared to \$4,032,035 for the year ended April 30, 2012. The increase of \$420,179 in general and administrative expenses was primarily attributable to an increase of approximately \$320,000 in stock exchange listing fees, an increase of approximately \$152,000 in legal expenses not directly attributable to financing activities and an increase of approximately \$93,000 in stock based compensation. These increases were partially offset by a decrease of approximately \$155,000 in rent expense.

Interest and Other Income

Interest and other income for the year ended April 30, 2013, was \$141,391 compared to \$171,453 for the year ended April 30, 2012. Interest expense for the year ended April 30, 2013, was \$1,135 compared to \$172,460 for the year ended April 30, 2012. Interest expense during the year ended April 30, 2013 relates to the cash interest expense of approximately \$1,135. Interest expense during the year ended April 30, 2012 relates primarily to the accretion of a convertible debenture discount of approximately \$159,800.

Foreign exchange gain for the year ended April 30, 2013, was \$2,539 compared to a foreign exchange gain of \$13,280 for the year ended April 30, 2012. The foreign exchange gain/loss represents the gain/loss on account of translation of the intercompany accounts of subsidiaries which maintain their records in currencies other than U.S. dollars.

Fair value adjustment on derivative instruments for the year ended April 30, 2013 resulted in a non-cash gain of \$1,785,773 compared to a loss of \$715,803 for the year ended April 30, 2012. On June 14, 2012, 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.

Liquidity and Capital Resources

As of April 30, 2013, we had \$11,229,595 in cash compared to \$8,154,139 at April 30, 2012, representing an increase of \$3,075,456. Our working capital was \$12,010,223 at April 30, 2013 compared to \$6,488,740 at April 30, 2012, representing an increase of \$5,521,483. Future capital requirements of our company will be funded through cash flows generated from operations and from working capital for the next twelve months.

We have \$10,258,206 in cash held outside of the United States, 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 \$604,466 for the year ended April 30, 2013. This compares with a net cash outflow of \$301,331 for the year ended April 30, 2012, representing a \$303,135 increase in cash outflows from operations. The net cash outflow from operating activities for the year ended April 30, 2013 was primarily a result of a net income of \$472,280, an increase in accounts receivable of \$627,326 attributable to higher year over year revenue and an increase in other assets of \$52,049. The net cash outflow was offset by adjustment for non-cash expenses including \$1,785,773 for change in fair value of derivative instruments, \$1,008,004 for stock-based compensation, \$187,023 for depreciation and amortization and \$39,003 for amortization of intangible assets.

The net cash outflow from operating activities resulted in a net cash outflow of \$301,331 for the year ended April 30, 2012. 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.

Investing Activities

Investing activities resulted in a net cash outflow of \$296,555 for the year ended April 30, 2013, primarily due to the purchase of equipment and an increase in deposits during the year. This compares with a net cash outflow of \$81,743 for the year ended April 30, 2012, primarily due to the purchase of equipment and deposits. At April 30, 2013, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in a net cash inflow of \$3,979,006 for the year ended April 30, 2013, compared to a net cash inflow of \$6,718,987 for the year ended April 30, 2012.

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 \$2.44 (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.

Pursuant to a normal course issuer bid that commenced on August 20, 2012 and renewed on March 19, 2013, we are authorized to purchase up to 2,462,345 of our common stock through the facilities of the Toronto Stock Exchange (the "TSX") and other Canadian marketplaces. Between August 20, 2012 and April 30, 2013, we repurchased 121,980 shares of common stock at an average price of \$2.03 (CDN\$1.97) for a total purchase price of \$249,112. As of April 30, 2013 a total of 43,372 shares have been cancelled and the remaining 78,608 repurchased shares are in the process of being cancelled

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 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 adopted the requirements of this ASU, and it did not materially impact the consolidated financial statements.

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. We adopted this standard, and it did not materially impact our consolidated financial statements.

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. We early implemented the requirements and presents net income and comprehensive income in two separate but consecutive statements.

In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11 that included new disclosure requirements that are intended to enhance current disclosures on offsetting financial assets and liabilities. The new disclosures require an entity to disclose both gross and net information about derivative instruments accounted for in accordance with the guidance on derivatives and hedging that are eligible for offset on the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The provisions of the new disclosure requirements are effective as of the beginning of the year ended April 30, 2015. We are currently evaluating the impact of the new guidance on its financial statements.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02 that permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. An entity would continue to calculate the fair value of an indefinite-lived intangible asset if the asset fails the qualitative assessment, while no further analysis would be required if it passes. The provisions of the new guidance were effective as of the beginning of the year ended April 30, 2014. We do not expect the new guidance to have an impact on our 2014 impairment test results.

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02 that requires an entity to disclose information showing the effect of items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of this new guidance were effective prospectively as of the beginning of the year ended April 30, 2014. We do not expect the new guidance to have a material impact on our 2014 financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

Item 8. Financial Statements and Supplementary Data.

COUNTERPATH CORPORATION
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April 30, 2013

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Report of Independent Registered Public Accounting Firm

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income and 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, 2013 and 2012, 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 25, 2013

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

	<u>April 30, 2013</u>	<u>April 30, 2012</u>
Assets		
Current assets:		
Cash	\$ 11,229,595	\$ 8,154,139
Accounts receivable (net of allowance for doubtful accounts of \$456,051 (2012 - \$334,294))	4,640,620	4,014,472
Prepaid expenses and deposits	139,591	170,556
Total current assets	<u>16,009,806</u>	<u>12,339,167</u>
Deposits	125,160	62,521
Equipment – Note 3	167,986	101,024
Intangible assets (net of accumulated amortization of \$5,929,285 (2012 - \$5,890,282)) – Note 2(b)	-	38,853
Derivative instruments – Note 11	9,830	-
Goodwill – Note 2(b)	8,660,930	8,957,977
Other assets	82,165	44,402
Total Assets	<u>\$ 25,055,877</u>	<u>\$ 21,543,944</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities – Note 4	\$ 2,363,311	\$ 2,416,489
Derivative instruments – Note 8	93,057	2,026,944
Unearned revenue	1,442,511	1,308,174
Customer deposits	9,553	13,872
Accrued warranty – Note 2(b)	91,151	84,948
Total current liabilities	<u>3,999,583</u>	<u>5,850,427</u>
Convertible debentures – Note 6	-	-
Deferred lease inducements	30,110	56,082
Unrecognized tax benefit – Notes 2(b) and 9	98,575	98,575
Total liabilities	<u>4,128,268</u>	<u>6,005,084</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value – Note 7		
Authorized: 100,000,000		
Issued and outstanding: April 30, 2013 – 1; April 30, 2012 – 1	-	-
Common stock, \$0.001 par value – Note 8		
Authorized: 83,076,900		
Issued:		
April 30, 2013 – 41,958,350; April 30, 2012 – 39,960,479	41,959	39,961
Treasury stock	(79)	-
Additional paid-in capital	66,191,140	61,025,529
Accumulated deficit	(44,974,491)	(45,446,771)
Accumulated other comprehensive income (loss) – currency translation adjustment	(330,920)	(79,859)
Total stockholders' equity	<u>20,927,609</u>	<u>15,538,860</u>
Liabilities and Stockholders' Equity	<u>\$ 25,055,877</u>	<u>\$ 21,543,944</u>

Commitments – Note 12

See accompanying notes to the consolidated financial statements

COUNTERPATH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in U.S. Dollars)

	Years Ended April 30,	
	2013	2012
Revenue – Note 10:		
Software	\$ 9,164,107	\$ 8,494,852
Service	6,075,816	5,588,644
Total revenue	<u>15,239,923</u>	<u>14,083,496</u>
Operating expenses:		
Cost of sales (includes depreciation of \$67,669 (2012 - \$25,485) and amortization of intangible assets of \$39,003 (2012 - \$786,712)) – Note 2(b)	2,276,777	2,818,569
Sales and marketing	4,463,292	3,869,815
Research and development	5,503,928	4,782,908
General and administrative	4,452,214	4,032,035
Total operating expenses	<u>16,696,211</u>	<u>15,503,327</u>
Loss from operations	(1,456,288)	(1,419,831)
Interest and other income (expense), net		
Interest and other income	141,391	171,453
Interest expense	(1,135)	(172,460)
Foreign exchange gain (loss)	2,539	13,280
Fair value adjustment on derivative instruments – Note 11	1,785,773	(715,803)
Net income (loss) for the year	<u>\$ 472,280</u>	<u>\$ (2,123,361)</u>
Net income (loss) per share:		
Basic – Note 13	\$ 0.01	\$ (0.05)
Diluted – Note 13	\$ (0.01)	\$ (0.05)
Weighted average common shares outstanding:		
Basic – Note 13	41,519,117	38,792,066
Diluted – Note 13	41,637,025	38,792,066

See accompanying notes to the consolidated financial statements

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

Net income (loss) for the year	<u>\$ 472,280</u>	<u>\$ (2,123,361)</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments	(251,061)	(305,737)
Comprehensive income (loss)	<u>\$ 221,219</u>	<u>\$ (2,429,098)</u>

See accompanying notes to the consolidated financial statements

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

	Years Ended April 30,	
	2013	2012
Cash flows from operating activities:		
Net income(loss) for the year	\$ 472,280	\$ (2,123,361)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	187,023	109,243
Amortization of intangible assets	39,003	786,712
Stock-based compensation	1,008,004	738,803
Fair value adjustment on derivative instruments	(1,785,773)	715,803
Foreign exchange loss	(2,539)	(13,280)
Accretion of debenture discount	–	159,798
Changes in assets and liabilities:		
Accounts receivable	(627,326)	(993,898)
Prepaid expenses and deposits	30,853	(65,701)
Accounts payable and accrued liabilities	(10,163)	95,448
Other assets	(52,049)	(10,380)
Unearned revenue	134,337	349,548
Customer deposits	(4,319)	11,854
Accrued warranty	6,203	(61,920)
Net cash used in operating activities	<u>(604,466)</u>	<u>(301,331)</u>
Cash flows from investing activities:		
Purchase of equipment	(254,699)	(150,727)
Deposits	(41,856)	68,984
Net cash used in investing activities	<u>(296,555)</u>	<u>(81,743)</u>
Cash flows from financing activities:		
Common stock issued	3,994,598	7,324,909
Transaction costs	(15,592)	(605,922)
Net cash provided by financing activities	<u>3,979,006</u>	<u>6,718,987</u>
Foreign exchange effect on cash	<u>(2,529)</u>	<u>110,829</u>
Increase (decrease) in cash	3,075,456	6,446,742
Cash, beginning of the year	8,154,139	1,707,397
Cash, end of the year	<u>\$ 11,229,595</u>	<u>\$ 8,154,139</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ 1,135	\$ 12,662
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, 2013 and 2012
(Stated in U.S. Dollars)

	Common shares		Treasury Shares		Preferred Shares					
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
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 Income (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
Shares issued:										
Private placements	1,465,000	1,465			-	-	3,577,870	-	-	3,579,335
Proceeds allocated on exercise of warrants – Note 8	-	-			-	-	180,519	-	-	180,519
Less: Share issue costs	-	-			-	-	(15,591)	-	-	(15,591)
Shares issued on exercise of warrants	277,206	277			-	-	514,961	-	-	515,238
Exercise of stock options	220,649	221			-	-	149,059	-	-	149,280
Share repurchase plan			(121,980)	(122)			(249,133)			(249,255)
Cancellation of shares	(43,372)	(43)	43,372	43	-	-	-	-	-	-
Conversion of deferred share units	78,388	78			-	-	(78)			-
Stock-based compensation – Note 8	-	-			-	-	1,008,004			1,008,004
Net income (loss) for the year	-	-			-	-	-	472,280	-	472,280
Foreign currency translation adjustment	-	-			-	-	-	-	(251,061)	(251,061)
Balance, April 30, 2013	41,958,350	\$ 41,959	(78,608)	(79)	1	\$ -	\$ 66,191,140	\$ (44,974,491)	\$ (330,920)	\$ 20,927,609

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 shares of the Company’s common stock are quoted for trading on the NASDAQ Capital Market in the United States of America and on the Toronto Stock 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 the Company’s common stock. 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.

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)**

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. 08-1, "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.

For multi-element arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

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 twelve 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.

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)**

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, 2013 and April 30, 2012 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. 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. All the intangible assets are fully amortized as at April 30, 2013.

A summary of the Company’s intangible assets, net, at April 30, 2013, is as follows:

	Cost	Accumulated Amortization	Impairment Charge	Net Carrying Amount
Acquired technologies	\$ 6,306,336	\$ 4,417,678	\$ 1,888,658	\$ -
Customer assets	2,727,635	1,511,607	1,216,028	-
Intangible assets, April 30, 2013	<u>\$ 9,033,971</u>	<u>\$ 5,929,285</u>	<u>\$ 3,104,686</u>	<u>\$ -</u>

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

	Cost	Accumulated Amortization	Impairment Charge	Net Carrying Amount
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>

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)**

Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are presented net of an allowance for doubtful accounts.

	Years Ended April 30,	
	2013	2012
Balance of allowance for doubtful debts, beginning of year	\$ 334,294	\$ 49,883
Bad debt provision	265,970	288,661
Write-off of receivables	(144,313)	(4,250)
Balance of allowance for doubtful debts, end of year	<u>\$ 456,051</u>	<u>\$ 334,294</u>

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"). Revenues and expenses are translated at the daily exchange rates. 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
(Stated in U.S. Dollars)

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, 2013 and 2012 were as follows:

	Years Ended April 30,	
	2013	2012
Balance, beginning of year	\$ 84,948	\$ 146,868
Usage during the year	-	-
Additions (reductions) during the year	6,203	(61,920)
Balance, end of year	<u>\$ 91,151</u>	<u>\$ 84,948</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, foreign exchange contracts, and derivative instruments. 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
(Stated in U.S. Dollars)

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).

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)**

There are no exchangeable shares remaining as all have been exchanged into shares of common stock of the Company as of April 30, 2013.

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, 2013, income per share excludes 5,663,437 (April 30, 2012 – 8,307,148) potentially dilutive common shares (related to stock options, deferred share units, warrants, and exchangeable shares) 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 than 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, 2013 was \$6,607,725 (CDN\$6,704,947) (April 30, 2012 - \$6,834,353) and \$2,053,205 (CDN\$2,083,752) (April 30, 2012 - \$2,123,624), respectively. During the fourth quarter of its fiscal year ended April 30, 2013, 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, 2013. 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, 2013 (2012 - \$nil).

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)**

Derivative Instruments:

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. The Company did not enter into any foreign currency derivatives designed as cash flow hedges in the year ended April 30, 2013 (2012: none).

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 also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect us from fluctuations in exchange rates. Gains or losses arising out of marked to market fair value valuation of forward contracts, not designated as hedges, and are recognized in net income.

The Company records foreign currency forward contracts on its Consolidated Balance Sheets as derivative instruments assets or 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 any foreign currency derivatives designated as cash flow hedges in the year ended April 30, 2013. (2012: none).

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

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

c) **New Accounting Pronouncements**

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. The Company adopted the requirements of this ASU, and it did not materially impact the consolidated financial statements.

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. The Company has adopted this standard, and it did not materially impact the consolidated financial statements.

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 early implemented the requirements and presents net income and comprehensive income in two separate but consecutive 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 December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11 that included new disclosure requirements that are intended to enhance current disclosures on offsetting financial assets and liabilities. The new disclosures require an entity to disclose both gross and net information about derivative instruments accounted for in accordance with the guidance on derivatives and hedging that are eligible for offset on the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The provisions of the new disclosure requirements are effective as of the beginning of the year ended April 30, 2015. The Company is currently evaluating the impact of the new guidance on its financial statements.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02 that permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. An entity would continue to calculate the fair value of an indefinite-lived intangible asset if the asset fails the qualitative assessment, while no further analysis would be required if it passes. The provisions of the new guidance were effective as of the beginning of the year ended April 30, 2014. The Company does not expect the new guidance to have an impact on its 2014 impairment test results.

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02 that requires an entity to disclose information showing the effect of items reclassified from accumulated other comprehensive income on the line items of net income. The provisions of this new guidance were effective prospectively as of the beginning of the year ended April 30, 2014. The Company does not expect the new guidance to have a material impact on its 2014 financial statements.

Note 3 **Equipment**

	April 30, 2013		
	Cost	Accumulated Depreciation	Net
Computer hardware	\$ 898,188	\$ 877,273	\$ 20,915
Computer software	965,780	850,051	115,729
Leasehold improvements	250,192	230,948	19,244
Office furniture	231,511	219,413	12,098
Websites	49,915	49,915	-
	<u>\$ 2,395,586</u>	<u>\$ 2,227,600</u>	<u>\$ 167,986</u>
	April 30, 2012		
	Cost	Accumulated Depreciation	Net
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>

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

Note 4 **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at April 30, 2013 and 2012 are comprised of the following:

	April 30,	
	2013	2012
Accounts payable – trade	\$ 540,272	\$ 441,014
Accrued commissions	242,545	218,212
Accrued vacation	663,014	555,742
Third party software royalties	578,187	516,100
Accrued severance	-	84,107
Other accrued liabilities	339,293	601,314
	<u>\$ 2,363,311</u>	<u>\$ 2,416,489</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, were 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 provided 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, 2013, pursuant to the terms of these agreements was \$134,493 (2012 - \$606,149).

As at April 30, 2013, the Company had an accounts receivable balance from Mitel of \$nil (April 30, 2012 - \$242,469).

During the year ended April 30, 2013, the Company through its wholly owned subsidiary, CounterPath Technologies Inc., paid \$68,630 (2012 - \$79,612) 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, 2013. During the year ended April 30, 2013, the Company paid interest of \$nil (2012 - \$1,775) 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.

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

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, 2013, pursuant to the terms of this sale, was \$380 (2012 - \$175,705).

As at April 30, 2013, the Company had an accounts receivable balance from Mitel Trade s.r.o. of \$206,500 (April 30, 2012 - \$206,500) which the Company determined was not collectable and wrote off such amount during the year ended April 30, 2013.

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 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, 2013, and April 30, 2012.

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

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

	April 30,	
	2013	2012
Convertible debentures as at April 30, 2012	\$ -	\$ 1,305,002
Issuance of convertible debenture	-	-
Beneficial conversion feature	-	-
Accretion of debenture discount	-	159,798
Converted to common shares	-	(1,464,800)
Convertible debentures as at April 30, 2013	<u>\$ -</u>	<u>\$ -</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, 2013 (April 30, 2012 – nil).

COUNTERPATH CORPORATION
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(Stated in U.S. Dollars)

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.

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 (\$3,579,335) at a price of CDN\$2.50 (\$2.44) 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.

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. The 2010 Stock Option 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 period has been determined utilizing historic data as prescribed by ASC 718 Share-Based Payment.

For non-employees, based on the Company's history, 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% for year ended April 30, 2013 and 2012 in determining the expense recorded in the accompanying consolidated statement of operations.

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

Stock Options - (cont'd)

The weighted-average fair values of options granted during the years ended April 30, 2013 and 2012 were \$1.38 and \$0.92 respectively. The weighted-average assumptions utilized to determine such values are presented in the following table:

	Year Ended April 30, 2013	Year Ended April 30, 2012
Risk-free interest rate	0.68%	0.86%
Expected volatility	73.44%	74.20%
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, 2013 and the stock option activity during the years ended April 30, 2013 and 2012:

	Number of Options	Weighted-Average Exercise Price per Share
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
Granted	540,000	\$ 1.38
Exercised	(220,649)	\$ 0.96
Forfeited / Cancelled	(301,312)	\$ 1.03
Expired	(13,200)	\$ 1.33
Outstanding at April 30, 2013	3,930,818	\$ 1.33
Exercisable at April 30, 2013	2,677,887	\$ 1.00
Exercisable at April 30, 2012	2,087,742	\$ 0.85

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, 2013:

Exercise Price	Number of Options Outstanding	Aggregate Intrinsic Value	Expiry Date	Number of Options Exercisable	Aggregate Intrinsic Value
\$ 0.44	338,341	\$ 483,827	December 15, 2013 to August 20, 2013	338,341	\$ 483,828
\$ 0.47	308,270	431,578	September 26, 2016	308,270	431,578
\$ 0.60	418,332	531,282	December 14, 2014	349,486	443,847
\$ 0.62	850,000	1,062,500	April 17, 2014	850,000	1,062,500
\$ 1.70	750,000	127,500	December 14, 2016	249,999	42,500
\$ 1.88	30,000	–	December 13, 2017	–	–
\$ 1.90	421,875	–	December 14, 2015 to December 31, 2014	244,790	–
\$ 2.00	12,000	–	February 28, 2015	12,000	–
\$ 2.15	240,000	–	September 7, 2016	240,000	–
\$ 2.26	200,000	–	March 14, 2018	–	–
\$ 2.27	52,000	–	March 10, 2016	27,084	–
\$ 2.68	5,000	–	September 13, 2017	729	–
\$ 2.90	305,000	–	July 19, 2017	57,188	–
April 30, 2013	3,930,818	\$ 2,636,687		2,677,887	\$ 2,464,253
April 30, 2012	3,925,979	\$ 6,751,493		2,087,742	\$ 4,213,032

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of \$1.87 per share as of April 30, 2013 (April 30, 2012 – \$2.87), 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, 2013 was 2,096,096 (April 30, 2012 – 2,087,742). The total intrinsic value of options exercised during the year ended April 30, 2013 was \$263,337 (2012 – \$555,923). The grant date fair value of options vested during the year ended April 30, 2013 was \$627,488 (April 30, 2012 – \$345,803).

The following table summarizes information regarding the non-vested stock purchase options outstanding as of April 30, 2013:

	Number of Options	Weighted Average Grant-Date Fair Value
Non-vested options at April 30, 2011	1,677,016	\$ 0.69
Granted	1,025,000	\$ 0.92
Vested	(615,699)	\$ 0.56
Forfeited	(248,080)	\$ 1.01
Non-vested options at April 30, 2012	1,838,237	\$ 0.82
Granted	540,000	\$ 1.38
Vested	(863,077)	\$ 0.73
Forfeited	(262,229)	\$ 0.98
Non-vested options at April 30, 2013	1,252,931	\$ 1.09

As of April 30, 2013, there was \$1,201,855 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 2.58 years.

COUNTERPATH CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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, 2013 and 2012 are as follows:

	Years Ended April 30,	
	2013	2012
Cost of sales	\$ 33,576	\$ 35,510
Sales and marketing	279,449	132,938
Research and development	38,696	37,987
General and administrative	212,689	159,223
Total stock-based compensation	<u>\$ 564,410</u>	<u>\$ 365,658</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.

On May 17, 2012 and July 25, 2012, holders of warrants issued under a brokered private placement, exercised 50,000 warrants and 7,000 warrants respectively, at the original exercise price of CDN\$2.25 per common share. On October 25, 2012, and November 27, 2012, holders of broker warrants issued under a brokered private placement, exercised 110,103 and 110,103 broker warrants respectively, at the original exercise price of CDN\$1.75 per common share.

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:

	April 30, 2013	April 30, 2012
Opening balance at the beginning of the year	\$ 2,026,944	\$ –
Fair value of warrant liability, at issuance	–	1,311,141
Change in fair value of warrant liability since issuance	(1,753,368)	715,803
Fair value of warrants exercised during the year	(180,519)	–
Fair value of warrant liability at April 30, 2013	<u>\$ 93,057</u>	<u>\$ 2,026,944</u>

COUNTERPATH CORPORATION
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:

	As at April 30, 2013	As at April 30, 2012	As at the date of issuance June 14, 2011
Risk-free interest rate	0.11%	0.19%	1.60%
Expected volatility	70%	70%	70%
Expected term	0.12 years	0.62 years to 1.12 years	1.5 years to 2 years
Dividend yield	0%	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. Subject to certain conditions, the warrants enabled 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. These warrants expired unexercised on July 30, 2012.

The following tables summarize information regarding the warrants outstanding as of April 30, 2013 and April 30, 2012.

	Number of Warrants	Weighted Average Exercise Price	Expiry Dates
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
Granted	732,500	\$ 3.25	June 19, 2014
Exercised	(277,206)	\$ 1.85	December 14, 2012 to June 14, 2013
Expired	(1,000,000)	\$ 1.50	July 30, 2012
Warrants at April 30, 2013	2,248,399	\$ 2.57	June 14, 2013 to June 19, 2014

Exercise Price	Number of Warrants Outstanding	Date Exercisable
CDN \$2.25	1,515,899	June 14, 2011
\$3.25	732,500	June 19, 2012
Warrants at April 30, 2013	2,248,399	
Warrants at April 30, 2012	2,793,105	

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

Employee Stock Purchase Plan

Under the terms of the Employee Stock Purchase Plan (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, 2013, the Company matched \$56,250 (2012 - \$36,303) 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, 2013, a total of 556,401 shares were available for issuance under the ESPP. During the year ended April 30, 2013, 61,622 shares (2012 – 55,571) were sold, issued, or purchased by employees on the open market under the ESPP.

Normal Course Issuer Bid Plan

Pursuant to a normal course issuer bid commencing on August 20, 2012 and expiring on March 19, 2013, the Company was authorized to purchase up to 1,995,414 and on March 19, 2013 (expiring March 18, 2014) the Company was authorized to purchase 2,462,365 of its common shares through the facilities of the Toronto Stock Exchange (the "TSX") and other Canadian marketplaces. Between August 20, 2012 and March 18, 2013, the Company repurchased 72,292 common shares and during the period March 19, 2013 to April 30, 2013 the Company repurchased 49,688 common shares at an average price of \$2.03 (CDN\$1.97) for a total of \$249,212. As of April 30, 2013 a total of 43,372 shares have been cancelled and the remaining 78,608 repurchased shares are in the process of being cancelled.

Deferred Share Unit Plan

Under the terms of the DSUP which is effective as at October 22, 2009, each deferred share unit (each, a "DSU") 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 DSUs 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 DSUs to any one participant may not exceed a value of \$100,000 per annum on the date of grant. A DSU granted to a participant who is a director of the Company shall vest immediately on the award date. A DSU 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 2,500,000 shares have been reserved for issuance under the DSUP. During the year ended April 30, 2013, 133,443 (2012 – 201,351) DSUs were issued under the DSUP, of which 59,878 were granted to officers and 73,565 were granted to directors.

On December 31, 2012, two holders of DSUs, converted 39,194 and 39,194 deferred share units, respectively, into common shares. As of April 30, 2013, a total of 778,493 shares were available for issuance under the DSUP.

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

Deferred Share Unit Plan – (cont'd)

The following table summarizes the Company's outstanding DSU awards as of April 30, 2013, and changes during the period then ended:

	<u>Number of DSU's</u>	<u>Weighted Average Grant Date Fair Value per Unit</u>
DSU's at April 30, 2011	1,386,713	\$ 0.83
Granted	201,351	\$ 1.85
Conversions	—	\$ —
DSU's at April 30, 2012	1,588,064	\$ 0.83
Granted	133,443	\$ 2.90
Conversions	(78,388)	\$ 0.75
Outstanding at April 30, 2013	<u>1,643,119</u>	<u>\$ 1.02</u>

As of April 30, 2013, there was \$252,204 (2012 – \$308,812) 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 1.91 years (2012 –1.84). The total fair value of DSUs that vested during the year was \$421,726 (2012 – \$307,856).

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, 2013 and 2012 are as follows:

	<u>Year Ended April 30,</u>	
	<u>2013</u>	<u>2012</u>
Sales and marketing	\$ 24,168	\$ —
Research and development	6,518	—
General and administrative	412,908	373,145
Total deferred share unit-based compensation	<u>\$ 443,594</u>	<u>\$ 373,145</u>

The following table summarizes information regarding the non-vested deferred share units outstanding as of April 30, 2013:

	<u>Number of DSU's</u>	<u>Weighted Average Grant Date Fair Value per Unit</u>
Non-vested DSUs at April 30, 2011	426,083	\$ 0.89
Granted	201,351	\$ 1.85
Vested	(293,097)	\$ 1.05
Non-vested DSUs at April 30, 2012	334,337	\$ 1.33
Granted	133,443	\$ 2.90
Vested	(260,336)	\$ 1.62
Non-vested DSUs at April 30, 2013	<u>207,444</u>	<u>\$ 1.98</u>

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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:

	Years Ended	
	April 30,	
	2013	2012
Tax loss carry forwards	\$ 14,466,000	\$ 14,175,000
Capital losses carried forward	310,000	304,000
Equipment	97,000	113,000
Other	215,000	158,000
Nondeductible research and development expenses	3,874,000	3,794,000
Investment tax credits	607,000	605,000
Cumulative unrealized foreign exchange gain	595,000	681,000
Acquired technology and other intangibles	(763,000)	(579,000)
Valuation allowance established by management	(19,401,000)	(19,251,000)
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:

	Years Ended	
	April 30,	
	2013	2012
Tax (recovery) based on U.S. rates	\$ 161,000	\$ (722,000)
Foreign tax rate differential	(52,000)	158,000
Non-deductible expenses	12,000	55,000
Change in fair value of derivative instrument	(469,000)	376,000
Non-deductible stock option compensation	252,000	251,000
Effect of reduction (increase) in foreign statutory rates	(377,000)	18,000
Foreign exchange gain (losses) on revaluation of deferred tax balances	216,000	393,000
Under provision relating to prior year	107,000	—
Expiry of non-operating losses	—	380,000
Increase (decrease) in valuation allowance	150,000	(909,000)
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
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Note 9 **Income Taxes – (cont’d)**

As at April 30, 2013, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

<u>Country</u>	<u>Amount</u>	<u>Expiration Dates</u>
United States – US\$	\$ 27,505,000	2026 – 2033
Canada – CDN\$	\$ 17,528,000*	2016 – 2033

*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, 2013 and April 30, 2012 were as follows:

	<u>Years Ended</u> <u>April 30,</u>	
	<u>2013</u>	<u>2012</u>
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**

The Company’s 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, the Company has concluded that it has one reportable operating segment.

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, 2013 and 2012:

	<u>Years Ended</u> <u>April 30,</u>	
	<u>2013</u>	<u>2012</u>
North America	\$ 10,280,569	\$ 9,217,377
Europe	2,230,795	3,574,671
Asia and Africa	1,292,813	834,348
Central and South America	1,435,746	457,100
	<u>\$ 15,239,923</u>	<u>\$ 14,083,496</u>

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

Contained within the results of North America for the year ended April 30, 2013 are revenues from the United States of \$7,425,015 (2012 - \$5,522,996) and from Canada of \$2,855,554 (2012 - \$3,694,381).

Contained within the results of Europe for the year ended April 30, 2013 are revenues from the United Kingdom of \$557,989 (2012 - \$1,621,908), from Norway of \$286,983 (2012 - \$304,321), from France of \$281,544 (2012 - \$173,444), from Germany of \$271,529 (2012 - \$240,106), and from Denmark of \$85,098 (2012 - \$15,764).

Contained within the results of Central and South America for the year ended April 30, 2013 are revenues from Mexico of \$786,596 (2012 - \$119,390), from Brazil of \$245,116 (2012 - \$103,475), from Chile of \$154,865 (2012 - \$40,573), from Colombia of \$82,392 (2012 - \$69,694), and from Ecuador of \$40,664 (2012 - \$5,111).

Contained within the results of Asia and Africa for the year ended April 30, 2013 are revenues from Japan of \$632,399 (2012 - \$81,218), from Australia of \$145,322 (2012 - \$177,041), from China of \$137,746 (2012 - \$94,996), from Russian Federation of \$134,666 (2012 - \$90,943), and from South Africa of \$52,060 (2012 - \$117,374).

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:

	As at April 30,	
	2013	2012
Canada	\$ 8,796,202	9,117,687
United States	114,879	24,569
	<u>\$ 8,911,081</u>	<u>9,142,256</u>

Revenue from significant customers for the years ended April 30, 2013 and 2012 is summarized as follows:

	Years Ended April 30,	
	2013	2012
Customer A	11%	12%
Customer B	9%	8%
	<u>20%</u>	<u>20%</u>

Accounts receivable balance for Customer A was \$321,344 as at April 30, 2013 (April 30, 2012 - \$79,100). Accounts receivable balance for Customer B was \$663,643 as at April 30, 2013 (April 30, 2012 - \$602,227).

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Note 11 **Derivative Financial Instruments and Risk Management**

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, the Company is 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, 2013 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. The 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 also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect it from fluctuations in exchange rates. As of April 30, 2013, the Company had \$2,000,000 of notional value foreign currency forward contracts maturing through October 1, 2013 (2012: nil). Notional amounts do not quantify risk or represent assets or liabilities of the Company, but are used in the calculation of cash settlements under the contracts. The fair value of the forward contracts at April 30, 2013 was \$9,830 (2012: nil), and the company recognized a marked to market gain (loss) of forward contracts for the year ended April 30, 2013 of \$32,405 and this gain is included in the fair value adjustment on derivative instruments. The Company did not enter into any forward contracts during the year ended April 30, 2012.

Fair Value Measurements

When available, the Company uses quoted market prices to determine fair value, and classifies such measurements within Level 1. In some cases where market prices are not available, the Company makes 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.

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Note 11 **Derivative Financial Instruments and Risk Management - (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, 2013 and 2012:

As at April 30, 2013	Carrying Amount	Fair Value	Fair Value Levels	Reference
Cash	\$ 11,229,595	\$ 11,229,595	1	
Accounts receivable	4,640,620	4,640,620	2	
Forward contracts	9,830	9,830	3	
Derivative warrant liability	\$ 93,057	\$ 93,057	3	Note 8

As at April 30, 2012	Carrying Amount	Fair Value	Fair Value Levels	Reference
Cash	\$ 8,154,139	\$ 8,154,139	1	
Accounts receivable	4,014,472	4,014,472	2	
Forward contracts	–	–	3	
Derivative warrant liability	\$ 2,026,944	\$ 2,026,944	3	Note 8

Forward contracts

	April 30, 2013	April 30, 2012
Opening balance at the beginning of the year	\$ -	\$ -
Fair value of forward, at issuance	-	-
Change in fair value of forward contracts since issuance	32,405	-
Fair value of forward contracts settled during the year	(22,575)	-
Fair value of forward contracts at April 30, 2013	<u>\$ 9,830</u>	<u>\$ -</u>

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Note 11 **Derivative Instruments and Hedging Activities- (cont'd)**

Fair Value Measurements – (cont'd)

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.

Forward contracts – the fair value of foreign currency and commodity forward, option and cross currency contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

Derivative warrant liability – the Company uses the Binomial Model to estimate fair value of the warrants. The assumptions used in the model are described in Note 8.

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

Note 12 **Commitments**

- a) 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 \$49,275 was made. The monthly lease payment under the agreement is \$22,366 plus \$20,957 in operating costs. Management believes that this office space is adequate for the operations of the Company for the foreseeable future.
- b) On December 9, 2011, the Company signed a fifth amendment to an existing lease agreement to extend the lease for the period May 1, 2012 to April 30, 2014. The monthly lease payment under the lease extension is \$6,934 (CDN\$7,036). This lease expense is a related party transaction as it was incurred with a company with a director in common with the Company.
- c) On March 22, 2013, the Company entered into an extension of an existing operating lease agreement which commenced on April 1, 2013 and expires on May 31, 2016. The monthly lease payment under the extension agreement is \$5,000 plus \$295 in operating expenses.
- d) On March 27, 2013, the Company entered into an extension of an existing operating lease agreement which commenced on April 1, 2013 and expires on July 31, 2013. The monthly lease payment under the extension agreement is \$1,591 plus \$120 in operating expenses.

Total lease expense for the year ended April 30, 2013 is \$780,973 (2012 – \$935,833).

Total payable over the term of the lease agreements for the years ended April 30, are as follows:

	Office Leases – Related Party	Office Leases – Unrelated Party	Total Office Leases
2014	\$ 83,204	\$ 523,342	\$ 606,546
2015	–	274,166	274,166
2016	–	63,540	63,540
2017	–	5,295	5,295
	<u>\$ 83,204</u>	<u>\$ 866,343</u>	<u>\$ 949,547</u>

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

Note 13 **Earnings (loss) per common share**

Computation of profit per share:

	Years ended April 30, 2013		
	Income	Shares⁽¹⁾	Per Share Amount
Basic EPS			
Income available to common stockholders	\$ 472,280	41,519,117	\$ 0.01
Effect on dilutive securities			
(Gain)/Loss from derivative instruments	(927,703)	117,908	
Diluted EPS	<u>\$ (455,423)</u>	<u>41,637,025</u>	<u>\$ (0.01)</u>
Year ended April 30, 2012			
	(Loss)	Shares⁽¹⁾	Per Share Amount
Basic and diluted EPS			
Income available to common stockholders	<u>\$ (2,123,361)</u>	<u>38,792,066</u>	<u>\$ (0.05)</u>

For the years ended April 30, 2013 and April 30, 2012, warrants totalling 732,500, and 2,793,105, respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

For the years ended April 30, 2013 and April 30, 2012, common share equivalents (consisting of share issuable, on exercise of options, and deferred share units) totalling 5,263,937, and 5,514,043, respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

(1) Diluted by assumed exercise of outstanding common share equivalents using the treasury stock method.

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 Securities Exchange Act of 1934 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, 2013, 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, 2013.

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, 2013 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 and Special Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2013.

Item 11. Executive Compensation.

The information required by this Item, is incorporated herein by reference from our Proxy Statement for the Annual and Special Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2013.

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 and Special Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2013.

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 and Special Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2013.

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 and Special Meeting of Shareholders, to be filed with the SEC no later than 120 days after April 30, 2013.

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;
4. Consolidated Statements of Comprehensive Income and Loss;
5. Consolidated Statements of Cash Flows;
6. Consolidated Statement of Changes in Stockholders' Equity; and
7. 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).
(10)	Material Contracts
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	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).
10.6	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).
10.7	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).
10.8	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).
10.9	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).
10.10	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).
10.11	Form of Subscription Agreement between our company and various investors in connection with the brokered private placement completed on June 19, 2012 (filed herewith).
10.12	Form of Warrant Certificate issued to various investors in connection with the brokered private placement completed on June 19, 2012 (filed herewith).
(14)	Code of Ethics
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).
(21)	Subsidiaries of CounterPath Corporation
	CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)
	BridgePort Networks, Inc. (incorporated in the state of Delaware)
(23)	Consent of Experts and Counsel
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith)
(31)	Section 302 Certifications
31.1	Section 302 Certification of Donovan Jones (filed herewith).
31.2	Section 302 Certification of David Karp (filed herewith).
(32)	Section 906 Certifications
32.1	Section 906 Certification of Donovan Jones (filed herewith).
32.2	Section 906 Certification of David Karp (filed herewith).

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 25, 2013

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Terence Matthews</u> Terence Matthews	Chairman and Director	July 25, 2013
<u>/s/ Donovan Jones</u> Donovan Jones	President, Chief Executive Officer and Director (Principal Executive Officer)	July 25, 2013
<u>/s/ David Karp</u> David Karp	Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer, Principal Accounting Officer)	July 25, 2013
<u>/s/ Owen Matthews</u> Owen Matthews	Vice Chairman and Director	July 25, 2013
<u>/s/ Peter Charbonneau</u> Peter Charbonneau	Director	July 25, 2013
<u>/s/ Chris Cooper</u> Chris Cooper	Director	July 25, 2013
<u>/s/ Larry Timlick</u> Larry Timlick	Director	July 25, 2013

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.



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600 Cathedral Place
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Vancouver BC V6C 3L2 Canada

Consent of Independent Registered Accounting Firm

CounterPath Corporation
Vancouver, Canada

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 and Form S-3A (No.333-186956 and No. 333-183940, respectively) of CounterPath Corporation of our report dated July 25, 2013 relating to the consolidated financial statements which appears in this Form 10-K.

/s/ BDO Canada LLP

Vancouver, Canada
July 25, 2013

**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, 2013 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 25, 2013

/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, 2013 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 25, 2013

/s/ David Karp

David Karp

Chief Financial Officer, Treasurer and Secretary

(Principal Financial Officer, Principal Accounting 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, 2013, 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 25, 2013

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, 2013, 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, Principal Accounting Officer)

July 25, 2013