MEDIFOCUS INC.

Interim Consolidated Financial Statements

December 31, 2008 and 2007

NOTICE

The accompanying un-audited consolidated financial statements of Medifocus Inc. for the nine months ended December 31, 2008 and 2007 have been prepared by management and approved by the Board of Directors of the Company.

These statements have not been reviewed by the external auditors of the Company.

Medifocus Inc.

CONSOLIDATED BALANCE SHEET

As at	**December 31 2008 $ *(Un-audited)***	December 31 2007 $ *(Audited)*
ASSETS		
Current		
Cash and cash equivalents	**198,888**	80,278
Short term investments	**2,498,301**	—
Prepaid expenses and sundry assets	**21,253**	15,051
Total current assets	**2,718,443**	95,329
Product development charges *[note 2]*	**2,266,394**	1,128,624
Fixed assets, net *[note 5]*	**41,350**	46,056
	5,026,187	1,270,009
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**1,357,320**	1,950,116
Total current liabilities	**1,357,320**	1,950,116
Long term		
Bridge note payable	**183,420**	404,965
Due to Celsion Corporation *[note 6]*	**245,994**	630,665
Due to employees and consultants	**2,824,753**	—
Shareholders' deficiency		
Capital stock *[note 7]*	**3,240,296**	49,984
Equity component of promissory notes *[note 6]*	**—**	110,779
Contributed Surplus	**338,485**	—
Accumulated deficit	**(3,164,082)**	(1,876,500)
Total shareholders' deficit	**414,699**	(1,715,737)
	5,026,187	1,270,009

See accompanying notes

On behalf of the Board:

Director
Joe K.F. Tai

Director
Dr. Augustine Cheung

Medifocus Inc.

CONSOLIDATED INTERIM STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Un-audited)

	For the Three Months Ended December 31, 2008	*For the Three Months Ended December 31, 2007*	***For the Nine Months Ended December 31, 2008***	*For the Nine Months Ended December 31, 2007*
	$	*$*	***$***	*$*
Revenue	**18,288**	—	**18,288**	—
Operating Expenses				
General and administrative	**528,555**	175,179	**933,813**	688,718
Accretion of discount	**39,706**	41,845	**164,665**	48,251
Interest	**69,629**	17,117	**151,475**	49,884
Amortization	**3,325**	4,169	**10,553**	12,448
	641,215	238,310	**1,260,505**	799,301
Net loss and comprehensive loss	**(622,927)**	(238,310)	**(1,242,217)**	(799,301)
Accumulated deficit, beginning of period	**(2,541,155)**	(1,638,190)	**(1,921,865)**	(1,077,199)
Accumulated deficit, end of period	**(3,164,082)**	(1,876,500)	**(3,164,082)**	(1,876,500)
Basic and fully diluted loss per share	**(0.072)**	(0.028)	**(0.144)**	(0.093)
Weighted average number of common shares outstanding *[note 10]*	**8,606,180**	8,606,180	**8,606,180**	8,606,180

See accompanying notes

Medifocus Inc.

INTERIM STATEMENT OF CASH FLOWS

(Un-audited)

	For the Three Months Ended December 31, 2008	*For the Three Months Ended December 31, 2007*	***For the Nine Months Ended December 31, 2008***	*For the Nine Months Ended December 31, 2007*
	$	*$*	***$***	*$*
OPERATING ACTIVITIES				
Net loss for the period	**(622,927)**	(238,310)	**(1,242,217)**	(799,301)
Items not involving cash				
Amortization	**3,325**	4,169	**10,553**	12,448
Accretion of discount	**69,629**	17,117	**151,475**	49,884
Expenses settled with share issuance	**125,000**	—	**125,000**	—
Net change in non-cash working capital balances related to operations *[note 9]*	**163,336**	146,001	**1,619,539**	714,812
Cash provided by operating activities	**(261,637)**	(71,023)	**664,349**	(22,157)
INVESTING ACTIVITIES				
Acquisition of property and equipment			**—**	(4,792)
Additions to product development charges	**(132,738)**	—	**(1,137,770)**	(51,635)
Cash used in investing activities	**(132,738)**	—	**(1,137,770)**	(51,635)
FINANCING ACTIVITIES				
Issuance of common shares	**2,070,378**	—	**2,070,378**	—
Issuance of common shares for warrants	**—**	—	**85,882**	—
Issuance of convertible promissory notes		150,000		150,000
Effect of reorganization	**1,019,954**		**934,072**	
Cash provided by (used in) financing activities	**3,090,332**	150,000	**3,090,332**	150,000
Net increase in cash and cash equivalents during the year	**2,695,957**	78,977	**2,616,911**	76,208
Cash and cash equivalents, beginning of period	**1,233**	1,301	**80,278**	4,070
Cash and cash equivalents, end of period	**2,697,189**	80,278	**2,697,189**	80,278

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

(a) The Company and its Operations

Medifocus Inc. [the "Company"] was incorporated under the *Business Corporations Act* (Ontario) on April 25, 2005. Prior to completion of the Reverse Takeover with Celsion (Canada) Limited, [the "Acquisition"] as discussed below, the Company was classified as a capital pool company pursuant to the policies of the TSX Ventures Exchange {the "Exchange"]. The company was a non-operating public enterprise and did not meet the definition of a business under the provision of EIC –124; therefore the Acquisition did not constitute a business combination under the provisions of EIC- 10. Accordingly, the Acquisition has been accounted for as a capital transaction rather than a business combination.

Reverse Takeover

On November 25, 2008, the Company completed its Qualifying Transaction, as defined under the policies of the Exchange, by way of a Share Exchange Agreement with Celsion (Canada) Limited ["Celsion"].

Pursuant to the terms and subject to the conditions of the Share Exchange Agreement, the company paid $166,667 and issued an aggregate of 11,200,000 Medifocus Shares at a deemed issue price of $0.50 per share to the shareholders of Celsion. The Share Exchange Agreement was negotiated at arm's length among Medifocus, Celsion and the shareholders of Celsion. An additional 100,000 common shares were issued to Infund Management Limited for past services rendered to Celsion.

Following the Qualifying Transaction, Celsion is a wholly-owned subsidiary of the Company. The Company will carry on the business of Celsion under current Celsion management. Dr. Augustine Cheung will serve as chief executive officer and director, and John Mon will serve as chief operating officer of the Company.

In addition 903,112 common shares, valued at $0.50 per common share were issued to Celsion Corporation in respect of a portion of the indebtedness previously owed by Celsion following its acquisition from Celsion Corporation of the business now being carried by Celsion and 763,168 units were issued to the holders of the 2006 Bridge Notes of Celsion with respect to the conversion of $310,556 in principal amount of such notes, plus accrued interest (on the same terms and conditions as the units being offered in connection with the private placement described below), valued at $0.50 per unit.

Concurrently with the closing of the Qualifying Transaction, the Company completed a private placement of 4,140,755 units, at a price of $0.50 per unit, for aggregate gross proceeds of $2,070,377.50. Each unit consists of one common share of Medifocus and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Medifocus for a period of 24 months at a price per share of $0.60.

(b) The Stock Purchase Agreement and Asset Acquisition

On January 16, 2006 Celsion purchased from Celsion Corporation all of the assets relating to breast cancer Microfocus APA 1000 System ("System"), consisting of the microwave machine, the adaptive phased array ("APA") technology licensed from Massachusetts Institute of Technology ("MIT"), and all related intellectual and regulatory property (collectively, the "Business"). The Company has a commitment to pay a 5% royalty on the net sales of products sold by and patent royalties received by the Company and its successors and assignees, the royalty not to exceed US$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 will expense the royalties as paid. Celsion Corporation also agreed to provide certain services and financing to Celsion pursuant to a Transition Services Agreement between

Celsion and Celsion Corporation.

(c) The Transition Services Agreement

The Transition Services Agreement was entered into January 16, 2006 by and between the Celsion and Celsion Corporation, amended March 28, 2006 and March 5, 2008, and as amended provides for the following:

- sublease of space in Celsion Corporation's offices for use by the Company to carry on its business, for a period of up to six (6) months from the date of the agreement.
- administrative support services as needed in the operation of the Company's business for the period of the sublease.
- payment of salary and benefits totaling approximately $45,000 per month, for the shorter of: (1) the period ending June 30, 2006; or (2) the date of closing by the Company of a funding transaction.
- funding to the Company for expenses reasonably incurred in connection with the operation of the Company's business, for the shorter of the period ending June 30, 2006 or the date of closing of a funding transaction; provided that the aggregate funding for such expenses will not exceed $300,000. Celsion Canada is required to pay interest on expenses advanced above $100,000 at the rate of prime + 1%.

On March 20, 2008 Celsion Corporation elected to convert all but USD $200,000 of the debt into shares of Medifocus upon its Qualifying Transaction. As at November 25, 2008, $803,594 was owed to Celsion Corporation under this agreement. Concurrent with the Qualifying Transaction, the Company issued 903,112 common shares to convert $557,600 of the debt.

(d) Going Concern

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses in the past and has a working capital deficiency.

The Company's continued existence is dependent upon its ability to secure its financing and maintain profitable operations.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net earnings and the balance sheet classifications used. These financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"]. These financial statements should be read in conjunction with the financial statements for the year ended March 31, 2007. The accounting policies applied to the preparation of the interim financial statements are consistent with those applied to those financial statements with the exception of recently adopted accounting policies by the Company as described below. The results for the interim periods are not necessarily indicative of results to be expected for the fiscal year. These consolidated financial statements have been prepared within the framework of the significant accounting policies summarized below:

Use of Estimates

The preparation of financial statements in conformity with Canadian 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of commercial accounts, trust accounts and interest-bearing bank deposits with remaining maturities of 90 days or less at the time of purchase. As at December 31, 2008, the Company's cash and cash equivalents consist of cash on account of $2,697,189.

Property and Equipment

Property and equipment are recorded at cost less specifically related tax credits and are amortized on a declining balance basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	20%
Equipment	20% - 30%

Leasehold improvements are amortized on a straight-line basis over the lesser of the lease term and 6 years.

Patents and Licenses

The Company capitalizes the cost of acquiring patents and licenses from third parties.

Product Development Charges

The Company capitalizes the cost of preparing the Microfocus APA 1000 System to enter a pivotal clinical trial, and the design of the trial, and will amortize that cost over the useful life of the APA System patents once the APA System is approved and placed in service. These charges are tested for impairment by comparing its net book value with the undiscounted projected future cash flows from their use. No amortization expense was recognized through December 31, 2008 because the APA Systems have not been placed into service.

Research and Development Costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless such costs meet the criteria for capitalization and amortization under Canadian GAAP. To date, product development charges have been capitalized as explained in Note 3(d) in the amounts of $595,582 in 2008, $714,937 in 2007 and $434,375 in 2006. Refundable income tax credits earned on Scientific Research and Experimental Development (SR&ED) expenditures are recorded as a reduction of research costs in the period the research costs are incurred.

Tax Credits and Other Government Assistance Recoverable

The benefits of tax credits for SR&ED and Government Assistance are recorded in the period as reductions to the related expenses or capital costs and recognized only when there is reasonable assurance that the Company has complied with all the terms and conditions of the relevant tax credit program and the credits will be recovered.

Income Taxes

The Company follows the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted or substantively enacted income tax rates and laws in effect when the differences are expected to reverse. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by the use of a valuation allowance which is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Stock-Based Compensation

The Company has adopted Section 3870 of the CICA Handbook relating to stock-based compensation and other stock-based payments made in exchange for goods and services. It requires accounting for stock-based payments using the fair value based method of accounting to determine the value of options granted The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as an expense in the statements of loss and deficit and as contributed surplus on the balance sheet. On the exercise of stock options, consideration received and the respective accumulated contributed surplus amount are credited to share capital.

Shares Issued for Commercial Transactions

Shares issued for commercial transactions are valued based on the value of the transaction. If that is not readily determinable, the fair value of shares at the time of the transaction is used as the basis for determination of the amount to be attributed to the related shares issued.

Loss Per Share

In accordance with the CICA Handbook Section 3500, the loss per share is calculated by dividing the loss applicable to the common shares by the weighted average number of shares outstanding during the year, including contingently issuable shares that are included when the conditions necessary for issuance have been met.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year except for amortization, which is translated at historical rates. Translation gains or losses are included in determination of net loss for the year.

Comprehensive income

Section 1530 establishes standards for reporting and display of comprehensive income. Unrealized gains or losses on available-for-sale investments, and the effective portion of gains or losses on derivatives designated as cash flow hedges and hedges of the net investment in self-sustaining foreign operations are included in other comprehensive income ("OCI") and accumulated other comprehensive income ("AOCI") is included as a separate component of equity. The Company had no such OCI or AOCI for the period presented.

Deferred financing costs

Incremental costs incurred in respect of raising share capital are charged against equity proceeds raised.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation; 3862, Financial Instruments – Disclosures; and 1535, Capital Disclosure. As required by the standards, the changes in policies have been applied retrospectively with no restatement of prior periods.

(a) Financial instruments

Under the new standards, all financial instruments are classified into one of the following five categories: held-for-trading (assets and liabilities), available-for-sale financial assets, loans and receivables, held-to-maturity financial assets, and other financial liabilities. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. All financial instruments are initially measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument.

(b) Held-for-trading (assets or liabilities)

This category is comprised of certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

(c) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

(d) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

(e) Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise certain investments in equity instruments, including a company's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement.

(f) Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises trade payables, other short-term monetary liabilities, and the debt element of convertible debt. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

The Company's financial assets and liabilities are recorded and measured as follows:

Asset/Liability	**Category**	**Measurement**

Cash	Held-for-trading	Fair value
Due from Celsion USA	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Interest payable	Other liabilities	Amortized cost
Due to Celsion USA	Other liabilities	Amortized cost
Convertible promissory notes	Other liabilities	Amortized cost

Other balance sheet accounts, such as prepaid expenses and sundry assets, property and equipment, and product development charges are not within the scope of the new accounting standards as they are not financial instruments.

Hedges

The Company may use derivative instruments to manage foreign exchange and interest rate risk. The Corporation may choose to designate derivative instruments as hedges.

- Cash flow hedges – The effective portion of the changes in fair value of financial instruments designated as a cash flow hedge is recognized in OCI, net of tax, with any ineffective portion being recognized immediately in net income. Gains and losses are recovered from OCI and recognized in net income in the same period as the hedged item affects net income. If at any point the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in AOCI is reclassified to net income immediately.

- Fair value hedges – Both the financial instrument designated as the hedging item, and the underlying hedged asset or liability are measured at fair value. Changes in the fair value of both the hedging and hedged item are reflected in net income immediately. The carrying value of the hedged item is adjusted through net income for changes in its fair value attributable to the hedged risk.

- Net investment hedges – Foreign exchange gains and losses on debt designated as a net investment hedge are recognized in OCI, net of tax, to the extent the hedge is effective. The ineffective portion of such hedges is recognized in net income.

The Company had no such hedges for the period ended December 30, 2008 and period ended December 31, 2007.

Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3863, "Financial Instruments – Presentation", to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non-financial derivatives. This Section replaces the existing requirement on the presentation of financial instruments which have been carried forward unchanged. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

In March 2007, the CICA issued Section 3862, "Financial Instruments – Disclosures", which replaces Section 3861 and provides expanded disclosure to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. This new section will place increased emphasis on disclosure regarding the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. This standard harmonizes disclosures with International Financial Reporting Standards.

The adoption of these standards had no impact on the Company's results of operations and cash flows.

Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This enhanced disclosure enables users to evaluate the entity's objectives, policies, and processes for managing capital. This information is provided in Note 17, Capital Disclosure.

4. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting principles with IFRS. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to establish recognition, measurement, and disclosure of goodwill and intangible assets and to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section substantially harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. It is not expected to have a material impact on the Company's financial statements.

5. PROPERTY AND EQUIPMENT

Property and equipment are composed of the following:

	2008			**2007**		
	Cost $	**Accumulated amortization** $	**Net book value** $	Cost $	Accumulated amortization $	Net book value $
Equipment	**56,626**	**34,665**	**21,961**	56,626	25,252	31,374
Furniture and fixtures	**24,658**	**12,329**	**12,329**	24,658	7,398	17,260
Leasehold Improvements	**12,773**	**5,713**	**7,060**	12,773	3,584	9,189
	94,057	**52,707**	**41,350**	94,057	36,234	57,823

6. DUE TO CELSION CORPORATION

Advances from Celsion Corporation (see Note 2) represent funds advanced to the Company under the Transition Services Agreement. On November 25, 2008, the Company converted $557,600 of the debt owing to Celsion Corporation into equity by issuing 903,112 common shares. A balance of $200,000 USD has been set up as a long-term payable. Celsion Corporation may choose to convert this to equity in the future.

7. CAPITAL STOCK

[a] Share capital

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

The continuity of share capital is as follows:

	Number # 	Amount $
Balance, December 31, 2007	6,650,000	1,125,000
Exercise of warrants *[i]*	429,410	85,882
Effect of reorganization *[ii]*	11,200,000	(1,125,000)
		62,755
		(166,667)
Issuance of common shares for debt settlement *[iii]*	1,666,280	1,062,948
Issuance of common shares to pay professional fees *[iv]*	250,000	125,000
Issuance of common shares *[v]*	4,140,755	2,070,378
Balance, December 31, 2008	**24,336,445**	**3,240,296**

[i] On July 12, 2008, 429,410 options were exercised for proceeds of $85,882, and 30,590 stock options expired unexercised.

[ii] On November 25, 2008, the Company completed its Qualifying Transaction [see note 1] with a Reverse Takeover of Celsion. Pursuant to the terms and subject to the conditions of the Share Exchange Agreement, the Company paid $166,667 and issued an aggregate of 11,200,000 Medifocus Shares at a deemed issue price of $0.50 per share to the shareholders of Celsion.

[iii] On November 25, 2008, concurrently with the Acquisition, the Company issued 903,112 common shares, valued at $0.50 per common share to Celsion Corporation in respect of a portion of the indebtedness previously owed by Celsion following its acquisition from Celsion Corporation of the business now being carried by Celsion and 763,168 units were issued to the holders of the 2006 Bridge Notes of Celsion with respect to the conversion of $310,556 in principal amount of such notes, plus accrued interest (on the same terms and conditions as the units being offered in connection with the private placement described in note [iv] below), valued at $0.50 per unit..

[iv] On November 25, 2008, the Company issued 250,000 common shares in payment of professional fees incurred in the completion of the Acquisition and Reverse Takeover.

[v] On November 25, 2008, the Company completed a private placement of 4,140,755 units, at a price of $0.50 per unit, for aggregate gross proceeds of $2,070,377.50. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months at a price per share of $0.60.

As at December 31, 2008, the Company had the following warrants outstanding:

	Purchase warrants			
	Number #	**Exercise price** $	**Expiry date** #	**Year of issue**
Share purchase warrants	**763,168**	**0.60**	11/25/2010	2008
Broker warrants	**4,140,755**	**0.60**	11/25/2010	2008
Outstanding, end of year	**4,903,923**			

The weighted average exercise price of the outstanding warrants as at December 31, 2008 was $0.60.

8. STOCK OPTIONS

The Company will grant stock options to directors, officers and employees. The exercise price will reflect the estimated fair market value of the Company's stock on the date of the grant. The Board plans to establish a maximum number of stock options issuable to employees and board members.

A summary of the status of the Plan as at December 31 and changes during the period is presented below:

	2008		**2007**	
	Number #	**Weighted average exercise price** $	**Number** #	**Weighted average exercise price** $
Outstanding, beginning of year	**1,125,000**	**0.20**	1,125,000	0.20
Forfeited	**(30,590)**	**0.20**	—	—
Exercised	**(429,410)**	—	—	—
Granted	—	—	—	—
Outstanding, end of year	**665,000**	**0..20**	1,125,000	0.20
Options exercisable, end of year	**665,000**		1,125,000	

The following table summarizes information about stock options outstanding at December 31, 2008:

	Options outstanding		
Exercise price $	**Options outstanding** #	**Weighted average remaining contractual life** [years]	**Options exercisable** #
0.20	**665,000**	2.5	665,000

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

9. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2008 $	**2007** $
Prepaid expenses	**(6,202)**	5,017
Accounts payable and accrued liabilities	**(592,796)**	709,795
Bridge notes payable	**(221,545)**	—
Due to Celsion Corporation	**(384,671)**	—
Due to employees and consultants	**2,824,753**	—
	1,619,539	714,812

The Company paid interest expense of $151,475 during the nine-months ended December, 2008 .

10. LOSS PER SHARE

The computation of loss per common share for the periods ended December 31, 2008 and 2007 are as follows:

	December 31, 2008 $	December 31, 2007 $
Net loss	**(1,242,217)**	(799,301)
Weighted average number of shares outstanding	**8,606,180**	103.39
Basic and diluted loss per share	**(0.144)**	(7,730.93)

11. RELATED PARTY TRANSACTIONS

Included in accounts payable is approximately $547,000 owed to the Chief Executive Officer for past salary and un-reimbursed expenses.

12. COMMITMENTS

The Company has a contractual commitment to pay a royalty to Celsion Corporation on the net sales of products as explained in Note 1. The Company has a commitment to pay a 5% royalty to MIT on the net sales of products. Neither the royalty payable to Celsion Corporation or to MIT are 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 will expense the royalties as paid. The contractual commitments of the Company obligating it for payments currently are its license agreement with MIT and the lease pertaining to its space in Columbia, Maryland.

Future minimum payments under operating leases and contractual commitments for the following five (5) years are as follows:

	$
2009	175,918
2010	179,400
2011	183,028
2012	99,800

13. FUNDING ARRANGEMENTS

Prior to completing the Qualifying Transaction, Celsion raised bridge financing in two transactions. The first bridge financing was done in 2006, which raised the principal amount of USD $279,500. The bridge financing investors paid for promissory notes from the Company at a 10% discount to their maturity value (the notes aggregate USD $310,556 in principal maturity value) and pay interest at 1% per month or portion thereof on the maturity value. The maturity value and accrued interest were converted into common stock of the Company on November 25, 2008 with the issuance of 763,168 units. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months at a price per share of $0.60.

In 2007 the Company raised additional bridge financing of USD $150,000. The bridge financing lender received a promissory note from the Company for USD $150,000 with interest payable at 1.5% per month on the face value. The face value and accrued interest are payable December 21, 2009. The lender may convert the balance due into common stock of the Company at a discount to market as approved by the TSX-V.

14. INCOME TAXES

The future income tax assets and liabilities consist of the following:

	2008 $	**2007** $
Future income tax assets		
Non-capital losses carried forward	**1,603,653**	746,083
Capital assets	**14,463**	10,580
Other	**17,680**	15,774
Gross future income tax assets	**1,635,796**	772,437
Valuation allowance	**(1,635,796)**	(772,437)
Net future income assets	**-**	-

In addition, the Company also has non-capital losses totaling approximately $2,999,072 that have not been tax benefited and expire as follows:

	$
2026	844,605
2027	1,003,962
2028	1,150,505
	2,999,072

No future tax assets or liabilities have been recognized in these financial statements as it is more likely than not that the Company will not realize the benefits of loss carry forwards.

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates to loss before income taxes as a result of the following:

	2008 $	**2007** $
Loss before income taxes	**(1,242,217)**	(799,301)
Income tax recovery expected at average statutory rate	**(436,000)**	(199,825)
Unrecorded tax benefit of losses	**436,000**	199,825
Income tax expense (recovery)	**-**	-

15. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, convertible debt due to Celsion USA, and convertible promissory notes. Unless otherwise noted, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Fair Value

The fair value of cash, accounts payable, accrued liabilities and debt due to Celsion USA approximates their carrying values, due to their short-term maturity.

The carrying value of convertible promissory notes approximates fair value, as the interest rate is consistent with current notes offered to the Company for debts under similar terms.

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is not presently subject to this risk as it is a development stage company.

Market Risk

The prices paid by the Company for services and supplies are paid primarily in U.S. dollars and the Company is raising funds in Canadian dollars. Given the exchange rate trend, the Company believes the exchange risk is limited and not a risk to be hedged at the present time.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market rates. The Company borrowing is at fixed rates on all obligations except a portion of the debt due Celsion USA (as described in Note 1). Celsion USA has agreed to convert all but $200,000 of the debt, which amount is anticipated to be paid at the end of August 2008. Therefore, the Company considers itself to have very minimal exposure to interest rate risk.

Liquidity Risk

Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business of commercializing the APA System for the treatment of cancer.

The Company's operating cash requirements include amounts necessary to conduct its pivotal clinical trial to obtain regulatory approval to commercialize the APA System in North America. The Company is currently pursuing closing the funding transaction described in Note 7 to address its liquidity risk.

Capital Risk

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is managing its capital structure to convert to equity as much of its current debt as possible and will issue equity to obtain funding to initiate its pivotal clinical trial (see Note 13). The Company is not subject to any externally imposed capital requirements. The Company's objective is to insure adequate working capital to commercialize its APA System for the treatment of cancer and will use the sale of equity to fund its business to the point of revenue generation and asset based borrowing being sufficient to fund the business fully.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

16. CONVERTIBLE PROMISSORY NOTES

The amount payable to Celsion Corporation under the Transition Services Agreement has been accounted for as a convertible debt.

17. SUBSEQUENT EVENTS

Herb Gasser resigned as Director of the Company on February 13, 2009

18. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the presentation adopted at December 31, 2008.