Condensed Interim Consolidated Financial Statements

Medifocus Inc.

For the three months ended June 30, 2016 and June 30, 2015

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Medifocus Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the reporting period. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Dr. Augustine Cheung"
Dr. Augustine Cheung
Chief Executive Officer

"Mirsad Jakubovic"
Mirsad Jakubovic
Chief Financial Officer

Notice of no Auditor Review of Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

MEDIFOCUS, INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in U.S. dollars)

	30-Jun-16	31-Mar-16
ASSETS		
Current assets:		
Cash and cash equivalents	$ 191,884	$ 113,946
Accounts receivable, net	615,867	660,637
Inventory, net	146,435	62,554
Other assets	6,697	14,214
Total Current Assets	960,883	851,351
Property and equipment, net	473,573	510,141
Deposits	271,330	271,330
Intangible assets, net	1,458,567	1,520,120
Total Assets	$ 3,164,353	$ 3,152,942
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$823,852	$864,022
Accrued expenses	826,293	797,141
Accrued interest payable	1,247,024	1,082,502
Promissory notes payable	476,380	274,890
Payable to Boston Scientific Corporation	1,376,680	1,257,995
Contingent consideration, current portion	478,577	461,211
Convertible notes payable (net of discount and deferred fees)	5,152,080	4,939,138
Total Current Liabilities	10,380,886	9,676,899
Contingent consideration	199,241	297,742
Total liabilities	10,580,127	9,974,641
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Common stock (no par value, unlimited shares authorized, 184,984,215 shares issued and outstanding as of June 30, 2016 and March 31, 2016, respectively.	14,295,388	14,295,388
Additional paid-in capital	10,744,777	10,744,777
Accumulated deficit	(32,455,939)	(31,861,864)
Total Stockholders' Deficit	(7,415,774)	(6,821,699)
Total Liabilities and Stockholders' Deficit	$ 3,164,353	$ 3,152,942

See accompanying notes to unaudited condensed interim consolidated financial statements.

MEDIFOCUS, INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(in U.S. dollars)

	Three months ended June 30,	
	2016	2015
Sales		
Products	$ 415,519	$ 327,088
Services	771,336	797,922
Total Sales	1,186,855	1,125,010
Costs of Sales		
Products	197,076	175,893
Services	518,673	654,818
Total Costs of Sales	715,749	830,711
Gross Profit	471,106	294,299
Operating Expenses		
Research and development	98,458	82,643
Sales and marketing	14,728	253,367
General and administrative	530,027	594,997
Total Operating Expenses	643,213	931,007
Loss from Operations	(172,107)	(636,708)
Other Income (Expense)		
Interest and discount accretion	(378,757)	(341,255)
Loss from change in fair value of contingent consideration	(37,550)	(37,148)
Foreign exchange gain (loss)	(5,661)	(12,958)
Total Other Income (Expense)	(421,968)	(391,361)
Net Loss	$ (594,075)	$ (1,028,069)
Net Loss per share basic and diluted	$ (0.00)	$ (0.01)
Weighted average common shares outstanding—basic and diluted	184,984,215	148,407,505

See accompanying notes to unaudited condensed interim consolidated financial statements.

MEDIFOCUS, INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in U.S. dollars)

	Three months ended June 30,	
	2016	2015
Net Loss	$ (594,075)	$ (1,028,069)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	98,121	90,068
Accretion of deferred financing costs and debt discount	212,942	190,635
Loss on change in fair value of contingent consideration	37,550	37,148
Provisions for bad debts and warranties	4,174	17,821
Changes in operating assets and liabilities		
Decrease in accounts receivable	40,596	67,321
(Increase) in inventory	(83,881)	(57,924)
Decrease (increase) in other current assets	7,517	(2,749)
(Increase) in deposits	—	(50,000)
(Decrease) increase in accounts payable	(40,170)	24,942
Increase (decrease) in accrued expenses	26,126	(6,336)
Increase in accrued interest	164,522	136,989
Net cash used in operating activities	(126,578)	(580,154)
FINANCING ACTIVITIES:		
Proceeds from notes payable	200,000	—
Net cash provided by financing activities	200,000	—
Effect of exchange rate changes on cash and cash equivalents	4,516	12,283
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,938	(567,871)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	113,946	1,312,479
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 191,884	$ 744,608
Cash paid for interest	$ 2,828	$ —
NON CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common shares issuable	$ —	$ 1,561,000

MEDIFOCUS, INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

(in U.S. dollars)

	Common Stock Shares	Common Stock Amount	Common Stock Issuable	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance at March 31, 2015	127,542,120	$ 12,782,563	$ 1,561,000	$ 9,659,740	$ (26,900,315)	$ (2,897,012)
Issuance of common shares issuable	38,750,000	1,561,000	(1,561,000)	—	—	—
Net loss	—	—	—	—	(1,028,069)	(1,028,069)
Balance at June 30, 2015	166,292,120	$ 14,343,563	$ —	$ 9,659,740	$ (27,928,384)	$ (3,925,081)
Balance at March 31, 2016	184,984,215	$ 14,295,388	$ —	$ 10,744,777	$ (31,861,864)	$ (6,821,699)
Net loss	—	—	—	—	(594,075)	(594,075)
Balance at June 30, 2016	184,984,215	$ 14,295,388	$ —	$ 10,744,777	$ (32,455,939)	$ (7,415,774)

See accompanying notes to unaudited condensed interim consolidated financial statements.

MEDIFOCUS, INC.

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2016

1. BUSINESS, LIQUIDITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Current Financial Condition

Medifocus Inc. (the "Company" or "Medifocus") was incorporated under the Business Corporations Act (Ontario) on April 25, 2005. Medifocus develops and commercializes minimally invasive focused heat systems for the treatment of cancerous and benign tumors, and enlarged prostate, medically known as Benign Prostate Hyperplasia ("BPH").

The Company owns two focused heat technology platforms with comprehensive US and international patent protection:

- The Endo-thermotherapy Platform-from which Prolieve was developed, can potentially be used to treat cancers in prostate, rectal, cervical and esophageal, and
- The Adaptive Phased Array ("APA") Microwave Focusing Platform-invented by MIT, licensed to Medifocus, directs precisely focused microwave energy at tumor center to induce shrinkage or eradication of tumors without undue harm to surrounding tissue. The Company's APA 1000 Breast Cancer Treatment System, developed from the APA technology platform is currently in pivotal Phase-III clinical trials.
- In addition to the two focused heat technology platforms, the Company entered into an exclusive license agreement with Duke University regarding Heat-Activated and Tumor-Targeted Immunotherapy and Gene Therapy. The exclusive license agreement pertains to the Patent Rights of a Duke invention for the development of heat-activated and tumor-targeted immunotherapy and gene therapy for the treatment of cancers and other diseases.

Going Concern Consideration

Effective April 1, 2016, the Company adopted ASU 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40)*, which requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued. Management's evaluations are based on relevant conditions and events that are known and reasonably to be knowable as of August 29, 2016. Based on the following, management believes that it is probable that management will be unable to meets obligations as they come due within one year that the financial statements are issued.

The Company's operations are subject to certain risks and uncertainties including, among others, current and potential competitors with greater resources, dependence on significant customers, lack of operating history and uncertainty of future profitability and possible fluctuations in financial results. Since inception, the Company has incurred substantial operating losses, principally from expenses associated with the Company's Prolieve operation, research and development, financing activities. The Company believes these expenditures are essential for the commercialization of its technologies. The Company expects its operating losses to continue for the foreseeable future as it continues its Prolieve sales and marketing activities and new product development efforts. Due to continued substantial operating losses, there is substantial doubt regarding the Company's ability to continue as a going concern. The Company's ability to achieve profitability is dependent upon its ability to operate its Prolieve business profitably and to obtain governmental approvals, produce, and market and sell its new product candidates. There can be no assurance that the Company will be able to commercialize its technology successfully or that profitability will ever be achieved. The operating results of the Company have fluctuated significantly in the past. The Company expects that its operating results will fluctuate significantly in the future and will depend on a number of factors, many of which are outside the Company's control.

The Company will need substantial additional funding in order to sustain its operation, to complete the development, testing and commercialization of its product candidates. The commitment to these projects will require additional external funding, at least until the Company is able to generate sufficient cash flow from the sale of one or more of its products to support its continued operations. If adequate funding is not available, the Company may be required to delay, scale back or eliminate certain aspects of its operations or attempt to obtain funds through unfavorable arrangements with partners or others that may force it to relinquish rights to certain of its technologies, products or potential markets or that could impose onerous financial or other terms. Furthermore, if the Company cannot fund its ongoing development and other operating requirements, particularly those associated with its obligations to conduct clinical trials under its licensing agreements, it will be in breach of these licensing agreements and could therefore lose its license rights,

which could have material adverse effects on its business. Additionally, the Company is not in compliance with the provisions of outstanding debt agreements, and it has not remitted quarterly royalty payments to Boston Scientific Corporation pursuant to the terms of its purchase agreement for Prolieve. The Company has not paid interest owing to certain holders of the convertible debentures, and is in a technical default of the terms of the debentures. The investors have not accelerated the terms of the debenture.

Management is continuing its efforts to obtain additional funds through equity financing and through the negotiation of debt agreements to ensure that the Company can meet its obligations and sustain operations. Additionally, the Company is reducing costs of operations, as the Company is eliminating certain positions that do not hold value to the Company.

The unaudited condensed interim consolidated financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed interim consolidated financial statements of Medifocus, Inc. have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and include the accounts of the Company and its wholly-owned subsidiary Celsion (Canada) Inc. All intercompany transactions have been eliminated. There were no transactions for Celsion (Canada) Inc. for the three month periods ended June 30, 2016 and 2015.

Unless otherwise noted, all references to "$" or "dollar" refer to the United States dollar. The Company operates in a single business segment, focused heat systems for targeted thermotherapy of surface, subsurface and deep seated localized and regional cancers. Substantially all of the Company's revenue is generated, and assets are located, in the United States.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to 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 amount of revenues and expenses during the reporting period. The consolidated financial statements include significant estimates for the expected economic life and value of our licensed technology, allowance for doubtful accounts, value of contingent consideration, value of our debt issuances, accruals for estimated product returns, warrant relative fair value calculation, allowance for inventory obsolescence, allowance for our net operating loss carry forward and related valuation allowance for tax purposes and our stock-based compensation related to employees and directors, consultants and advisors. Because of the use of estimates inherent in the financial reporting process, actual results could differ significantly from those estimates.

Credit Concentration

The Company's customers are primarily physicians and physician organizations in the U.S. For the three month periods ended June 30, 2016 and 2015 no individual customer represented more than 10% of revenues.

Vendor Concentration and Deposits

The Company currently purchases 100% of its Prolieve catheter inventory from one supplier. Alternative suppliers and alternative catheters are not currently available. The Company maintains a deposit of $221,330 with its vendor. The company maintains an additional deposit of $50,000 with a separate vendor to perform work for the company at a later unspecified date.

Fair Value Measurements

The Company's consolidated statements of financial position include various financial instruments (primarily cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and notes payable) recorded at cost, which approximates their fair value. Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In connection with the acquisition of Prolieve, the Company owes additional purchase consideration of up to $2.5 million (contingent consideration) based on the sales of Prolieve products after their acquisition. The contingent consideration is measured at fair value on a recurring basis using level 3 inputs, and the fair value is determined using unobservable inputs such as the discount rate. The change in the fair value of the contingent consideration of $37,551 and $37,148 for the three month periods ended June 30, 2016 and 2015,

respectively, is reflected as “loss from change in fair value of contingent consideration” in the accompanying unaudited condensed interim consolidated statements of operations. *See note 2.*

The Company has no financial assets and liabilities measured at fair value on a non-recurring basis. The Company’s long-lived assets are measured at fair value on a non-recurring basis only when an impairment is deemed to occur.

Fair Value of Financial Instruments

The carrying amounts of financial instruments classified as current assets or liabilities, including accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. All interest bearing and non-interest bearing accounts are guaranteed by the FDIC up to $250,000. The Company may maintain cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

Accounts Receivable

The Company extends credit to customers on an unsecured basis and payment terms are typically 30 days from delivery or service. The Company’s receivables are primarily related to Prolieve products and services. Management uses the aging account method to assess the company’s allowance for doubtful accounts. The aging account method uses the number of days outstanding for the underlying invoices that have been past due. Receivables are written off when it is determined that the underlying invoices are uncollectible.

The Company maintained an allowance for doubtful accounts of $82,091 and $77,917 as of June 30, 2016 and March 31, 2016, respectively. Accounts receivable consisted of the following as of June 30, 2016 and March 31, 2016:

	June 30, 2016	March 31, 2016
Accounts receivable	$ 697,958	$ 738,554
Allowance for doubtful accounts	(82,091)	(77,917)
	$ 615,867	$ 660,637

Inventory

Inventory is valued at the lower of cost or market and consists primarily of console units and single-use treatment catheters. Current inventory of catheters consists of the direct costs of acquiring the inventory from vendors. Non-current inventory of console units, which were originally held for sale, were classified as property & equipment during the year ended March 31, 2016 as the Company began using the console units in operations. The carrying amount was adjusted prior to the transfer of the assets for any depreciation expense that would have been recognized since acquisition had the asset been classified as held for sale.

Inventory is relieved using the first-in, first-out method and consists of the following at June 30, 2016 and March 31, 2016.

	June 30, 2016	March 31, 2016
Current inventory – Catheters	$ 146,435	$ 62,554

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets, ranging from three to seven years, using the straight-line method. Major renewals and improvements are capitalized and ordinary repairs and maintenance are expensed as incurred.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net undiscounted cash flows that the asset is expected to generate. If such asset is considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset, if any, exceeds its fair value determined using a discounted cash flow model.

Contingent Consideration

In accordance with ASC 805, upon the purchase of Prolieve, the Company recognized a contingent consideration obligation as part of the consideration transferred in exchange for the acquired business. The initial measurement of the contingent consideration obligation

was based on its estimated fair value. The contingent consideration obligation has been re-measured to fair value at each reporting date and will continue to be re-measured until the contingency is resolved, which is estimated to be during the year ended March 31, 2018. The changes in fair value are recognized in earnings. The contingent consideration obligation outstanding totaled $677,818 and $758,953 as of June 30, 2016 and March 31, 2016, respectively.

Intangible Assets

Intangible assets consist of intellectual property and customer relationships for our Prolieve business acquired in July 2012. These intangible assets were originally recorded at fair value and are amortized on a straight line basis over their estimated useful lives of 10 years. The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in a manner similar to that for property and equipment.

Revenue Recognition

The Company sells products and provides services which are used in the treatment of BPH. The Company recognizes revenue, net of sales taxes, from the sale of Prolieve consoles and catheters upon shipment to the customer. Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of any estimated returns. Revenue from the mobile service is recognized upon completion of the services, which is generally upon treatment of the patient.

The Company does not have a return policy that allows customers to return product, however the company has allowed returns on a limited customer by customer basis. The Company's estimate for returns is based upon its historical experience with actual returns, however such returns have historically been limited. While such experience has allowed for reasonable estimation in the past, history may not always be an accurate indicator of future returns. The Company continually monitors its estimates for returns and makes adjustments when it believes that actual product returns may differ from the established accruals, if any. We record a provision for estimated returns in the same period as the related revenue is recorded.

Costs of Sales—Products

Costs of goods sold primarily include the cost of products sold to customers on a first-in first-out basis, along with amortization expense of our intellectual property, warranty costs, warehousing costs, freight and handling charges. Warehousing costs include payroll and benefit costs.

Costs of Sales—Services

Costs of services consist primarily of the costs to provide mobile services to our patients, including catheter cost, amortization expense of our intellectual property, depreciation of our mobile consoles and vehicle fleet, and payroll and benefit costs.

Product Warranty Liabilities

Prolieve products are covered by warranties against defects in material and workmanship for periods of up to 12 months. We record a liability for warranty claims at the time of sale based on the trend in the historical ratio of product failure rates, material usage and service delivery costs to sales, the historical length of time between the sale and resulting warranty claim and other factors. The accrued liability for warranty provisions was approximately $38,000 as of June 30, 2016 and March 31, 2016.

Research and Development Expenses

Research and development costs are expensed as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax asset and liabilities of a change in tax rates is recognized in results of operations in the period that the tax rate change occurs. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position taken would be sustained in a tax examination, presuming that a tax examination will occur. The Company recognizes interest and/or penalties related to income tax matters in the income tax expense category.

Stock-Based Compensation

Compensation costs for all stock-based awards is measured at fair value on the date of the grant using an option pricing model and is recognized over the service period for awards expected to vest. The estimation of stock-based awards that will ultimately vest requires

judgment, and to the extent actual results or updated estimates differ from the current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Profit Sharing Plan

The Company sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Employees may contribute up to 15% of their pre-tax compensation. Participants are eligible for matching Company contributions up to 3% of eligible compensation dependent on the level of voluntary contributions. Company matching contributions totaled $10,239 and $12,977 for the three month period ended June 30, 2016 and 2015, respectively.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of shares of common shares outstanding during the period.

For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common shares is anti-dilutive due to the net losses. Outstanding stock options of 10,100,000 and 8,255,000 and outstanding stock purchase warrants of 31,012,050 and 102,828,105 to purchase commons shares for the three month periods ended June 30, 2016 and 2015, respectively, were considered anti-dilutive and therefore were not included in the calculation of diluted shares. Additionally, for the three month periods ended June 30, 2016 and 2015, convertible promissory notes convertible into 22,160,000 shares of common stock were also considered anti-dilutive and therefore were not included in the calculation of diluted shares.

Newly Adopted Accounting Pronouncements

ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40),* is discussed above in the Going Concern note disclosure.

ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* In April 2015, the FASB issued amended guidance to address the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. The amended guidance is effective for the Company beginning April 1, 2016 and has been applied retrospectively, wherein the balance sheet as of June 30, 2016 and March 31, 2016 is adjusted to reflect the period-specific effects of applying the amended guidance. The Company included $42,800 and $91,698 of debt issuance costs recorded in the Unaudited Condensed Interim Consolidated Statements of Financial Position that have been presented as a direct deduction from the debt liability of the convertible notes payable discussed in Note 6. The adoption of the amended guidance did not have an impact on the Company's Unaudited Condensed Interim Consolidated Statements of Operations.

Recent Accounting Pronouncements

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which provides guidance for revenue recognition for contracts. This guidance requires an entity to review contracts in five steps and will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. This standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted only as of annual reporting periods for fiscal years beginning after December 15, 2016. See also recent accounting pronouncements ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12 for amendments to the guidance. We are currently evaluating the impact, if any, that this new guidance will have on the Company’s Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2014-12, *Compensation-Stock Compensation (Topic 718): Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Guidance in Topic 718 as it relates to awards with performance conditions that affect vesting should be applied to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The amendments of ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning

after December 15, 2015. The adoption of the amended guidance is not expected to have a material impact on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, changes the measurement principle for certain inventory methods from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU does not apply to inventory that is measured using Last-in First-out ("LIFO") or the retail inventory method. The provisions of ASU 2015-11 are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating this guidance to determine the impact it may have on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, was issued to simplify the classification of deferred taxes on the balance sheet. The new guidance would require that deferred taxes be classified as non-current assets and liabilities based on the tax paying jurisdiction. Application of the standard, which can be applied prospectively or retrospectively, is required for fiscal years beginning on or after December 15, 2016 and for interim periods within that year. The adoption of the amended guidance is not expected to have a material impact on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, this new guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This new guidance is effective for annual reporting periods beginning after December 15, 2017. The guidance is not expected to have a material impact on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2016-02, *Leases (Topic 842),* On February 25, 2016, the FASB issued a new standard which requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. The new guidance will require the asset and liability to be initially measured at the present value of the lease payments in the statement of financial position. The new guidance will also require the company to recognize interest expense on the lease liability separately from the amortization of the right-use-asset for finance leases and recognize a single lease cost allocated on a straight-line basis over the lease term for operating leases, in the statement of comprehensive income. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early application permitted. The Company is currently evaluating this guidance to determine the impact it may have on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The areas of simplification in the update involve several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, however, some of the areas for simplification apply only to nonpublic entities. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period, however, certain requirements apply to the early adoption. The guidance is not expected to have a material impact on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

Emerging Growth Company Status

We are an "emerging growth company" as defined in section 3(a) of the Exchange Act, as amended by the United States Jumpstart Our Business Startups Act, enacted on April 5, 2012 (the "JOBS Act"), and will continue to qualify as an "emerging growth company" until the earliest to occur of: (a) the last day of the fiscal year during which we have total annual gross revenues of $1,000,000,000 (as such amount is indexed for inflation every 5 years by the SEC) or more; (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective registration statement under the Securities Act; (c) the date on which we have, during the previous 3-year period, issued more than $1,000,000,000 in non-convertible debt; or (d) the date on which we are deemed to be a 'large accelerated filer', as defined in Exchange Act Rule 12b–2.

Generally, a company that registers any class of its securities under section 12 of the Exchange Act is required to include in the second and all subsequent annual reports filed by it under the Exchange Act, a management report on internal controls over financial reporting and, subject to an exemption available to companies that meet the definition of a "smaller reporting company" in Exchange Act Rule 12b-2, an auditor attestation report on management's assessment of internal controls over financial reporting. However, for so long as we continue to qualify as an emerging growth company, we will be exempt from the requirement to include an auditor attestation report in our annual reports filed under the Exchange Act, even if we do not qualify as a "smaller reporting company". In addition, section 103(a)(3) of the Sarbanes-Oxley Act of 2002 has been amended by the JOBS Act to provide that, among other things, auditors of an emerging growth company are exempt from any rules of the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the company.

Any U.S. domestic issuer that is an emerging growth company is able to avail itself to the reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements, and to not present to its shareholders a nonbinding advisory vote on executive compensation, obtain approval of any golden parachute payments not previously approved, or present the relationship between executive compensation actually paid and our financial performance. As a foreign private issuer, we are not subject to such requirements, and will not become subject to such requirements even if we were to cease to be an emerging growth company.

As a reporting issuer under the securities legislation of the Canadian provinces of Ontario, British Columbia, and Alberta, we are required to comply with all new or revised accounting standards that apply to Canadian public companies. Pursuant to Section 107(b) of the JOBS Act, an emerging growth company may elect to utilize an extended transition period for complying with new or revised accounting standards for public companies until such standards apply to private companies. We have elected to utilize this extended transition period. However, while we have elected to utilize this extended transition period, our unaudited condensed interim consolidated financial statements as of June 30, 2016 reflect the adoption of all required accounting standards for public companies.

2. BUSINESS ACQUISITION AND CONTINGENT CONSIDERATION

On July 24, 2012 the Company purchased from Boston Scientific Corporation ("BSC"), in a taxable transaction, all of the assets, relating to the Prolieve Thermodilatation System (“Prolieve”), a FDA approved device for the treatment of Benign Prostatic Hyperplasia (“BPH”). The total purchase consideration consisted of the following:

Cash	$ 2,535,610
Fair value of contingent consideration	1,126,505
Total consideration	$ 3,662,115

The maximum amount of $2,500,000 is payable as contingent consideration pursuant to the terms of the agreement. The fair value of the contingent consideration was determined by calculating its present value based on its payment terms using an interest rate of 24% (our estimated unsecured borrowing rate). The contingent consideration is payable quarterly at a rate of 10% of sales of Prolieve products. As of June 30, 2016, $1,376,680 of royalties is due to BSC of which $1,257,995 is past due.

The activity of the contingent consideration obligation for the years ending March 31, 2016, 2015 and 2014 and the allocation is as follows:

Activity is as follows:	Non Contingent	Contingent	Total
Balance at April 1, 2015	$ 831,632	$ 1,031,179	$ 1,862,811
Less: payments	—	—	—
Change in fair market value	85,370	(48,222)	37,148
Balance at June 30, 2015	$ 917,002	$ 982,957	$ 1,899,959
Balance at April 1, 2016	$ 1,257,995	$ 758,953	$ 2,016,948
Less: payments	—	—	—
Change in fair market value	118,685	(81,135)	37,550
Balance at June 30, 2016	$ 1,376,680	$ 677,818	$ 2,054,298
Allocated as follows:			
Payable to Boston Scientific Corp.	$ 1,376,680	$ —	$ 1,376,680
Contingent consideration – current	$ —	$ 478,577	$ 478,577
Contingent consideration – non current	$ —	$ 199,241	$ 199,241

PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2016 and March 31, 2016:

	June 30, 2016		March 31, 2016	
Machinery and equipment (5-7 year life)	$	75,982	$	75,982
Mobile consoles (7 year life)		834,094		834,094
Furniture and fixtures (3-5 year life)		20,000		20,000
		930,076		930,076
Accumulated depreciation		(456,503)		(419,935)
Total	$	473,573	$	510,141

Depreciation expense was approximately $37,000 and $29,000 for the three month periods ended June 30, 2016 and 2015, respectively.

4. INTANGIBLE ASSETS

Intangible assets include intellectual properties and customer relationships relating to the Prolieve technology, acquired at a cost of $2.5 million. These assets are being amortized on a straight-line basis over ten years; amortization expense was $61,553 for each of the three month periods ended June 30, 2016 and 2015.

Future amortization expense related to the net carrying amount of intangible assets is estimated to be as follows:

2017	$	246,212
2018		246,212
2019		246,212
2020		246,212
2021		246,212
Sub-total		1,231,060
2021 and thereafter		227,507
Total	$	1,458,567

5. DEBT

In fiscal year 2013, the Company raised bridge financing of approximately U.S. $435,000. The bridge financing lender received a promissory note, with interest payable at 2% per month after October 23, 2012. The original maturity date of the promissory note was October 23, 2013 and was subsequently extended until June 30, 2014 at which time the Company began paying additional interest of 2% per month on accrued interest with an additional interest charge of .09% per month on current interest expense. As of March 31, 2016, the note remains in default and due in full. The Company is currently in discussions with the lender on a further extension of the maturity date. The Company has a total principal and accrued interest balance of approximately $616,000 and $576,000 as of June 30, 2016 and March 31, 2016, respectively. Interest expense of approximately $36,000 and $28,000 was recognized on the promissory note and accrued interest for the three month period ended June 30, 2016 and 2015, respectively.

In fiscal year 2014, the Company issued, in two separate tranches, 554 Units of 8% Redeemable Promissory Convertible Notes (the "Notes") together with Series C stock Purchase Warrants (the "Warrants") to various accredited investors in an offering exempt from registration in the U.S pursuant to regulations D and S under the U.S. Federal Securities rules and regulations, receiving gross proceeds of $5,540,000. The notes are convertible into 22,160,000 shares of common stock. Each warrant entitles the holder to acquire 20,000 common shares (for a total of 11,080,000 common shares) at an exercise price of $0.30 per share and expire on December 18, 2016 and March 7, 2017. The warrants were classified as equity, were recorded as additional paid in capital at their estimated fair value of $1,532,877, and are considered a non-cash financing activity. The Company recognized a beneficial conversion feature of $195,938 and deferred financing fees (consisting of both cash payments and the fair value of stock purchase warrants classified as equity) of $558,552 which are amortized using the effective interest method through December 18, 2016. The Company has accrued interest of $904,587 owing to holders of the convertible debentures as of March 31, 2016, of which $778,222 is past due, and is in a technical default of the terms of the debentures. In August 2016, the Company received payment demands for $90,000 principal plus unpaid interest from several holders of the convertible debentures.

In connection with the convertible notes, the Company recognized interest expense of $126,364 and $118,366 for the three month periods ended June 30, 2016 and 2015 and accretion expense of $212,942 and $118,366 for the three month periods ended June 30, 2016 and 2015, respectively.

During the three months ended June 30, 2016, the company entered into loan agreement in the amount of $200,000. The financing lender will receive interest payable of 1.25% per month. The maturity date for the outstanding amount is November 30, 2016 and default interest of 2% will be paid if the outstanding amount is not paid by the maturity date. The Company recognized $2,958 in interest expense for the three month period ended June 30, 2016. Subsequently, in August 2016, the Company obtained an additional $200,000 in loan from the same lender, at the same terms, and secured with the same intellectual property and proprietary rights related to the Prolieve system.

6. EQUITY AND STOCK-BASED COMPENSATION

Common Stock

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

On December 14, 2015, the Company completed a private placement of 15,500,000 units at a price of USD $0.05 per unit raising gross proceeds of $775,000 (net proceeds of $713,000). Each unit consisted of one common share and 0.5 common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of USD $0.10 until December 14, 2017. Management determined the warrants to have a fair value of $0.015 per warrant and accordingly, $176,169 of the proceeds from the issuance was allocated to additional paid in capital, and the balance of the proceeds was allocated to common shares.

A relative fair value calculation was used to determine the carrying value of the warrants. The fair value of the warrants issued was estimated using a Black-Scholes pricing model with the following assumptions:

Risk free interest rate	0.58% to 0.97%
Expected life in years	2 - 3 years
Expected volatility	98.96 to 146.6%

The Company uses the contract life as its expected life in years. Volatility is calculated based on actual weekly trading history of the Company's common stock. The risk-free rate is based on the daily yield curve of U.S. treasury bills.

Common stock issuable

Prior to March 31, 2015, the company received funds for common shares in the amount of $1,561,000 (net of fees) as part of a future private placement occurring on May 12, 2015. All shares were issued during the three months ended June 30, 2015. There were no stock issuable transactions during the three months ended June 30, 2016.

Stock Purchase Warrants

The Company had stock purchase warrants outstanding as of June 30, 2016 and March 31, 2016 as follows:

			June 30, 2016	March 31, 2016
Year of issue	Exercise Price	Expiration	Underlying Shares	Underlying Shares
2013	$ 0.20	6/8/2016	—	18,367,263
2013	$ 0.20	6/21/2016	—	22,200,000
2014	$ 0.30	12/18/2016	8,336,400	8,336,400
2014	$ 0.30	3/7/2017	4,644,400	4,644,400
2015	$ 0.25	9/15/2017	10,281,250	10,281,250
2016	$ 0.10	12/14/2017	7,750,000	7,750,000
			31,012,050	71,579,313

Stock Options

The Company may grant stock options to directors, senior officers and service providers by resolution of the Board of Directors. The exercise price will reflect the market price of the Company's stock on the date of the grant. The maximum number of stock options outstanding under the stock option plan is limited 10% of issued shares.

The Company measures the cost of stock option awards based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period. The

Company recognizes stock-based compensation expense over the vesting periods of the awards, adjusted for estimated forfeitures. There was no stock-based compensation cost incurred by the Company for the three month periods ended June 30, 2016 and 2015. A summary of the Plan for the three month period ended June 30, 2016 are presented below:

	Option Shares #	Weighted average exercise price $	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value $
Outstanding, April 1, 2016	10,100,000	0.06	4.75 years	$ —
Granted	—	—		
Exercised	—	—		
Cancelled/Expired	—	—		
Outstanding, June, 30, 2016	10,100,000	$ 0.06	4.50 years	$ —
Exercisable, June 30, 2016	10,100,000			

7. INCOME TAXES

The Company is domiciled in Canada and files Canadian federal and certain provincial tax returns. The Company had no provision (benefit) for income taxes for the three months ending June 30, 2016 and 2015.

Deferred income taxes reflect the net tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes. The Company's deferred income tax assets consist principally of carryforward losses which are offset by a full valuation allowance.

The Company is required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income in the periods which the deferred tax assets are deductible, the Company has determined that a full valuation allowance as of June 30, 2016 and March 31, 2016.

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. The Company establishes liabilities for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are fully supportable. The Company adjusts these liabilities in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of changes to the liability that is considered appropriate. The Company has identified no material uncertain tax positions as of June 30, 2016.

The Company is subject to income tax audits in all jurisdictions for which it is required to file tax returns. Tax audits by their nature are often complex and can require several years to complete. Neither the Company nor any of its subsidiaries is currently under audit in any jurisdiction. All of the Company's income tax returns remain subject to examination by tax authorities.

As a Canadian domiciled company, the Company has never filed a tax return in the United States. U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in "corporate inversion" transactions. A "corporate inversion" generally occurs when a non-U.S. Company acquires "substantially all" of the equity interests in, or the assets of, a U.S. Company or partnership, if, after the acquisition, former equity holders of the U.S. Company or partnership own a specified level of stock in the non-U.S. Company. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in "80 percent identity" transactions (i.e., former equity holders of the U.S. Company owns 80% or more of the equity of the non-U.S. acquiring entity, excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes. In "60-80 percent identity" transactions, the benefits of the inversion are limited by barring certain corporate-level "toll charges" from being offset by certain tax attributes of the U.S. Company (e.g., loss carry-forwards), and imposing excise taxes on certain stock-based compensation held by "insiders" of the U.S. Company. Management is of the view that a corporate inversion has resulted from the reverse takeover transaction it completed in fiscal 2009; however, it has not yet determined whether the Company is subject to the "80 percent" or the "60-80 percent" identity with respect to the transactions undertaken in the fiscal 2009 year since the interpretation of which categories of stock ownership are to be considered under the inversion rules is not yet settled. The Company has not filed income tax returns in Canada or United States since 2009. The Company

has never filed an income tax return in Canada but is current with its United States federal income tax filings. The Company has incurred losses in all jurisdictions in all years.

8. COMMITMENTS AND CONTINGENCIES

On January 16, 2006, the Company's wholly owned subsidiary, Celsion (Canada) Inc. purchased from Celsion Corporation *(USA) ["Celsion"]*all of the assets relating to breast cancer Microfocus APA 1000 System ("System"), consisting of the microwave machine technology, the APA technology licensed from MIT, and all related intellectual and regulatory property (collectively, the "Business"). The Company has a commitment to pay a 5% royalty to Celsion on the net sales of products sold by and patent royalties received by the Company and its successors and assignees. Total royalties paid are not to exceed $18,500,000. Royalties will not be payable until the System can be placed in the market following successful completion of the pivotal clinical trial and receipt of approval to market the System in the US and Canada from the FDA and Health Canada. The Company has an additional commitment to pay a 5% royalty to MIT on the net sales of products, upon commercialization.

Future minimum payments under operating leases for office space and vehicles as of June 30, 2016 are as follows:

2017	$	226,960
2018	$	134,945

The Company recognized total rent expense of $58,844 and $49,764 for the three month period ended June 30, 2016 and 2015, respectively.

The Company has agreed to indemnify its directors and officers and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.