Condensed Interim Consolidated Financial Statements

Medifocus Inc.

For the three and nine months ended December 31, 2015 and December 31, 2014

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.

"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.

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

	December 31, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 254,213	$ 1,312,479
Accounts receivable, net	805,851	1,057,705
Inventory, net	101,088	79,604
Deferred financing costs	140,156	191,228
Other assets	23,540	38,800
Total Current Assets	**1,324,848**	**2,679,816**
Inventory, net	190,276	190,276
Property and equipment, net	419,926	469,035
Deferred financing costs, long term	—	91,698
Deposits	271,330	221,330
Intangible assets, net	1,581,673	1,766,332
Total Assets	**$ 3,788,053**	**$ 5,418,487**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 739,879	$ 606,527
Accrued expenses	537,671	568,919
Accrued interest payable	913,601	567,955
Promissory notes payable	257,948	282,303
Payable to Boston Scientific Corporation	1,144,313	831,632
Contingent consideration, current portion	443,833	440,663
Convertible notes payable (net of discount), current portion	4,872,208	4,426,984
Total Current Liabilities	**8,909,453**	**7,724,983**
Contingent consideration	388,558	590,516
Total liabilities	**9,298,011**	**8,315,499**
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Common stock (no par value, unlimited shares authorized, 185,184,215 and 127,542,120 shares issued and outstanding as of December 31, 2015 and March 31, 2015, respectively.	15,126,551	12,782,563
Common stock issuable	79,480	1,561,000
Additional paid-in capital	9,937,614	9,659,740
Accumulated deficit	(30,653,603)	(26,900,315)
Total Stockholders' Deficit	**(5,509,958)**	**(2,897,012)**
Total Liabilities and Stockholders' Deficit	**$ 3,788,053**	**$ 5,418,487**

See accompanying notes to unaudited condensed interim consolidated financial statements.

MEDIFOCUS, INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
LOSS AND COMPREHENSIVE LOSS
(in U.S. dollars)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Sales				
Services	$ 794,211	$ 705,553	$ 2,371,487	$ 1,938,065
Products	342,544	190,420	1,026,638	1,249,074
Total Sales	1,136,755	895,973	3,398,125	3,187,139
Costs of Sales				
Services	648,228	767,756	1,944,330	2,182,429
Products	151,755	144,350	500,625	684,651
Total Costs of Sales	799,983	912,106	2,444,955	2,867,080
Gross Profit (Loss)	336,772	(16,133)	953,170	320,059
Operating Expenses				
Research and development	213,166	76,248	457,712	202,245
Sales and marketing	320,464	263,198	983,361	1,353,535
General and administrative	885,539	564,338	2,189,009	2,163,266
Total Operating Expenses	1,419,169	903,784	3,630,082	3,719,046
Loss from Operations	(1,082,397)	(919,917)	(2,676,912)	(3,398,987)
Other Income (Expense)				
Interest and discount accretion	(350,929)	(347,255)	(1,035,942)	(1,019,103)
Loss from change in fair value of contingent consideration	(32,254)	(36,646)	(113,893)	(225,874)
Net loss from equity method investment	—	—	—	(55,735)
Other income	38,539	7,068	73,459	19,117
Total Other Income (Expense)	(344,644)	(376,833)	(1,076,376)	(1,281,595)
Net Loss and Net Comprehensive Loss	$ (1,427,041)	$ (1,296,750)	$ (3,753,288)	$ (4,680,582)
Net Loss per share basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.04)
Weighted average common shares outstanding—basic and diluted	171,315,367	127,542,120	158,001,024	121,261,211

See accompanying notes to unaudited condensed interim consolidated financial statements.

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

	Nine months ended December 31,	
	2015	2014
Net Loss	$ (3,753,288)	$ (4,680,582)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	269,507	271,406
Accretion of deferred financing costs and debt discount	587,994	527,338
Loss on change in fair value of contingent consideration	113,893	225,874
Provisions for bad debts and warranties	7,599	44,700
Product warranty expense	98,888	84,404
Stock-based compensation	183,410	—
Losses from equity method investment	—	55,735
Changes in operating assets and liabilities		
Decrease in accounts receivable	236,352	725,320
(Increase) decrease in inventory	(21,484)	423,984
Decrease (increase) in other current assets	15,260	(22,250)
(Increase) in deposits	(50,000)	—
Increase (decrease) in accounts payable	138,671	(407,684)
Increase in accrued expenses	112,307	102,391
Increase in accrued interest	367,939	344,331
Net cash used in operating activities	(1,692,952)	(2,305,033)
INVESTING ACTIVITIES:		
Purchase of fixed assets	(35,739)	(29,051)
Net cash used in investing activities	(35,739)	(29,051)
FINANCING ACTIVITIES:		
Issuance of common shares	737,000	1,444,274
Proceeds for common shares issuable	—	100,000
Principal repayments on note payable	—	(178,488)
Net cash provided by financing activities	737,000	1,365,786
Effect of exchange rate changes on cash and cash equivalents	(66,575)	(20,644)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,058,266)	(988,942)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,312,479	1,292,509
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 254,213	$ 303,567
Cash paid for Interest	$ 80,000	$ 77,500
NON CASH FINANCING ACTIVITIES		
Issuance of common shares issuable	$ 1,561,000	$ —
Accrued expense settled with common shares	$ 140,452	$ —
Accrued expense settled with common shares issuable	$ 78,480	$ —

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	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
Balance at April 1, 2014	117,260,870	$ 12,372,498	$ —	$ 8,625,531	$ (20,928,845)	$ (203,553)	$ (134,369)
Net loss	—	—	—	—	(1,339,618)	—	(1,339,618)
Balance at June 30, 2014	117,260,870	12,372,498	—	8,625,531	(22,268,463)	(203,553)	(1,473,987)
Issuance of common shares in private placement	10,281,250	410,065	—	1,034,209	—	—	1,444,274
Net loss	—	—	—	—	(2,044,214)	—	(2,044,214)
Balance at September 30, 2014	127,542,120	12,782,563	—	9,659,740	(24,312,677)	(203,553)	(2,073,927)
Proceeds for common shares issuable	—	—	100,000	—	—	—	100,000
Net loss	—	—	—	—	(1,296,750)	—	(1,296,750)
Balance at December 31, 2014	127,542,120	$ 12,782,563	$ 100,000	$ 9,659,740	$ (25,609,427)	$ (203,553)	$ (3,270,677)
Balance at April 1, 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)
Common shares issuable for debt	—	—	140,452	—	—	—	140,452
Net loss	—	—	—	—	(1,298,178)	—	(1,298,178)
Balance at September 30, 2015	166,292,120	14,343,563	140,452	9,659,740	(29,226,562)	—	(5,082,807)
Issuance of common shares in private placement	15,700,000	642,536	—	94,464	—	—	737,000
Common shares issued for debt	3,192,095	140,452	(140,452)	—	—	—	—
Common shares issuable for debt	—	—	79,480	—	—	—	79,480
Stock-based compensation	—	—	—	183,410	—	—	183,410
Net loss	—	—	—	—	(1,427,041)	—	(1,427,041)
Balance at December 31, 2015	185,184,215	$ 15,126,551	$ 79,480	$ 9,937,614	$ (30,653,603)	$ —	$ (5,509,958)

See accompanying notes to unaudited condensed interim consolidated financial statements.

MEDIFOCUS, INC.

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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"). After the acquisition of Prolieve® from the Boston Scientific Corporation, Medifocus now owns a revenue-generating commercial BPH treatment product targeting the BPH drug therapy market and generating cash flows to support the development and commercialization of other heat systems for targeted thermotherapy of surface, subsurface and deep seated localized and regional cancers.

The Company owns two 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.

Going Concern Consideration

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 research and development, financing activities, and development of new technologies. 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 product development efforts and undertakes its sales and marketing activities. 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 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 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.

The 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

These condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). In the opinion of management the accompanying condensed interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly the Company's financial position, results of operations and cash flows. The condensed interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to instruction, rules and regulations provided by the United States Security and Exchange Commission. Management believes that the disclosures provided herein are adequate to make the information presented not misleading when these condensed interim consolidated financial statements are read in conjunction with the audited financial statements.

The accompanying condensed interim consolidated financial statements 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 year ended March 31, 2015 and the nine month period ended December 31, 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.

Foreign Currency

Effective April 1, 2014, the Company changed its functional currency and that of its wholly owned subsidiary to the U.S. dollar.

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 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. No individual customer represented more than 10% of revenues for the nine month period ended December 31, 2015 and 2014.

Vendor Concentration

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.

Fair Value Measurements

The Company's condensed interim 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 $32,254 and $36,646 for the three month period ended December 31, 2015 and 2014 and $113,893 and $225,874 for the nine month period ended December 31, 2015 and 2014, respectively, is reflected as "loss from change in fair value of contingent consideration" in the accompanying condensed interim consolidated statements of loss and comprehensive loss. *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.

Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss includes the total of the Company's net loss and all other changes in equity other than transactions with owners, including changes in equity for cumulative translation adjustments resulting from the consolidation of foreign subsidiaries as the financial statements of the subsidiaries were previously accounted for using the local currency as the functional currency.

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 the underlying invoices 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 $67,838 and $74,289 as of December 31, 2015 and March 31, 2015, respectively.

	December 31,	March 31,
Accounts receivable trade	$ 678,379	$ 920,022
Accounts receivable - Harmonized sales tax	195,310	211,972
Allowance for doubtful accounts	(67,838)	(74,289)
	$ 805,801	$ 1,057,705

Inventory

Inventory is valued at the lower of cost or market and consists primarily of console units and single-use treatment catheters. Inventory consists of the direct costs of acquiring the inventory from vendors. Inventory of console units are considered non-current since the sales period is usually in excess of one year.

Inventory is relieved using the first-in, first-out method and consists of the following at December 31, 2015 and March 31, 2015.

	December 31	March 31
Current inventory – Catheters	$ 101,088	$ 79,604
Non-current inventory - Consoles	190,276	190,276
	$ 291,364	$ 269,880

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. The changes in fair value are recognized in earnings. The obligation outstanding totaled $832,391 and $1,031,179 as of December 31, 2015 and March 31, 2015, 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.

Deferred Financing Fees and Other Assets

As part of the convertible debt transaction (see note 5), the Company has unamortized deferred financing fees in the amount of $140,156 and $282,926 as of December 31, 2015 and March 31, 2015, respectively. Other assets primarily includes prepaid expenses.

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, including related stock-based compensation expense.

Costs of Sales—Services

Costs of services consist primarily of the costs to provide mobile services to our patients, including catheter cost, depreciation of our mobile consoles and vehicle fleet, and payroll and benefit costs, including related stock-based compensation expense.

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 for each of the periods ended December 31, 2015 and March 31, 2015.

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. The Company remains subject to examination for income tax returns for the years ending after 2010.

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 $16,945 and $15,441 for the three month period ended December 31, 2015 and 2014, respectively. For the nine month period ended December 31, 2015 and 2014, matching contributions were $44,888 and $58,913 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. For the three and nine month periods ended December 31, 2015 and 2014, outstanding stock options of 11,100,000 and 8,255,000 for each of the periods, and warrants outstanding to purchase 88,481,310 and 105,278,072 commons shares, respectively, were considered anti-dilutive and therefore were not included in the calculation of diluted shares. For the three and nine month periods ended December 31, 2015 and 2014, convertible promissory notes convertible into 22,160,000 shares of common stock were considered anti-dilutive and therefore were not included in the calculation of diluted shares.

Recent Accounting Pronouncements

ASU 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. We are currently evaluating the impact, if any, that this new guidance will have on the Company's 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 Condensed Interim Consolidated Financial Statements.

ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40),* which requires management to evaluate on a regular basis whether any conditions or events have arisen that could raise substantial doubt about the entity's ability to continue as a going concern. This guidance is effective for the annual period after December 15, 2016 and for the annual periods and interim periods thereafter. Early application is permitted. We do not expect the adoption of this guidance to have a material impact on the Company's Condensed Interim Consolidated Financial Statements.

ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial instrument in the Form of a Share* is *More Akin to Debt or Equity.* In November 2014, the FASB issued amended guidance that clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features -including the embedded derivative features being evaluated for bifurcation -in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amended guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The effects of initially adopting the amended guidance should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective and shall be reported as a cumulative-effect adjustment directly to retained earnings as of the beginning of the year of adoption. The adoption of the amended guidance is not expected to have a material impact on the Company's Condensed Interim Consolidated Financial Statements.

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 fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. The amended guidance should be applied retrospectively, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the amended guidance. The Company currently has approximately $140,156 of debt issuance costs recorded in the Condensed Interim Consolidated Statements of Financial Position that will be required to be reclassified and presented as a direct deduction from the debt liability upon adoption of the amended guidance. The adoption of the amended guidance is not expected to have an impact on the Company's Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

ASU 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 the Company's Condensed Interim Consolidated Financial Statements.

ASU 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 Condensed Interim Consolidated Financial Statements.

ASU 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 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 condensed interim consolidated financial statements as of December 31, 2015 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 December 31, 2015, $1,144,313 of royalties is due to BSC of which $1,030,638 is past due.

As of December 31, 2015, the balance due is allocated as follows:

	Non Contingent portion	Contingent portion	Total
Balance at April 1, 2015	$ 831,632	$ 1,031,179	$ 1,862,811
Less: payments	—	—	—
Change in fair market value	312,861	(198,789)	113,893
Balance at September 30, 2015	$ 1,144,313	$ 832,390	$ 1,976,704
Allocated as follows:			
Payable to BSC	$ 1,144,313	$ —	$ 1,144,313
Contingent Payable to BSC - current	$ —	$ 443,832	$ 443,832
Contingent Payable to BSC - long term	$ —	$ 388,558	$ 388,558

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2015 and March 31, 2015:

	December 31, 2015	March 31, 2015
Machinery and equipment (5-7 year life)	$ 75,982	$ 75,982
Mobile consoles (7 year life)	714,584	678,845
Furniture and fixtures (3-5 year life)	20,000	20,000
	810,566	774,827
Accumulated depreciation	(390,640)	(305,792)
Total	$ 419,926	$ 469,035

Depreciation expense was approximately $28,000 and $29,000 for the three month period ended December 31, 2015 and 2014 and approximately $85,000 and $87,000 for the nine month period ended December 31, 2015 and 2014, 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 the three month period ended December 31, 2015 and 2014, and $184,659 for the nine month period ended December 31, 2015, and 2014, respectively.

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

2016	$	246,212
2017		246,212
2018		246,212
2019		246,212
2020		246,212
Sub-total		1,231,060
2021 and thereafter		350,613
Total	$	1,581,673

5. DEBT

In fiscal 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 notes was October 23, 2013 and was subsequently extended until June 30, 2014. As of December 31, 2015, 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. Interest expense of approximately $28,000 and $25,000 was recognized on the promissory note for the three month period ended December 31, 2015 and 2014, respectively. Interest expense of approximately $88,000 and $91,000 was recognized on the promissory note for the nine month period ended December 31, 2015 and 2014, respectively.

In fiscal 2014, the Company issued 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. 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 $658,122 owing to holders of the convertible debentures as of December 31, 2015, of which $576,590 is past due to certain holders, and is in a technical default of the terms of the debentures. The investors have not accelerated the terms of the debenture.

In connection with the above transaction, the Company recognized interest expense of $121,529 and $117,060 for the three month period ended December 31, 2015 and 2014; interest expense of $359,828 and $344,532 for the nine month period ended December 31, 2015 and 2014; accretion expense of $201,420 and $180,536 for the three month period ended December 31, 2015 and 2014; and accretion expense of $587,995 and $527,339 for the nine month period ended December 31, 2015 and 2014, respectively.

6. EQUITY AND STOCK-BASED COMPENSATION

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

On September 15, 2014, the Company completed a private placement of 10,281,250 units at a price of USD $0.16 per unit raising gross proceeds of $1,645,000 (net proceeds of $1,444,274). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of USD $0.25 until September 15, 2017. Management determined the warrants to have a fair value of $0.12 per warrant and accordingly, $1,231,934 of the proceeds from the issuance was allocated to additional paid in capital, and the balance of the proceeds was allocated to common shares.

On December 14, 2015, the Company completed a private placement of 15,700,000 units at a price of USD $0.05 per unit raising gross proceeds of $785,000 (net proceeds of $737,000). 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 $0.012 per warrant and accordingly, $94,464 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	0.94% to 0.99%
Expected life in years	2 - 3 years
Expected volatility	98.96 to 146.6%

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 as of December 31, 2015. As of December 31, 2015, the company has common stock issuable in the amount of $79,480 for payment of outstanding debt to directors and officers.

Stock Purchase Warrants

The Company had stock purchase warrants outstanding as of December 31, 2015 and March 31, 2015 as follows:

Year of issue	Exercise Price	Expiration	December 31, 2015 Underlying Shares	March 31, 2015 Underlying Shares
2011	$ 0.50	4/24/2015	—	2,449,997
2011	$	2/24/2016	3,745,000	3,745,000
2013	$	6/8/2016	18,367,263	18,367,263
2013	$ 0.20	6/8/2016	22,200,000	22,200,000
2013	$ 0.20	9/21/2015	—	22,196,765
2013	$ 0.20	1/14/2016	13,056,997	13,056,997
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	12/20/2019	7,850,000	—
			88,481,310	105,278,072

Warrant Modifications

During the nine month period ended December 31, 2015 and 2014 the Company extended the expiration date of certain outstanding stock warrants issued as part of private placements. Such modifications require an allocation between common stock and additional paid in capital and does not impact the net loss and total deficit of the Company.

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. The stock-based compensation cost that was incurred by the Company was $189,410 for the three and nine month periods ended December 31, 2015. There was no stock-based compensation cost or activity incurred by the Company for the three and nine month periods ended December 31, 2014.

On December 20, 2015, the Company granted incentive stock options to the directors and officers of the Company to purchase an aggregate of 10,100,000 common shares. The options are exercisable at a price of $0.057 per common share and expire five years from the date of the grant and vest immediately. A summary of the Plan for the nine month period ended December 31, 2015 and changes therein are presented below:

`	Number #	Weighted average exercise price $	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value $
Outstanding, April 1, 2015	8,255,000	$ 0.20	—	$ —
Expired	(8,255,000)	$ 0.20	—	$ —
Granted	10,100,000	$ 0.06	5.0 years	$ —
Outstanding, December, 31, 2015	10,100,000	$ 0.06	5,0 years	$ —
Exercisable, December 31, 2015	10,100,000			

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option pricing model and using the following assumptions:

Expected option life (years)	2.5 years
Risk free interest rate	1.12%
Expected volatility	106.03%

The Company estimates the expected term using the "simplified-method" as it does not have sufficient historical exercise data to provide a reasonable estimate. Volatility is calculated based on actual trading history of the Company's common stock. The risk-free rate is based on the daily yield curve of U.S. treasury bills. No income tax benefit was recognized in the Company's condensed interim consolidated statements of loss and comprehensive loss for stock-based compensation arrangements due to the Company's net loss position.

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 as of December 31, 2015 and March 31, 2015, as a result of its net losses and full valuation allowance against its deferred tax assets.

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 is required as of December 31, 2015 and March 31, 2015.

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 December 31, 2015 and March 31, 2015.

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 had losses in every jurisdiction in these years, income tax expenses and non-filing penalties are insignificant.

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 are as follows:

2016	$	216,883
2017	$	218,050
2018	$	46,108

The Company recognized total rent expense of $49,009 and $46,719 for the three month period ended December 31, 2015 and 2014 and $146,905 and $145,885 for the nine month period December 31, 2015 and 2014, 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.