Condensed Interim Consolidated Financial Statements

Medifocus Inc.

For the three months ended June 30, 2017 and June 30, 2016

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 U.S. GAAP.

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.

"William Jow"
Dr. William Jow
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.

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

	June 30, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 144,544	$ 70,294
Accounts receivable, net	789,406	1,020,091
Inventory, net	164,385	101,181
Other assets	68,693	66,689
Total Current Assets	**1,167,028**	**1,258,255**
Property and equipment, net	292,784	321,818
Deposits	299,930	271,330
Intangible assets, net	1,231,998	1,293,551
Total Assets	**$ 2,991,740**	**$ 3,144,954**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 376,798	$ 342,326
Accrued expenses	890,434	997,741
Accrued interest payable	2,003,276	1,788,188
Promissory notes payable	775,102	767,978
Payable to Boston Scientific Corporation	1,707,259	1,636,365
Contingent consideration, current portion	356,468	339,080
Convertible notes payable (net of discount), current portion	5,540,000	5,540,000
Total Current Liabilities	**11,649,337**	**11,411,678**
Contingent consideration	56,599	124,692
Total liabilities	**11,705,936**	**11,536,370**
Commitments and contingencies (Note 5 and Note 8)		
Stockholders' deficit:		
Common stock, no par value; unlimited shares authorized, 184,984,215 and 184,984,215 shares issued and outstanding as of June 30, 2017 and March 31, 2017, respectively.	14,295,388	14,295,388
Additional paid-in capital	10,744,777	10,744,777
Accumulated deficit	(33,754,361)	(33,431,581)
Total Stockholders' Deficit	**(8,714,196)**	**(8,391,416)**
Total Liabilities and Stockholders' Deficit	**$ 2,991,740**	**$ 3,144,954**
Going Concern (Note 1)		

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,	
	2017	**2016**
Sales		
Products	$ 340,950	$ 415,519
Services	368,000	771,336
Total Sales	708,950	1,186,855
Costs of Sales		
Products	187,790	197,076
Services	245,976	518,673
Total Costs of Sales	433,766	715,749
Gross Profit	275,184	471,106
Operating Expenses		
Research and development	47,553	98,458
Sales and marketing	9,426	14,728
General and administrative	345,065	530,027
Total Operating Expenses	402,044	643,213
Loss from Operations	(126,860)	(172,107)
Other Income (Expense)		
Interest and discount accretion	(203,798)	(378,757)
Loss from change in fair value of contingent consideration	(20,189)	(37,550)
Gain on recovery of HST receivable	31,891	—
Other income (expense)	(3,824)	(5,661)
Total Other Income (Expense)	(195,920)	(421,968)
Net Loss	$ (322,780)	$ (594,075)
Net Loss per share basic and diluted	$ (0.00)	$ (0.00)
Weighted average common shares outstanding—basic and diluted	184,984,215	184,984,215

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,	
	2017	2016
Net Loss	$ (322,780)	$ (594,075)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	90,587	98,121
Accretion of deferred financing costs and debt discount	—	212,942
Loss on change in fair value of contingent consideration	20,189	37,550
Gain on sale of fixed assets	(3,000)	—
Provisions for bad debts and warranties	(12,361)	4,174
Changes in operating assets and liabilities		
Decrease in accounts receivable	239,206	40,596
(Increase) in inventory	(63,204)	(83,881)
(Increase) decrease in other current assets	(2,116)	7,517
(Increase) in deposits	(28,600)	—
Increase (decrease) in accounts payable	34,472	(40,170)
(Decrease) increase in accrued expenses	(119,365)	26,126
Increase in accrued interest	203,800	164,522
Net cash provided by (used in) operating activities	36,828	(122,404)
INVESTING ACTIVITIES:		
Sale of fixed assets	3,000	—
Net cash provided by investing activities	3,000	—
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	34,422	4,516
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,250	82,112
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	70,294	113,946
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 144,544	$ 196,058
Cash paid for interest	$ —	$ 2,828
NON CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common shares issuable	$ —	$ —

See accompanying notes to unaudited condensed interim consolidated financial statements.

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 April 1, 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)
Balance at April 1, 2017	184,984,215	$ 14,295,388	$ —	$ 10,744,777	$ (33,431,581)	$ (8,391,416)
Net loss	—	—	—	—	(322,780)	(322,780)
Balance at June 30, 2017	184,984,215	$ 14,295,388	$ —	$ 10,744,777	$ (33,754,361)	$ (8,714,196)

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, 2017

1. BUSINESS, GOING CONCERN, 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 25, 2017. Based on the following, management believes that it is probable that management will be unable to meet its 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, 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 and financing activities. The Company believes these expenditures are essential for the commercialization of its technologies. The Company expects its operating losses to continue in the near future as it continues its Prolieve sales and marketing activities. Due to continued 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 default of the terms of the debentures.

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 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 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. during the three month periods ended June 30, 2017 and 2016.

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 unaudited condensed interim 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, 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. During the three month periods ended June 30, 2017 and 2016 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. The Company also maintains deposits related to their leases of property and vehicles.

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, payable to Boston Scientific, accrued interest payable, 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 $20,291 and $37,148 for the three month periods ended June 30, 2017 and 2016,

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 – Trade and Harmonized Sales Tax

Trade

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 $66,565 and $47,035 as of June 30, 2017 and March 31, 2017, respectively.

Harmonized Sales Tax

During the year ended March 31, 2016 the Company had a receivable from a Canadian tax agency for a harmonized sales tax, however, management was uncertain as to the collectability of the asset. During the year ended March 31, 2016 the Company decided to write-off the entire balance until the receivable is collected. During the year ended March 31, 2017 the collectability was ensured and the Company recovered a significant portion of the receivable. An additional amount of $31,891 was recognized during the three month period ending June 30, 2017. All harmonized sales tax receivables were received prior to June 30, 2017.

Accounts Receivable consisted of the following as of June 30, 2017 and March 31, 2017.

	June 30, 2017	March 31, 2017
Accounts receivable trade	$ 855,971	$ 865,018
Accounts receivable - Harmonized sales tax	—	202,107
Allowance for doubtful accounts	(66,565)	(47,035)
	$ 789,406	$ 1,020,091

Inventory

Inventory is valued at the lower of cost or net realizable value and consists primarily of single-use treatment catheters. 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. Current inventory of catheters consist of the direct costs of acquiring the inventory from vendor less any anticipated impairment for defective units.

Inventory is relieved using the first-in, first-out method and consists of the following at June 30, 2017 and March 31, 2017.

	June 30, 2017	March 31, 2017
Finished Goods – Catheters	$ 164,385	$ 101,181

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, 2019. The contingent consideration is $413,067 and $448,408 as of June 30, 2017 and March 31, 2017, 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 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 $7,300 and $9,200 as of June 30, 2017 and March 31, 2017, respectively.

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 requisite 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 approximately $4,612 and $10,239 for the three month periods ended June 30, 2017 and 2016, 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 6,500,000 and 10,100,000 and outstanding stock purchase warrants of 18,031,250 and 31,012,050 to purchase commons shares for the three month periods ended June 30, 2017 and 2016, 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, 2017 and 2016, 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.

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. 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. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The ASU provides clarity to preparers on the treatment of eight specific items within an entity's statement of cash flows. The guidance becomes effective for all public entities in fiscal years beginning after December 15, 2017, including interim periods therein. Early adoption of the guidance, including within an interim period, is permitted. The guidance is not expected to have a material impact on the Company's Unaudited Condensed Interim Consolidated Financial Statements.

ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting".* The ASU amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. The guidance becomes effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. 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, 2017 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, 2017, $1,707,259 of royalties is due to BSC of which $1,636,365 is past due.

The activity of the contingent consideration obligation for the three month periods ending June 30, 2017 and 2016 and the allocation is as follows:

Activity is as follows:	Non Contingent	Contingent	Total
Balance at April 1, 2016	$ 1,257,995	$ 758,953	$ 2,016,948
Less: payments	—	—	—
Change in non-contingent/contingent	118,685	(81,135)	37,550
Balance at June 30, 2016	$ 1,376,680	$ 677,818	$ 1,899,959
Balance at March 31, 2016	1,636,365	463,772	2,105,137
Less: payments	—	—	—
Change in non-contingent/contingent	70,894	(50,705)	20,289
Balance at March 31, 2017	$ 1,707,259	$ 413,067	$ 2,100,137
Allocated as follows as of March31, 2017:			
Payable to Boston Scientific Corp.	$ 1,707,259	$ —	$ 1,707,259
Contingent consideration – current	$ —	$ 356,468	$ 356,468
Contingent consideration – non current	$ —	$ 56,599	$ 56,599

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of March 31, 2017 and 2016:

	March 31, 2017	March 31, 2017
Machinery and equipment (5-7 year life)	$ 38,971	$ 38,971
Mobile consoles (7 year life)	801,429	798,667
Furniture and fixtures (3-5 year life)	20,000	20,000
	860,400	857,638
Accumulated depreciation	(567,616)	(535,820)
Total	$ 292,784	$ 321,818

Depreciation expense was approximately $32,000 and $37,000 for the three month periods ended June 30, 2017 and 2016, 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, 2017 and 2016.

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

2018	$ 246,212
2019	246,212
2020	246,212
2021	246,212
2022	246,212
Sub-total	1,231,060
2023	938
Total	$ 1,231,998

5. PROMISSORY NOTES PAYABLE, CONVERTIBLE NOTES PAYABLE AND ACCURED INTEREST PAYABLE

In fiscal year 2013, the Company raised bridge financing of approximately $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, 2017, the note remains in default and is 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 $761,000 and $703,000 as of June 30, 2017 and March 31, 2017, respectively. Interest expense of approximately $39,000 and $36,000 was recognized on the promissory note and accrued interest for the three month periods ended June 30, 2017 and 2016, 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 expired 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 were fully amortized using the effective interest method through the fiscal year ended March 31, 2017. The Company has accrued interest of $1,427,746 owing to holders of the convertible debentures as of June 30, 2017, of which $1,292,606 is past due.

In connection with the convertible notes, the Company recognized interest expense of $135,140 and $126,364 for the three month period ended June 30, 2017 and 2016, respectively. The Company recognized accretion expense of $0 and $212,942 for the three month periods ended June 30, 2017 and 2016, respectively.

On May 13, 2016, the Company entered into a 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 was November 30, 2016 and default interest of 2% began accruing effective that date as the loan is in default. The Company recognized $12,000 and $2,958 in interest expense for the three month periods ending June 30, 2017 and 2016, respectively. The loan is secured by the Company's assets.

On August 1, 2016, the Company entered into a 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 was January 31, 2017 and default interest of 2% began accruing effective of that date as the loan is in default. The Company recognized $12,000 in interest expense for the three month period ending June 30, 2017. The loan is secured by the Company's assets.

On October 30, 2016, the Company entered into a loan agreement in the amount of $100,000. The financing lender will receive interest payable of 1.25% per month. The maturity date for the outstanding amount is April 30, 2017 and default interest of 2% began accruing effective of that date as the loan is in default. The Company recognized $5,258 in interest expense for the three month period ended June 30, 2017. The loan is secured by the Company's assets.

6. EQUITY AND STOCK-BASED COMPENSATION

Common Stock

Authorized share capital consists of unlimited common shares with no par value. There were no issuances of common stock during the three month periods ending June 30, 2017 and 2016

Stock Purchase Warrants

The Company had stock purchase warrants outstanding as of June 30, 2017 and March 31, 2017 as follows:

Year of issue	Exercise Price	Expiration	June 30, 2017 Underlying Shares	March 31, 2017 Underlying Shares
2015	$ 0.25	9/15/2017	10,281,250	10,281,250
2016	$ 0.10	12/14/2017	7,750,000	7,750,000
			18,031,250	18,031,250

Stock Purchase Warrant Modifications

There were no stock purchase warrant modifications during the three month periods ended June 30, 2017 and 2016.

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 to 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. A summary of the Plan for the three month periods ended June 30, 2017 and 2016 is presented below:

	Option Shares	Weighted average exercise price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	#	$	(years)	$
Outstanding April 1, 2016	10,100,000	0.06	4.75	$ —
Granted	—			
Exercised	—			
Cancelled/Expired	(3,600,000)	0.06		
Outstanding March 31, 2017	6,500,000	0.06	3.75	$ —
Granted	—	—		
Exercised	—	—		
Outstanding, June, 30, 2017	6,500,000	0.06	3.50	$ —
Exercisable, June 30, 2017	6,500,000			

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 month periods ending June 30, 2017 and 2016 as a result of its net losses and full valuation allowance against its deferred assets.

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 carry forward 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 there is a full valuation allowance as of June 30, 2017 and March 31, 2017.

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, 2017.

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.

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. Additionally, if the Company does not apply for or does not receive FDA approval to enter at least one phase III clinical trials of a licensed product prior to the earlier of the termination of the agreement or June 25, 2018, the Company shall pay $10,000 to MIT. If the Company receives approval for sale of at least one licensed product or discovery product then the Company shall pay MIT $100,000.

The Company has signed a license agreement with Duke University to license certain patents in exchange for royalty payments. The company is committed to making certain milestone payments totaling $500,000 upon the achievement of certain regulatory milestones as well as a running royalty calculated on net sales.

Future minimum payments under operating leases for office space and vehicles as of June 30, 2017 are as follows:

2018	$	134,945

The Company recognized total rent expense of $58,756 and $58,844 for the three month periods ended June 30, 2017 and 2016, respectively.

9. RELATED PARTY TRANSACTIONS

The Company has entered into several transactions with a director and an officer. Descriptions of the related party transactions are as follows:

- The Company made a direct revenue sale to Medifocus Asia, Ltd., in the amount of approximately $232,000 during the year ended March 31, 2017 and resulted in a trade receivable balance of approximately $196,000 as of June 30, 2017 and March 31, 2017. Mr. Augustine Chow and Mr. Raymond Tong, both directors of Medifocus Inc, are also directors of Medifocus Asia, Ltd. Additionally, Mr. Augustine Chow and Mr. Raymond Tong have significant investments in Medifocus Asia, Ltd.