Consolidated Annual report of

MILESTONE MEDICAL, INC. AND SUBSIDIARY

for the Year Ended

December 31, 2014

The Report includes:

1. The letter of the Board of Director and Management
2. Statements of the Board of Directors and Management
3. General information about Milestone Medical
4. Selected financial information
5. Audited annual financial statements
6. Report on the Milestone Medical's activities in year 2014
7. Report with the opinion on the audit of the annual financial statements
8. Application of corporate governance rules

New Jersey, March 27, 2015

1. THE LETTER OF THE BOARD OF DIRECTORS AND MANAGEMENT

To Our Valued Shareholders,

We are pleased to report significant progress on a number of fronts in 2014 and beyond regarding the Company's epidural and intra-articular drug delivery instruments. Highlights include CE Mark marketing clearance for both instruments in Europe, the signing of distribution agreements for these instruments in key markets, the commencement of clinical trials in the United States and listing the Company's stock on the NewConnect market of the Warsaw Stock Exchange.

Since obtaining CE Mark regulatory clearance for the Company's first two instruments in September 2014, we have been in active discussions to secure a major distribution partnership. The Company recently signed an exclusive agreement with TRIMED Sp.z.o.o., an established company with a product portfolio comprised of medical technology and equipment, for distribution of the Company's epidural instrument throughout Poland.

The addressable market for epidurals in Poland is estimated to be over 8 million people, many of whom experience chronic pain. The Ministry of Health and the Polish National Health Fund are preparing legislation to allow the reimbursement of epidural anesthesia in natural childbirth, which should expand the addressable market.

In December 2014, the Company signed two distribution agreements with Milestone China, one for each instrument; however, sales in the region will not commence until FDA marketing clearance is obtained, to be followed by CFDA marketing clearance at a later date. FDA marketing clearance is expected to the end of 2015 for the Company's epidural instrument while timing for the intra-articular instrument is uncertain at this time. Milestone China is a joint venture between Milestone Scientific and a team headed by a senior healthcare executive from China. The China opportunity is sizable and we plan to introduce these and other computer-based drug delivery instruments into this and other markets over the coming months and years.

In the United States the Company has a distribution agreement in place with Tri-anim Health Services, the largest provider of specialty sales and distribution to birthing and pain management centers in the U.S. Tri-Anim has 90 sales reps and well established relationships in the anesthesia market. Full launch of the Company's epidural instrument is expected in 2015 after we obtain FDA marketing clearance. We are making progress towards advancing the Company's epidural instrument through the FDA regulatory process and have received positive feedback and guidance from the regulatory authority. Following clinical trial registration approval by the FDA last month for the Company's epidural instrument, we are now focused on clinical trials at our first two pain management centers in the United States. Our hope is to complete the clinical studies in the second quarter of 2015. Upon successful completion of the clinical trials and statistical analysis of the studies, we will return to the FDA for final marketing clearance.

The epidural market in the U.S. is estimated at over $7 billion annually. Over 2.4 million women in the U.S. receive epidurals while in labor each year with another 1.6 million women who give birth chose not to have an epidural, mainly due to safety concerns. The safety profile of the Company's instruments, stems

in large part from the elimination of the guess work that exists today using the traditional hypodermic syringe and benefits both patients and doctors.

At this point in time, the Company is an R&D company and we have not generated any revenue, to-date, but we have been careful in managing our expenses. In the first and second quarters of 2015, we will incur costs associated with clinical trials which we will finance through a line of credit from Milestone Scientific. We also anticipate generating our first revenues in Europe in 2015. The distribution agreements we have entered into thus far typically include minimum purchase guarantees for a period of at least three years.

Turning to the balance sheet, we had $500,000 in unrestricted cash at year-end with no debt and $2.1 million in U.S. dollars of shareholders' equity. With the $2 million line of credit agreement provided by Milestone Scientific, we believe we have sufficient capital to finalize the FDA regulatory marketing clearance process.

We are also pursuing grant funding from the European Union to expand both our production as well as our R&D capabilities in Europe. Moreover, we are in the final stage of regulatory approval for the Company's prospectus to uplist from the NewConnect market to the Main Market of the Warsaw Stock Exchange and raise up to $7 million for continued expansion of our sales and marketing initiatives and additional working capital to accelerate the launch of both epidural and intra-articular instruments in Europe.

In expectation of the Company's future growth, in 2014 we expanded our team with new hires, including Steven Robins who was retained in June 2014 as Marketing Consultant and later appointed President in January 2015. Mr. Robins brings his business-to-business and consumer marketing experience to the launch of the Company's medical instruments.

We had a productive year at Milestone Medical and continue to make progress. We would like to thank our shareholders and employees for their continued support of our efforts and look forward to keeping you apprised of developments at Milestone Medical as they unfold.

Sincerely,

Board of Directors

Leonard Osser - Chief Executive Officer

Joseph D'Agostino - Chief Financial Officer

2. STATEMENTS OF THE BOARD OF DIRECTORS AND MANAGEMENT

The Board of Directors and management of Milestone Medical, Inc. ("The Company") declare that, according to their best knowledge, the annual consolidated financial statements and comparable data were prepared in accordance with U.S. Generally Accepted Accounting Principles applicable to the Company.

Moreover, the management of the Company declare that, the annual consolidated financial statements and comparable data present a true and fair view of the Company and its Subsidiary's property and financial situation and their financial results and that the report on the Company and its Subusidary's activities presents a fair view of the Company and its Subsidiary's situation, including a description of basic exposures and risks.

On behalf of the Board of Directors and management of the Company:

Leonard Osser – Chief Executive Officer

Joseph D'Agostino – Chief Financial Officer

The Board of Directors and management of Milestone Medical, Inc. ("The Company") declares that, the authorized entity to audit financial statements, Baker Tilly Virchow Krause, LLP , which audited the annual consolidated financial statements, was selected in accordance with legal regulations and that this entity and certified auditors, who audited these financial statements met conditions to express their impartial and independent opinion on the audit, in accordance with standards of the U.S. Public Company Accounting Oversight Board.

On behalf of the Board of Directors and management of the Company:

Leonard Osser – Chief Executive Officer

Joseph D'Agostino – Chief Financial Officer

3. GENERAL INFORMATION

Table 1 Basic information about Milestone Medical Inc.

THE COMPANY	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

3.1. Shareholding structure on the date of annual report preparations

In the following table, the Company presents the ownership percentage of shareholders holding at least 5% of votes at the general meeting of the Company. All percentages are rounded up to the nearest one hundred.

Table 2 Shareholder structure with specification of shareholders holding at least 5% of votes at the general meeting

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 United Systems Inc. a Company that is owned by Tom Cheng.*

In October 2014, Mr. Feng Yulin sold his shares in Milestone Medical, Inc. to two existing shareholders, Milestone Scientific, Inc (995,000 shares) and to United Systems, Inc. (1,005,000 shares). United Systems, Inc is wholly owned by Mr. Tom Cheng, one of the founding shareholders in Milestone Medical, Inc. As a result of this sale, Milestone Scientific, Inc owns 10,995,000 (49.98%) of the outstanding shares and Tom Cheng and United Systems, Inc. (a Company that Tom Cheng owns) owns 1,325,000 shares (6.02%) of Milestone Medical, Inc., respectively.

Additionally, in the end of January 2015, Dong Bing Mei sold her shares to two existing shareholders, Wang Tao, (1,000,000 shares) and Zhang Li Dong, (1,000,000 shares). As a result of this sale, Wang Tao owns 2,600,000 shares (11.8%) and Zhang LiDong owns 2,000,000 shares (9.1%), respectively.

3.2. Board of Directors

Table 3 Board of Directors

NAME OF DIRECTOR	CURRENT AGE	DIRECTOR SINCE	END OF TERM
Leonard A. Osser	68	March 2011	**Next Annual Meeting of Shareholders**
Zhu Yun	50	September 2014	**Next Annual Meeting of Shareholders**
Martin S. Siegel	71	September 2014	**Next Annual Meeting of Shareholders**

Source: The Issuer

*The Company intends to add two independent members, making a total of three independent directors, to Board of Directors upon the uplisting of the Company's shares to the Warsaw Stock Exchange in 2015.

3.3. Information on the number of persons employed by the Company converted into FTEs

On December 31, 2014 the Company employed two (2) full time employees and three (3) persons converted into full-time equivalents ("FTEs").

4. SELECTED FINANCIAL INFORMATION

4.1. Selected financial data from Balance Sheet

Balance sheet items presented in euros converted at the closing exchange rate of EUR/USD on dates:

31.12.2014: 1 EUR = 1,2156 USD
31.12.2013: 1 EUR = 1,3758 USD

Table 4 Selected consolidated financial data of the balance sheet of Milestone Medical as of December 31, 2014 with comparable consolidated data for year 2013.

Selected consolidated financial data from the balance sheet	USD		EUR	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Current Assets	1,582,415	2,258,809	1,301,756	1,641,815
Cash	1,080,035	1,881,910	888,479	1,367,866
Prepaid expenses and other current assets	86,906	4,825	71,492	3,507
Inventory	45,244	-	37,219	-
Advance to contractors	370,230	372,074	304,566	270,442
Equipment, net depreciation	93,737	61,130	77,111	44,432
Intangible Assets	1,500,000	1,500,000	1,233,959	1,090,275
Current Liabilities	962,655	125,962	791,918	91,555
Common Stock	2,200	2,200	1,810	1,599
Accumulated paid-in-capital	6,543,137	6,126,834	5,382,640	4,453,288
Accumulated deficit during the development stage	(4,331,841)	(2,435,057)	(3,563,542)	(1,769,922)
Stockholder's Equity	2,213,496	3,693,977	1,820,908	2,684,967

Source: The Issuer

4.2. Selected consolidated financial data from Statement of Operations

Statement of Operations items presented in euros converted at the arithmetic average of an exchange rate of EUR/USD for periods:

01.01.2014 to 31.12.2014: 1 EUR = 1,3293 USD
01.01.2013 to 31.12.2013: 1 EUR = 1,3282 USD

Table 5 Selected consolidated financial data of the statement of operations of Milestone Medical Inc. from January 1, 2014 to December 31, 2014 with comparable consolidated data for year 2013.

Selected consolidated financial data from income statement	USD		EUR	
	31.12.14	31.12.13	31.12.14	31.12.13
Revenue	-	-	-	-
Depreciation	16,621	15,400	12,504	11,595
Research and development expenses	401,308	315,124	301,894	237,256
Total other expenses	1,478,855	689,082	1,112,507	518,809
Net loss	(1,896,784)	(1,019,606)	(1,426,905)	(767,660)

Source: The Issuer

5. AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Year End (Annual) consolidated financial statements prepared according to the accounting rules applicable to the Company together with information on accounting rules (policy) applied to the preparation of this report

Milestone Medical Inc. And Subsidary
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.

As of December 31, 2014 and 2013
Years ended December 31, 2014 and 2013
and from March 8, 2011 (Inception) to December 31, 2014

CONTENTS

BAKER TILLY

Baker Tilly Virchow Krause, LLP
One Penn Plaza, Ste 3000
New York, NY 10119
tel 212 697 6900
fax 212 490 1412
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
Milestone Medical, Inc.
Livingston, New Jersey

We have audited the accompanying consolidated financial statements of Milestone Medical, Inc. which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended and the cumulative period from March 8, 2011 (inception) to December 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Shareholders and Board of Directors
Milestone Medical, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milestone Medical, Inc. as of December 31, 2014 and 2013 and the results of its operations for the years then ended and the cumulative period from March 8, 2011 (inception) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
March 27, 2014

MILESTONE MEDICAL INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash	$ 1,080,035	$ 1,881,910
Inventory	45,244	-
Advances to contractors	370,230	372,074
Prepaid expenses and other current assets	86,906	4,825
Total current assets	1,582,415	2,258,809
Equipment, net of accumulated depreciation of $32,492 as of December 31, 2014 and $15,871 as of December 31, 2013	93,737	61,130
Intangible Asset	1,500,000	1,500,000
Total assets	$ 3,176,152	$ 3,819,939
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expense	$ 462,655	$ 125,962
Due to related party	500,000	-
Total current liabilities	962,655	125,962
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value $.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at December 31, 2014 and December 31, 2013	2,200	2,200
Additional paid-in capital	6,543,137	6,126,834
Accumulated deficit during the development stage	(4,331,841)	(2,435,057)
Total stockholders' equity	2,213,496	3,693,977
Total liabilities and stockholders' equity	$ 3,176,151	$ 3,819,939

MILESTONE MEDICAL INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2014	Year Ended December 31, 2013	March 8, 2011 (Inception) to December 31, 2014
Revenue	$ -	$ -	$ -
Operating Expenses:			
Research and development expenses	401,308	315,124	1,875,492
Shared Services	394,720	409,828	1,010,548
Depreciation	16,621	15,400	32,492
General and administrative expenses	1,083,848	279,254	1,413,022
Total operating expenses	1,896,497	1,019,606	4,331,554
Interest expense	287	-	287
Net loss	$ (1,896,784)	$ (1,019,606)	$ (4,331,841)

MILESTONE MEDICAL INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Accumulated Deficit	
	Shares (in thousands)	Amount	Paid-in Capital	During the Development Stage	Total
Balance, March 8, 2011 (Inception)	-	$ -	$ -	$ -	$ -
Beijing 3H - Capital contributions received	-	-	670,000	-	670,000
Common stock issued to Milestone Scientific Inc on April 21, 2011 for Intangible Asset for technology rights	10,000	1,000	1,499,000	-	1,500,000
Net Loss	-	-	-	(243,298)	(243,298)
Balance, December 31, 2011	10,000	1,000	2,169,000	(243,298)	1,926,702
Beijing 3H - Capital contributions received	-	-	830,000	-	830,000
Common Stock issued to Beijing 3H on August 14, 2012	10,000	1,000	(1,000)	-	-
Contributed Capital-Milestone Scientific Inc Shared Service Expense	-	-	206,000	-	206,000
Net Loss	-	-	-	(1,172,153)	(1,172,153)
Balance, December 31, 2012	20,000	2,000	3,204,000	(1,415,451)	1,790,549
Contributed Capital-Milestone Scientific Inc Shared Service Expense	-	-	409,828	-	409,828
Capital contribution received (cash) shareholders in July and August 2013	-	-	150,000	-	150,000
Net proceeds on Private Placement Offering in November and December 2013	2,000	200	2,363,006	-	2,363,206
Net Loss	-	-	-	(1,019,606)	(1,019,606)
Balance, December 31, 2013	22,000	$ 2,200	$ 6,126,834	$ (2,435,057)	$ 3,693,977
Contributed Capital-Milestone Scientific Inc Shared Service Expense	-	-	394,720	-	394,720
Contributed Capital-Fixed Assets, net	-	-	21,584	-	21,584
Net Loss	-	-	-	(1,896,784)	(1,896,784)
Balance, December 31, 2014	22,000	$ 2,200	$ 6,543,137	$ (4,331,841)	$ 2,213,496

MILESTONE MEDICAL INC. and SUBSIDIARY
(A DEVELOMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	Year Ended December 31, 2013	March 8, 2011 (Inception) to December 31, 2014
Cash flows from operating activities:			
Net loss	$ (1,896,784)	$ (1,019,606)	$ (4,331,841)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	16,621	15,400	32,492
Contributed Capital - Milestone Scientific Inc Shared Services Expense	394,720	409,828	1,010,548
Changes in operating assets and liabilities:			
(Increase) in inventories	(45,244)	-	(45,244)
Decrease (Increase) in advances to contractors	1,844	(353,946)	(370,230)
(Increase) to prepaid expenses and other current assets	(82,081)	(4,825)	(86,906)
Increase in accounts payable and accrued expenses	336,692	123,804	462,653
Increase in related parties	500,000	-	500,000
Net cash used in operating activities	(774,231)	(829,345)	(2,828,525)
Cash flows from investing activities:			
Purchase of equipment	(27,645)	-	(104,645)
Net cash used in investing activities	(27,645)	-	(104,645)
Cash flows from financing activities:			
Proceeds from sale of stock (initial capital)	-	-	1,500,000
Capital contribution received (cash) - shareholder	-	150,000	150,000
Net Proceeds of Private Placement Offering	-	2,363,206	2,363,206
Net cash provided by financing activities	-	2,513,206	4,013,206
NET (DECREASE) INCREASE IN CASH	(801,875)	1,683,861	1,080,035
Cash at beginning of period	1,881,910	198,049	-
Cash at end of period	$ 1,080,035	$ 1,881,910	$ 1,080,035
Supplemental disclosure of non cash activities:			
Contributed Capital - Milestone Scientific Inc Shared Services Expense	$ 394,720	$ 409,828	$ 1,010,548
Contributed Capital-Fixed Assets, net	$ 21,584	$ -	$ -
Issuance of 10,000 shares of common stock in exchange for contributed technology	$ -	$ -	$ 1,500,000

NOTE 1 - ORGANIZATION:

In March 2011, Milestone Scientific Inc. entered into an agreement with Beijing 3H Scientific Technology Co, Ltd (“ Beijing 3H”), a medical equipment distribution company organized in the People’s Republic of China ("PRC"), to establish a medical joint venture entity now named Milestone Medical Inc. to develop intra-articular and epidural drug delivery instruments. The controlling shareholders of Beijing 3H and other shareholders contributed $1.5 million in cash for a 50% ownership interest in this medical joint venture and Milestone Scientific Inc. contributed a royalty – free right to use its patented Compuflo Technology, which was valued initially at $1.5 million for the remaining 50% ownership interest.

The Company is incorporated in the State of Delaware and is in its development stage. This stage is characterized by significant expenditures for the development, commercialization and for regulatory approval for two medical instruments. As of December 31, 2014, the Company has not yet obtained marketing clearance in the United States (FDA clearance). However as of September 2014, the company did receive Conformity European (CE) clearance to market the instruments in the European Union. As a development stage company, the Company is limited to expending funds provided by its stockholders. In 2014, the Company entered a commercial mode with the commitment to purchase 500 instruments (250 epidural and 250 intra-articular instruments). These instruments have progressed beyond the development stage and are now awaiting final regulatory marketing clearance in the USA (FDA). Regulatory clearance was received in September 2014 in the European Union (CE). In the interim, introductory meetings are being held in serveral markets with medical device distributors. Once the Company’s planned principal operations commence, its focus will be on the marketing its two instruments throughout the world.

In June 2013, the Company changed its name to Milestone Medical Inc. The Company changed its Certificate of Incorporation to authorize 50,000,000 common shares, par value $0.0001 per share and authorized 5,000,000 Preferred Shares, (preferred stock) at $0.0001 per share in September 2013. Additionally, the common stock outstanding was split 10,000 to 1 into an aggregate of 20,000,000 shares. All periods presented have been recast to reflect these changes.

In September 2014, the Company established a special purpose Polish company called Milestone Medical Poland S.P. 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 Instrustrments. Milestone Medical Poland S.P. Z.O.O, is seventy –five percent owned by the Company and is not active at this time.

The Company has incurred operating losses since its inception. The Company has used cash in operations since inception of approximately $2.8 million. In October and November 2013, the Company raised $2,363,206 in net proceeds (gross funding was $3 million) through a Private Placement Offering. The offering resulted in the issuance of 2 million shares of common stock at $1.50 (4.65 PLN) per share in a private placement in Poland. As a result of the offering, the receipt of the net proceeds, and the cash utilized through December 31, 2014, the Company believes it will not have sufficient cash flow to continue on its plan for the commercialization of the medical instruments over the next twelve months. However at December 31, 2014 Milestone Scientific Inc., a significant shareholder of the company executed a $2,000,000 line of credit agreement to fund the company through April 15, 2016, to provide sufficient cash availability to continue its FDA market clearance and commercialization of the instruments used in the European Markets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting
The accompanying financial statements of the Company have been prepared on the accrual basis of accounting 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. The company 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.

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.

Inventories
Inventory is statged at the lower of cost (average cost) or market (net realizable value). Appropriate consideration is given to obsolescence, excessive levels, andother factors in evaluating the cost of inventory.

Advances to Contractors
During 2014, the Company made advances to a subcontractor to purchase parts required to produce both epidural and intra-articular instruments.

Equipment
Equipment (molds for pre-production and commercialized instruments) are 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 five to seven years. The costs of maintenance and repairs are charged to operations as incurred.

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 shareholders of Beijing 3H and a group of the other 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 instruments has been commercialized. The asset's estimated useful life will be based on the average remaining life of the underlying patents. In the development stage 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 regulatory approval.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

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 December 31 2014 and 2013, 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. No interest and penalties have been incurred for the years ended December 31, 2014 and 2013 and from March 8, 2011 (inception) to December 31, 2014. Tax returns since inception are subject to audit by federal and state jurisdictions.

Services Provided by Stockholder

The Company is provided management, financial, engineering and accounting services by the staff of Milestone Scientific, Inc, its joint venture partner. The joint venture partners 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.

NOTE 3 - JOINT VENTURE AGREEMENT:

In connection with the Joint Venture Agreement between Milestone Scientific Inc and Beijing 3H, the controlling shareholders of Beijing 3H and other shareholders contributed $1.5 million, to the Company. $670,000 in 2011 and $830,000 in 2013 for a fifty (50) percent ownership. 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.

NOTE 3 - JOINT VENTURE AGREEMENT: (Continued)

- Milestone Scientific Inc. patented its CompuFlo technology in several instruments.
- 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 was involved significantly 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 personnel monitored the development of the instruments with the third party vendors on a periodic basis thus ensuring that the instruments are being developed on a timely basis.

Milestone Scientific Inc. will have distribution responsibility in the U.S. and Canada, while Beijing 3H will 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. The Company entered a new distribution agreement with Milestone China Ltd, (Hong Kong Company, owned (40) percent by Milestone Scientific, a significiant shareholders of the Company). The distribution agreement is similiar to that of Beijing 3H and it includes both the epidural and ithe intra-articular instruments. The Company will have distribution responsibilities for the rest of the world.

NOTE 4 - STOCKHOLDERS' EQUITY:

In July 2013 the Company requested additional total capital contribution of $150,000 from its two joint venture partners. In August 2014, such funds were deposited in the Company's cash account.

In June 2013, the Company entered an agreement with an agent in Poland to provide assistance in raising capital in a Private Placement Memorandum (PPM). Such amount raised in the PPM, were subject to the Company's approval and subsequent listing on the Warsaw Stock Exchange in Poland. The agreement called for a service fee payable to the agent if the transaction was consummated. In addition, the Company entered a three year advisory agreement with a firm in Poland for their services provided capital is raised and shares of common stock are listed on the stock exchange.

In October and November 2013, the Company signed subscription agreements for the sale of 2 million shares of the Company's common stock at $1.50 (4.65 PLN) per share ($3 million capital raised – net proceeds of $2,363,006) in a private placement in Poland. The consummation of the private placement was subject to the satisfaction of all closing conditions including, but not limited to, the admission of the Company's common stock for trading in the Alternative Trading System on the NewConnect Market of the Warsaw Stock Exchange in Poland. As of December 2014, the payment by the new investors was fully received and the 2 million shares were registered on the NewConnect Market of the Warsaw Stock Exchange.

NOTE 5 - RELATED PARTY TRANSACTIONS:

At December 31, 2014, the Company is owned by Milestone Scientific Inc., a shareholder of Beijing 3H a group of investors in China and a group of European investors (owning approximately nine percent of the outstanding shares). The Company reimbursed approximately $105,000 of previous research and development expenditures to Milestone Scientific Inc. in 2011. The Company periodically reimburses Milestone Scientific Inc. for the travel and other costs related to the business of the Company. The total expenses reimbursed for travel were $8,422, $28,126 and $53,504 for years ended December 31, 2014 and 2013 and from March 8, 2011 (Inception) to December 31, 2014, respectively. The Company is provided management, financial, engineering and accounting services by the staff of Milestone Scientific, Inc. In December 2012, the Company purchased equipment for $77,000 from a supplier who is also an investor in the Company and Milestone Scientific, Inc. In October 2014, the Company purchased tooling equipment for $25,645 from the same supplier.

The Company reimbursed Milestone Scientific Inc $829,058 for expenses paid by Milestone Scientific Inc. for the benefit of the Company and the amount owed to Milestone Scientific, Inc at December 31, 2014 is $147,519.

Milestone Scientific Inc. charged expenses to the Company based on estimated time expended on the development, supervision and management of the project. For the year ended December 31, 2014, Milestone Scientific Inc. expended approximately $251,000 on regulatory legal fees (FDA Regulations) and charged the Company $395,000, $410,000 and $1,010,000 in time charges relating to project management for the years ended December 31, 2014 and 2013 and from March 8, 2011 (Inception) to December 31, 2014, respectively. These charges have been credited to additional paid-in capital.

As of December 31, 2014 Milestone Scientific Inc., a significant shareholder of the Company executed a line of credit agreement to fund the Company through April 15, 2016. Interest will be charged at a rate of 3.25%, the prime rate at the inception of the agreement.

The company received $500,000 from a related party in error in December 2014. Such amount is included in cash and accounts payable and accrued expenses at December 31, 2014. The $500,000, was returned to an affiliate in January 2015.

NOTE 6 - PROVISION FOR INCOME TAXES:

The Company's deferred tax asset has not been recognized in the accompanying financial statements due to the Company's history of operating losses, which required full valuation allowances for all of the Company's deferred tax assets at December 31, 2014 and 2013 and for the period March 8, 2011 (Inception) to December 31, 2014.

As of December 31, 2014 and 2013, the Company has federal net operating loss carryforwards of approximately $4,000,000 and $2,400,000, respectively that will be available to offset future taxable income, if any, through December 2033.

The utilization of the Company's net operating losses may be subject to a substantial limitation due to the "change of ownership provisions" under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of the net operating loss carry forwards before their utilization. The Company has established a 100% valuation allowance for all of its deferred tax assets due to uncertainty as to their future realization.

NOTE 6 - PROVISION FOR INCOME TAXES: (Continued)

At the years ended December 31, 2014 and 2013, the deferred tax assets are comprised of the following:

	December 31, 2014	December 31, 2013
Benefit from net operating loss	$ 1,660,000	$ 934,000
Timing differences for depreciation	-	4,000
Valuation allowance	(1,660,000)	(938,000)
Total	$ -	$ -

A full valuation allowance has been established against deferred tax assets since there is no assurance that the Company will generate taxable income to utilize some or all of its net loss carryforwards.

There were no significant differences between the Company's effective tax rate and the statutory tax rates in any of the financial periods reported.

A reconciliation of the statutory tax rates for the years ended December 31, 2014 and 2013 and March 8, 2011 (Inception) to December 31, 2014 are as follows:

	December 31, 2014	December 31, 2013	Cumulative Inception to Date
Statutory rate	(34)%	(34)%	(34)%
State income tax - all states	(6)%	(6)%	(6)%
	(40)%	(40)%	(40)%
Current year valuation allowance	40%	40%	40%
Benefit for income taxes	0%	0%	0%

NOTE 7 - CONCENTRATIONS:

Cash

The Company maintains cash balances in a financial institution. At various times during the period, balances may have exceeded insured limits.

Vendor

The Company sub-contracts its research and development to a vendor which accounted for 59%, 59% and 79% of total expenses incurred for the years ended December 31, 2014 and 2013, and from March 8, 2011 (Inception) to December 31, 2014, respectively.

NOTE 8 - COMMITMENTS AND OTHERS:

Commitments

The Company has entered in a line of credit agreement with a significant shareholder, Milestone Scientific Inc. to provide funding through April 15, 2016. Interest will be charged at a rate of 3.25% percent the prime rate at the inception of the Agreement.

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. The total commitment under this purchase order is $913,750. A total of $350,000 was previously advanced in 2014 for the long lead time parts. The instruments are expected to be delivered over the periods of December 2014 through April 2015.

In July 2013, Milestone Scientific Inc, (as an exclusive US distributor for Milestone Medical Inc), entered a strategic partnership with the largest provider of specialty sales and distribution solutions for healthcare in the United States. During the three year strategic partnership, the distributor will hold the exclusive rights to market, resell, label and distribute Milestone's *CompuFlo* injection technology for use in epidural applications for childbirth and other pain management needs in hospitals in the U.S.

The Company has a commitment with a third party consulting group to conduct human factor studies of our instruments. The cost of this study is estimated to be approximately $1.1 million. This study will take place in 2015.

NOTE 9 – SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through March 27, 2015 and have determined that there are no events to be disclosed.

6. REPORT ON MILESTONE MEDICAL AND SUBSIDAIRY'S ACTIVITIES IN YEAR 2014

The Company continues to move forward on the commercialization of its two medical instruments (Epidural and Intra-Articular). Both instruments are currently entered into the official regulatory process in the United States (FDA). In September 2014, the Company received (CE) market clearance for the European Union. The FDA regulatory process is moving forward, but as with any regulatory system, the timing of the process of approval is not possible to determine. The Company began clinical and human factor studies in the United States as a part of the marketing clearance process for the US FDA. The process will take several months to complete.

During the year ending December 31, 2014, the Company continued the process of obtaining regulatory market clearance for the two medical instruments (Epidural and Intra-Articular Injections Systems) in the United States (FDA clearance). The regulatory approval process for the USA (FDA) is progressing at different rates of completion for each instrument. The Company began clinical and human factor studies in the United States as part of the marketing clearance process with the USA FDA. This process will take several months to complete. The Company's estimate for completion of the studies will be in second quarter of 2015. With respect to the European Community (CE), the Company announced in September 2014, that both the Epidural and Intra-Articular instruments gained CE registration. - As such, both instruments can be marketed in the European Community. The Company's representatives are working diligently on finalizing the

commercialization process for both instruments, including packaging and marketing materials as well as establishing key distributors for these instruments in the CE Community. Additionally, the Company is continuing its efforts to identify and meet with potential distributors for both instruments throughout the world. This is an ongoing process, but it is important to have the respective distributors identified and ready to begin the sales process in the USA once regulatory approval is received. Additionally, beginning July 1, 2014, the Company has retained the services of a marketing expert to assist on the launch and growth of these two instruments. This marketing expert, Steven Robins, joined the Company as President effective January 1, 2015. As announced last year, the Company already has a distribution channel in place with one of the largest specialty distributors company Tri-Anim Health of healthcare products in the United States to market and sell the Company epidural instruments. The Company looks forward to creating similar agreements in other markets in 2015.

The Company expects to commence marketing and sale of its epidural instruments, following obtaining U.S. FDA marketing clearance. The FDA regulatory market clearance will not be achieved until the end of the second quarter of 2015 – the Company expects to receive FDA regulatory market clearance by the end of 2015. The process is continuing to move forward at a slower rate than previously anticipated but the direction is still optimistic. Since the Company's intra-articular instrument is at an earlier stage of development and further development of that instrument and its disposable to reflect the needs and preferences of potential users is expected marketing and sales will occur at a later date, even if the U.S. FDA marketing clearance is obtained on the recently filed application. Marketing and sale of the intra-articular instrument is expected to begin approximately one year following FDA marketing clearance.

As noted in the previous paragraph, the Company received CE (European Community) registration of both the Epidural and Intra-Articular Instruments in September 2014. With such approvals, both instruments can be marketed for the European Community in the near future. Representatives of the Company are interviewing potential distributors, (key for their location and marketing capability), throughout Europe. Although this process is taking more time than was expected, the Company believes that partnering with a key distributor in each market is important for the Company's successful launch of the instruments in Europe. Since obtaining CE Mark regulatory clearance for the Company's first two instruments in September 2014, we have been in active discussions to secure a major distribution partnership. The Company recently signed an exclusive agreement with TRIMED Sp.z.o.o., an established company with a product portfolio comprised of medical technology and equipment, for distribution of the Company's epidural instrument throughout Poland. Management of

the Company considers the CE marketing clearance and signing a distribution agreement with TRIMED Sp.z.o.o. in Poland significant positive step and is currently arranging distribution of the instruments in the EU community.

As announced earlier this year, the Company Board of Directors has approved plans for the Company to uplist from NewConnect Market to the Main Market of the Warsaw Stock Exchange, which it expects to occur in the second quarter of year 2015, subject to approval of the Company's Prospectus. Transitioning to the Main Market of the Warsaw Stock Exchange will be an important development for the Company as the Company believes this will help increase awareness and expand the number of potential investors in the company.

In tandem with the uplisting, the Company expects to complete a public offering of the Company shares, which the Company expects will occur at a substantial premium to the Company prior offering.

The Company continues to consider and where appropriate include innovative initiatives for its two Polish medical instruments. In fact, the Company is in the process of preparing an application to the National Centre for Research and Development 2015 initiative under the Demonstrator Program for a grant to expand the utilization and future development of the instruments. Such application will be submitted by subsidiary Milestone Medical Poland Sp. z.o.o. in which the Company has 75% in share capital and 75% in total number of votes on shareholder's meeting.

Additionally, the Company presented its current achievements on 2nd Global Life Sciences Conference in Warsaw that was held on October 2, 2014 at the trading floor of the Warsaw Stock Exchange. The venue provided a great opportunity for all investors to meet and ask questions directly to Mr. Leonard Osser, Chief Executive Officer of the Company.

6.1. Description of basic exposures and risks

The Company, in 2014, is a Development Stage Company, a Company without revenues. As such there are

several risk areas that are identifiable:

(1) Instrument commercialization delays; the two instruments have passed this risk feature with the instruments finalized by the third party developer and the instruments submitted for regulatory approval; the (FDA); additionally, the Company is moving forward in Europe for distribution partners in several countries for the epidural and intra-articular instruments;
(2) The instruments will not receive regulatory approval; the core software included in each instrument has already received approval in the USA (FDA) for a dental instrument. Therefore, management believes that this risk has been significantly mitigated. Additionally, the European Union has gain marketing clearance to both instruments (CE) in September 2014;
(3) The instruments will not attract medical device distributors to sell the instruments; the Company has already contracted with the largest third party distributor in the birthing area in the USA with required minimum purchases in the first eighteen months of receiving FDA approval.

In all, The Company has identified the business risks as noted above and attempted to mitigate these risks.

6.2. Characteristic of the structure of assets and liabilities of the consolidated balance sheet, also from the perspective of liquidity of the Company and Subsidiary

The value of the Company's total assets for the period covered by the consolidated financial information decreased from $3.82 million in year ended December 31, 2013 to $3.18 million in year ended December 31, 2014. At the end of year 2014 balance sheet in total was lower by almost 17% in comparison to year 2013.

During years 2014 and 2013 the assets' structure has changed not significantly. In 2014 nearly 48% of total assets were intangible assets, primarily for royalty – free license to use Milestone Scientific's patented *CompuFlo* Technology. These rights were valued initially at $1.5 million for the remaining 50% ownership interest in the Company (the valuation was made by Tinari Economics Group, an independent valuation company, which certified that whole valuation and analysis was completed in accordance with the National Association of Certified Valuators and Analysts Professional Standards). The second major position in the structure of assets in year 2014 was cash with share in total assets of around 34%. All other positions were not significant with share not exceeding 5% of total assets except for "Advances to contractors" which

share equals to almost 12%. The structure of assets in 2013 is very similar to this present for year ended December 31, 2014.

Table 6 The structure of the Company's assets for each of historical financial year (in US Dollars)

	Year ended December 31, 2014 (Audited)	Year ended December 31, 2013 (Audited)	Change
Current Assets	**1,582,415**	**2,258,809**	-29.94%
Cash	1,080,035	1,881,910	-42.61%
Prepaid expenses and other current assets	86,906	4,825	1701.15%
Inventory	45,244	0	0.00%
Advances to contractors	370,230	372,074	-0.50%
Equipment, net of accumulated depreciation	93,737	61,130	53.34%
Intangible Assets	1,500,000	1,500,000	0.00%
TOTAL ASSETS	**3,176,152**	**3,819,939**	**-16.85%**

Source: the Issuer

In the period covered by the historical financial information of the Company, still the main source of the Company financing was equity. In November 2013, the Company raised $2,363,206 in net proceeds (gross funding was $3 million) through a private placement offering. The offering resulted in the issuance of 2 million shares of common stock at $1.50(4.65 PLN) per share in a private placement in Poland. As a result of the offering and the receipt of the net proceeds, the Company believes it will have sufficient cash flow to continue on its plan for the commercialization of the medical instruments.

In years ended December 31, 2014 and 2013, the Company had no long-term debt or any other long-term liabilities. The Company had only current liabilities (accounts payable and accrued expenses) in the amount of $962,656 in year ended December 31, 2014 and $125,962 in the year ended December 31, 2013.

Below the Company presents the structure of the Company's liabilities and stockholders' equity.

Table 7 The structure of the Company's liabilities (in US Dollars)

	Year ended December 31, 2014 (Audited)	Year ended December 31, 2013 (Audited)	Change
Current Liabilities	**962,656**	**125,962**	**664.24%**
Accounts payable and accrued expenses	962,656	125,962	664.24%
Commitments and Contingencies	0.00	0.00	0.00%
TOTAL LIABILITIES	**962,656**	**125,962**	**664.24%**

Source: the Issuer

Table 8 The structure of the Company's stockholders' equity on basis of historical financial information (in US Dollars)

	Year ended December 31, 2014 (Audited)	Year ended December 31, 2013 (Audited)	Change
1. Common stock, par value $.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at December 31, 2014 and December 31, 2013	2,200	2,200	0.00%
2. Additional paid in capital	6,543,137	6,126,834	6.79%
3. Accumulated deficit during the development stage	(4,331,841)	(2,435,057)	77.89%
TOTAL SHAREHOLDERS' EQUITY	**2,211,296**	**3,691,777**	**-40.10%**

Source: the Issuer

Liquidity analysis

All liquidity ratios decreased in year ended December 31, 2014 in comparison to year ended December 31, 2013. In year 2013, the Company had lower level of total current liabilities and more cash that resulted in a higher liquidity ratio. The reduction in the liquidity ratios in 2014 was primarily caused by a significant increase in total current liabilities (from $125,962 in 2013 to $962,656 in 2014) due to Milestone Scientific for shared service expenses incurred and not paid by

year end and the fact that the Company received $500,000 from a related party in error in December 2014 - such amount is included in cash and accounts payable and accrued expenses at December 31, 2014 and such qualification caused a significant increase in total current liabilities. Also, cash decreased by approximately $800,000. The $500,000 was returned to the affiliate in January 2015. The decrease in the value of all liquidity ratios were at desired level in year 2014, which is deemed to be around 1,2-2,0 for CR, 1,0-1,2 for QR and 0,1-0,3 for cash ratio.

Table 9 Basic liquidity ratios of the Company

	Year ended December 31, 2014	Year ended December 31, 2013
Current ratio (CR)	1.64	17.93
Quick ratio (QR)	1.55	17.89
Cash ratio	1.12	14.94

Source: the Issuer

The algorithm of above ratios' calculation was:

Current ratio (CR) = *Total current assets/Total current liabilities*

Quick ratio (QR) = *(Total current assets – Prepaid expenses and other current assets)/Total current liabilities*

Cash ratio = *Cash and cash equivalents/Total current liabilities*

6.3. Major circumstances or events that significantly affect the activities and financial results of the Company's group during the financial year, or that may affect them in the coming year.

During 2014, the Company received CE clearance to commercialize its two instruments in the European Union countries. Additionally, subsequent to December 31, 2014, the Company entered a distribution agreement with a Polish medical distributor, TRIMED, Sp.z.o.o. to distribute its epidural instrument in Poland.

6.4. Description of the structure of main equity deposits or main capital investments made within the Company's group during the financial year.

The Company has expensed $401,308 in research and development for the two instruments in 2014. With the CE clearance to market both instruments in the EU beginning September 2014, our investment in both instruments will be realized in sales of the instruments in 2015.

6.5. Description of organization of the Company's group and indication of unites being consolidated as well as description of organizational changes in the Company's group.

Up to the date of this report completion, the Company does have a special purpose subsidiary, the purpose of which 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 Company presents some basic information about its subsidiary:

Table 10 General information about subsidiary of the Company

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 Company has prepared consolidated financial statements with this subsidiary according to laws and regulations applicable to the Company.

6.6. Description of the development policy of the Company's group.

The Company continues to work on obtaining FDA approval for both instruments in the United States. This process is moving steadily forward and will culminate in marketing clearance in the USA in 2015.

6.7. Description of material off-balance sheet items in terms of the entity, subject and

value.

There are no off - balance sheet investment or liabilities for Milestone Medical Inc.

7. REPORT WITH THE OPINION ON AUDIT OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BAKER TILLY

Baker Tilly Virchow Krause, LLP
One Penn Plaza, Ste 3000
New York, NY 10119
tel 212 697 6900
fax 212 490 1412
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
Milestone Medical, Inc.
Livingston, New Jersey

We have audited the accompanying consolidated financial statements of Milestone Medical, Inc. which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended and the cumulative period from March 8, 2011 (inception) to December 31, 2014, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MILESTONE
MEDICAL

To the Shareholders and Board of Directors
Milestone Medical, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milestone Medical, Inc. as of December 31, 2014 and 2013 and the results of its operations for the years then ended and the cumulative period from March 8, 2011 (inception) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
March 27, 2014

8. APPLICATION OF CORPORATE GOVERNANCE RULES

According to the paragraph 6.3 of the Exhibit 3 to the Alternative Trading System Rules "Current and Periodical Information in the Alternative Trading System on the NewConnect Market", Board of Directors of Milestone Medical include its statement on compliance with "Best Practices of Companies Listed on the NewConnect" contained in Annex 1 of Resolution No. 795/2008 of the Management Board of the Stock Exchange in Warsaw SA of 31 October 2008 and its subsequent amendments in whole year 2014.

Statement of Milestone Medical Inc. ("the Company") on Compliance by the Company with "Best Practices of Companies Listed on the NewConnect" Contained in Annex 1 of Resolution No. 795/2008 of the Management Board of the Stock Exchange in Warsaw SA of 31 October 2008 and its subsequent amendments.

No	RULE	YES/NO/NOT APPLICABLE	COMMENTS
1.	The Company should pursue a transparent and effective information policy, using both traditional methods and modern technologies, Ensuring fast, secure and convenient access to information. The Company using the fullest extent of these methods should ensure adequate communication with investors and analysts, line broadcasts of General Meetings over the Internet, record meetings and publish it on a website.	YES	The Issuer shall apply this practice with an exception of broadcast and publication of General Meetings over the Internet, since in the opinion of the Company's use of this practice will not bring benefits compared to the projected costs of such proceedings.
2.	The Company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations.	YES	
3.	The Company should maintain a corporate website and publish:		
	3.1 Basic information about the Company and its business (home page);	YES	
	3.2. Description of the Issuer's business including indication of the Issuer's business segment generating the highest revenue;	NO	In 2014 and currently, the Issuer does not generate any revenue. Additionally the Company has only one business segment.
	3.3 Description of the issuer's market including indication of the Issuer's market position;	YES	The Issuer applies this practice with an exception of indication of the Company's market position.
	3.4 Professional CVs of the members of the company's governing bodies;	YES	
	3.5. Information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the Company's General Meeting;	NOT APPLICABLE	Since in the Company there is no Supervisory Board. All important relations between the Issuer and members of the Issuer's Board of Directors and Executive Officers and the

		Company's significant shareholders are indicated in the Issuer's Information Document in Chapter 4.11.1 and 4.11.2
3.6 Corporate documents of the Company;	NO	During 2014, the Company didn't place such documents but it will supplement this omition as soon as possible
3.7. Outline of the Company's strategic plans;	YES	Strategic plans of the Company were placed in Chapter 4.12.11 of Information Document
3.8. Published financial forecasts for the current financial year including their assumptions and adjustments of such targets (if targets are published by the Issuer);	NO	The Issuer did not publish financial forecasts. When the Company decides to publish financial forecasts, it will apply this practice.
3.9. The issuer's shareholding structure including indication of the main shareholders and free-float shares;	YES	
3.10 Personal and contact data for the Company's officer responsible for investor relations and media contacts;	YES	
3.11. [deleted]	-	
3.12. Published current and periodic reports;	YES	On Milestone Medical website there is a direct link to website of GPWInfoStrefa.pl, where all reports are published
3.13. Dates of planned publication of periodic financial reports, General Meetings, meetings with investors and analysts and press conferences;	YES	
3.14. Information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	NOT APPLICABLE	Yes, if will be applicable
3.15. [deleted]	-	
3.16. Shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	NOT APPLICABLE	Yes, if will be applicable
3.17. Information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	NOT APPLICABLE	Yes, if will be applicable
3.18. Information about breaks in a General Meeting and the grounds of those breaks;	NOT APPLICABLE	Yes, if will be applicable
3.19. Information about the entity which signed an Authorized Adviser Service Agreement with the Company, including the name, the website address, telephone numbers and e-mail addresses of the Adviser;	YES	
3.20. Information about the entity acting as animator of the Issuer's shares;	YES	
3.21. Information document (issue prospectus) of the Company published within the last 12 months;	YES	
3.22. [deleted]	-	
Information presented on the website should be provided in a way enabling easy access to such information. The Issuer should	YES	The Company has sometimes delays in

	update information presented on the website. If new significant information is available or information presented on the website changes significantly, it should be updated immediately.		immediate actualization of its corporate website but the Issuer is making great efforts to make such actualization on timely basis.
4.	The Company should publish its corporate website in Polish or in English, at the Issuer's discretion. Current and periodic reports should be published on the website in the same language in which they are published according to regulations applicable to the Issuer.	YES	
5.	The Company should pursue an information policy with a particular emphasis on the needs of individual investors. For this purpose, in addition to its corporate website, the Company should use its individual investor relations section on the website www.gpwinfostrefa.pl	YES	
6.	The Issuer should maintain ongoing contacts with representatives of the Authorized Adviser in order to enable it to properly perform its obligations towards the issuer. The Company should appoint a person responsible for contacts with the Authorized Adviser.	YES	
7.	If an event occurs in the Company which, in the opinion of the Issuer, has material significance to the performance of obligations by the Authorized Adviser, the Issuer should immediately inform the Authorized Adviser thereof.	YES	
8.	The Issuer should give the Authorized Adviser access to all documents and information necessary to perform the obligations of an Authorized Adviser. In the annual report the Issuer should publish:	YES	
9.	9.1. information about the total amount of remuneration of all members of the Management Board and the Supervisory Board	YES	The Issuer applies this practice with an exception of Supervisory Board since the Company does not have a Supervisory Board.
	9.2. information about the fee paid by the Issuer to the Authorized Advisor in respect of all services provided to the Issuer.	NO	The remuneration is regulated by an Agreement with Authorized Adviser and is confidential information. The Issuer cannot publish such data without Authorized Adviser permission.
10.	A General Meeting should be attended by members of the Management Board and the Supervisory Board who can answer questions asked at the General Meeting.	YES	The Issuer applies this practice with an exception of Supervisory Board since the Company does not have a Supervisory Board.
11.	The Issuer in cooperation with the Authorized Adviser should organize meetings with investors, analysts and the media open to the public at least 2 times per year.	YES	The Issuer organized at least 2 such meetings in year 2014.
12.	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	NOT APPLICABLE	Yes, if will be applicable

13.	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	NOT APPLICABLE	Yes, if will be applicable
13a.	If the Management Board of the Issuer is notified by a shareholder who holds at least a half of the share capital or at least a half of all votes in the Company that the Issuer has convened an extraordinary General Meeting pursuant to Article 399 § 3 of the Code of Commercial Partnership and Companies, the Management Board of the Issuer shall immediately organizing and conducting a General Meeting. This principle shall also apply where the registration court authorizes shareholders to convene an extraordinary General Meeting pursuant to Article 400 § 3 of the Code of Commercial Partnership and Companies.	NOT APPLICABLE	Provisions of the Commercial Code do not apply to the Issuer.
14.	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	NOT APPLICABLE	Yes, if will be applicable
15.	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfillment must take place before the date of setting the right to dividend.	NOT APPLICABLE	Yes, if will be applicable
16.	The Issuer should publish monthly reports within 14 days after the end of each month. Monthly reports should include at least the following: • environment which, in the opinion of the Issuer, could in future have significant effects to the financial standing and the financial results of the Issuer; • list of all information published by the Issuer in the form of current reports in the reporting period; • information about achievement of the goals of an issue if they were achieved at least partly in the reporting period; • dates important to investors including events planned in the coming month concerning the Issuer and important from the perspective of investor rights, including in particular dates of publication of periodic reports, planned General Meetings, opening of subscriptions, meetings with investors or analysts and expected dates of publication of analytical report.	NO	At the moment, this principle is not applied by the Issuer. Due to the fact that the report published current and periodic provide shareholders and investors with access to a complete and sufficient information giving a complete picture of the situation, the Management Board of the Issuer does not see the need at the moment of publication of monthly reports.
16a.	If the Issuer is in breach of the reporting obligation set out in Exhibit 3 to the Alternative Trading System Rules ("Current and Periodical Information in Alternative Trading System on the NewConnect Market"), the Issuer shall immediately publish information explaining the situation pursuant to the procedure applicable to providing current reports on the NewConnect market.	YES	

Leonard A. Osser,
Chief Executive Officer

Joseph D'Agostino
Chief Financial Officer