

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

COUNTERPATH CORP

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **October 31, 2014**

OR

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, including zip code, of principal executive offices)

(604) 320-3344

(Registrant's telephone number, including area code)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 42,555,077 shares of common stock issued and outstanding as of December 8, 2014.

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Item 1. Financial Statements.

It is the opinion of management that the interim consolidated financial statements for the quarter ended October 31, 2014 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

The interim consolidated financial statements are stated in United States dollars and are prepared in accordance with generally accepted accounting principles in the United States of America.

COUNTERPATH CORPORATION
INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)
(Stated in U.S. Dollars)

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

	<u>October 31,</u> <u>2014</u>	<u>April 30,</u> <u>2014</u>
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 5,058,448	\$ 7,172,798
Accounts receivable (net of allowance for doubtful accounts of \$338,649 and \$240,681, respectively)	2,997,114	3,401,491
Prepaid expenses and deposits	143,993	161,627
Total current assets	<u>8,199,555</u>	<u>10,735,916</u>
Deposits	116,697	125,267
Equipment	205,561	154,293
Goodwill – Note 2(e)	7,851,939	8,018,578
Other assets	122,881	102,836
Total Assets	<u>\$ 16,496,633</u>	<u>\$ 19,136,890</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,464,453	\$ 2,326,763
Unearned revenue	1,605,998	1,625,826
Customer deposits	9,553	9,553
Accrued warranty	74,007	69,159
Total current liabilities	<u>4,154,011</u>	<u>4,031,301</u>
Deferred lease inducements	58,065	–
Unrecognized tax benefit	25,631	25,631
Total liabilities	<u>4,237,707</u>	<u>4,056,932</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized: 100,000,000		
Issued and outstanding: October 31, 2014 – nil; April 30, 2014 – nil		
	–	–
Common stock, \$0.001 par value – Note 5		
Authorized: 100,000,000		
Issued and outstanding:		
October 31, 2014 – 42,524,467; April 30, 2014 – 42,599,869	42,525	42,600
Treasury stock	(154)	(16)
Additional paid-in capital	67,261,524	66,910,540
Accumulated deficit	(53,391,195)	(50,889,038)
Accumulated other comprehensive loss – currency translation adjustment	(1,653,774)	(984,128)
Total stockholders' equity	<u>12,258,926</u>	<u>15,079,958</u>
Liabilities and Stockholders' Equity	<u>\$ 16,496,633</u>	<u>\$ 19,136,890</u>

Commitments – Note 7

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in U.S. Dollars)
(Unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Revenue – Note 6:				
Software	\$ 1,720,742	\$ 1,451,475	\$ 3,594,690	\$ 3,098,995
Service	1,130,366	1,095,335	2,283,589	2,307,302
Total revenue	<u>2,851,108</u>	<u>2,546,810</u>	<u>5,878,279</u>	<u>5,406,297</u>
Operating expenses:				
Cost of sales (includes depreciation of \$23,855 (2013 – \$45,598))	586,455	571,857	1,204,509	1,129,312
Sales and marketing	1,225,776	1,315,421	2,363,544	2,528,904
Research and development	1,455,168	1,324,308	2,951,374	2,737,383
General and administrative	1,206,883	1,101,457	2,410,394	2,114,987
Total operating expenses	<u>4,474,282</u>	<u>4,313,043</u>	<u>8,929,821</u>	<u>8,510,586</u>
Loss from operations	(1,623,174)	(1,766,233)	(3,051,542)	(3,104,289)
Interest and other income (expense), net:				
Interest and other income	3,674	56,989	11,718	84,474
Interest expense	–	(161)	(350)	(932)
Fair value adjustment on derivative instruments – Note 4	–	(12,574)	–	73,413
Foreign exchange gain (loss)	180,716	(389,249)	538,017	(389,185)
Net loss for the period	<u>\$ (1,438,784)</u>	<u>\$ (2,111,228)</u>	<u>\$ (2,502,157)</u>	<u>\$ (3,336,519)</u>
Net loss per share:				
Basic and diluted – Note 8	\$ (0.03)	\$ (0.05)	\$ (0.06)	\$ (0.08)
Weighted average common shares outstanding:				
Basic and diluted – Note 8	42,552,576	42,007,439	42,572,713	41,971,160

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Stated in U.S. Dollars)
(Unaudited)

Net loss for the period	\$ (1,438,784)	\$ (2,111,228)	\$ (2,502,157)	\$ (3,336,519)
Other comprehensive loss:				
Foreign currency translation adjustments	(435,502)	(154,988)	(669,646)	(284,227)
Comprehensive loss	<u>\$ (1,874,286)</u>	<u>\$ (2,266,216)</u>	<u>\$ (3,171,803)</u>	<u>\$ (3,620,746)</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in U.S. Dollars)

(Unaudited)

	Six Months Ended October 31,	
	2014	2013
Cash flows from operating activities:		
Net loss for the period	\$ (2,502,157)	\$ (3,336,519)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	114,650	112,974
Stock-based compensation	570,121	637,043
Fair value adjustment on derivative instruments	–	(73,413)
Foreign exchange gain	(355,594)	(1,382)
Changes in assets and liabilities:		
Accounts receivable	404,377	1,064,192
Prepaid expenses and deposits	18,507	35,864
Other assets	(19,988)	(15,925)
Accounts payable and accrued liabilities	109,244	(69,067)
Unearned revenue	(19,828)	91,330
Deferred lease inducements	58,065	(15,540)
Accrued warranty	4,848	(13,930)
Net cash used in operating activities	(1,617,755)	(1,584,373)
Cash flows from investing activities:		
Purchase of equipment	(169,048)	(63,870)
Deposits	–	(5,824)
Net cash used in investing activities	(169,048)	(69,694)
Cash flows from financing activities:		
Common stock issued	–	70,565
Common stock repurchased	(219,350)	(162,737)
Net cash used in financing activities	(219,350)	(92,172)
Foreign exchange effect on cash	(108,197)	(59,583)
Net decrease in cash	(2,114,350)	(1,805,822)
Cash, beginning of the period	7,172,798	11,229,595
Cash, end of the period	\$ 5,058,448	\$ 9,423,773
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ 350	\$ 932

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the Six Months Ended October 31, 2014
(Stated in U.S. Dollars)
(Unaudited)

	Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Par Value	Number of Shares	Par Value				
Balance, April 30, 2014	42,599,869	\$ 42,600	(16,200)	\$ (16)	\$ 66,910,540	\$ (50,889,038)	\$ (984,128)	\$ 15,079,958
Shares issued:								
Exercise of stock options	1,598	2	–	–	(215)	–	–	(213)
Share repurchase plan	–	–	(215,170)	(215)	(218,922)	–	–	(219,137)
Cancellation of shares – Note 5	(77,000)	(77)	77,000	77	–	–	–	–
Stock-based compensation – Note 5	–	–	–	–	570,121	–	–	570,121
Net loss for the period	–	–	–	–	–	(2,502,157)	–	(2,502,157)
Foreign currency translation adjustment	–	–	–	–	–	–	(669,646)	(669,646)
Balance, October 31, 2014 (unaudited)	<u>42,524,467</u>	<u>\$ 42,525</u>	<u>(154,370)</u>	<u>\$ (154)</u>	<u>\$ 67,261,524</u>	<u>\$ (53,391,195)</u>	<u>\$ (1,653,774)</u>	<u>\$ 12,258,926</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

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 listed for trading on the NASDAQ Capital Market in the United States of America and on the Toronto Stock Exchange in Canada.

The Company focuses on the design, development, marketing and sales of personal computer and mobile communications application 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 service providers, channel partners and businesses in North America, Latin America, Europe, Africa and Asia.

Note 2 **Significant Accounting Policies**

These interim 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 interim 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.

a) **Basis of Presentation**

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc. (“CounterPath Technologies”), a company existing under the laws of the province of British Columbia, Canada, and BridgePort Networks, Inc. (“BridgePort”), incorporated under the laws of the state of Delaware. All inter- company transactions and balances have been eliminated.

b) **Interim Reporting**

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

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

b) Interim Reporting (cont'd)

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2014 annual audited consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's April 30, 2014 annual audited consolidated financial statements.

Operating results for the six months ended October 31, 2014 are not necessarily indicative of the results that can be expected for the year ending April 30, 2015.

c) New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-11, *Balance Sheet (Topic 210), Disclosure About Offsetting Assets and Liabilities*, 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 Company adopted this standard as of May 1, 2014 and it did not materially impact the consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

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

d) Derivative Instruments

The Company accounts for derivative instruments, consisting of foreign currency forward contracts, pursuant to the provisions of ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires the Company to measure derivative instruments at fair value and record them in the balance sheet as either an asset or liability and expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. The Company does not use derivative instruments for trading purposes. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Following the guidance in ASC 815-40-15, the Company recorded the warrants issued as derivative instruments due to their exercise price being denominated in a currency other than the Company's U.S. dollar functional currency initially at fair value. Subsequent changes in the fair value of the derivative instruments are recorded as a gain or loss in the Company's consolidated statements of operations.

The Company also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect the Company 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 4 "Derivative Financial Instruments and Risk Management," of the Notes to the Consolidated Financial Statements). The Company did not enter any foreign currency derivatives designated as cash flow hedges in the three and six months ended October 31, 2014.

e) Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. ASC Topic 350 ("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.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

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

e) Goodwill (cont'd)

Goodwill of \$6,339,717 (CDN\$6,704,947) and \$2,083,960 (CDN\$2,083,752) was initially recorded as the Company was deemed to be the acquirer of NewHeights Software Corporation ("NewHeights") on August 2, 2007 and FirstHand Technologies Inc. ("FirstHand") on February 1, 2008, respectively. Translated to U.S. dollars using the period end rate, the goodwill balance at October 31, 2014 was \$5,990,518 (CDN\$6,704,947) (April 30, 2014 - \$6,117,653) and \$1,861,421 (CDN\$2,083,414) (April 30, 2014 - \$1,900,925). Management will perform its annual impairment test in its fiscal fourth quarter. No impairment charges were recorded for the six months ended October 31, 2014 and 2013.

f) Accounts receivable and allowance for doubtful accounts

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

	October 31, 2014	April 30, 2014
Balance of allowance for doubtful accounts, beginning of period/year	\$ 240,681	\$ 456,051
Bad debt provision	326,063	415,448
Write-off of receivables	(228,095)	(630,818)
Balance of allowance for doubtful accounts, end of period/year	\$ 338,649	\$ 240,681

The Company determines the allowance for doubtful accounts 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.

g) Basic and diluted loss per share

The Company computes net loss per share in accordance with ASC Topics 260 and ASC 260-10. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the consolidated statement of operations. 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 six months ended October 31, 2014 and October 31, 2013, common share equivalents, consisting of common shares issuable, on exercise of options, warrants and deferred share units ("DSUs") of 6,182,495 and 5,004,257, respectively, were not included in the computation of diluted EPS because the effect was anti-dilutive.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

Note 3 **Related Party Transactions**

During the three and six months ended October 31, 2014, the Company through its wholly owned subsidiary, CounterPath Technologies, paid \$23,073 and \$46,147 (2013 - \$17,226 and \$34,452), respectively, to Kanata Research Park Corporation ("KRP") for leased office space. KRP is controlled by the Chairman of the Company.

On November 21, 2013, the Company, through its wholly owned subsidiary, CounterPath Technologies, entered into an agreement with 8007004 (Canada) Inc. ("8007004") to lease office space. 8007004 is controlled by a member of the board of directors of the Company. CounterPath Technologies, paid \$8,040 and \$16,079 (2013 - \$nil and \$nil) for the three and six months ended October 31, 2014.

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

Note 4 **Derivative Financial Instruments and Risk Management**

In the normal course of business, the Company is exposed to fluctuations in 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

A majority of the Company's 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 the Company's operations for the three and six months ended October 31, 2014 is the Canadian dollar as a majority of the Company's expenses are in Canadian 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. During the three and six months ended October 31, 2014, the Company did not enter into any cash flow hedges.

The Company also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect it from fluctuations in exchange rates. During the three and six months ended October 31, 2014, the Company did not entered into any foreign currency forward contracts. During the three and six months ended October 31, 2013, the Company had \$4,000,000 of notional value foreign currency forward contracts that matured through February 28, 2014. The fair value marked to market gain of those forward contracts as of October 31, 2013 was (\$9,814).

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

Note 4 **Derivative Financial Instruments and Risk Management (cont'd)**

Fair Value Measurement

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.

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 the Company) 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), the Company's fair value calculations have been adjusted accordingly.

The fair value of the derivative instrument is primarily based on the standard industry accepted binomial model (Note 5). The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of October 31, 2014 and April 30, 2014.

<u>As at October 31, 2014</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value Levels</u>	<u>Reference</u>
Cash	\$ 5,058,448	\$ 5,058,448	1	N/A
Accounts receivable	\$ 2,997,114	\$ 2,997,114	2	N/A

<u>As at April 30, 2014</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Fair Value Levels</u>	<u>Reference</u>
Cash	\$ 7,172,798	\$ 7,172,798	1	N/A
Accounts receivable	\$ 3,401,491	\$ 3,401,491	2	N/A

Forward contracts	October 31, 2014	April 30, 2014
Opening balance at the beginning of the period/year	\$ -	\$ 9,830
Fair value of forward contract, at issuance	-	-
Change in fair value of forward contracts since issuance	-	180,396
Fair value of forward contracts settled during the period/year	-	(190,226)
Fair value of forward contracts at end of period/year	\$ -	\$ -

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

Note 5 **Common Stock**

Stock Options

The Company has a stock option plan (the "2010 Stock Option Plan") under which options to purchase common shares of the Company's common stock may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common shares of the Company's common stock at an exercise price determined by the board of directors (the "Board") 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.

On September 9, 2014, the maximum number of common shares of common stock authorized by the stock holders and reserved for issuance by the Board under the 2010 Stock Option Plan was increased from 6,860,000 to 7,860,000.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The Company applied an estimated forfeiture rate of 15% for the six months ended October 31, 2014 and 2013 in determining the expense recorded in the accompanying consolidated statement of operations.

For the majority of the stock options granted, the number of shares issued on the date the stock options are exercised is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. Although these withheld shares are not issued or considered common stock repurchases under our authorized plan and are not included in the common stock repurchase totals in the preceding table, they are treated as common stock repurchases in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2014
(Unaudited)

Note 5 **Common Stock – (cont'd)**

Stock Options – (cont'd)

The weighted-average fair value of options granted during the three and six months ended October 31, 2014 and 2013 was \$1.05 and \$1.13, respectively and \$0.78 and \$0.89, respectively. The weighted- average assumptions utilized to determine such values are presented in the following table:

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
Risk-free interest rate	1.83%	1.57%	1.68%	1.31%
Expected volatility	54.66%	73.28%	57.62%	78.94%
Expected term	3.7 years	3.7 years	3.7 years	3.7 years
Dividend yield	0%	0%	0%	0%

The following is a summary of the status of the Company's stock options as of October 31, 2014 and the stock option activity during the six months ended October 31, 2014:

	Weighted Average	
	Number of	Exercise Price
	Options	per Share
Outstanding at April 30, 2014	3,705,539	\$1.62
Granted	837,000	\$1.13
Exercised(1)	(2,920)	\$0.47
Forfeited/Cancelled	(356,171)	\$1.47
Outstanding at October 31, 2014	<u>4,183,448</u>	<u>\$1.54</u>
Exercisable at October 31, 2014	2,056,655	\$1.61
Exercisable at April 30, 2014	1,767,621	\$1.60

(1) 2,920 were cashlessly exercised upon which 1,598 common stock were issued.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 Common Stock – (cont'd)

Stock Options – (cont'd)

The following table summarizes stock options outstanding as of October 31, 2014:

Exercise Price	Number of Options Outstanding	Aggregate Intrinsic Value	Expiry Date	Number of Options Exercisable	Aggregate Intrinsic Value
			January 5, 2015 to		
\$0.47	122,950	\$ 57,774	September 26, 2016	122,950	\$ 57,774
\$0.60	358,373	121,811	December 14, 2014	358,373	121,811
\$1.05	137,000	–	September 12, 2019	–	–
\$1.15	700,000	–	July 11, 2019	–	–
\$1.23	100,000	–	January 13, 2019	18,750	–
\$1.31	600,000	–	December 12, 2018	125,000	–
\$1.41	100,000	–	October 1, 2018	25,000	–
\$1.70	650,000	–	December 14, 2016	460,416	–
\$1.88	13,125	–	December 13, 2017	13,125	–
			December 14, 2015 to		
\$1.90	845,000	–	July 25, 2018	509,479	–
			December 31, 2014 to		
\$2.00	12,000	–	February 28, 2015	12,000	–
\$2.15	240,000	–	September 7, 2016	240,000	–
\$2.90	305,000	–	July 19, 2017	171,562	–
October 31, 2014	<u>4,183,448</u>	<u>\$ 179,585</u>		<u>2,056,655</u>	<u>\$ 179,585</u>
April 30, 2014	<u>3,705,539</u>	<u>\$ 353,637</u>		<u>1,767,621</u>	<u>\$ 332,137</u>

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of \$0.94 per share as of October 31, 2014 (April 30, 2014 – \$1.25), 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 October 31, 2014 was 481,323 (April 30, 2014 – 485,726). The total intrinsic value of options exercised during the six months ended October 31, 2014 was \$1,927 (2013 – \$168,839). The grant date fair value of options vested during the three and six months ended October 31, 2014 and 2013 was \$157,456 and \$353,413, respectively and \$160,286 and \$280,074, respectively.

The following table summarizes non-vested stock purchase options outstanding as of October 31, 2014.

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested options at April 30, 2014	1,937,918	\$0.87
Granted	837,000	\$0.50
Vested	(384,375)	\$0.92
Cancelled/Forfeited	(263,750)	\$0.69
Non-vested options at October 31, 2014	<u>2,126,793</u>	<u>\$0.74</u>

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 **Common Stock – (cont'd)**

Stock Options – (cont'd)

As of October 31, 2014, there was \$1,265,833 of total unrecognized compensation cost related to unvested share-based compensation awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.7 years.

Employee and non-employee stock-based compensation amounts classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2014 and 2013 are as follows:

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
Cost of sales	\$ 17,611	\$ 18,285	\$ 36,088	\$ 26,838
Sales and marketing	65,546	107,933	126,433	197,273
Research and development	14,467	15,851	30,013	24,537
General and administrative	59,830	37,083	121,021	70,570
Total stock-option based compensation	<u>157,454</u>	<u>\$ 179,152</u>	<u>\$ 313,555</u>	<u>\$ 319,218</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 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 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 share of the Company's common stock at an exercise price of \$3.25 per share until June 19, 2014. The 732,500 warrants issued expired unexercised on June 20, 2014.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 **Common Stock** – (cont'd)

Warrants – (cont'd)

Following the guidance in ASC 815-40-15, the Company recorded the warrants issued on June 19, 2012 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 was revalued at the end of each reporting period, and the change in fair value of the derivative instruments was recorded as a gain or loss in the Company's consolidated statements of operations.

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

	October 31, 2014	April 30, 2014
Opening balance at the beginning of the period/year	\$ –	\$ 93,057
Fair value of warrant liability, at issuance	–	–
Change in fair value of warrant liability	–	(93,057)
Fair value of warrants exercised during the period/year	–	–
Fair value of warrant liability at end of period/year	<u>\$ –</u>	<u>\$ –</u>

The Company used the Binomial Method to estimate the fair value of the warrants with the following assumptions:

	As at October 31, 2014	As at April 30, 2014	As at the date of issuance June 14, 2011
Risk-free interest rate	–	–	1.60%
Expected volatility	–	–	70%
Expected term	–	–	1.5 years to 2 years
Dividend yield	–	–	0%

The fair value of the warrants were classified as a derivative liability until such time as they were exercised or expired. The balance of unexercised warrants expired on June 14, 2013, and the balance in the liability account of \$93,057 has been recorded as a gain in the Company's consolidated statement of operations for the year ended April 30, 2014.

The following table summarizes warrants outstanding as of October 31, 2014:

	Number of Warrants	Weighted Average Exercise Price	Expiry Dates
Warrants at April 30, 2014	732,500	\$ 3.25	June 19, 2014
Granted	–	–	–
Exercised	–	–	–
Expired	(732,500)	\$ 3.25	–
Warrants at October 31, 2014	<u>–</u>	<u>–</u>	<u>–</u>

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 **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 six months ended October 31, 2014, the Company matched \$29,968 (2013 - \$26,106) in shares purchased by employees under the ESPP. During the six months ended October 31, 2014, 84,813 shares (2013 – 48,222) were purchased on the open market under the ESPP.

A total of 700,000 shares have been reserved for issuance under the ESPP. As of October 31, 2014, a total of 556,401 shares were available for issuance under the ESPP.

Normal Course Issuer Bid Plan

Pursuant to a normal course issuer bid (“NCIB”) commencing 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 or US marketplaces. The NCIB was renewed on March 19, 2014 (expiring March 18, 2015) and the Company was authorized to purchase 2,458,153 of its common shares. During the period from March 19, 2013 to March 18, 2014, the Company repurchased 180,870 common shares at an average price of \$1.53 (CDN\$1.61) for a total of \$276,731 and during the period from March 19, 2014 to October 31, 2014, the Company repurchased 237,370 common shares at an average price of \$1.06 (CDN\$1.17) for a total of \$250,966. As of October 31, 2014, a total of 365,958 shares have been cancelled and the remaining 154,370 repurchased shares are in the process of being cancelled since the NCIB was initiated.

Deferred Share Unit Plan

Under the terms of the Deferred Share Unit Plan (the “DSUP”), each deferred share unit (“DSU”) is equivalent to one common share. The maximum number of common shares 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 common shares of the Company outstanding at the time of reservation. 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 DSUs granted on the first, second and third anniversaries of the award date. Fair value of the DSUs, which is based on the closing price of the Company’s common shares on the date of grant, is recorded as compensation expense over the vesting period.

On September 9, 2014, the common shares reserved for issuance under the DSUP plan was increased from 2,500,000 to 3,000,000. During the six months ended October 31, 2014, 326,613 (2013 – 172,201) DSUs were issued under the DSUP, of which 145,161 were granted to officers or employees and 181,452 were granted to non-employee directors. As of October 31, 2014, a total of 760,814 common shares were available for issuance under the DSUP.

COUNTERPATH CORPORATION
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Note 5 **Common Stock – (cont'd)**

Deferred Share Unit Plan – (cont'd)

The following table summarizes the Company's outstanding DSU awards as of October 31, 2014, and changes during the period then ended:

	Number of DSU's	Weighted Average Grant Date Fair Value Per Unit
DSUs outstanding at April 30, 2014	1,672,434	\$1.09
Granted	326,613	\$1.17
Conversions	–	–
DSUs outstanding at October 31, 2014	<u>1,999,047</u>	<u>\$1.10</u>

The following table summarizes information regarding the non-vested DSUs outstanding as of October 31, 2014:

	Number of DSU's	Weighted Average Grant Date Fair Value Per Unit
Non-vested DSUs at April 30, 2014	156,778	\$2.16
Granted	326,613	\$1.17
Vested	(231,701)	\$1.52
Non-vested DSUs at October 31, 2014	<u>251,690</u>	<u>\$1.47</u>

As of October 31, 2014, there was \$315,365 (2013 – \$297,160) of total unrecognized compensation cost related to unvested DSU awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 1.47 years (2013 – 1.94 years).

Employee and non-employee DSU based compensation amounts classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2014 and 2013 are as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2014	2013	2014	2013
Sales and marketing	\$ –	\$ 6,667	\$ 1,667	\$ 13,334
Research and development	2,082	2,082	4,164	4,164
General and administrative	41,974	74,592	250,736	300,327
Total DSU-based compensation	<u>\$ 44,056</u>	<u>\$ 83,341</u>	<u>\$ 256,567</u>	<u>\$ 317,825</u>

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Note 6 **Segmented Information**

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated 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 three and six months ended October 31, 2014 and 2013:

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
North America	\$ 1,795,720	\$ 1,880,466	\$ 4,118,229	\$ 3,774,573
Europe	529,697	286,103	919,146	711,134
Asia and Africa	412,517	232,382	646,450	504,502
Latin America	113,174	147,859	194,454	416,088
	\$ 2,851,108	\$ 2,546,810	\$ 5,878,279	\$ 5,406,297

Contained within the results of North America for the three and six months ended October 31, 2014 are revenues from the United States of \$1,410,153 and \$3,429,554 (2013 - \$1,491,481 and \$2,700,339), respectively, and from Canada of \$385,567 and \$688,675 (2013 - \$388,985 and \$1,074,234), respectively.

Contained within the results of Europe for the three and six months ended October 31, 2014 are revenues from the United Kingdom of \$221,992 and \$339,175 (2013 - \$48,502 and \$210,642), respectively, from Germany of \$52,499 and \$102,260 (2013 - \$50,963 and \$98,124), respectively, from Ireland of \$52,468 and \$95,869 (2013- \$1,099 and \$60,443), respectively, from Norway of \$46,290 and \$61,644 (2013 - \$19,470 and \$33,077), respectively, and from Switzerland of \$27,491 and \$51,865 (2013 - \$14,146 and \$23,466), respectively.

Contained within the results of Asia and Africa for the three and six months ended October 31, 2014 are revenues from the United Arab Emirates of \$267,682 and \$273,812 (2013 - \$25,025 and \$25,907), respectively, from Japan of \$45,881 and \$148,290 (2013 - \$42,640 and \$197,308), respectively, from Australia of \$24,799 and \$52,018 (2013 - \$25,906 and \$51,196), respectively, from South Africa of \$14,713 and \$23,100 (2013 - \$18,028 and \$38,717), respectively, and from China of \$8,471 and \$16,267 (2013 - \$17,859 and \$42,213), respectively.

Contained within the results of Latin America for the three and six months ended October 31, 2014 are revenues from Mexico of \$69,574 and \$87,268 (2013 - \$33,995 and \$185,843), respectively, from Colombia of \$11,961 and \$29,484 (2013 - \$78,950 and \$137,010), respectively, from Brazil of \$11,806 and \$28,729 (2013 - \$17,506 and \$39,756), respectively, from Chile of \$8,008 and \$22,921 (2013 - \$5,427 and \$24,264), respectively, and from Costa Rica of \$2,674 and \$6,839 (2013 - \$nil and \$nil), respectively.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Note 6 **Segmented Information – (cont'd)**

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

	As at	
	October 31, 2014	April 30, 2014
Canada	\$ 8,071,269	\$ 8,230,891
United States	109,112	44,816
	\$ 8,180,381	\$ 8,275,707

Note 7 **Commitments**

- a) On November 27, 2013, the Company entered into an extension of an existing lease agreement, which commenced on October 1, 2014 and expires on September 30, 2019. The monthly lease payment under the extension agreement is \$23,038 plus \$21,656 in operating costs.
- 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 \$5,368 (CDN\$6,009). On November 4, 2013, the Company entered into an extension of this lease agreement, which commenced on January 1, 2014 and expires on April 30, 2019. The monthly lease payment under the extension agreement is \$3,982 plus \$3,709 in operating costs. This lease expense is a related party transaction as it was incurred with a company with a director in common with the Company.
- c) From March 2013 to April 2014, the Company entered into various lease agreements with commencement dates between April 2013 and May 2014 and that expire between May 2016 and May 2017. The combined monthly lease payments are \$9,829 plus \$495 in operating expenses.

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

	Office Leases – Related Party	Office Leases – Unrelated Party	Total Office Leases
2015	\$ 46,147	\$ 302,610	\$ 348,757
2016	92,293	628,585	720,878
2017	92,293	577,376	669,669
2018	92,293	556,276	648,569
2019	92,293	558,437	650,730
2020	–	232,682	232,682
	\$ 415,319	\$ 2,855,966	\$ 3,271,285

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Note 8 **Earnings (loss) per common share (“EPS”)**

Computation of basic and diluted EPS:

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2014	2013	2014	2013
Net loss	\$ (1,438,784)	\$ (2,111,228)	\$ (2,502,157)	\$ (3,336,519)
Weighted average common shares outstanding – basic and diluted	42,552,576	42,007,439	42,572,713	41,971,160
Basic and diluted EPS	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>

As at October 31, 2014 and October 31, 2013, common share equivalents, consisting of common shares issuable, on exercise of options, warrants and DSUs of 6,182,495 and 5,004,257, respectively, were not included in the computation of diluted EPS because the effect was anti-dilutive.

Forward-Looking Statements

This quarterly 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", "intends", "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", which may cause our or our industry's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance 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 or performance. 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 quarterly report, the terms "we", "us" and "our" means CounterPath Corporation, unless otherwise indicated.

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 quarterly report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions.

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 ("NewHeights") 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 our common stock.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. ("FirstHand") 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. ("BridgePort Networks") by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

Business of CounterPath

We design, develop and sell software and services that enable enterprises and telecommunication service providers to deliver Unified Communications (UC) services, including voice, video, messaging and collaboration functionality, over their Internet Protocol, or IP, based networks. We are capitalizing upon numerous industry trends, including the rapid adoption of mobile technology, the proliferation of bring-your-own-device to work programs, the need for secure business communications, the need for centralized provisioning, the migration towards cloud-based services and the migration towards all IP networks. We are also capitalizing on a trend where communication services such as Skype and WhatsApp are becoming more available over-the-top (OTT) of the incumbent operators' networks or enterprise networks. Enterprises typically leverage our Enterprise OTT solutions to increase employee productivity and to reduce certain costs. Telecommunication service providers typically deploy our Operator OTT solutions as part of a broad strategy to defend their subscriber base from competitive threats by offering innovative new services. Our original equipment manufacturers and value added resellers typically integrate our solutions into their products and then sell a bundled solution to their end customers, which include telecommunication service providers and enterprises.

Revenue

We derive revenue from the sale of software licenses, software customization services, technical support services associated with the software licenses, implementation services, training services, and cloud based services. 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 solutions under perpetual license agreements that generate one time license revenue and under subscription license agreements that generate recurring license revenue. We sell our solutions through our own online store, through third-party online stores, directly using our in-house sales team and through channel partners. Our channel partners include original equipment manufacturers, value added distributors and value added resellers.

The amount of product configuration and customization required by a customer generally increases as the size of the customer's deployment of software increases. The number of software licenses purchased has a direct impact on the average selling price. Services and pricing 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 and uncertain 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) billable and non-billable travel, lodging, and other out-of-pocket expenses, (d) payments to third party vendors for compression/decompression software known as codecs, (e) amortization of capitalized software that is implemented into our products and (f) warranty expense.

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 an 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 interim consolidated financial statements are prepared in accordance with generally accepted accounting principles 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 quarterly report.

We believe that of our significant accounting policies, 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.

Basis of Presentation

The interim consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries, CounterPath Technologies, a company existing under the laws of the province of British Columbia, Canada, and BridgePort Networks, a company incorporated under the laws of the state of Delaware. All inter-company transactions and balances have been eliminated.

Interim Reporting

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the interim consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States. Except where noted, the interim consolidated financial statements follow the same accounting policies and methods of their application as our April 30, 2014 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim consolidated financial statements be read in conjunction with our April 30, 2014 annual audited consolidated financial statements.

Operating results for the three and six months ended October 31, 2014 are not necessarily indicative of the results that can be expected for the year ending April 30, 2015.

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 dependent upon payment from the end-user. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

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

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

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

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

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

Stock-Based Compensation

Stock options granted are accounted for under ASC 718, *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 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% for the six months ended October 31, 2014 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 six months ended October 31, 2014, we recorded an expense of \$570,121 in connection with share-based payment awards. A future expense of non-vested options of \$1,265,833 is expected to be recognized over a weighted-average period of 2.7 years. A future expense of non-vested deferred share units of \$315,436 is expected to be recognized over a weighted-average period of 2.2 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

We have goodwill on our balance sheet related to the acquisitions of NewHeights and FirstHand. Goodwill is carried and reported at acquisition cost. The determination of the net carrying value of goodwill and the extent to which, if any, there is impairment, is dependent on material estimates and judgments on our part, including the estimates of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

Goodwill—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. Our most recent annual goodwill impairment analysis, which was performed at the end of the fourth quarter of fiscal 2014, did not result in an impairment charge, nor did we record any goodwill impairment for the three and six months ending October 31, 2014.

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 October 31, 2014, we had no foreign currency forward contracts. 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.

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 our interim 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 six months ended October 31, 2014 consisted primarily of selling our IP telephony software and related services to telecom service provider enterprises and channel partners serving the telecom and enterprise segments, on-line sales, and the continued development of our IP telephony software products.

Selected Consolidated Financial Information

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below as at October 31, 2014 and April 30, 2014 and for the three and six months ended October 31, 2014 and 2013 has been derived from the consolidated unaudited financial statements and accompanying notes for the six months ended October 31, 2014 and 2013 and the audited consolidated financial statements for the fiscal year ended April 30, 2014. Each investor should read the following information in conjunction with those statements and the related notes thereto.

Selected Consolidated Balance Sheet Data	October 31, 2014	April 30, 2014
Cash and cash equivalents	\$ 5,058,448	\$ 7,172,798
Current assets	\$ 8,199,555	\$ 10,735,916
Current liabilities	\$ 4,154,011	\$ 4,031,301
Total liabilities	\$ 4,237,707	\$ 4,056,932
Total assets	\$ 16,496,633	\$ 19,136,890

Three Months Ended October 31,

Selected Consolidated Statements of Operations Data	2014		2013	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 2,851,108	100%	\$ 2,546,810	100%
Operating expenses	\$ 4,474,282	157%	\$ 4,313,043	169%
Loss from operations	(\$1,623,174)	(57%)	(\$1,766,233)	(69%)
Interest and other income, net	\$ 3,674	–%	\$ 56,828	2%
Fair value adjustment on derivative instrument	–	–%	(\$12,574)	–%
Foreign exchange gain (loss)	\$ 180,716	6%	(\$389,249)	(16%)
Net loss before income taxes	(\$1,438,784)	(50%)	(\$2,111,228)	(83%)
Net loss per share				
-Basic and diluted	(\$0.03)		(\$0.05)	
Weighted average common shares outstanding				
-Basic and diluted	42,552,576		42,007,439	

Six Months Ended October 31,

Selected Consolidated Statements of Operations Data	2014		2013	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 5,878,279	100%	\$ 5,406,297	100%
Operating expenses	\$ 8,929,821	(152%)	\$ 8,510,586	(158%)
Loss from operations	(\$3,051,542)	(52%)	(\$3,104,289)	(58%)
Interest and other income, net	\$ 11,368	–%	\$ 83,542	2%
Fair value adjustment on derivative instrument	–	–%	\$ 73,413	1%
Foreign exchange gain (loss)	\$ 538,017	9%	(\$389,185)	(7%)
Net loss before income taxes	(\$2,502,157)	(43%)	(\$3,336,519)	(62%)
Net loss per share				
-Basic and diluted	(\$0.06)		(\$0.08)	
Weighted average common shares outstanding				
-Basic and diluted	42,572,713		41,971,160	

Revenue

	Three Months Ended October 31,				Period-to-Period Change	
	2014		2013		Amount	Percent Increase / (Decrease)
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue		
Revenue by Type						
Software	\$ 1,720,742	60%	\$ 1,451,475	57%	\$ 269,267	19%
Service	\$ 1,130,366	40%	\$ 1,095,335	43%	\$ 35,031	3%
Total revenue	\$ 2,851,108	100%	\$ 2,546,810	100%	\$ 304,298	12%
Revenue by Region						
International	\$ 1,055,388	37%	\$ 666,343	26%	\$ 389,045	58%
North America	\$ 1,795,720	63%	\$ 1,880,467	74%	(\$84,747)	(5%)
Total revenue	\$ 2,851,108	100%	\$ 2,546,810	100%	\$ 304,298	12%

For the three months ended October 31, 2014, we generated \$2,851,108 in revenue compared to \$2,546,810 for the three months ended October 31, 2013, representing an increase of \$304,298 or 12%. Software revenue increased \$269,267 or 19% to \$1,720,742 for the three months ended October 31, 2014 compared to \$1,451,475 for the three months ended October 31, 2013. The increase in software revenue was primarily a result of an increase in sales to sales providers and enterprises partially offset by a decrease in sales to channel partners. Service revenue for the three months ended October 31, 2014 was \$1,130,366 compared to \$1,095,335 for the three months ended October 31, 2013. The increase of \$35,031 or 3% in service revenue was primarily a result of an increase in service sales to sales providers and enterprises partially offset by a decrease in service sales to channel partners. North American revenue decreased by 5% compared to the three months ended October 31, 2013, primarily as a result of lower sales of software and services to channel partners and service providers partially offset by stronger sales to enterprises. International revenue outside of North America increased by 58% during the three months ended October 31, 2014 compared to the three months ended October 31, 2013, primarily due to higher sales to service providers in Europe and Asia.

	Six Months Ended October 31,				Period-to-Period Change	
	2014		2013		Amount	Percent Increase / (Decrease)
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue		
Revenue by Type						
Software	\$ 3,594,690	61%	\$ 3,098,995	57%	\$ 495,695	16%
Service	\$ 2,283,589	39%	\$ 2,307,302	43%	(\$23,713)	(1%)
Total revenue	\$ 5,878,279	100%	\$ 5,406,297	100%	\$ 471,982	9%
Revenue by Region						
International	\$ 1,760,050	30%	\$ 1,631,724	31%	\$ 128,326	8%
North America	\$ 4,118,229	70%	\$ 3,774,573	69%	\$ 343,656	9%
Total revenue	\$ 5,878,279	100%	\$ 5,406,297	100%	\$ 471,982	9%

For the six months ended October 31, 2014, we generated \$5,878,279 in revenue compared to \$5,406,297 for the six months ended October 31, 2013. This represents an increase of \$471,982 or 9% from the same period last year. We generated \$3,594,690 in software revenue for the six months ended October 31, 2014 compared to \$3,098,995 for the six months ended October 31, 2013, representing an increase of \$495,695 or 16%. The increase in software revenue for the six months ended October 31, 2014 was primarily a result of an increase in sales to enterprises and service providers. For the six months ended October 31, 2014, service revenue was \$2,283,589 compared to \$2,307,302 for the six months ended October 31, 2013. The decrease of \$23,713 or 1% in service revenue was primarily a result of a decrease in sales to service providers partially offset by an increase in sales to enterprises. International revenue outside of North America increased by 8% during the six months ended October 31, 2014 compared to the six months ended October 31, 2013, as a result of increased sales to service providers in Asia and channel partners in Europe. North American revenue increased by 9%, compared to the six months ended October 31, 2013, due primarily to an increase in sales of software and services to North American enterprises partially offset by lower sales to channel partners and service providers.

Operating Expenses

Cost of Sales

Cost of sales for the three and six months ended October 31, 2014 and 2013 were as follows:

	October 31, 2014		October 31, 2013		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 586,455	21%	\$ 571,857	22%	\$ 14,598	3%
Six months ended	\$ 1,204,509	21%	\$ 1,129,312	21%	\$ 75,197	7%

Cost of sales was \$586,455 for the three months ended October 31, 2014 compared to \$571,857 for the three months ended October 31, 2013. The increase of \$14,598 was primarily attributable to an increase in wages, benefits and consulting fees of approximately \$12,500, an increase in licenses and permits of approximately \$7,800 due to higher sales of those licenses and an increase in other expenses of approximately \$11,800. The increase in cost of sales was offset by a decrease in depreciation expenses of approximately \$17,500.

Cost of sales was \$1,204,509 for the six months ended October 31, 2014 compared to \$1,129,312 for the six months ended October 31, 2013. The increase of \$75,197 was primarily attributable to an increase in wages, benefits and consulting fees of approximately \$55,000, and an increase in other expenses of approximately \$36,600. The increase in cost of sales was offset by a decrease in depreciation expense of approximately \$16,500.

Sales and Marketing

Sales and marketing expenses for the three and six months ended October 31, 2014 and 2013 were as follows:

	<u>October 31, 2014</u>		<u>October 31, 2013</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 1,225,776	45%	\$ 1,315,421	52%	(\$89,645)	(7%)
Six months ended	\$ 2,363,544	41%	\$ 2,528,904	47%	(\$165,360)	(7%)

Sales and marketing expenses were \$1,225,776 for the three months ended October 31, 2014 compared to \$1,315,421 for the three months ended October 31, 2013. The decrease of \$89,645 was primarily attributable to a decrease in travel and trade show expenses of approximately \$80,200, a decrease in stock based compensation of approximately \$49,100 and a decrease in other expenses of approximately \$12,200. The decrease in sales and marketing expense was offset by an increase in wages, benefits and consulting fees of approximately \$51,800.

Sales and marketing expenses were \$2,363,544 for the six months ended October 31, 2014 compared to \$2,528,904 for the six months ended October 31, 2013. The decrease of \$165,360 was primarily attributable to a decrease travel and trade show expenses of approximately \$118,100, a decrease in stock based compensation of approximately \$82,500 and a decrease in other expenses of approximately \$13,900. The decrease in sales and marketing expense was offset by an increase in wages, benefits and consulting fees of approximately \$49,100.

Research and Development

Research and development expenses for the three and six months ended October 31, 2014 and 2013 were as follows:

	<u>October 31, 2014</u>		<u>October 31, 2013</u>		<u>Period-to-Period Change</u>	
	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent of Revenue</u>	<u>Amount</u>	<u>Percent Increase / (Decrease)</u>
Three months ended	\$ 1,455,168	53%	\$ 1,324,308	52%	\$ 130,860	10%
Six months ended	\$ 2,951,374	51%	\$ 2,737,383	51%	\$ 213,991	8%

Research and development expenses were \$1,455,168 for the three months ended October 31, 2014 compared to \$1,324,308 for the three months ended October 31, 2013. The increase of \$130,860 was primarily attributable to an increase in wages, benefits and consulting fees of approximately \$114,900 and an increase in other expenses of approximately \$16,000.

Research and development expenses were \$2,951,374 for the six months ended October 31, 2014 compared to \$2,737,383 for the six months ended October 31, 2013. The increase of \$213,991 was primarily attributable to an increase in wages, benefits and consulting fees of approximately \$205,300 and an increase in other expense of approximately \$8,700.

General and Administrative

General and administrative expenses for the three and six months ended October 31, 2014 and 2013 were as follows:

	October 31, 2014		October 31, 2013		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 1,206,883	44%	\$ 1,101,457	43%	\$ 105,426	10%
Six months ended	\$ 2,410,394	42%	\$ 2,114,987	39%	\$ 295,407	14%

General and administrative expenses were \$1,206,883 for the three months ended October 31, 2014 compared to \$1,101,457 for the three months ended October 31, 2013. The increase of \$105,426 in general and administrative expenses was primarily attributable to an increase in consulting and directors fees of approximately \$55,500, an increase in legal, audit and professional expenses of approximately \$43,900 and an increase in other expenses of approximately \$37,500. The increase in general and administrative expenses was offset by a decrease in bad debts reserve of approximately \$31,500.

General and administrative expenses were \$2,410,394 for the six months ended October 31, 2014 compared to \$2,114,987 for the six months ended October 31, 2013. The increase of \$295,407 in general and administrative expenses was primarily attributable to an increase in wages, benefits, consulting and directors fees of approximately \$106,100, an increase in legal, audit and professional expenses of approximately \$74,100, an increase in patent costs of approximately \$70,300, an increase in filing fees of approximately \$27,600, an increase in rent expenses of approximately \$22,600 and an increase in other expenses of approximately \$15,200. The increase in general and administrative expenses was offset by a decrease in bad debts reserve of approximately \$20,500.

Interest and Other Income

Interest income for the three and six months ended October 31, 2014 was \$3,674 and \$11,718, respectively, compared to \$56,989 and \$84,474, respectively, for the three and six months ended October 31, 2013. Interest expense for the three and six months ended October 31, 2014 was \$nil and \$350, respectively, compared to \$161 and \$932, respectively, for the three and six months ended October 31, 2013.

Foreign exchange gain (loss) for the three and six months ended October 31, 2014 was \$180,716 and \$538,017, respectively, compared to (\$389,249) and (\$389,185), respectively, for the three and six months ended October 31, 2013. The foreign exchange gain (loss) represents the gain (loss) on account of translation of the intercompany accounts of our subsidiaries which maintain their records in currencies other than U.S. dollars and transactional losses and gains. As well, the foreign exchange gain (loss) includes the translation of quarterly intercompany transfer pricing invoices between us and our subsidiary invoiced in other than U.S. dollars and funds held in the parent company in currencies other than U.S. dollars.

Liquidity and Capital Resources

As of October 31, 2014, we had \$5,058,448 in cash and cash equivalents compared to \$7,172,798 as of April 30, 2014, representing a decrease of \$2,114,350. Our working capital was \$4,045,544 at October 31, 2014 compared to \$6,704,615 at April 30, 2014, representing a decrease of \$2,659,071. Management anticipates that the future capital requirements of our company will be primarily funded through cash flows generated from operations and from working capital, and we may seek additional funding to meet ongoing operating expenses.

Our company has \$4,371,696 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 \$1,617,755 for the six months ended October 31, 2014. This compares to a net cash outflow of \$1,584,373 for the same period last year representing an increase of \$33,382 in cash outflow from operations compared to the same period last year. The net cash outflow from operating activities for the six months ended October 31, 2014 was primarily a result of a net loss of \$2,205,157 and a non-cash foreign exchange gain of \$355,594. The net cash outflow was offset by a decrease in accounts receivable of \$404,377, an increase in accounts payable of \$109,244 and by adjustment for non-cash expenses including \$570,121 for stock based compensation and \$114,650 of depreciation and amortization.

Investing Activities

Investing activities resulted in a net cash outflow of \$169,048, for the six months ended October 31, 2014 primarily for purchases of computer equipment and website development costs. This compares with a net cash outflow from investing activities of \$69,694 for the same period last year primarily for purchases of computer equipment. At October 31, 2014, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in a net cash outflow of \$219,350 for the six months ended October 31, 2014 compared to a net cash outflow of \$92,172 for the six months ended October 31, 2013. The net cash outflow was primarily a result of repurchasing 215,170 shares of common stock at an average price of \$1.02 per share for \$219,137.

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 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. We have not yet evaluated the impact of the adoption of this new standard.

Item 4. 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 Securities Exchange Act of 1934 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 quarterly 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 October 31, 2014, our disclosure controls and procedures are effective as at the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Much of the information included in this quarterly 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

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 \$4,474,282 for the three months ended October 31, 2014 from \$4,313,043 for the three months ended October 31, 2013 while our revenue only increased to \$2,851,108 for the three months ended October 31, 2014 from \$2,546,810 for the three months ended October 31, 2013. 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 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.

Our inability to compete successfully in our markets would harm our operating results and negatively 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. For example, we will be noncompliant with NASDAQ continued listing requirements if our common stock trades for 30 consecutive business days below the \$1.00 minimum closing bid price requirement. 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' copy or otherwise gain 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.

We may not successfully sell our products in certain geographic markets or develop and manage new sales channels in accordance with our business plan.

We expect to continue to sell our products in certain geographic markets where we do not have significant current business and to a broader customer base. To succeed in certain of these markets, we believe we will need to develop and manage new sales channels and distribution arrangements. Because we have limited experience in developing and managing such channels, we may not be successful in further penetrating certain geographic regions or reaching a broader customer base. Failure to develop or manage additional sales channels effectively would limit our ability to succeed in these markets and could adversely affect our ability to grow our customer base and revenue.

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 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 the course of our sales to customers, we may encounter difficulty collecting accounts receivable and could be exposed to risks associated with uncollectible accounts receivable. Economic conditions may impact some of our customers' ability to pay their accounts payable. 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. While we attempt to monitor these situations carefully and attempt to take appropriate measures to collect accounts receivable balances, we have written down accounts receivable and written off doubtful accounts in prior periods and may be unable to avoid accounts receivable write-downs or write-offs of doubtful accounts in the future. Such write-downs or write-offs could negatively affect our operating results for the period in which they occur and could harm our operating results.

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 six months ended October 31, 2014 is the Canadian dollar. We are primarily exposed to a fluctuating Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction. There can be no assurance that our hedging program will not result in a negative impact on our earnings and earnings per share.

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 42,524,467 shares of common stock that were issued and outstanding as of October 31, 2014, our directors owned approximately 27% 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 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 stock options and deferred share units exercise or convert all of their vested stock options and deferred share units as at October 31, 2014, then we would be required to issue an additional 3,804,012 shares of our common stock, which would represent approximately 9% of our issued and outstanding common stock after such issuances. The exercise of any or all outstanding 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 trading 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 3a51-1 under the Securities Exchange Act of 1934. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

On September 12, 2014, we granted 137,000 stock options pursuant to our 2010 Stock Option Plan to four employees and one consultant. Each stock option entitles the holder thereof the right to purchase one share of common stock at a price equal to \$1.05. 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 62,000 stock options to non-U.S. persons (as that term is defined in Regulation S of the Securities Act of 1933) in an offshore transaction(s) relying on Regulation S and/or Section 4(2) of the Securities Act of 1933. We issued 75,000 of stock options to U.S. persons (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, as applicable.



Purchases of Equity Securities by the Issuer and Affiliated Purchasers

	Total number of shares purchased	Average price paid per share (Canadian dollars)	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
August 1, 2014 to August 31, 2014 ⁽¹⁾	15,000	\$1.14	15,000	2,374,153
September 1, 2014 to September 30, 2014 ⁽¹⁾	78,048	\$1.12	78,048	2,296,105
October 1, 2014 to October 31, 2014 ⁽¹⁾	75,322	\$1.05	75,322	2,220,783
Total	168,370	\$1.09⁽²⁾	168,370	2,220,783

(1) Pursuant to a normal course issuer bid, announced on March 17, 2014, which commenced on March 19, 2014 and expires on March 18, 2015, to purchase up to 2,458,153 shares of our common stock.

(2) Weighted average price.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-B

(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).
- 3.8 Certificate of Amendment to Articles of Incorporation (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013).

(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 Amended Deferred Share Unit Plan effective September 25, 2013 (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013).
- [4.10 Amended 2010 Stock Option Plan effective July 10, 2014 \(filed herewith\).](#)
- [4.11 Amended Employee share Purchase Plan effective July 29, 2014 \(filed herewith\).](#)

(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 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).
- 10.4 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).

(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)

(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

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant 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: December 11, 2014

/s/ David Karp

David Karp

Chief Financial Officer, Treasurer and Secretary

(Principal Financial Officer, Principal Accounting Officer)

Date: December 11, 2014

COUNTERPATH CORPORATION
AMENDED 2010 STOCK OPTION PLAN

This 2010 Stock Option Plan (the "Plan") provides for the grant of options to acquire shares of common stock, no par value (the "Common Stock"), of CounterPath Corporation, a Nevada company (the "Company"). For the purposes of Eligible Employees (as defined below) who are subject to tax in the United States, stock options granted under this Plan that qualify under Section 422 of the United States Internal Revenue Code of 1986, as amended (the "Code"), are referred to in this Plan as "Incentive Stock Options". Incentive Stock Options and stock options that do not qualify under Section 422 of the Code ("Non-Qualified Stock Options") and stock options granted to non-United States residents under this Plan are referred to collectively as "Options".

1. PURPOSE

1.1 The purpose of this Plan is to retain the services of valued key employees and consultants of the Company and such other persons as the Plan Administrator shall select in accordance with Section 3 below, and to encourage such persons to acquire a greater proprietary interest in the Company, thereby strengthening their incentive to achieve the objectives of the shareholders of the Company, and to serve as an aid and inducement in the hiring of new employees and to provide an equity incentive to consultants and other persons selected by the Plan Administrator.

1.2 This Plan shall at all times be subject to all legal requirements relating to the administration of stock option plans, if any, under applicable Canadian federal and provincial, and United States federal and state securities laws, the Code, the rules of any applicable stock exchange or stock quotation system, and the rules of any foreign jurisdiction applicable to Options granted to residents therein (collectively, the "Applicable Laws").

2. ADMINISTRATION

2.1 This Plan shall be administered initially by the Board of Directors of the Company (the "Board"), except that the Board may, in its discretion, establish a committee composed of two (2) or more members of the Board to administer the Plan, which committee (the "Committee") may be an executive, compensation or other committee, including a separate committee especially created for this purpose. The Board or, if applicable, the Committee is referred to herein as the "Plan Administrator".

2.2 If and so long as the Common Stock is registered under Section 12(b) or 12(g) of the United States *Securities Exchange Act* of 1934, as amended (the "Exchange Act"), the Board shall consider in selecting the Plan Administrator and the membership of any Committee, with respect to any persons subject or likely to become subject to Section 16 of the Exchange Act, the provisions regarding (a) "outside directors" as contemplated by Section 162(m) of the Code, and (b) "Non-Employee Directors" as contemplated by Rule 16b-3 under the Exchange Act.

2.3 The Committee shall have the powers and authority vested in the Board hereunder (including the power and authority to interpret any provision of the Plan or of any Option). The members of any such Committee shall serve at the pleasure of the Board. A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members of the Committee and any action so taken shall be fully effective as if it had been taken at a meeting.

2.4 The Board may at any time amend, suspend or terminate the Plan, subject to such shareholder approval as may be required by Applicable Laws, including the rules of an applicable stock exchange or other national market system, provided that:

- (a) no Options may be granted during any suspension of the Plan or after termination of the Plan; and
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- (b) any amendment, suspension or termination of the Plan will not affect Options already granted, and such Options will remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Optionee (as defined below) and the Plan Administrator, which agreement will have to be in writing and signed by the Optionee and the Company.

2.5 Subject to the provisions of this Plan, and with a view to effecting its purpose, the Plan Administrator shall have sole authority, in its absolute discretion, to:

- (a) construe and interpret this Plan;
- (b) define the terms used in the Plan;
- (c) prescribe, amend and rescind the rules and regulations relating to this Plan;
- (d) correct any defect, supply any omission or reconcile any inconsistency in this Plan;
- (e) grant Options under this Plan;
- (f) determine the individuals to whom Options shall be granted under this Plan and whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option, or otherwise;
- (g) determine the time or times at which Options shall be granted under this Plan;
- (h) determine the number of shares of Common Stock subject to each Option, the exercise price of each Option, the duration of each Option and the times at which each Option shall become exercisable;
- (i) determine all other terms and conditions of the Options; and
- (j) make all other determinations and interpretations necessary and advisable for the administration of the Plan.

2.6 All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in the Plan and on their legal representatives, heirs and beneficiaries, subject to any contrary determination by the Board.

3. ELIGIBILITY

3.1 Incentive Stock Options may be granted to any individual who, at the time the Option is granted, is an employee of the Company or any Related Company (as defined below) ("Eligible Employees") subject to tax in the United States.

3.2 Non-Qualified Stock Options may be granted to Eligible Employees, Consultants, and to such other persons who are not Eligible Employees as the Plan Administrator shall select, subject to any Applicable Laws.

3.3 Options may be granted in substitution for outstanding options of another company in connection with the merger, consolidation, acquisition of property or stock or other reorganization between such other company and the Company or any subsidiary of the Company. Options also may be granted in exchange for outstanding Options.

3.4 Unless otherwise approved by the Plan Administrator and Disinterested Shareholders (as such term is defined in Applicable Laws), no person shall be eligible to receive in any fiscal year Options to purchase more than 5% of the outstanding shares of Common Stock (subject to adjustment as set forth in Section 5.1(m) hereof). Any person to whom an Option is granted under this Plan is referred to as an "Optionee". Any person who is the owner of an Option is referred to as a "Holder".

3.5 As used in this Plan, the term "Related Company" shall mean any company (other than the Company) that is a "Parent Company" of the Company or "Subsidiary Company" of the Company, as those terms are defined in Sections 424(e) and 424(f), respectively, of the Code (or any successor provisions) and the regulations thereunder (as amended from time to time).

4. STOCK

4.1 The maximum number of shares of Common Stock issuable under the Plan is 7,860,000. The number of shares with respect to which Options may be granted hereunder is subject to adjustment as set forth in Section 5.1(m) hereof. In the event that any outstanding Option expires or is terminated for any reason, the shares of Common Stock allocable to the unexercised portion of such Option may again be subject to an Option granted to the same Optionee or to a different person eligible under Section 3 of this Plan; provided however, that any cancelled Options will be counted against the maximum number of shares with respect to which Options may be granted to any particular person as set forth in Section 3 hereof.

5. TERMS AND CONDITIONS OF OPTIONS

5.1 Each Option granted under this Plan shall be evidenced by a written agreement approved by the Plan Administrator (the "Agreement"). Agreements may contain such provisions, not inconsistent with this Plan, as the Plan Administrator in its discretion may deem advisable. All Options also shall comply with the following requirements:

(a) Number of Shares and Type of Option

Each Agreement shall state the number of shares of Common Stock to which it pertains and, for Optionees subject to tax in the United States, whether the Option is intended to be an Incentive Stock Option or a Non-Qualified Stock Option, *provided that:*

- (i) in the absence of action to the contrary by the Plan Administrator in connection with the grant of an Option, all Options shall be Non-Qualified Stock Options;
- (ii) the aggregate fair market value (determined at the Date of Grant, as defined below) of the stock with respect to which Incentive Stock Options are exercisable for the first time by an Optionee subject to tax in the United States during any calendar year (granted under this Plan and all other Incentive Stock Option plans of the Company, a Related Company or a predecessor company) shall not exceed U.S.\$100,000, or such other limit as may be prescribed by the Code as it may be amended from time to time (the "Annual Limit"); and
- (iii) any portion of an Option which exceeds the Annual Limit shall not be void but rather shall be a Non-Qualified Stock Option.

(b) Date of Grant

Each Agreement shall state the date the Plan Administrator has deemed to be the effective date of the Option for purposes of this Plan (the "Date of Grant").

(c) Option Price

Each Agreement shall state the price per share of Common Stock at which it is exercisable. The Plan Administrator shall act in good faith to establish the exercise price in accordance with Applicable Laws; *provided that:*

- (i) the per share exercise price for an Incentive Stock Option or any Option granted to a "covered employee" as such term is defined for purposes of Section 162(m) of the Code ("Covered Employee") shall not be less than the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith;
- (ii) with respect to Incentive Stock Options granted to greater-than-ten percent (>10%) shareholders of the Company (as determined with reference to Section 424(d) of the Code), the exercise price per share shall not be less than one hundred ten percent (110%) of the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith;
- (iii) Options granted in substitution for outstanding options of another company in connection with the merger, consolidation, acquisition of property or stock or other reorganization involving such other company and the Company or any subsidiary of the Company may be granted with an exercise price equal to the exercise price for the substituted option of the other company, subject to any adjustment consistent with the terms of the transaction pursuant to which the substitution is to occur; and
- (iv) with respect to Non-Qualified Stock Options, the exercise price per share shall be determined by the Plan Administrator at the time the Option is granted, but such price shall not be less than the closing trading price of the Common Stock on the OTCBB on the last trading day preceding the date on which the Option is granted (or if the Common Stock is not then listed and posted for trading on the OTCBB, on such other stock exchange on which the Common Shares are listed and posted for trading as may be selected by the Board of Directors). In the event that the Common Stock is not listed and posted for trading on any stock exchange or other quotation systems, the exercise price shall be the fair market value of the Common Stock as determined by the Plan Administrator.

(d) Duration of Options

At the time of the grant of the Option, the Plan Administrator shall designate, subject to paragraph 5.1(g) below, the expiration date of the Option, which date shall not be later than ten (10) years from the Date of Grant; *provided*, that: (a) the expiration date of any Incentive Stock Option granted to a greater-than-ten percent (>10%) shareholder of the Company (as determined with reference to Section 424(d) of the Code) shall not be later than five (5) years from the Date of Grant, and (b) if the expiration date falls on a date which is not a business day, then the expiration date shall be extended to the end of the next business day. In the absence of action to the contrary by the Plan Administrator in connection with the grant of a particular Option, and except in the case of Incentive Stock Options as described above, all Options granted under this Plan shall expire five (5) years from the Date of Grant.

(e) Vesting Schedule

No Option shall be exercisable until it has vested. The vesting schedule for each Option shall be specified by the Plan Administrator at the time of grant of the Option prior to the provision of services with respect to which such Option is granted; *provided* that if no vesting schedule is specified at the time of grant, the Option shall vest as follows:

- (i) on the first anniversary of the Date of Grant, the Option shall vest and shall become exercisable with respect to 25% of the Common Stock to which it pertains;
 - (ii) on the second anniversary of the Date of Grant, the Option shall vest and shall become exercisable with respect to an additional 25% of the Common Stock to which it pertains;
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- (iii) on the third anniversary of the Date of Grant, the Option shall vest and shall become exercisable with respect to an additional 25% of the Common Stock to which it pertains; and
- (iv) on the fourth anniversary of the Date of Grant, the Option shall vest and shall become exercisable with respect to balance of the Common Stock to which it pertains.

The Plan Administrator may specify a vesting schedule for all or any portion of an Option based on the achievement of performance objectives established in advance of the commencement by the Optionee of services related to the achievement of the performance objectives. Performance objectives shall be expressed in terms of one or more of the following: return on equity, return on assets, share price, market share, sales, earnings per share, costs, net earnings, net worth, inventories, cash and cash equivalents, gross margin or the Company's performance relative to its internal business plan, or such other terms as determined and directed by the Board. Performance objectives may be in respect of the performance of the Company as a whole (whether on a consolidated or unconsolidated basis), a Related Company, or a subdivision, operating unit, product or product line of either of the foregoing. Performance objectives may be absolute or relative and may be expressed in terms of a progression or a range. An Option that is exercisable (in full or in part) upon the achievement of one or more performance objectives may be exercised only following written notice to the Optionee and the Company by the Plan Administrator that the performance objective has been achieved.

(f) Acceleration of Vesting

The vesting of one or more outstanding Options may be accelerated by the Plan Administrator at such times and in such amounts as it shall determine in its sole discretion. The vesting of Options also shall be accelerated under the circumstances described in Section 5.1(m) below.

(g) Term of Option

- (i) Options that have vested as specified by the Plan Administrator or in accordance with this Plan, shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:
 - A. the expiration of the Option, as designated by the Plan Administrator in accordance with Section 5.1(d) above;
 - B. the date of an Optionee's termination of employment or contractual relationship with the Company or any Related Company for cause (as determined in the sole discretion of the Plan Administrator);
 - C. the expiration of three (3) months from the date of an Optionee's termination of employment or contractual relationship with the Company or any Related Company for any reason whatsoever other than cause, death or Disability (as defined below); or
 - D. the expiration of one year (1) from termination of an Optionee's employment or contractual relationship by reason of death or Disability (as defined below).
 - (ii) Upon the death of an Optionee, any vested Options held by the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under such Option shall pass by the Optionee's will or by the laws of descent and distribution of the Optionee's domicile at the time of death and only until such Options terminate as provided above.
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- (iii) For purposes of the Plan, unless otherwise defined in the Agreement, "Disability" shall mean medically determinable physical or mental impairment which has lasted or can be expected to last for a continuous period of not less than six (6) months or that can be expected to result in death. The Plan Administrator shall determine whether an Optionee has incurred a Disability on the basis of medical evidence acceptable to the Plan Administrator. Upon making a determination of Disability, the Plan Administrator shall, for purposes of the Plan, determine the date of an Optionee's termination of employment or contractual relationship.
 - (iv) Unless accelerated in accordance with Section 5.1(f) above, unvested Options shall terminate immediately upon the Optionee resigning from or the Company terminating the Optionee's employment or contractual relationship with the Company or any Related Company for any reason whatsoever, including death or Disability.
 - (v) For purposes of this Plan, transfer of employment between or among the Company and/or any Related Company shall not be deemed to constitute a termination of employment with the Company or any Related Company. For purposes of this subsection, employment shall be deemed to continue while the Optionee is on military leave, sick leave or other *bona fide* leave of absence (as determined by the Plan Administrator). The foregoing notwithstanding, employment shall not be deemed to continue beyond the first ninety (90) days of such leave, unless the Optionee's re-employment rights are guaranteed by statute or by contract.
- (h) Exercise of Options
- (i) Options shall be exercisable, in full or in part, at any time after vesting, until termination. If less than all of the shares included in the vested portion of any Option are purchased, the remainder may be purchased at any subsequent time prior to the expiration of the Option term. No portion of any Option for less than fifty (50) shares (as adjusted pursuant to Section 5.1(m) below) may be exercised; *provided*, that if the vested portion of any Option is less than fifty (50) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to an Option, and to the extent that an Option covers less than one (1) share, it is unexercisable.
 - (ii) Options or portions thereof may be exercised by giving written notice to the Company, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate exercise price for the Common Stock so purchased, which payment shall be in the form specified in Section 5.1(i) below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to the Holder of any Option, until provision has been made by the Holder, to the satisfaction of the Company, for the payment of the aggregate exercise price for all shares for which the Option shall have been exercised and for satisfaction of any tax withholding obligations associated with such exercise.
 - (iii) During the lifetime of an Optionee, Options are exercisable only by the Optionee or in the case of a Non-Qualified Stock Option, transferee who takes title to such Option in the manner permitted by subsection 5.1(k) hereof.

(i) Payment upon Exercise of Option

Upon the exercise of any Option, the aggregate exercise price shall be paid to the Company in cash or by certified or cashier's check. In addition, if pre-approved in writing by the Plan Administrator who may arbitrarily withhold consent, the Holder may pay for all or any portion of the aggregate exercise price by complying with one or more of the following alternatives:

- (i) by delivering to the Company shares of Common Stock previously held by such Holder, or by the Company withholding shares of Common Stock otherwise deliverable pursuant to exercise of the Option, which shares of Common Stock received or withheld shall have a fair market value at the date of exercise (as determined by the Plan Administrator) equal to the aggregate exercise price to be paid by the Optionee upon such exercise; or
- (ii) by complying with any other payment mechanism approved by the Plan Administrator at the time of exercise.

(j) No Rights as a Shareholder

A Holder shall have no rights as a shareholder with respect to any shares covered by an Option until such Holder becomes a record holder of such shares, irrespective of whether such Holder has given notice of exercise. Subject to the provisions of Section 5.1(m) hereof, no rights shall accrue to a Holder and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Holder becomes a record holder of the shares of Common Stock covered by the Option, irrespective of whether such Holder has given notice of exercise.

(k) Transfer of Option

- (i) Options granted under this Plan and the rights and privileges conferred by this Plan may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by applicable laws of descent and distribution or pursuant to a qualified domestic relations order, and shall not be subject to execution, attachment or similar process; *provided however* that, subject to applicable laws:
 - A. for Incentive Stock Options, any Agreement may provide or be amended to provide that a Non-Qualified Stock Option to which it relates is transferable without payment of consideration to immediate family members of the Optionee or to trusts or partnerships or limited liability companies established exclusively for the benefit of the Optionee and the Optionee's immediate family members; or
 - B. for Non-Qualified Stock Options, the Optionee's heirs or administrators may exercise any portion of the outstanding Options within one year of the Optionee's death.
- (ii) Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option or of any right or privilege conferred by this Plan contrary to the provisions hereof, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this Plan, such Option shall thereupon terminate and become null and void.

(l) Securities Regulation and Tax Withholding

- (i) Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all Applicable Laws. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any Options or shares under this Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under this Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such Options or shares.
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- (ii) As a condition to the exercise of an Option, the Plan Administrator may require the Holder to represent and warrant in writing at the time of such exercise that the shares are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Plan Administrator, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Plan Administrator also may require such other documentation as may from time to time be necessary to comply with federal, provincial or state securities laws. THE COMPANY HAS NO OBLIGATION TO UNDERTAKE REGISTRATION OF OPTIONS OR THE SHARES OF STOCK ISSUABLE UPON THE EXERCISE OF OPTIONS.
 - (iii) The Holder shall pay to the Company by certified or cashier's check, promptly upon exercise of an Option or, if later, the date that the amount of such obligations becomes determinable, all applicable federal, state, provincial, local and foreign withholding taxes that the Plan Administrator, in its discretion, determines to result upon exercise of an Option or from a transfer or other disposition of shares of Common Stock acquired upon exercise of an Option or otherwise related to an Option or shares of Common Stock acquired in connection with an Option. Upon approval of the Plan Administrator, a Holder may satisfy such obligation by complying with one or more of the following alternatives selected by the Plan Administrator:
 - A. by delivering to the Company shares of Common Stock previously held by such Holder or by the Company withholding shares of Common Stock otherwise deliverable pursuant to the exercise of the Option, which shares of Common Stock received or withheld shall have a fair market value at the date of exercise (as determined by the Plan Administrator) equal to any withholding tax obligations arising as a result of such exercise, transfer or other disposition; or
 - B. by complying with any other payment mechanism approved by the Plan Administrator from time to time.
 - (iv) The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of Options may be delayed, at the discretion of the Plan Administrator, until the Plan Administrator is satisfied that the applicable requirements of the federal, provincial and state securities laws and the withholding provisions under Applicable Laws have been met and that the Holder has paid or otherwise satisfied any withholding tax obligation as described in paragraph 5.1(l)(iii) above.
 - (m) Stock Dividend or Reorganization
 - (i) If: (1) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations thereunder; (2) the Company shall declare a dividend payable in, or shall subdivide, reclassify, reorganize, or combine, its Common Stock; or (3) any other event with substantially the same effect shall occur, the Plan Administrator shall, subject to applicable law, with respect to each outstanding Option, proportionately adjust the number of shares of Common Stock subject to such Option and/or the exercise price per share so as to preserve the rights of the Holder substantially proportionate to the rights of the Holder prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Options, the number of shares available under Section 4 of this Plan and the exercise price for such Options shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Plan Administrator, the Company, the Company's shareholders, or any Holder, so as to preserve the proportional rights of the Holder.
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- (ii) In the event that the presently authorized capital stock of the Company is changed into the same number of shares with a different par value, or without par value, the stock resulting from any such change shall be deemed to be Common Stock within the meaning of the Plan, and each Option shall apply to the same number of shares of such new stock as it applied to old shares immediately prior to such change.
- (iii) If the Company shall at any time declare an extraordinary dividend with respect to the Common Stock, whether payable in cash or other property, the Plan Administrator may, subject to applicable law, in the exercise of its sole discretion and with respect to each outstanding Option, proportionately adjust the number of shares of Common Stock subject to such Option and/or adjust the exercise price per share so as to preserve the rights of the Holder substantially proportionate to the rights of the Holder prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Options, the number of shares available under Section 4 of this Plan shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Plan Administrator, the Company, the Company's shareholders, or any Holder.
- (iv) The foregoing adjustments in the shares subject to Options shall be made by the Plan Administrator, or by any successor administrator of this Plan, or by the applicable terms of any assumption or substitution document.
- (v) The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

6. EFFECTIVE DATE; SHAREHOLDER APPROVAL

6.1 Incentive Stock Options may be granted by the Plan Administrator from time to time on or after the date on which this Plan is adopted (the "Effective Date") through the day immediately preceding the tenth anniversary of the Effective Date.

6.2 Non-Qualified Stock Options may be granted by the Plan Administrator on or after the Effective Date and until this Plan is terminated by the Board in its sole discretion.

6.3 Termination of this Plan shall not terminate any Option granted prior to such termination.

6.4 The approval of Disinterested Shareholders will be obtained for any reduction in the exercise price of Options if the Optionee is an Insider of the Company at the time of the proposed amendment. The terms "Disinterested Shareholder" and "Insider" shall have the meanings as defined for those terms in the Applicable Laws.

6.5 Any Options granted by the Plan Administrator prior to the approval of this Plan by the shareholders of the Company shall be granted subject to ratification of this Plan by the shareholders of the Company within twelve (12) months before or after the Effective Date. If such shareholder ratification is sought and not obtained, all Options granted prior thereto and thereafter shall be considered Non-Qualified Stock Options and any Options granted to Covered Employees will not be eligible for the exclusion set forth in Section 162(m) of the Code with respect to the deductibility by the Company of certain compensation. In addition, any such Options will remain unvested unless and until shareholder approval is obtained.

7. NO OBLIGATIONS TO EXERCISE OPTION

7.1 The grant of an Option shall impose no obligation upon the Optionee to exercise such Option.

8. NO RIGHT TO OPTIONS OR TO EMPLOYMENT

8.1 Whether or not any Options are to be granted under this Plan shall be exclusively within the discretion of the Plan Administrator, and nothing contained in this Plan shall be construed as giving any person any right to participate under this Plan.

8.2 The grant of an Option shall in no way constitute any form of agreement or understanding binding on the Company or any Related Company, express or implied, that the Company or any Related Company will employ or contract with an Optionee for any length of time, nor shall it interfere in any way with the Company's or, where applicable, a Related Company's right to terminate Optionee's employment at any time, which right is hereby reserved.

9. APPLICATION OF FUNDS

9.1 The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Options shall be used for general corporate purposes, unless otherwise directed by the Board.

10. INDEMNIFICATION OF PLAN ADMINISTRATOR

10.1 In addition to all other rights of indemnification they may have as members of the Board, members of the Plan Administrator shall be indemnified by the Company for all reasonable expenses and liabilities of any type or nature, including attorneys' fees, incurred in connection with any action, suit or proceeding to which they or any of them are a party by reason of, or in connection with, this Plan or any Option granted under this Plan, and against all amounts paid by them in settlement thereof (provided that such settlement is approved by independent legal counsel selected by the Company), except to the extent that such expenses relate to matters for which it is adjudged that such Plan Administrator member is liable for willful misconduct; provided, that within fifteen (15) days after the institution of any such action, suit or proceeding, the Plan Administrator member involved therein shall, in writing, notify the Company of such action, suit or proceeding, so that the Company may have the opportunity to make appropriate arrangements to prosecute or defend the same.

11. AMENDMENT OF PLAN

11.1 The Plan Administrator may, subject to Applicable Laws, at any time, modify, amend or terminate this Plan or modify or amend Options granted under this Plan, including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; *provided however* that:

- (a) no amendment with respect to an outstanding Option which has the effect of reducing the benefits afforded to the Holder thereof shall be made over the objection of such Holder;
 - (b) the events triggering acceleration of vesting of outstanding Options may be modified, expanded or eliminated without the consent of Holders;
 - (c) the Plan Administrator may condition the effectiveness of any such amendment on the receipt of shareholder approval at such time and in such manner as the Plan Administrator may consider necessary for the Company to comply with or to avail the Company and/or the Optionees of the benefits of any securities, tax, market listing or other administrative or regulatory requirement; and
 - (d) the Plan Administrator may not increase the number of shares available for issuance on the exercise of Incentive Stock Options without shareholder approval.
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11.2 Without limiting the generality of Section 11.1 hereof, the Plan Administrator may modify grants to persons who are eligible to receive Options under this Plan who are foreign nationals or employed outside Canada and the United States to recognize differences in local law, tax policy or custom.

Effective Date: September 27, 2011 as amended July 10, 2014.



COUNTERPATH CORPORATION
DEFERRED SHARE UNIT PLAN

1. INTRODUCTION

1.1 Purpose

The CounterPath Corporation Deferred Share Unit Plan has been established to provide non-employee directors and senior officers of CounterPath Corporation and its subsidiaries with the opportunity to acquire deferred share units in order to allow them to participate in the long term success of CounterPath Corporation and to promote a greater alignment of interests between its non-employee directors, senior officers and shareholders.

1.2 Definitions

- (a) "Acknowledgement of Recipient" means a document substantially in the form of Schedule "A";
 - (b) "Affiliate" has the meaning assigned by the *Securities Act* (British Columbia), as amended from time to time;
 - (c) "Applicable Withholding Taxes" has the meaning set forth in Section 2.3 of the Plan;
 - (d) "Associate" has the meaning assigned by the *Securities Act* (British Columbia), as amended from time to time or any instrument adopted pursuant to such Act;
 - (e) "Award Date" means the date on which a Deferred Share Unit is granted, which date may be on or, if determined by the Board at the time of grant, after the date that the Board resolves to grant the Deferred Share Unit;
 - (f) "Award Market Value" means the volume weighted average closing trading price of the Shares on the Exchange for the five (5) trading days immediately preceding the Award Date;
 - (g) "Beneficiary" means a person who, on the date of a Participant's death, is the person who has been designated as the Participant's beneficiary, or where no such person has been validly designated by the Participant, or where the person is an individual and does not survive the Participant, the Participant's legal representative;
 - (h) "Board" means the board of directors of the Corporation;
 - (i) "Cause" means, but is not limited to, termination of employment for any of the following actions: theft, dishonesty, misconduct, breach of fiduciary duty, or falsification of any of the Corporation's documents or records; material failure to abide by code of conduct or other policies; misconduct that results in a required accounting restatement; unauthorized use, misappropriation, destruction or diversion of any of tangible or intangible assets or corporate opportunity; any intentional act which has a material detrimental effect on the Corporation's reputation or business; repeated failure or inability to perform any reasonable assigned duties after written notice, and a reasonable opportunity to cure such failure or inability; any material breach of failure to cooperate in a corporate investigation; or conviction (including any plea of guilty or *nolo contendere*) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the person's ability to perform his duties on the Corporation's behalf or any other cause as that term is defined by common law applicable in British Columbia;
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- (j) "Change in Control" means the occurrence of any of the following: (i) a "Corporate Transaction," meaning either: the sale, lease, conveyance or other disposition of all or substantially all of the Corporation's assets to any person, entity or group of persons acting in concert; or a merger, consolidation or other transaction of the Corporation with or into any other corporation, entity or person, other than a transaction in which the holders of at least 50% of the shares of capital stock of the Corporation outstanding immediately prior thereto continue to hold (either by voting securities remaining outstanding or by their being converted into voting securities of the surviving entity or its controlling entity) at least 50% of the total voting power represented by the voting securities of the Corporation or such surviving entity (or its controlling entity) outstanding immediately after such transaction; or (ii) any person or group of persons becoming the "beneficial owner", directly or indirectly, of securities of the Corporation representing 50% or more of the total voting power represented by the Corporation's then outstanding voting securities; or (iii) a contest for the election or removal of members of the Board that results in the removal from the Board of at least 50% of the incumbent members of the Board;
- (k) "Committee" means the committee of the Board responsible for recommending to the Board the compensation of the Participants, which at the effective date of the Plan is the Corporation's Compensation Committee;
- (l) "Corporate Secretary" means the corporate secretary of the Corporation;
- (m) "Corporation" means CounterPath Corporation and its successors and assigns, and any reference in the Plan to activities by the Corporation means action by or under the authority of the Board or the Committee;
- (n) "Deferred Share Unit" means a unit equivalent in value to a Share, under regulation 6801(d) of the Canadian Income Tax Act or successor legislation, credited by means of a bookkeeping entry in the books of the Corporation in accordance with Section 5 and which entitles the holder thereof, at the time specified in the Plan, to receive Shares subject to the provisions of the Plan;
- (o) "Deferred Share Unit Agreement" means the agreement between the Corporation and the Participant evidencing the grant of Deferred Share Units;
- (p) "Director's Retainer" means the retainer payable to a Non-employee Director for service as a member of the Board during a calendar year and, for greater certainty, shall include, if any, Board or committee chairperson retainers, committee member retainers, Board or committee meeting fees, but shall not include special remuneration for ad hoc services rendered to the Board or any discretionary grant of Deferred Share Units;

- (q) "Disability" shall have the meaning ascribed to such terms in the Corporation's long-term disability plan provided that the Board's determination as to whether or not a Participant has incurred a Disability is final and conclusive and binding on all persons;
- (r) "Distribution" means an issuance from the treasury of the Corporation of a number of Shares required to settle the redemption of Deferred Share Units;
- (s) "Distribution Dates" means up to two dates elected by Participants in a timely manner as described below, provided that in no event shall a Participant be permitted to elect a date which is earlier than the ninetieth (90) day following the Separation Date or later than the last business day of the calendar year following the calendar year in which the Separation Date occurs, and provided, further, that for any U.S. taxpayer who is also a "specified employee" (as determined for purposes of Section 409A of the U.S. Internal Revenue Code), the first Distribution Date shall be no earlier than six (6) months following the Separation Date. If no Distribution Date is elected, or if it is not elected in a timely manner, "Distribution Date" shall mean the first business day following the six-month anniversary of the Separation Date. A Distribution Date shall be deemed to be elected "in a timely manner" if it specifies the percentage of the Deferred Share Units the Participant wishes to have distributed to him or her under Section 5.4 of the Plan and the Participant complies with the following rules:
 - (i) for Participants who are U.S. taxpayers, the election shall be delivered to the Corporate Secretary in the form prescribed by the Corporation, a copy of which is attached hereto as Schedule "B", prior to December 31 by current Participants with such election to apply in respect of Deferred Share Units awarded the following calendar years, or for new Participants who are U.S. taxpayers and who are eligible for the first time to participate in the Plan pursuant to Section 3 or Section 4, within 30 days following notice of such eligibility with such election to apply in respect of Deferred Share Units awarded that calendar year of eligibility. Such elections shall be irrevocable; and
 - (ii) for Participants resident in Canada only and who are not U.S. taxpayers, the election specifying the first Distribution Date shall be delivered prior to the Separation Date to the Corporate Secretary in the form prescribed by the Corporation, a copy of which is attached hereto as Schedule "C", and the election, if any, specifying the second Distribution Date shall be delivered in writing to the Corporate Secretary prior to the occurrence of the first Distribution Date;
- (t) "Distribution Value" means the volume weighted average closing trading price of the Shares on the Exchange for the five (5) trading days immediately preceding the Distribution Date;
- (u) "Dividend Equivalents" means a bookkeeping entry whereby each Deferred Share Unit is credited with the equivalent amount of the dividend paid on a Share in accordance with Section 5.2;

- (v) "Dividend Market Value" means the weighted average trading price of the Shares on the Exchange for the five (5) trading days immediately following the dividend record date for the payment of any dividend made on the Shares;
- (w) "Exchange" shall mean the TSX Venture Exchange, or TSX if applicable, or any other exchange on which the Shares of the Corporation trade as approved by the Board;
- (x) "Non-employee Director" means any member of the Board who is not employed by the Corporation or any of its subsidiaries;
- (y) "Participant" means a current or former Non-employee Director or Senior Officer who has been or is eligible to be credited with Deferred Share Units under the Plan;
- (z) "Participant Information" shall have the meaning set forth in Section 2.4;
- (aa) "Plan" means this CounterPath Corporation Deferred Share Unit Plan, as amended from time to time;
- (bb) "Plan Limit" shall have the meaning set forth in Section 2.5;
- (cc) "Retirement" means the termination of employment of a Participant on or after age sixty- five (65) or any such other age as determined from time to time by the Corporation;
- (dd) "Senior Officer" means the president of the Corporation, the chief executive officer of the Corporation, any officer of the Corporation, any executive vice-president of the Corporation, any senior vice-president of the Corporation and any vice-president or other employee of the Corporation designated by the Board as a Senior Officer for the purposes of this Plan;
- (ee) "Separation Date" means the date on which a Participant has retired from all positions with the Corporation and its subsidiaries or when a Participant, except as a result of death, has ceased to hold any and all positions with the Corporation and its subsidiaries;
- (ff) "Share" means a common share of the Corporation; and
- (gg) "TSX" means the Toronto Stock Exchange.

1.3 Effective Date of the Plan

The effective date of the Plan shall be the date on which such Plan is approved by shareholders of the Corporation.

2. ADMINISTRATION

2.1 Administration of the Plan

The Plan shall be administered by the Board, which shall have full authority to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make such determinations as it deems necessary or desirable for the administration of the Plan; and all actions taken and decisions made by the Board in this regard shall be final, conclusive and binding on all parties concerned, including, but not limited to, the Corporation, the Participants and their legal representatives.

Subject to the limitations of the Plan, the Board has the authority, to:

- (a) determine which individuals are to be granted Deferred Share Units and the number of Deferred Share Units to be issued to those Participants;
- (b) determine the terms under which such Deferred Share Units are granted including, without limitation, those related to transferability, vesting and forfeiture;
- (c) prescribe the form of the Plan with respect to a particular grant of Deferred Share Units;
- (d) interpret the Plan and determine all questions arising out of the Plan and any Deferred Share Units granted pursuant to the Plan, which interpretations and determinations will be conclusive and binding on the Corporation and all other affected persons;
- (e) to prescribe, amend and rescind rules and procedures relating to the Plan;
- (f) subject to the provisions of the Plan and subject to such additional limitations and restrictions as the Board may impose, to delegate to one or more officers of the Corporation some or all of its authority under the Plan;
- (g) to employ such legal counsel, independent auditors, third party service providers and consultants as it deems desirable for the administration of the Plan and to rely upon any opinion or computation received therefrom; and
- (h) make any other determinations that the Board deems necessary or desirable for the administration of the Plan.

2.2 Determination of Value if Shares Not Publicly Traded

Should the Shares not be publicly traded on the Exchange at the relevant time such that the Distribution Value and/or the Award Market Value and/or the Dividend Market Value cannot be determined in accordance with the formulae set out in the definitions of those terms, such values shall be determined by the Committee acting in good faith, which may include the use of an independent valuation.

2.3 Taxes and Other Source Deductions

- (a) The Corporation shall not be liable for any tax matters, issues or related tax problems, and for any tax imposed on any Participant or any Beneficiary as a result of the crediting, holding or redemption of Deferred Share Units, amounts paid or credited to such Participant (or Beneficiary), including the credit conversion of dividends to Deferred Share Units, or securities issued to such Participant (or Beneficiary) under this Plan;
- (b) It is the responsibility of the Participant (or Beneficiary) to complete and file any tax returns which may be required under any applicable tax laws within the period prescribed by such laws; and
- (c) The Participant (or Beneficiary) shall pay to the Corporation by wire transfer, certified or cashier's check, promptly upon distribution of Shares or, if later, the date that the amount of such obligations becomes determinable, all applicable federal, state, local and foreign withholding taxes (the "Applicable Withholding Taxes") that the Corporation, in its discretion, determines to result upon Shares distributed upon redemption of Deferred Share Units. Upon approval of the Corporation, a Participant (or Beneficiary) may satisfy such obligation by complying with one or more of the following alternatives selected by the Corporation:

- (i) by delivering to the Corporation Shares previously held by such Participant (or Beneficiary) or by the Corporation withholding Shares otherwise deliverable pursuant to the redemption of Deferred Share Units, which Shares received or withheld shall have a fair market value at such date (as determined by the Board) equal to any withholding tax obligations arising as a result of such redemption of Deferred Share Units; or
- (ii) by complying with any other payment mechanism approved by the Corporation from time to time.

2.4 Information

- (a) Each Participant shall provide the Corporation and the Committee with all the information including, where required, all “personal information” as defined in the *Personal Information Protection and Electronic Documents Act* (Canada), or any applicable provincial privacy legislation, they require to administer or operate the plan or to permit the participant to participate in the Plan (collectively, the “Participant Information”);
- (b) The Corporation and the Committee may from time to time transfer or provide access to Participant Information to a third party service provider for purposes of the administration of the Plan provided that such service providers will be provided with such information for the sole purpose of providing services to the Corporation in connection with the operation or administration of the Plan and provided further that such service providers agree to take appropriate measures to protect the Participant Information and not to use it for any purpose except to administer or operate the Plan. By participating in the Plan, each Participant acknowledges that Participant Information may be so provided and agrees to its provision on the terms set forth herein, including where applicable, to the transfer of the Participant Information to such third service providers;
- (c) In addition, Participant Information may be disclosed or transferred to another party during the course of, or completion of, a change in ownership of, the grant of a security interest in, all or part of the Corporation or its affiliates including through an asset or share sale, or some other form of business combination, merger or joint venture, provided that such party is bound by appropriate agreements or obligations and required to use or disclose the Participant Information in a manner consistent with this Section 2.4; and
- (d) Except as contemplated in this Section 2.4, the Corporation and the Committee shall not disclose the Participant Information except in response to regulatory filing requirements or other requirements for the information by a government authority, regulatory body, or a self-regulatory body in which the Corporation participates in order to comply with applicable laws (including, without limitation, the rules, regulations and policies of the Exchange) or for the purpose of complying with a subpoena, warrant or other order by a court, person or body having jurisdiction over the Corporation and/or such persons to compel production of the Participant Information.

2.5 Shares Reserved for Issuance

- (a) The maximum number of Shares that are issuable under the Plan is 3,000,000 (the “Plan Limit”), subject to adjustment under Section 5.7.
- (b) The maximum number of Shares that may be reserved for issuance to any one Eligible Participant pursuant to Deferred Share Units granted under the Plan and any Share Compensation Arrangement is 5% of the number of Shares of the Corporation outstanding at the time of reservation.
- (c) For purposes of determining the number of Shares that remain available for issuance under the Plan, the number of Shares underlying any grants of Deferred Share Units that are surrendered, forfeited, waived and/or cancelled shall be added back to the Plan Limit and again be available for future grant.

2.6 Non-Exclusivity

Nothing contained in this Plan will prevent the Board from adopting other or additional equity compensation arrangements, subject to obtaining the prior approval of the Exchange or any other required regulatory or shareholder approvals.

2.7 Amendment of Plan and Deferred Share Units

The Board may amend, suspend or terminate the Plan at any time, provided that no such amendment, suspension or termination may be made without obtaining any required regulatory approval, including the Exchange, or, if requested by such regulatory authority, any shareholder approval.

Furthermore, no such amendment, suspension or termination may:

- (a) without shareholder approval, increase the maximum number of Shares that may be issued pursuant to Deferred Share Units granted under the Plan; or
- (b) amend, alter or impair in any manner any Deferred Share Units previously granted to a Participant, without the express written consent of said Participant, irrespective of any action taken by the Board pursuant to Section 2.7.

2.8 Compliance with Laws and Stock Exchange Rules

The Plan, the grant of Deferred Share Units under the Plan and the Corporation’s obligation to issue Shares will be subject to all applicable federal, provincial and foreign laws, rules and regulations under the rules of any stock exchange on which the Shares are listed for trading. Any Shares issued to Participants pursuant to the vesting of Deferred Share Units may be subject to limitation on sale or resale under applicable securities laws.

3. PAYMENT OF NON-EMPLOYEE DIRECTOR'S RETAINER

The Board shall determine each year the manner in which the Corporation shall pay and/or issue, as the case may be, the Director's Retainer (i.e., in cash, vested Deferred Share Units or a combination thereof) to such Non-employee Director for services as a member of the Board for the current fiscal year.

4. GRANTING AND VESTING OF DEFERRED SHARE UNITS

Subject to such other terms and conditions as the as the Board or Committee may prescribe, the Committee may recommend and the Board may, from time to time, approve a grant of Deferred Share Units to a Participant, each of which represents the right of the Participant to receive one Share, subject to the following terms and conditions and shall contain such additional terms and conditions as the Board shall deem appropriate, not inconsistent with the terms of the Plan and applicable laws, regulations and rule.

Subject to the right of the Board to determine that a Deferred Share Unit may vest on dates different than the dates below or any other vesting requirements (to be set forth in the Deferred Share Unit Agreement), a Deferred Share Unit granted to a Participant other than a Director will vest as follows:

- (i) on the first anniversary of the Award Date as to one-third (1/3) of the number of Deferred Share Units granted;
- (ii) on the second anniversary of the Award Date as to one-third (1/3) of the number of Deferred Share Units granted; and
- (iii) on the third anniversary of the Award Date as to one-third (1/3) of the number of Deferred Share Units granted.

Subject to the right of the Board to determine that a Deferred Share Unit may vest on different dates or any other vesting requirements (to be set forth in the Deferred Share Unit Agreement), a Deferred Share Unit granted to a Participant who is a Director shall vest immediately on the Award Date.

5. DEFERRED SHARE UNITS

5.1 Number of Deferred Share Units

All Deferred Share Units received by a Participant shall be credited to an account maintained for the Participant on the books of the Corporation as of the Award Date, except where Deferred Share Units have been granted pursuant to Section 4, in which case such Deferred Share Units shall be credited to the Participant's account according to a vesting Schedule "A" recommended by the Committee and approved by the Board at its discretion. Schedule "A" will be kept in the books of the Corporation for each award. Unless otherwise determined by the Board, such Deferred Share Units shall cease to vest on the Separation Date and any Deferred Share Units which have not vested on the Separation Date shall be cancelled. Notwithstanding the foregoing, unless otherwise determined by the Committee or the Board at the Award Date, any Deferred Share Units outstanding immediately prior to the occurrence of a Change in Control, but which are not then vested, shall become fully vested upon the occurrence of a Change in Control. Notwithstanding Section 2.2, in the event that the Change in Control will result in the Shares no longer being publicly traded on the Exchange, prior to the occurrence of the Change in Control the Committee or the Board, acting in good faith, shall determine the formulae that shall be used to determine any Distribution Value and/or the Award Market Value and/or the Dividend Market Value after the occurrence of the Change in Control.

The number of Deferred Share Units (including fractional Deferred Share Units) to be credited as of the Award Date in respect of the Director's Retainer shall be determined by dividing (a) the amount of the Director's Retainer to be paid in Deferred Share Units by (b) the Award Market Value, with fractions computed to three decimal places. The number of Deferred Share Units (including fractional Deferred Share Units) to be credited as of the Award Date in respect of a grant under Section 4 shall be the number of Deferred Share Units as determined by the Board as of the Award Date.

The award of Deferred Share Units to a Participant shall be evidenced by a letter to the Participant from the Corporation in the form attached as Schedule "A".

5.2 Credits for Dividends

A Participant's account shall be credited with Dividend Equivalents in the form of additional Deferred Share Units (which shall vest in accordance with the vesting schedules of the Deferred Share Units that are subject to such Dividend Equivalent) on each dividend payment date in respect of which normal cash dividends are paid on the Shares. Such Dividend Equivalents shall be computed by dividing: (a) the amount obtained by multiplying the amount of the dividend declared and paid per Share by the number of Deferred Share Units recorded in the Participant's account on the record date for the payment of such dividend, by (b) the Dividend Market Value, with fractions computed to three decimal places.

5.3 Reporting of Deferred Share Units

Statements of the Deferred Share Unit accounts will be provided to the Participants on an annual basis.

5.4 Distribution of Deferred Share Units

- (a) Subject to Section 5.4(b), a Participant shall receive, on the applicable Distribution Date, Shares equal to the number of Deferred Share Units recorded in the Participant's account on the Distribution Date, provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes. Upon payment in full of the value of the Deferred Share Units, the Deferred Share Units shall be cancelled and no further payments shall be made to the Participant under the Plan.
- (b) Where a Participant resident in Canada only has elected to receive a portion of the Deferred Share Units on two Distribution Dates in accordance with Section 1.2(s), that Participant shall receive (i) on the first Distribution Date Shares equal to the number of Deferred Share Units recorded in the Participant's account on such date which the Participant has elected to have distributed, provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes, and (ii) on the second Distribution Date the Participant shall receive Shares equal to the number of Deferred Share Units remaining in the Participant's account on such date, provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes. Upon payment in full of the value of the Deferred Share Units, the Deferred Share Units shall be cancelled and no further payments shall be made to the Participant under the Plan. Where a Participant who is a U.S. taxpayer has elected to receive a portion of the Deferred Share Units on either one or two Distribution Dates for each year Deferred Share Units were issued to such Participant in accordance with Section 1.2(s), that Participant shall receive (i) on each first Distribution Date a Shares equal to the number of Deferred Share Units recorded in the Participant's account on such date which the Participant has elected to have distributed, provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes, and (ii) on each second Distribution Date the Participant shall receive Shares equal to the number of Deferred Share Units remaining in the Participant's account on such date provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes. For greater certainty, on the last elected second Distribution Date, the Participant shall also receive Shares equal to the number of Deferred Share Units remaining in the Participant's account on such date, provided that the Participant has delivered to the Corporation cash, or such other acceptable means to the Corporation as outlined in Section 2.3(c), to pay any Applicable Withholding Taxes. Upon payment in full of the value of the Deferred Share Units, the Deferred Share Units shall be cancelled and no further payment shall be made to the Participant under the Plan.

5.5 Termination of Employment

Unless otherwise determined by the Board, in its sole discretion, or specified in the applicable Deferred Share Unit Agreement:

- (a) Upon the voluntary resignation or the termination for Cause of a Participant, all of the Participant's Deferred Share Units which remain unvested in the Participant's Account shall be forfeited without any entitlement to such Participant. A terminated employee shall not be entitled to any new grants after receiving notice of termination, whether such notice is working notice or pay in lieu thereof.

- (b) Upon the termination without Cause, the Disability, or the Retirement of a Participant, the Participant or the Participant's Beneficiary, as the case may be, shall have a number of Deferred Share Units become vested (in addition to those already vested) in a linear manner equal to the sum for each grant of Deferred Share Units of the original number of Deferred Share Units granted multiplied by the number of completed months of employment since the Award Date divided by the number of months required to achieve the full vesting of such grant of Deferred Share Units reduced by the actual number of Deferred Share Units that have previously become vested in accordance with Section 4. Such vested Deferred Share Units shall be settled in accordance with Section 5.4. Termination without Cause may occur during a Change of Control period, if any of the following conditions occurs without the Senior Officer's informed written consent, which condition remains in effect ten business days after the Senior Officer's written notice to the Corporation of such condition: a material adverse change in the Senior Officer's title, duties or responsibilities; a decrease in the Senior Officer's base salary rate or target bonus amount; a relocation of the Senior Officer's work place that increases the Senior Officer's regular commute by more than 50 miles one-way; or a material breach by the Corporation or its successor of the Plan providing for Change in Control benefits following the consummation of a Change in Control.

5.6 Death of Participant to Distribution

Upon the death of a Participant prior to the distribution of the Deferred Share Units credited to the account of such Participant under the Plan, a Distribution shall be made to the estate of such Participant on or about the thirtieth (30th) day after the Corporation is notified of the death of the Participant. Such Distribution shall be equivalent to the amount which would have been paid or issued to the Participant pursuant to and subject to Section 5.4, calculated on the basis that the day on which the Participant dies is the Distribution Date. Upon payment or issuance in full of the value of all of the Deferred Share Units that become payable or issuable under this Section 5.6, the Deferred Share Units shall be cancelled and no further payments or issuances will be made from the Plan in relation to the Participant.

5.7 Adjustments

In the event of any change in the outstanding Shares by reason of (a) a stock split, spin-off, share dividend or share combination, or (b) reclassification, recapitalization, merger or similar event that results in a holder thereof being entitled to a different class or type of security or other property, the Committee may, subject to applicable law, adjust appropriately the account of each Participant and the Deferred Share Units outstanding under the Plan shall be adjusted in such manner, if any, as the Committee may in its discretion deem appropriate to preserve proportionally the interests of Participants under the Plan.

6. GENERAL

6.1 Amendment, Suspension, or Termination of Plan

The Board may from time to time amend or suspend the Plan in whole or in part and may at any time terminate the Plan without prior notice. However, any such amendment, suspension, or termination shall not adversely affect the Deferred Share Units previously granted to a Participant at the time of such amendment, suspension or termination, without the consent of the affected Participant.

If the Board terminates the Plan, no new Deferred Share Units (other than Deferred Share Units referred to in Section 5.2 and Deferred Share Units that have been granted but vest subsequently pursuant to Section 5.1) will be credited to the account of a Participant, but previously credited (and subsequently vesting) Deferred Share Units shall be paid out in accordance with the terms and conditions of the Plan existing at the time of termination. The Plan will finally cease to operate for all purposes when the last remaining Participant receives payment of all Deferred Share Units recorded in the Participant's account.

6.2 Compliance with Laws

- (a) The administration of the Plan shall be subject to and made in conformity with all applicable laws and any applicable regulations of a duly constituted authority. Should the Committee recommend and the Board, in its sole discretion, determine that it is not feasible or desirable to honor an election in favor of Deferred Share Units due to such laws or regulations, its obligation shall be satisfied by means of an equivalent cash payment (equivalence being determined on a before-tax basis) less any Applicable Withholding Taxes.
- (b) In the event that the Committee recommends and the Board, after consultation with the Corporation's Chief Financial Officer and external accountants, determines that it is not feasible or desirable to honor an election in favor of Deferred Share Units or to honor any other provision of the Plan (other than the Distribution Date) under generally accepted accounting principles as applied to the Plan and the accounts established under the Plan for each Participant, the Committee shall recommend and the Board shall make such changes to the Plan as the Board reasonably determines, after consultation with the Corporation's Chief Financial Officer and external accountants, are required in order to avoid adverse accounting consequences to the Corporation with respect to the Plan and the accounts established under the Plan for each Participant, and the Corporation's obligations under the Plan shall be satisfied by such other reasonable means as the Committee shall in its good faith determine.

6.3 Reorganization of the Corporation

The existence of any Deferred Share Units shall not affect in any way the right or power of the Corporation or its shareholders to make or authorize any adjustment, recapitalization, reorganization or other change in the Corporation's capital structure or its business, or any amalgamation, combination, merger or consolidation involving the Corporation or to create or issue any bonds, debentures, shares or other securities of the Corporation or the rights and conditions attaching thereto or to effect the dissolution or liquidation of the Corporation or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar nature or otherwise.

6.4 General Restrictions and Assignment

Except as required by law, the rights of a Participant under the Plan are not capable of being assigned, transferred, alienated, sold, encumbered, pledged, mortgaged or charged and are not capable of being subject to attachment or legal process for the payment of any debts or obligations of the Participant. Rights and obligations under the Plan may be assigned by the Corporation to a successor in the business of the Corporation.

6.5 No Right to Service

Neither participation in the Plan nor any action taken under the Plan shall give or be deemed to give any Participant a right to continued appointment as a member of the Board or as a Senior Officer or continued employment with the Corporation and shall not interfere with any right of the shareholders of the Corporation to remove any Participant as a member of the Board or any right of the Corporation to terminate a Senior Officer's office or employment with the Corporation at any time.

6.6 No Shareholder Rights

Under no circumstances shall Deferred Share Units be considered Shares nor shall they entitle any Participant to exercise voting rights or any other rights attaching to the ownership of Shares, nor shall any Participant be considered the owner of the Shares by virtue of the award of Deferred Share Units, until and unless Shares have been issued or transferred to the Participant upon redemption of his or her Deferred Share Units.

6.7 Units Non-Transferable

Deferred Share Units are non-transferable (except to a Participant's estate as provided in Section 5.5) and certificates representing Deferred Share Units will not be issued by the Corporation.

6.8 Unfunded and Unsecured Plan

Unless otherwise determined by the Board, the Plan shall be unfunded and the Corporation will not secure its obligations under the Plan. To the extent any Participant or his or her estate holds any rights by virtue of a grant of Deferred Share Units under the Plan, such rights (unless otherwise determined by the Board) shall be no greater than the rights of an unsecured creditor of the Corporation.

6.9 No Other Benefit

No amount will be paid to, or in respect of, a Participant under the Plan to compensate for a downward fluctuation in the price of a Share, nor will any other form of benefit be conferred upon, or in respect of, a Participant for such purpose.

6.10 Governing Law

The Plan shall be governed by, and interpreted in accordance with, the laws of the Province of British Columbia and the laws of Canada applicable therein, without regard to principles of conflict of laws.

6.11 Interpretation

In this text, words importing the singular meaning shall include the plural and vice versa, and words importing the masculine shall include the feminine gender.

6.12 Severability

The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision and any invalid or unenforceable provision shall be severed from this Plan.

APPROVED by the Board of CounterPath Corporation on July 23, 2009, as amended effective September 27, 2012, as further amended July 29, 2014.

(signed) "Donovan Jones"

Donovan Jones
President, Chief Executive Officer and
Director

SCHEDULE "A"



Personal & Confidential

[Date]

[Name of Non-employee Director/Senior Officer]

Dear **[Name]**:

Pursuant to this election, we are pleased to advise you that **[number]** DSUs have been awarded to you at the discretion of the Board of Directors of CounterPath Corporation pursuant to the CounterPath Corporation Deferred Share Unit Plan (the "Plan") and will be credited to your account in accordance with the following vesting schedule:

Award Date	Vesting Date	Number of DSUs	Award Market Value

In accordance with the terms of the Plan, all DSUs credited to your account will be paid out at the time and in the manner specified in the Plan.

Please complete the attached Acknowledgement of Recipient and return to my attention.

If you have any questions on the above, or would like more details, please do not hesitate to contact me.

Yours truly,

David Karp
Corporate Secretary
Tel: (604) 628-9364
Email: dkarp@counterpath.com

ACKNOWLEDGEMENT OF RECIPIENT

I, (print name) _____, acknowledge that:

1. I have received and reviewed a copy of the CounterPath Corporation Deferred Share Unit Plan (the "Plan") and agree to be bound by it.
2. The value of a Deferred Share Unit is based on the trading price of a Share and is thus not guaranteed. The eventual value of a Deferred Share Unit on the applicable payment date may be higher or lower than the value of the Deferred Share Unit at the time it was allocated to my account in the Plan.
3. I will be liable for income and/or withholding taxes when Deferred Share Units (including Dividend Equivalents converted to Deferred Share Units) are paid in cash on a Distribution Date, in accordance with the terms of the Plan. Payments from the Plan shall be net of applicable source deductions. **I understand that the Corporation is making no representation to me regarding taxes applicable to me under this Plan and I will confirm the tax treatment with my own tax advisor.**
4. No funds will be set aside to guarantee the payment of Deferred Share Units. Future payments from the Plan are an unfunded liability recorded on the books of the Corporation. Any rights under the Plan by virtue of a grant of Deferred Share Units shall be no greater than the rights of an unsecured creditor.
5. I understand that:
 - (a) all capitalized terms shall have the meanings attributed to them under the Plan;
 - (b) all payments will be net of any Applicable Withholding Taxes; and
 - (c) if I am a Non-employee Director and I resign or am removed from the Board or if I am a Senior Officer and I cease to be employed by the Corporation, unless otherwise determined by the Board, I will forfeit any Deferred Share Units which have not yet vested on such date, as set out in detail in the Plan.

Signature

Name

Date

SCHEDULE "B"
U.S. TAXPAYER FORM OF ELECTION

FOR TIMING AND AMOUNT OF PAYMENT

THIS ELECTION FORM MUST BE RETURNED TO THE CORPORATE SECRETARY OF THE CORPORATION (AT THE FOLLOWING FAX NUMBER: (604) 320-3399 BY 5:00 P.M. (PACIFIC TIME)) BEFORE **DECEMBER 31, 20** . [FOR NEW PARTICIPANTS: WITHIN 30 DAYS OF ELIGIBILITY TO PARTICIPATE]

I am currently a U.S. taxpayer due to my U.S. citizenship or tax residency.

I hereby irrevocably elect the following Distribution Date(s) and amounts:

<p><u>First Distribution Date:</u> _____ days (minimum of 90 days (unless I am a "specified employee" in which case a minimum of 185 days)) following my Separation Date.</p>	<p>Percentage of Deferred Share Units to Distribute to me on the First Distribution Date: _____% (must be in increments of 5%) Will be rounded up to the nearest unit.</p>
<p><u>Second Distribution Date (optional):</u> _____ days (minimum of 90 days (unless I am a "specified employee" in which case a minimum of 185 days)) following my Separation Date.</p>	<p>Remainder of Deferred Share Units will be delivered to me on the Second Distribution Date.</p>

Please note that regardless of the elections above, if either Distribution Date falls on or after December 31 of the calendar year following the year during which the Participant's Separation Date occurs, then the all amounts credited to a Participant's account shall be automatically distributed on the business day that immediately precedes such December 31.

Participant Signature

Date

SCHEDULE "C"
NON-U.S. TAXPAYER: FORM OF ELECTION

FOR TIMING AND AMOUNT OF PAYMENT

THIS ELECTION FORM MUST BE RETURNED TO THE CORPORATE SECRETARY OF THE CORPORATION (AT THE FOLLOWING FAX NUMBER: (604) 320-3399 BY 5:00 P.M. (PACIFIC TIME)) **PRIOR TO THE SEPARATION DATE, WITH RESPECT TO THE FIRST DISTRIBUTION DATE** AND PRIOR TO THE FIRST DISTRIBUTION DATE, WITH RESPECT TO THE SECOND DISTRIBUTION DATE.

I hereby irrevocably elect the following Distribution Date(s) and Amounts.

<p><u>First Distribution Date:</u> _____ days (minimum of 90 days) following my Separation Date.</p>	<p>Percentage of Deferred Share Units to Distribute to me on the First Distribution Date: _____ % (must be in increments of 5%) Will be rounded up to the nearest unit.</p>
<p><u>Second Distribution Date (optional):</u> _____ days (minimum of 90 days) following my Separation Date.</p>	<p>Remainder of Deferred Share Units will be delivered to me on the Second Distribution Date.</p>

Please note that regardless of the elections above, if either Distribution Date falls on or after December 31 of the calendar year following the year during which the Participant's Separation Date occurs, then the all amounts credited to a Participant's account shall be automatically distributed on the business day that immediately precedes such December 31.

Participant Signature

Date

**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 Quarterly Report 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 period covered by the quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: December 11, 2014

/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 Quarterly Report on Form 10-Q 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 period covered by the quarterly report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: December 11, 2014

/s/ David Karp

David Karp

Chief Financial Officer, Treasurer and Corporate 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 Quarterly Report of the Company on Form 10-Q for the three months ended October 31, 2014, 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)

December 11, 2014

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 Quarterly Report of the Company on Form 10-Q for the three months ended October 31, 2014, 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 Corporate Secretary
(Principal Financial Officer, Principal Accounting Officer)

December 11, 2014
