



Quarterly report of
MILESTONE MEDICAL INC. and SUBSIDIARY
(1st Quarter from January 1, 2016 to March 31, 2016)

Report includes:

1. General information about Milestone Medical Inc (the “Issuer”) and Subsidiary.
2. Consolidated quarterly 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, in particular atypical ones, which impact 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, 2016

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:	220 South Orange Avenue, Livingston, NJ 07039, USA
Telephone number:	011-973-535-2717
Facsimile number:	011-973-535-2829
E-mail:	jdagostino@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 quarterly 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

Name of Shareholder	Number of owned shares/votes	Shareholding/votes at General Meeting of Shareholders [%]
MILESTONE SCIENTIFIC, INC.	10,995,000	49.98%
WANG TAO	2,600,000	11.82%
ZHANG LIDONG	2,000,000	9.09%
ZHU YUN	1,600,000	7.27%
TOM CHENG*	1,325,000	6.02%
OTHERS (<5%)	3,480,000	15.82%
TOTAL	22,000,000	100%

Source: The Issuer

*Holding directly 320,000 shares and indirectly 1,005,000 shares by his subsidiary United Systems Inc at March 31, 2016. In January 2016, Tom Cheng sold 250,000 shares to the CEO of Milestone Medical Inc.

Effective April 18, 2016. Milestone Scientific Inc. acquired 8,180,000 shares of the Issuer's outstanding shares, from various shareholders. The shares acquired represented 37% of the total outstanding shares of the Issuer. As a result of this transaction Milestone Scientific Inc. owns 87% of the outstanding shares of the Issuer.

Name of Shareholder	Number of owned shares/votes	Shareholding/votes at General Meeting of Shareholders [%]
MILESTONE SCIENTIFIC, INC.	19,175,000	87.16%
OTHERS (<5%)	2,825,000	12.84%
TOTAL	22,000,000	100%

1.2. Board of Directors

Table 3 Board of Directors

NAME OF DIRECTOR	CURRENT AGE	DIRECTOR SINCE	END OF TERM
Leonard A. Osser	69	Mar-11	Next Annual Meeting of Shareholders
Zhu Yun	51	Sep-13	Next Annual Meeting of Shareholders
Martin S. Siegel	72	Sep-14	Next Annual Meeting of Shareholders

Source: The Issuer

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

On March 31, 2016 the Issuer employed one full time employee and three (3) persons converted into full-time equivalents (“FTEs”). There are open positions for an additional two (2) full time employees; a Business Development Manager and a Nurse Anesthesiologist. These positions are scheduled to be hired sometime in 2016

2. 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

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three months ended March 31, 2016 and 2015 (unaudited)

And as of and for the year ended December 31, 2015 (audited)

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MILESTONE MEDICAL INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Current Assets:		
Cash	\$ 22,346	\$ 1,222
Accounts receivable	45,075	45,075
Prepaid expenses and other current assets	48,084	42,637
Inventory	875,974	885,961
Advances to contractors	44,148	43,524
Total current assets	1,035,627	1,018,419
Equipment, net of accumulated depreciation of \$138,080 as of March 31, 2016 and \$122,320 as of December 31, 2015	107,033	119,006
Intangible asset	1,500,000	1,500,000
Total assets	\$ 2,642,660	\$ 2,637,425
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current Liabilities:		
Accounts payable and accrued expense	\$ 730,966	\$ 815,651
Advance on line of credit from Milestone Scientific Inc.	2,800,000	2,500,000
Due to Milestone Scientific	1,578,757	998,453
Total current liabilities	5,109,723	4,314,104
Commitments and Contingencies		
Stockholders' Deficit		
Preferred stock, par value \$.0001; authorized 5,000,000 shares; 0 shares issued	-	-
Common stock, par value \$.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	2,200	2,200
Additional paid-in capital	6,753,867	6,693,000
Accumulated deficit	(9,223,130)	(8,371,879)
Total stockholders' deficit	(2,467,063)	(1,676,679)
Total liabilities and stockholders' deficit	\$ 2,642,660	\$ 2,637,425

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Three Months Ended</u> March 31, 2016 (Unaudited)	<u>Three Months Ended</u> March 31, 2015 (Unaudited)
Revenue	\$ 6,000	\$ -
Cost of products sold	4,337	-
Gross Profit	1,663	-
Research and development expenses	47,595	133,567
Expenses:		
Shared services	60,867	68,387
Depreciation	15,761	5,150
General and administrative expenses	705,758	682,807
Total expenses	<u>829,981</u>	<u>889,911</u>
Net Loss from operations	<u>(828,318)</u>	<u>(889,911)</u>
Interest expense	22,933	369
Net loss	<u>\$ (851,251)</u>	<u>\$ (890,280)</u>

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares (in thousands)	Amount			
Balance, January 1, 2015	22,000	\$ 2,200	\$ 6,543,138	\$ (4,331,841)	\$ 2,213,497
Contributed Capital-Milestone Scientific, Inc. Shared Service Expense	-	-	149,862	-	149,862
Net Loss	-	-	-	(4,040,038)	(4,040,038)
Balance, January 1, 2016	22,000	\$ 2,200	6,693,000	(8,371,879)	(1,676,679)
Contributed Capital-Milestone Scientific, Inc. Shared Service Expense	-	-	60,867	-	60,867
Net Loss	-	-	-	(851,251)	(851,251)
Balance, March 31, 2016	22,000	\$ 2,200	\$ 6,753,867	\$ (9,223,130)	\$ (2,467,063)

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Three Months Ended</u>	<u>Three Months Ended</u>	<u>Year Ended</u>
	<u>March 31, 2016</u>	<u>March 31, 2015</u>	<u>December 31, 2015</u>
	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities:			
Net loss	\$ (851,251)	\$ (890,280)	\$ (4,040,038)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	15,760	5,150	57,094
Contributed capital - Milestone Scientific, Inc. shared services expense	60,867	68,387	149,862
Changes in operating assets and liabilities:			
Increase in accounts receivable	-	-	(45,075)
Increase in inventories	9,987	(13,183)	(840,717)
Decrease in advances to contractors	(624)	20,344	326,706
Decrease (Increase) to prepaid expenses and other current assets	(5,447)	(36,679)	44,269
Increase due to Milestone Scientific Inc.	580,304	(14,548)	498,453
Increase in accounts payable and accrued expenses	(84,686)	(315,411)	352,996
Net cash used in operating activities	<u>(275,090)</u>	<u>(1,176,220)</u>	<u>(3,496,450)</u>
Cash flows from investing activities:			
Purchase of equipment	(3,787)	-	(82,363)
Net cash used in investing activities	<u>(3,787)</u>	<u>-</u>	<u>(82,363)</u>
Cash flows from financing activities:			
Proceeds from Line of credit	300,000	200,000	2,500,000
Net cash from financing activities	<u>300,000</u>	<u>200,000</u>	<u>2,500,000</u>
NET INCREASE (DECREASE) IN CASH	21,123	(976,220)	(1,078,813)
Cash at beginning of period	1,222	1,080,035	1,080,035
Cash at end of period	<u>\$ 22,346</u>	<u>\$ 103,815</u>	<u>\$ 1,222</u>
Supplemental disclosure of non cash activities:			
Contributed Capital - Milestone Scientific, Inc. Shared Services Expense	<u>\$ 60,867</u>	<u>\$ 68,387</u>	<u>\$ 149,862</u>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
For the years ended March 31, 2016 and 2015
And the year ended December 31, 2015

NOTE 1 - ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION:

In March 2011, Milestone Medical Inc. (the “Company”) 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. 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, a shareholder of Milestone Scientific, Inc. contributed \$1.5 million to the Company.

In September 2014, the Company established a special purpose Polish company called Milestone Medical Poland Sp. z.o.o. The purpose of which is for the application and acceptance of Polish Government Grants for research and development of current and future improvement to the epidural and intra-articular instruments. Milestone Medical Poland S.P. z.o.o., is seventy – five percent owned by the Company. As of March 31, 2016, Milestone Medical Poland S.P. z.o.o. has not received any grants from the Polish Government.

As of March 31, 2016, the Company has not yet obtained U.S. Food and Drug Administration (“FDA”) regulatory clearance. However as of September 2014, the company did receive European Union (CE) clearance to market the instruments in the European Market. The Company is now awaiting final regulatory marketing clearance in the U.S. by the FDA. In 2014, the Company began to commercially market the instruments with the commitment to purchase 500 instruments (250 epidural and 250 intra-articular instruments) from the instrument manufacturer. All 500 instruments were delivered by September 30, 2015. In the interim of receiving final FDA approval, introductory meetings are being held with medical device distributors within the foreign market. The first two instruments (epidural) were shipped to a Polish distributor in June 2015, an Italian distributor was shipped five epidural instruments in September 2015. Once the Company’s planned principal operations commence, its focus will be on marketing its two instruments throughout the world.

Although the Company’s instruments have progressed beyond the development stage, additional equity financing will be necessary to fund final regulatory approval and commercialization of the medical instruments. To this end, the Company is currently in the process of pursuing an additional equity financing.

In December 2015, the company obtained approval of a Prospectus filed with the regulatory authority in Poland to raise \$4 million of capital, and to uplist the Company to the Warsaw Stock Exchange from the New Connect Market (Alternative Trading System). The company eventually cancelled the offering launched in 2015, but is expecting to continue its capital raising activities in 2016.

Milestone Medical Inc has incurred significant operating losses since its inception as a development company. Milestone Medical Inc had negative cash flows from operating activities for the three months ended March 31, 2016 of approximately \$275,000. At March 31, 2016 Milestone Medical Inc had cash of \$22,346 and a negative working capital of approximately \$4,075,000 as compared to negative working capital of \$3,296,000 at December 31, 2015. The working capital decreased by \$778,000 as compared to December 31, 2015. The change in working capital is primarily due to a decrease in cash, increase in accounts receivable and inventories, decrease in advances on contract and a significant increase in current liabilities. Milestone Medical’s management continues to examine all areas of the business to manage its cash flow. Milestone Medical Inc is actively pursuing the generation of positive cash flows from operating activities through an increase in revenue based upon management’s assessment of present contracts for delivery of epidural and intra-articular instruments to both customers in EU countries and for obtaining FDA clearance in the United States.

As of March 31, 2016, Milestone Medical Inc believes that it does not have sufficient cash reserves or collections of accounts receivable to meet all of its anticipated obligations for the next twelve months. Milestone Medical Inc will continue to manage its cash position while taking strategic steps to finalize the clinical studies and to expand its business in the medical business sectors. At December 31, 2015, a qualification was issued within the audit opinion as the Company carries going concern uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Basis of Consolidation

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

Cash and Cash Equivalents

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

Accounts Receivable

Milestone Medical Inc. records accounts receivable at estimated net realizable value, and closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, Milestone Medical Inc. evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has provided a reserve that it believes is sufficient to record accounts receivable at net realizable value as of March 31, 2016, and December 31, 2015 respectively.

Inventory

Inventory costing, obsolescence and physical control are significant to the on-going operation of the business. Inventories principally consist of finished goods stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on past and expected future sales.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advances to Contractors

The advances to contractors represent funding to a subcontractor, for spares parts required for both epidural and intra articular instruments repairs. In February 2014, the Company issued a purchase order for the manufacture of the epidural and intra articular instruments for the production of a total of five hundred (500) instruments. All the instruments were manufactured at December 31, 2015.

Equipment

Equipment (molds for pre-production and commercialized instruments) 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 is five years. The depreciation expense was approximately \$16,000 and \$5,000 three months ended March 31, 2016 and March 31, 2015, respectively. The costs of maintenance and repairs are charged to operations as incurred.

Revenue Recognition

Revenue from product sales is recognized net of discounts and allowances to domestic distributors on the date of shipment for essentially all shipments, since the shipment terms are FOB warehouse. In all cases the price to the buyer is fixed and the collectability is reasonably assured. Further, Milestone Medical Inc. has no obligation on these sales for any

post installation, set-up or maintenance, these being the responsibility of the buyer. Milestone Medical Inc. only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period.

Intangible Asset

In connection with the formation and capitalization of the Company, the business was valued at inception using the discounted cash flow method, which resulted in a valuation of approximately \$3 million. The Company allocated the business valuation between the cash that investors agreed to contribute (\$1.5 million) and the remaining \$1.5 million was allocated to Milestone Scientific, Inc.'s contribution of a royalty-free right to use its patented CompuFlo technology (intangible asset). The Company will begin amortizing the intangible asset contributed when either of the two medical devices has been fully commercialized which includes obtaining final FDA approval. The asset's estimated useful life will be based on the average remaining life of the underlying patents. Currently the remaining useful life of the patents is approximately 9.25 years. The Company assesses the intangible asset for impairment at each reporting period or sooner if there are indicators that trigger an earlier assessment. The Company's impairment assessment is based on several factors including the progress made in developing the two medical instruments, the results from the research performed by the vendor, the Company's ability to use its technical capabilities to forecast the outcome of the research being performed and more recently feedback received from professionals as the Company applies for FDA clearance. CE clearance was received in September 2014. All these factors indicate that the technology continues to be feasible to be used in the two instruments being developed. Accordingly, no impairment has been recorded in these financial statements for the periods being reported.

Research and Development

Research and development costs are expensed as incurred. A portion of the Company's research and development efforts are sub-contracted to vendors and progress is monitored periodically.

Income Taxes

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. Deferred tax assets, including tax loss and credit carryforwards, 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Services Provided by Stockholder

The Company is provided management, financial, engineering and accounting services by the staff of Milestone Scientific, Inc. The Company formalized this agreement in writing during the third quarter of 2014. The value related to these services are charged to the Company on a periodic basis. These charges are included in the financial statements as shared service expense. Additional Paid in Capital has been credited for the rendered services

Accounting for Uncertain Tax Positions

The Company follows the Income Taxes Topic of the FASB Accounting Standards Codification, which provides clarification on accounting for uncertainty in income taxes recognized in the Company's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition.

At March 31, 2016 no significant income tax uncertainties have been included in the Company's 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 since inception are subject to audit by federal and state jurisdictions.

NOTE 3- JOINT VENTURE AGREEMENT:

Pursuant to the Joint Venture Agreement, Milestone Scientific, Inc. 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 and a group of individual investors contributed \$1.5 million to the Company. At

inception, the Company reviewed this transaction to assess the technological feasibility of the products being developed. Based on the following factors, the Company believed the technology was feasible from inception.

- Milestone Scientific Inc. patented its CompuFlo technology,
- The patents were generic for use in the medical and dental markets when granted.
- The capabilities to use this technology existed from CompuFlo technology and as technology evolved the Company has improved the technology over a number of years.
- The Director of Clinical Affairs of the Company has had significant involvement in developing these patents initially and his conclusions are that technology is feasible for use in medical devices.

Milestone Scientific, Inc. was authorized by the Joint Venture Agreement to manage and oversee the development of the two medical instruments for the Company. In connection with this, Milestone Scientific, Inc. entered into an agreement with a vendor to develop the two instruments. Milestone Scientific, Inc. personnel monitored the development of the instruments with the third party vendors on a periodic basis thus ensuring that the instruments are being developed according to medical standards.

Milestone Scientific, Inc. has distribution responsibility in the U.S. and Canada, while Beijing 3H was to distribute products exclusively in the PRC, Macao, Hong Kong and other regions of Asia. In September 2014, the Company terminated its distribution agreement with Beijing 3H upon the resignation of Mr. Feng Yulin as a director of the Company. The Company entered a new distribution agreement with Milestone China Ltd, (a Hong Kong Company owned forty (40) percent by Milestone Scientific, Inc. a significant shareholder of the Company). The distribution agreement is similar to that of Beijing 3H and it includes both the epidural and the intra-articular instruments. The Company will have distribution responsibilities for the rest of the world.

NOTE 4 - 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 to a maximum of \$2.5 million (an increase of \$500,000). In January 2016, the credit agreement was increased to \$3 million. As of March 31, 2016, Milestone Scientific, Inc. has advanced \$2,800,000 to Milestone Medical. All other terms in the line of credit agreement remain unchanged. Milestone Scientific Inc is not legally obligated to provide any funding to Milestone Medical Inc.

The shared expenses relate to the management, financial, engineering and accounting services provided by the staff of Milestone Scientific Inc. These expenses relate to the costs incurred related to obtaining CE and FDA approval and represent additional contributions from Milestone Scientific. The shared expenses for the three months ended March 31, 2016 and March 31, 2015 were approximately \$61,000 and \$68,000 respectively.

As of March 31, 2016 the Company owes \$1,578,757 to Milestone Scientific, Inc. for expenses paid on the Company's behalf in 2016 and 2015. The expenses relate to financial and accounting services performed by Milestone Scientific Inc.'s employees at the cost to Milestone Scientific Inc. These fees are payable to Milestone Scientific Inc. In April 2016, Milestone Scientific Inc. increased its ownership in the Issuer to 87% of the outstanding shares. Milestone Scientific Inc. acquired an additional 37% of the outstanding shares of Milestone Medical Inc. by exchanging Milestone Medical shares into Milestone Scientific shares at a rate of two shares of Milestone Medical for one share of Milestone Scientific.

NOTE 5 - CONCENTRATIONS:

The Company sub-contracts its research and development to a vendor which accounted for 6%, 97%, and 20% of total expenses incurred for the three months ended March 31, 2016, March 31, 2015, and for the year ended December 31, 2015, respectively. If the vendor or the Company terminated the current arrangement, additional expenses may be incurred for further research and development to occur. As of March 31, 2016, there are no known circumstances which would lead to termination by either party.

NOTE 6 - SUBSEQUENT EVENTS:

Subsequent to March 31, 2016, Milestone Scientific Inc. acquired an additional 37% of the outstanding shares of Milestone Medical Inc. by exchanging Milestone Medical shares into Milestone Scientific shares at a rate of two shares of Milestone Medical for one share of Milestone Scientific.

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

Consolidated quarterly report for the first quarter of 2016 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 2 to the Financial Statement. During the first quarter of 2016, there was no change to the applied accounting rules.

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, in particular atypical ones, which impact the achieved results.

During the first quarter ending March 31, 2016, the Issuer and its Subsidiary continued the process of obtaining regulatory approval for the two medical instruments (Epidural and Intra-Articular Injections Systems) in the United States of America. The regulatory approval process for the USA (FDA), is moving forward. As of March 31, 2016 the Issuer is in the process of a clinical study at two premier sites in the U.S. Successful completion of the studies is a necessary step in obtaining FDA clearance to market the instrument in the USA. The Issuer received CE clearance for both instruments in September 2014. The company has enrolled over 363 patients in the clinical study in the USA. 220 patients have completed the enrollment in the pain management study and over 123 patients have completed the labor and delivery enrollment process to date.

The Company currently employs one full time employee the President, who is also the President of Milestone Scientific Inc, however he provides essentially all of his time to the Issuer. The Issuer has two positions currently open, Director of Sales/Business Development and Anesthesiologist Registered Nurse as of March 31, 2016. Additionally, the Issuer is continuing its efforts to identify and meet with potential distributors for both instruments throughout the world. The Issuer’s President and a contracted Business Development Representative are actively pursuing distribution partners. As a result of the above activities performed by the Issuer, the Company during the second quarter 2015 signed a Memorandum of Understanding with Fidia Farmaceutici SpA (“Fidia”), a specialty pharmaceutical company based in Italy, for the co-development and manufacture of a custom intra-articular drug delivery instrument for Fidia’s hyaluronic acid formulations. Additionally, during the second quarter of 2015 the Company reported on EBI report no. 25/2015 published on June 10, 2015 that a medical distributor in Italy, Moss S.P.A. agreed to a three year agreement that included minimum purchases of the epidural instrument and disposals for the Italian market.

In the second quarter of 2015, the Issuer also commenced the first shipments of its CompuFlo™ Epidural Instrument to distributors and key opinion leaders in Europe. Since receiving CE Mark marketing clearance for the Company’s epidural instrument, the Issuer has been in negotiations with distributors in a number of countries in Europe and, as previously announced, signed an exclusive agreement with TRIMED Sp.z.o.o. (“Trimed”), one of the largest distributors of diagnostic equipment in Poland. Trimed has purchased a small number of instruments, initially for internal use and training purposes as it ramps up for a formal launch later this year.

For the quarter ended, March 31, 2016, the Issuer and its Subsidiary have generated a net loss of \$851,251 this loss was caused mainly due to research and development costs of \$47,595 and to a high level of general and administrative expenses, which amounted to \$782,832. These expenses were incurred due to the market and commercialization of the instruments in Europe as well as increasing the headcount of the Company. The Issuer suspended its effort to raise capital in December 2015. The capital market in Poland was not conducive due to financial market turmoil in the fourth quarter of 2015. As such, the Issuer has little cash available to continue its operations. In January 2016, the Issuer borrowed an additional \$300,000 from Milestone Scientific Inc. However Milestone Scientific Inc is not legally obligated to loan additional funds to the Issuer. As such the Issuer will reduce its cash expenditure in 2016, until additional capital is raised or revenues increase to cover these costs.

In April 2016, Milestone Scientific Inc. acquired 8,180,000 shares (37% outstanding shares) from existing shareholders. As a result of this transaction Milestone Scientific Inc. owns 87% of the total outstanding shares of the Issuer.

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 Issuer began the marketing and selling of its epidural instruments in the European market upon receiving CE clearance in September 2014. Two medical distribution agreements for the epidural instrument and disposables have been signed in 2015. The USA marketing clearance process is continuing to move forward at a slower rate than previously anticipated but the direction is still positive. The clinical study supporting the FDA approval has reached over 360 patients. The results thus far have been 100% successful in locating the epidural space.

As announced in the previous year, the Issuer cancelled plans to uplist from NewConnect Market (Alternative Trading System) to the Main Market of the Warsaw Stock Exchange, in the fourth quarter of 2015.

In the beginning of March 2015, the Issuer announced the start of its pivotal clinical trial for its epidural instrument at a major pain management center in the United States. The Company has also met FDA 801 requirements for submission of the clinical trial information to the Director of the National Institutes of Health (NIH) for inclusion in the registry and results database established via ClinicalTrials.gov for its CompuFlo Epidural Computer Controlled System for assessing the safety and effectiveness of the instrument for identifying the epidural space. Recruitment for the clinical trial is underway and over 363 patients have now taken part in the study. The Company has also disclosed that six prominent university and pain management sites in the United States have received Ethical Committee (Institutional Review Board) approvals which enable the initiation of site enrollment.

The Company plans to enroll approximately 400 patients in the trial at six separate sites in the U.S. Upon achieving full enrollment, the Company expects the clinical trial and accompanying statistical analysis to be completed in the second half of 2016, at which time the Issuer will return to the FDA for final market clearance.

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 two medical instruments. During this quarter, there were no new initiatives.

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 two 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.
Registerd office/Office:	Plac 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

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 consolidated financial statements with this subsidiary according to laws and regulations applicable to the Issuer.

Leonard A. Osser
Chief Executive Officer