

Consolidated report of

MILESTONE MEDICAL INC. and its SUBSIDIARY

1st quarter (January 1, 2022 to March 31, 2022)

Report includes:

1. General information about Milestone Medical, Inc. (“Issuer”) and Milestone Medical Poland Sp. Z o.o. (the Subsidiary), collectively the Company or Milestone Medical.
2. Consolidated financial statements prepared according to the accounting rules applicable to the Issuer together with information on accounting rules (policy) applied to the preparation of report.
3. Information on the rules applied to the preparation of the report, including information on changes to the applied accounting rules (policies).
4. Brief description of the most important achievements or failures of the Issuer and its Subsidiary during the period of the report as well as a description of the most important factors and events, atypical ones, which affect the achieved results.
5. A description of the status of implementation of activities and investments of the Issuer and its Subsidiary and the timetable of their implementation.
6. If the Issuer and its Subsidiary took initiatives to develop, its activities aimed to implement innovative solutions at the enterprise during the period of the report – information on such activities.
7. Description of the organization of the group indicating consolidated entities.

New Jersey, May 16, 2022

1. General information

Table 1 General Information about the Issuer

| | |
|----------------------------------|--|
| THE ISSUER | MILESTONE MEDICAL INC. |
| | (Earlier: Milestone Scientific Research and Development, Inc.) |
| Registered office/Office: | 425 Eagle Rock Avenue, Roseland, NJ 07068, USA |
| Telephone number: | 011-973-535-2717 |
| Facsimile number: | 011-973-535-2829 |
| E-mail: | kharcum@milestonescientific.com |
| Main website address: | www.medicalmilestone.com |

Source: The Issuer

1.1 Shareholding structure

In the table below shares issued are outstanding for computing the ownership percentage of shareholders holding at least 5% of votes at the General Meeting of Shareholders, applicable percentages are based on 22,000,000 shares outstanding on the date of this annual report preparation. All percentages are rounded.

Table 2 Shareholder structure with specification of shareholders holding at least 5% of votes at the General Meeting of Shareholders at the date of the report.

| Name of Shareholder | Number of owned shares/votes | Shareholding/votes at General Meeting of Shareholders [%] |
|-----------------------------------|-------------------------------------|--|
| MILESTONE SCIENTIFIC, INC. | 21,633,084 | 98.33% |
| OTHERS (<5%) | 366,916 | 1.67% |
| TOTAL | 22,000,000 | 100.00% |

Source: The Issuer

1.2. Board of Directors

Table 3 Board of Directors

| NAME OF DIRECTOR | CURRENT AGE | DIRECTOR SINCE | END OF TERM |
|------------------|-------------|----------------|-------------------------------------|
| Zhu Yun | 56 | Aug -18 | Next Annual Meeting of Shareholders |
| Martin S. Siegel | 77 | Aug -18 | Next Annual Meeting of Shareholders |

Source: The Issuer

On August 18, 2021 the Annual General Meeting of Shareholders adopted the resolution on the appointment of two directors: Zhu Yun and Martin S. Siegel to the Board of Directors for new term of office. The resolution has been entered into force on the date of adoption. The Directors to the Board have been elected to serve until the next Annual Meeting of Shareholders or until their respective successors have been elected and qualified.

1.3. Information on the number of persons employed by the Issuer converted into FTEs.

As of March 31, 2022, the Issuer employed nine (11) full time employees and nine (9) persons allocated from the parent company (Milestone Scientific, Inc.) converted into full-time equivalents (“FTEs”). The Company expanded its medical sales team in 2021 and 1Q 2022 and will continue to promote direct marketing support to hospitals and pain clinics throughout the world during 2022.

2. Condensed Consolidated quarterly financial statements

Condensed Consolidated quarterly financial statements prepared according to the accounting rules applicable to the Issuer and its Subsidiary together with information on accounting rules (policy) applied to the preparation of report.

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Financial Statements
As of March 31, 2022 and December 31, 2021, and
for the three months ended March 31, 2022 and 2021

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Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Balance Sheets
(unaudited)

| | March 31, 2022 | December 31, 2021 |
|---|----------------|-------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 20,241 | \$ 35,448 |
| Accounts receivable | 6,389 | 14,650 |
| Inventories, net | 1,094,049 | 1,122,029 |
| Advances to contractors | 34,383 | 34,383 |
| Prepaid expenses and other current assets | 140,382 | 159,543 |
| Total current assets | 1,295,444 | 1,366,053 |
| Equipment, net | 6,439 | 7,458 |
| Total assets | \$ 1,301,883 | \$ 1,373,511 |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| Accounts payable | \$ 93,731 | \$ 180,536 |
| Accrued expenses and other payables | 385,598 | 269,301 |
| Accrued interest payable- related party | 607,573 | 585,135 |
| Advances from related party | 19,598,749 | 18,520,251 |
| Due to related party | 2,800,000 | 2,800,000 |
| Total current liabilities | \$ 23,485,651 | \$ 22,355,223 |
| Commitments | | |
| Stockholders' deficit | | |
| Common stock, par value \$.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at March 31, 2022, and December 31, 2021. | 2,200 | 2,200 |
| Additional paid-in capital | 7,560,284 | 7,502,363 |
| Accumulated deficit | (29,746,252) | (28,486,275) |
| Total stockholders' deficit | (22,183,768) | (20,981,712) |
| Total liabilities and stockholders' deficit | \$ 1,301,883 | \$ 1,373,511 |

See Notes to Condensed Consolidated Financial Statements

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three months ended March 31, 2022 | Three months ended March 31, 2021 |
|--|--------------------------------------|--------------------------------------|
| Product sales, net | \$ 7,550 | \$ 71,050 |
| Cost of products sold | 2,786 | 28,438 |
| Gross profit | <u>4,764</u> | <u>42,612</u> |
| Selling, general and administrative expenses | 1,231,885 | 918,032 |
| Research and development expenses | 7,950 | 16,444 |
| Depreciation and amortization | 1,019 | 3,851 |
| Total operating expenses | <u>1,240,854</u> | <u>938,327</u> |
| Loss from operations | (1,236,090) | (895,715) |
| Interest expense | (23,887) | (23,708) |
| Loss before income tax | <u>(1,259,977)</u> | <u>(919,423)</u> |
| Provision for income taxes | - | - |
| Net loss | <u>\$ (1,259,977)</u> | <u>\$ (919,423)</u> |

See Notes to Condensed Consolidated Financial Statements

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Changes in Stockholders' Deficit
(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid in Capital | Accumulated Deficit | Total |
|--------------------------------|------------------------|------------------------|-------------------------------|------------------------|------------------------|
| Balance, January 1, 2022 | 22,000,000 | \$ 2,200 | \$ 7,502,363 | \$ (28,486,275) | \$ (20,981,712) |
| Stock Compensation from Parent | - | - | 57,921 | - | 57,921 |
| Net loss | - | - | - | (1,259,977) | (1,259,977) |
| Balance, March 31, 2022 | <u>22,000,000</u> | <u>\$ 2,200</u> | <u>\$ 7,560,284</u> | <u>\$ (29,746,252)</u> | <u>\$ (22,183,768)</u> |
| | Common Stock Shares | Common Stock Amount | Additional Paid in Capital | Accumulated Deficit | Total |
| Balance, January 1, 2021 | 22,000,000 | \$ 2,200 | \$ 7,258,833 | \$ (24,283,286) | \$ (17,022,253) |
| Stock Compensation from Parent | - | - | 66,490 | - | 66,490 |
| Net loss | - | - | - | (919,423) | (919,423) |
| Balance, March 31, 2021 | <u>22,000,000</u> | <u>\$ 2,200</u> | <u>\$ 7,325,323</u> | <u>\$ (25,202,709)</u> | <u>\$ (17,875,186)</u> |

See Notes to Condensed Consolidated Financial Statements

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three months ended March 31, 2022 | Three months ended March 31, 2021 |
|---|--------------------------------------|--------------------------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (1,259,977) | \$ (919,423) |
| Adjustments to reconcile net cash (used in) operating activities: | | |
| Depreciation and amortization expense | 1,019 | 3,851 |
| Stock Compensation from Parent | 57,921 | 66,490 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 8,261 | (26,750) |
| Decrease (increase) in inventories | 27,980 | (160,212) |
| Decrease in advances to contractors | - | 65,479 |
| Decrease to prepaid expenses and other current assets | 19,161 | 42,243 |
| Increase in accounts payable and accrued expenses | 29,492 | 81,737 |
| Increase in accrued interest related party | 22,438 | 22,438 |
| Net cash used in operating activities | \$ (1,093,705) | \$ (824,147) |
| Cash flows from investing activities: | | |
| Purchases of equipment | - | (1,366) |
| Net cash used in investing activities | \$ - | \$ (1,366) |
| Cash flows from financing activities: | | |
| Advances from related party | 1,078,498 | 844,286 |
| Net cash provided by financing activities | \$ 1,078,498 | \$ 844,286 |
| Net (decrease) increase in cash | (15,207) | 18,773 |
| Cash at beginning of period | 35,448 | 22,119 |
| Cash at end of period | \$ 20,241 | \$ 40,892 |

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For three months ended March 31, 2022 and 2021

NOTE 1 – ORGANIZATION AND BUSINESS:

In March 2011, Milestone Medical, Inc. and subsidiary (the “Company” or “Milestone Medical”) was organized pursuant to a joint venture agreement (the “Joint Venture Agreement”) between Milestone Scientific, Inc., a Delaware corporation, and Beijing 3H Scientific Technology Co., Ltd. (“Beijing 3H”), a People’s Republic of China (“PRC”) Company. At inception, Milestone Scientific, Inc. (the “Parent Company”) contributed an exclusive worldwide royalty-free license for the development and commercialization of intra-articular and epidural drug delivery instruments, utilizing its patented CompuFlo technology. Additionally, Beijing 3H, and a group of other investors contributed \$1.5 million to the Company.

During 2016, Milestone Scientific filed for 510(k) marketing clearance with the U.S. Food and Drug Administration (FDA) for both intra-articular and epidural injections with the CompuFlo System. In June 2017, the FDA approved the CompuFlo System for epidural injections. Beginning in 2021 Milestone Medical began the process of building an internal sales force to market our epidural instrument to medical schools, hospitals and individual anesthesiologists within the United States and other international markets.

In December 2016, we received notification from the FDA that based upon the 510(k)-application submitted for intra-articular injections, we did not adequately document that the device met the equivalency standard required for 510(k) clearances. The Company has decided not to proceed with securing the FDA approval for the intra-articular instrument at this time. Milestone Medical’s immediate focus is on marketing its epidural device throughout the United States and Europe.

In March 2022, due to information identified during the Corrective Action Preventative Action (CAPA) investigation of the Epidural Disposable Kit, Part # 6100-01, lot HC 51 the scope of the voluntary market withdrawal needed to be expanded to include Part # 6100-03, lot HC 50. A new non-conformance was initiated and Lot HC 50 was added to the scope of the CAPA initiated above. The investigation via the CAPA identified that there is an issue with the id adaptors used in both lots HC 51 and HC 50. However, the health hazard evaluation shows that there is no risk to the patient or the user, thus management has determined there are no potential impacts to patients or users. Lots HC 51 and HC 50 are worth approximately \$22,000 and \$10,000 respectively. Management has not yet determined what the final disposition of the affected inventory will be after the market withdrawal is completed.

NOTE 2 - LIQUIDITY AND GOING CONCERN:

The Company has evaluated whether there are conditions or events, considered taken together, which raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Milestone Medical has incurred significant operating losses since its inception. As of March 31, 2022, cash on hand was \$20,241 with negative working capital of approximately \$22.2 million.

As of March 31, 2022, the Company does not have sufficient cash to meet all its anticipated obligations for the next twelve months from the financial statement release date. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Milestone Medical will continue to manage its cash position while taking strategic steps to commercialize the Epidural instrument in the USA and throughout the world.

During the second quarter of 2020 the Parent Company raised gross proceeds of approximately \$19.7 million from the sale of common stock and warrants. Milestone Scientific, Inc. intends to advance additional funds to the Company for marketing, sales, and distribution of its CompuFlo® Epidural System. If Milestone Scientific, Inc. does not or is not able to advance appropriate amounts of funding and Milestone Medical is unable to obtain other sources of funding, there will be a material adverse

effect on the Company. The financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amounts and classification of liabilities that might result should the Company be unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present such interim results. Interim results are not necessarily indicative of the results of operations which may be expected for a full year or any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2021, included in Milestone Medical’s Annual Report filed on March 18, 2022.

Basis of Consolidation

The Company owns seventy-five percent of a special purpose company organized in Poland, Milestone Medical Poland Sp. z.o.o., which is not active at this time.

Cash

The Company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or net realizable value. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess, slow moving, defective, and obsolete inventory is recorded if required based on past and expected future sales, potential technological obsolescence, and product expiration requirements. The valuation allowance creates a new cost basis for the inventory, and it is not subsequently marked up through a reduction in the valuation allowance based on any changes in the underlying facts and circumstances. The valuation allowance is only reduced if or when the underlying inventory is sold or destroyed. As of March 31, 2022, and December 31, 2021, inventory was recorded net of a valuation allowance for slow moving inventory of approximately \$450,000. See Note 4.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in determining 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. The most significant estimates relate to inventory realization, cash flow assumptions regarding going concern considerations and valuation allowances on deferred tax assets. Actual results could differ from estimates.

Advances to Contractors

The advances to contractors represent funding to a subcontractor for parts required for epidural instrument manufacturing and repairs. On March 31, 2022, and December 31, 2021, advances to contractors was \$34,383.

Equipment, net

Equipment, net is recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. Depreciation expense was approximately \$1,000 and \$3,800 for the three months ended On March 31, 2022, and 2021, respectively. The costs of maintenance and repairs are charged to operations as incurred.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To assess revenue recognition for its customer arrangements, the Company performs the following five steps:

- i. identification of the promised goods or services in the contract;
- ii. determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; a performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account;
- iii. measurement of the transaction price, including the constraint on variable consideration;
- iv. allocation of the transaction price to the performance obligations based on estimated selling prices; and
- v. recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company derives its revenues from the sale of its products, primarily medical instruments, handpieces/disposables, and other related products. The Company sells its products primarily through medical facilities and a global distribution network. Revenue from product sales is recognized upon transfer of control of a product to a customer, generally upon date of shipment. For certain arrangements where the shipping terms are FOB destination, revenue is recognized upon delivery.

The Company has no obligation on product sales for any installation, set-up, or maintenance, these being the responsibility of the buyer. The Company's only obligation after sale, except for specific contracts and arrangements that provide for customer right to return provisions, is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period. We generally do not accept non-defective returns from our customers. Product returns under warranty are accepted, evaluated, and repaired or replaced in accordance with the Company's warranty policy. Returns not within the warranty policy are evaluated and the customer is charged for repair.

Sales Returns

The Company records allowances for product returns as a reduction of revenue at the time the product sales are recorded. Several factors are considered in determining whether an allowance for product returns is required, including the customers' return rights, the Company's historical experience with returns and the amount of product in the distribution channel not consumed by end users and subject to return.

The Company relies on historical return rates to estimate returns. In the future, if any of these factors and/or the history of product returns change, an adjustment to the allowance for product returns may be required.

Financing and Payment

Our payment terms differ by geography and customer, but payment is generally required within 90 days from the date of shipment or delivery.

Costs to Obtain or Fulfill a Customer Contract

Sales commissions are expensed when incurred because the amortization period would be one year or less. These costs are recorded in selling, general and administrative expense in the condensed consolidated statements of operations.

Shipping and handling costs, if any, are paid by or billed to customers at the time of shipment. Domestic and international shipments are FOB shipping point; therefore, no costs are incurred by Milestone Medical. The Company accounts for any shipping and handling activities related to contracts with customers as fulfillment costs which are included in cost of products sold in the condensed consolidated statements of operations.

Disaggregated Revenue Information

| | Three months ended March 31, 2022 | Three months ended March 31, 2021 |
|-------------------------------------|--|--|
| Domestic: US | | |
| Handpieces | \$ 7,550 | \$ 8,150 |
| Grand Total | <u>\$ 7,550</u> | <u>\$ 8,150</u> |
| International: Rest of World | | |
| Instruments | \$ - | \$ 42,500 |
| Handpieces | - | 20,400 |
| Grand Total | <u>\$ -</u> | <u>\$ 62,900</u> |
| Total Product Sales | <u><u>\$ 7,550</u></u> | <u><u>\$ 71,050</u></u> |

Research and Development

Research and development costs, which consist principally of new product development costs payable to third parties, are expensed as incurred. Advance payments for the research are amortized to expense either as services are performed or over the relevant service period using the straight-line method.

Income Taxes

Milestone Medical accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company and its Parent Company file a federal income tax return on a consolidated basis. State Income Taxes are filed on a separate company tax return. Income taxes are calculated on a separate return basis in accordance with a tax sharing agreement between Milestone Scientific, Inc., and its consolidated affiliates.

On March 31, 2022 and 2021, the Company recorded a de minimis State tax provision (benefit). The Federal benefits in 2021, and 2020 has been completely offset by a valuation allowance. The 2021 tax returns have not yet been filed.

Deferred tax assets and liabilities are recognized as temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company currently does not recognize certain deferred tax assets because they file a consolidated tax return with Milestone Scientific, Inc., and does not have the legal ability to utilize the deferred tax assets.

On March 31, 2022 and 2021, we had no uncertain tax positions that required recognition in the condensed consolidated financial statements. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the statement of operations. Tax returns for 2018, 2019 and 2020 years are subject to audit by federal and state jurisdictions.

Stock-Based Compensation

Share-based payments to employees and third parties for services are recognized in the Statements of Operations over the service period, as an operating expense, based on the grant-date fair values. The Stock-based compensation has been allocated to Milestone Medical for employees and officers of Milestone Scientific, Inc. that have provided services to Milestone Medical and were issued stock options and restricted stock awards of Milestone Scientific, Inc.

Recent Accounting Pronouncements

In December 2019, FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which clarifies the accounting treatment for the accounting tax aspects relating, in part, to the intra-period allocations and foreign subsidiaries. ASU 2019-12 is effective for all entities with fiscal years beginning after December 15, 2020. The adoption of this standard as of January 1, 2021, did not have a material effect on the Company's condensed consolidated financial statement presentation.

In June 2016, the FASB issued a new standard ASU No.2016-13, "Financial Instruments – Credit Losses" (Topic 326). The new standard is intended to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. It will be effective for all smaller reporting entities for fiscal years and interim periods, beginning after December 15, 2022. The Company is analyzing the impact of the adoption of this standard.

In January 2020, FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)", which, generally, provides guidance for investments in entities accounted for under the equity method of accounting. ASU 2020-01 is effective for all entities with fiscal years beginning after December 15, 2021, including interim periods therein. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statement.

In August 2020, FASB issued ASU 2020-06, "Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity", which, generally, provides guidance for accounting regarding derivatives relating to entities common stock and earnings per share. ASU 2020-06 is effective for all entities with fiscal years beginning after December 15, 2021, including interim periods therein. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statement.

NOTE 4 - INVENTORIES:

Inventories, net consist of the following:

| Inventory | March 31, 2022 | December 31, 2021 |
|---|---------------------|---------------------|
| Inventories consists of the following: | | |
| Epidural instruments | \$ 714,359 | \$ 726,130 |
| Epidural instruments - Trainer | 1,626 | 1,626 |
| Intra-articular instruments, net reserve | - | - |
| Epidural instruments Disposables | 270,951 | 291,840 |
| Component parts and other materials | 105,895 | 101,202 |
| Component parts and other materials - Trainer | 1,218 | 1,231 |
| Total | <u>\$ 1,094,049</u> | <u>\$ 1,122,029</u> |

There is a full reserve for all Intra-articular instrument which was approximately \$450,000 for the period ended March 31, 2022, and December 31, 2021.

NOTE 5 - RELATED PARTY TRANSACTIONS:

On December 31, 2014, Milestone Scientific, Inc. executed a \$2 million line of credit agreement to provide bridge financing to the Company through April 15, 2016. Borrowings under the line bear interest at a rate of 3.25%, the prime rate at the inception of the agreement. In September 2015, the company requested and received approval from the Board of Directors of Milestone Scientific, Inc. to increase the limit of the line of credit increased to \$2.5 million. In January 2016, the credit agreement was again increased to \$3 million hold.

The technology underlying the CompuFlo®, and an improvement to the controls for CompuDent® were developed by the Director of Clinical Affairs and assigned to the Parent Company. Milestone Medical purchased a license to this technology pursuant to an agreement dated January 1, 2005. The Director of Clinical Affairs will receive payments of 5% of the total sales of the Company's products until the expiration of the last patent carried by Milestone Scientific, Inc. The Director of Clinical Affairs' royalty fee was approximately \$380 and \$3,700 for the three months ended March 31, 2022 and 2021 respectively.

As of March 31, 2022 and December 31, 2021, \$2.8 million is outstanding as due to - related party on the accompany condensed consolidated balance sheets. Additionally, as of March 31, 2022 and December 31, 2021, the Company owes accrued interest on the line of credit of approximately \$607,000 and \$585,000, which is reported as accrued interest payable- related party on the condensed consolidated balance sheets. Interest is payable based on availability of funds. No interest has been paid to the parent Company since the inception of the loan. As of the financial report issuance date, Milestone Scientific, Inc. has not demanded payment of the line of credit.

Also, as of March 31, 2022 and December 31, 2021, the Company owes approximately \$19.6 million and \$18.5 million, respectively, to Milestone Scientific, Inc. for expenses paid on the Company's behalf. These advances are non-interest bearing and due on demand. As of the financial report issuance date, Milestone Scientific, Inc. has not demanded payment of the advances.

In December 2020, the Company signed an Agent Agreement (Agreement) with Milestone Scientific, Inc. to facilitate sales of medical instrument and disposables to a General Purchasing Organization (GPO) in the USA. The Agreement requires the Company to pay a five (5) percent commission on all sales to this GPO, to Milestone Scientific, Inc. The GPO services a significant number of hospitals and other medical facilities in the USA and requires that the Parent Company

Milestone Medical, Inc.

Condensed Consolidated Quarterly Report for 1Q 2022

be financially responsible to the delivery and efficacy of the instrument and the related disposables. As of March 31, 2021, commission under this agreement was approximately \$500. In 2022, there were no commissions due under this agreement.

NOTE 6 – CONCENTRATIONS AND SUPPLY UNCERTAINTIES:

The COVID-19 pandemic materially adversely affected the Company's financial results and business operations in 2021. Business interruptions, including any interruptions resulting from COVID-19, could significantly disrupt our operations and could have a material adverse impact on our business during 2022.

In addition to our employees, we rely on (a) distributors, agents, and third-party logistics provider in connection with product sales and distribution and (b) raw material and component suppliers in the U.S., Europe, and China. If we, or any of these third-party partners encounter any disruptions to our or their respective operations or facilities, or if we or any of these third-party partners were to shut down for any reason, including by fire, natural disaster, such as a hurricane, tornado or severe storm, power outage, systems failure, labour dispute, pandemic or other public health crises, or other unforeseen disruption, then we or they may be prevented or delayed from effectively operating our or their business, respectively.

In addition, it is uncertain as to what effect the continuing spread of COVID-19 (such as the Delta and Omicron variant) will have on our commercialization efforts of our CompuFlo Epidural and CathCheck system as medical devices. Such future developments could have a material adverse effect on our financial results and our ability to conduct business as expected.

Milestone Medical has informal arrangements with third-party manufacturers of the epidural, and intra-articular devices, pursuant to which they manufacture these products under specific purchase orders but without any long-term contract or minimum purchase commitment. Consequently, advances on contracts have been classified as current March 31, 2022 and December 31, 2021, respectfully.

The termination of the manufacturing relationship with any of these manufacturers could have a material adverse effect on Milestone Scientific's ability to produce and sell its products. Although alternate sources of supply exist, and new manufacturing relationships could be established, Milestone Medical would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay. Any curtailment or interruption of the supply, because of termination of such a relationship, would have a material adverse effect on Milestone Medical's financial condition, business, and results of operations.

For the three months ended March 31, 2022 100% of net product sales were to four customers/distributors, 43%, 23%, 17% and 17%, respectively. For the three months ended March 31, 2021 85% of net product sales were to three customers/distributors, 36%, 29% and 20%, respectively.

At March 31, 2022, accounts receivable for one customer amounted to approximately 54%, or \$3,439 respectively. At December 31, 2021, accounts receivable for one customer amounted to approximately 78%, or \$11,500 respectively.

NOTE 7 – STOCK BASED COMPENSATION:

Stock-based compensation cost is measured at the grant date on the fair value of the award. Generally, compensation expense is recognized over the vesting period. The stock compensation has been allocated to Milestone Medical for officers and employees of Milestone Scientific, Inc. that have provided services to Milestone Medical and were issued stock options and restricted stock awards of Milestone Scientific, Inc.

For the three months ended March 31, 2022 and 2021, the Company was allocated stock compensation expense of approximately \$36,000 and \$66,000, respectively from Milestone Scientific, Inc. The Company allocated approximately \$52,000 and \$509,000 of unrecognized compensation cost related to non-vested stock options for the three months ended March 31, 2022 and 2021 respectively, which Milestone Medical expects to recognize these costs over a weighted average period of 2.75 years.

As of March 31, 2022, there were 130,816 restricted shares granted and deferred under the terms of an employment agreements with the Territory Manager of Milestone Scientific. Such shares will be issued to each party upon completion of 2 years of employment. For the three months ended March 31, 2022, the Company recognized stock compensation expense of approximately \$22,000 March 31, 2022, the total unrecognized compensation expense was \$169,792 related to unvested restricted stock awards, which the Company expects to recognize over an estimated weighted-average period of 1.46 years. For the three months ended March 31, 2022 the Company granted four restricted shares awards to Territory Managers. No restricted stock awards were granted during the three months ended March 31, 2021.

NOTE 8 - COMMITMENTS:

On April 6, 2021, Leonard Osser and Milestone Scientific, Inc. restructured the U.S. Asian Consulting Group, LLC, agreements originally signed July 10, 2017, with the Company. The Consulting Agreement dated as of July 10, 2017 (the "Consulting Agreement") between the Company and U.S. Asian Consulting Group, LLC, a company of which Mr. Osser is a principal, the compensation increased by \$100,000 to \$200,000, equally split between a cash amount and an amount in shares of Milestone Scientific, Inc. common stock. Compensation under the Consulting Agreement are payable for 9.5 years from the date Mr. Osser steps down as Interim-CEO. Leonard Osser resigned as Interim Chief Executive Officer of the Company effective May 19, 2021. The Company recorded expense of \$50,000 and \$0 related to the US Asian Consulting Group, LLC for the three months ended March 31, 2022, and 2021.

NOTE 9 – SUBSEQUENT EVENTS:

After March 31, 2021 Milestone Scientific, Inc. has advanced Milestone Medical approximately \$147,500 to support the commercialization process for the epidural instrument and other expenses necessary for the day-to-day operations of the Company.

Subsequent to March 31, 2022, due to information identified during the Corrective Action Preventative Action (CAPA) investigation of the Epidural Disposable Kit, Part # 6100-01, lot HC 51 the scope of the voluntary market withdrawal needed to be expanded to include Part # 6100-03, lot HC 50. A new non-conformance was initiated and Lot HC 50 was added to the scope of the CAPA initiated above. The investigation via the CAPA identified that there is an issue with the id adaptors used in both lots HC 51 and HC 50. However, the health hazard evaluation shows that there is no risk to the patient or the user, thus management has determined there are no potential impacts to patients or users. Lots HC 51 and HC 50 are worth approximately \$22,000 and \$10,000 respectively. Management has not yet determined what the final disposition of the affected inventory will be after the market withdrawal is completed.

3. Information on the rules applied to the preparation of the report, including information on the changes in applied account rules (policies)

Condensed Consolidated quarterly report for the first quarter of 2022 was prepared in accordance with the rules indicated in Exhibit 3 to the Alternative Trading System Rules “Current and Periodical Information in the Alternative Trading System on the NewConnect market”. Information on applied accounting rules (policies) are presented in Note 3 to the Financial Statement.

4. Brief description of the most important achievements or failures of the Issuer and its Subsidiary during the period of the report as well as a description of the most important factors and events, atypical ones, which impact the achieved results.

On January 7, 2022, the Company announced on ESPI/1/2022 that Dr. Harsh Govil, MD, MPH, whose practice is based in Statesville, NC, has begun incorporating the CompuFlo Epidural instrument into his practice for pain management. Dr. Govil plans to utilize the CompuFlo Epidural instrument for office-based procedures to access the epidural space safely and quickly.

On March 29, 2022, the Company announced on ESPI/2/2022 that it has commenced sales of the CompuFlo® Epidural disposables at the Cypress Surgery Center in Santa Maria, California, and the Galileo Surgery Center in San Luis Obispo. Both prominent pain management practices are in California and owned by Pain Management Specialists.

Subsequent to March 31, 2022, due to information identified during the Corrective Action Preventative Action (CAPA) investigation of the Epidural Disposable Kit, Part # 6100-01, lot HC 51 the scope of the voluntary market withdrawal needed to be expanded to include Part # 6100-03, lot HC 50. A new non-conformance was initiated and Lot HC 50 was added to the scope of the CAPA initiated above. The investigation via the CAPA identified that there is an issue with the id adaptors used in both lots HC 51 and HC 50. However, the health hazard evaluation shows that there is no risk to the patient or the user, thus management has determined there are no potential impacts to patients or users. Lots HC 51 and HC 50 are worth approximately \$22,000 and \$10,000 respectively. Management has not yet determined what the final disposition of the affected inventory will be after the market withdrawal is completed.

On April 11, 2022, the Company announced on ESPI/3/2022 that it has commenced sales of its CompuFlo Epidural and CathCheck Verification System disposables to a leading northeast medical center in the U.S. This approval follows an extensive trial and evaluation, which validates the safety and efficacy of the technology. As a teaching hospital, the Company's tools provide residents, fellows, and seasoned physicians greater accuracy through real-time verification of epidural needle placement, as well as subsequent monitoring of catheter placement.

The pandemic had a significant impact on the labor and delivery departments within hospitals, much more so than other departments. This was due to the fact that many pregnant women have opted out of the vaccine, resulting in stricter restrictions than other departments. The sales team was unable to enter the operatories, which limited our ability to demo and trial the instruments, resulting in a lower number of the agreements signed with hospitals and pain management clinics regarding the commencement of sales of CompuFlo Epidural instrument and new distributors added. Thus the pandemic had negative impact on the revenue from the sale of the products, primarily medical instruments, handpieces/disposables for the three months ending March 31, 2022 versus the comparable period in 2021.

5. A description of the status of implementation of activities and investments of the Issuer and its Subsidiary and the timetable of their implementation

The Company remains focused on advancing efforts establishing Milestone’s platform painless and precise drug delivery, providing for the first time objective visual and audible in-tissue pressure feedback, and continuing to expand platform applications. Commercializing our CompuFlo Epidural System, a transformative device for epidural anesthesia procedures

expanding the global footprint of our CompuFlo Epidural System by partnering with distribution companies worldwide.

The Company is witnessing growing interest in CompuFlo® Epidural Instrument and CathCheck™ System among anesthesiologists and hospitals. This interest is due, in part, to more hospitals re-opening their facilities to outside sales representatives, as well as the safety and economic value proposition of our system. Previously, the Company made the strategic decision to await the recovery of the pandemic prior to investing heavily in salesforce expansion, which allowed the Company to preserve capital and extend the cash runway. However, the Company is now aggressively building the sales and marketing organization to capitalize on these opportunities.

In summary, the Company has been successful in commencing the first phase of our commercial rollout of the CompuFlo Epidural Instrument®. The feedback from both anesthesiologists and the healthcare institutions has been positive, given the safety and economic benefits of our instruments. The sales initiatives are taking hold and Company is in late-stage discussions with several hospitals, medical institutions and pain management clinics across the country that have the potential to convert to additional commercial orders.

The Company has invested heavily in our new sales force and now have 9 full time experienced sales representatives in the field that are calling on hospitals every day. The Company is in the process of adding new international distributors to build upon the traction it is gaining in the domestic market. Additionally, the Company has successfully expanded the addressable market for the instruments beyond labor and delivery by entering the pain management market. The pain management market is at least twice the size of the labor and delivery market segment, and the Management of the Company believes that the CompuFlo® Epidural instrument has the potential to capture a significant share of this market given its unparalleled safety, reduced risk of complications and cost savings.

6. If the Issuer and its Subsidiary took initiatives to develop its activities aimed to implement innovative solutions at the enterprise during the period of the report – information on such activities.

The Issuer and its Subsidiary continues to consider and where appropriate include innovative initiatives for its medical instrument in the EU community. The Company continues to work and introduce the Epidural instrument in key medical institutions in the United States.

7. Description of the organization of the group indicating consolidated entities

Up to the date of this report completion, the Issuer does have a special purpose subsidiary Milestone Medical Poland Sp. z.o.o. The purpose of this company is the application and acceptance of Polish Government Grants for research and development of the current and future improvements to the medical instruments. Below the Issuer presents some basic information about its subsidiary:

Table 6 General information about Subsidiary of the Issuer

| SUBSIDIARY | MILESTONE MEDICAL POLAND SP. Z.O.O. |
|---|---|
| Registered office/Office: | Place Powstancow Slaskich 1/201, 53-329 Wroclaw |
| Telephone number: | 48 (71)79 11 555 |
| Facsimile number: | 48 (71) 79 11 556 |
| Percentage share of the Issuer in share capital | 75 percent |
| Percentage share of the Issuer in the total number of votes | 75 percent |

Source: The Issuer

Milestone Medical Poland Sp. z.o.o. was established in September 2014 and is not active at the time. The Issuer has prepared Condensed Consolidated Financial Statements with this subsidiary according to laws and regulations applicable to the Issuer.

Jan A. Haverhals
Chief Executive Officer