



**Quarterly report of**  
**MILESTONE MEDICAL, INC.**

4th quarter  
(from October 1, 2014 to December 31, 2014)

***Report includes:***

1. General information about Milestone Medical, Inc.
2. Condensed 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 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 the timetable of their implementation.
6. If the Issuer 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, January 30, 2015

## 1. General information

<b>THE ISSUER</b>	<b>MILESTONE MEDICAL, INC. (earlier: Milestone Scientific Research and Development, Inc.)</b>
<b>Registered office/Office:</b>	220 South Orange Avenue, Livingston, NJ 07039, USA
<b>Telephone number:</b>	011-973-535-2717
<b>Facsimile number:</b>	011-973-535-2829
<b>E-mail:</b>	<a href="mailto:jdagostino@milestonescientific.com">jdagostino@milestonescientific.com</a>
<b>Main website address:</b>	<a href="http://www.medicalmilestone.com">www.medicalmilestone.com</a>

Source: The Issuer

### 1.1. Shareholding structure

Below table presents the ownership percentage of shareholders holding at least 5% of votes at the general meeting of shareholders. All percentages were rounded to two decimal places.

Table 1 Shareholder structure with specification of shareholders holding at least 5% of votes at the general meeting

<b>Name of Shareholder</b>	<b>Number of owned shares/votes</b>	<b>Shareholding/votes at General Meeting of Shareholders [%]</b>
<b>MILESTONE SCIENTIFIC, INC.</b>	10,995,000	49.98%
<b>DONG BINGMEI*</b>	2,000,000	9.09%
<b>ZHU YUN</b>	1,600,000	7.27%
<b>WANG TAO</b>	1,600,000	7.27%
<b>TOM CHENG**</b>	1,325,000	6.02%
<b>OTHERS (&lt;5%)</b>	4,480,000	20.37%
<b>TOTAL</b>	<b>22,000,000</b>	<b>100%</b>

Source: The Issuer

\*Holding directly 320,000 shares and indirectly 1,005,000 shares by his subsidiary United Systems Inc.

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 his subsidiary

United Systems, Inc. own 1,325,000 shares (6.02%) of Milestone Medical, Inc., respectively.

## 1.2. Board of Directors

**Table 2 Board of Directors**

<b>NAME OF DIRECTOR</b>	<b>CURRENT AGE</b>	<b>DIRECTOR SINCE</b>	<b>END OF TERM</b>
<b>Leonard A. Osser</b>	68	March 2011	Next Annual Meeting of Shareholders
<b>Zhu Yun</b>	49	September 2013	Next Annual Meeting of Shareholders
<b>Martin S. Siegel</b>	70	September 2013	Next Annual Meeting of Shareholders

*Source: The Issuer*

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

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

2. Condensed 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

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

FINANCIAL STATEMENTS

As of December 31, 2014 (unaudited) and 2013 (audited)  
Three months ended December 31, 2014 and 2013 (unaudited)  
Years ended December 31, 2014 (unaudited) and 2013 (audited)  
And from March 8, 2011 (Inception) to December 31, 2014 (unaudited)

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

	December 31, 2014 (Unaudited)	December 31, 2013 (Audited)
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,080,035	\$ 1,881,910
Prepaid expenses and other current assets	86,906	4,825
Advances to contractors	370,230	372,074
Inventory	45,244	-
Total current assets	1,582,415	2,258,809
Equipment, net of accumulated depreciation of \$31,504 as of December 31, 2014 and \$15,871 as of December 31, 2013	73,141	61,130
Intangible Asset	1,500,000	1,500,000
Total assets	\$ 3,155,556	\$ 3,819,939
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable and accrued expense	\$ 1,012,260	\$ 125,962
Total current liabilities	1,012,260	125,962
Commitments and Contingencies		
Stockholders' Equity		
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 December 31, 2014 and December 31, 2013	2,200	2,200
Additional paid-in capital	6,521,554	6,126,834
Accumulated deficit during the development stage	(4,380,458)	(2,435,057)
Total stockholders' equity	2,143,296	3,693,977
Total liabilities and stockholders' equity	\$ 3,155,556	\$ 3,819,939

See Notes to Financial Statements



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

	<u>Three Months Ended</u> December 31, 2014 (unaudited)	<u>Three Months Ended</u> December 31, 2013 (unaudited)	<u>Year Ended</u> December 31, 2014 (unaudited)	<u>Year Ended</u> December 31, 2013 (audited)	<u>March 8, 2011</u> <u>(Inception) to</u> December 31, 2014 (unaudited)
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Research and development expenses	210,321	39,094	401,308	315,124	1,875,492
Expenses:					
Shared Services	121,426	230,257	384,435	409,828	1,000,263
Depreciation	4,084	11,165	15,634	15,400	31,504
General and administrative expenses	360,729	161,593	1,143,737	279,254	1,472,911
Total expenses	<u>696,561</u>	<u>442,109</u>	<u>1,945,114</u>	<u>1,019,606</u>	<u>4,380,171</u>
Interest expense	215	-	287	-	287
Net loss	<u>\$ (696,776)</u>	<u>\$ (442,109)</u>	<u>\$ (1,945,401)</u>	<u>\$ (1,019,606)</u>	<u>\$ (4,380,458)</u>

See Notes to Financial Statements



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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit During the Development Stage	Total
	Shares (in thousands)	Amount			
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
Net Loss	-	-	-	(1,945,401)	(1,945,401)
Balance, December 31, 2014	22,000	\$ 2,200	\$ 6,521,554	\$ (4,380,458)	\$ 2,143,296

See Notes to Financial Statements



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

	Three Months Ended December 31, 2014 (Unaudited)	Year Ended December 31, 2014 (Unaudited)	Year Ended December 31, 2013 (Audited)	March 8, 2011 (Inception) to December 31, 2014 (Unaudited)
Cash flows from operating activities:				
Net loss	\$ (696,776)	\$ (1,945,401)	\$ (1,019,606)	\$ (4,380,458)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation expense	4,084	15,634	15,400	31,505
Contributed Capital - Milestone Scientific Inc Shared Services Expense	120,711	394,720	409,828	1,010,548
Changes in operating assets and liabilities:				
Increase in inventories	(32,925)	(45,244)	-	(45,244)
Decrease (Increase) in advances to contractors	0	1,844	(353,946)	(370,230)
(Increase) to prepaid expenses and other current assets	(26,813)	(82,081)	(4,825)	(86,906)
Increase in accounts payable and accrued expenses	209,563	386,298	123,804	512,259
Increase in other accrued expenses	500,000	500,000	-	500,000
Net cash used in operating activities	<u>77,844</u>	<u>(774,230)</u>	<u>(829,345)</u>	<u>(2,828,524)</u>
Cash flows from investing activities:				
Purchase of equipment	<u>(27,645)</u>	<u>(27,645)</u>	<u>-</u>	<u>(104,645)</u>
Net cash used in investing activities	<u>(27,645)</u>	<u>(27,645)</u>	<u>-</u>	<u>(104,645)</u>
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	<u>-</u>	<u>-</u>	<u>2,363,206</u>	<u>2,363,206</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>2,513,206</u>	<u>4,013,206</u>
NET (DECREASE) INCREASE IN CASH	50,199	(801,875)	1,683,861	1,080,035
Cash at beginning of period	1,029,836	1,881,910	198,049	-
Cash at end of period	<u>\$ 1,080,035</u>	<u>\$ 1,080,035</u>	<u>\$ 1,881,910</u>	<u>\$ 1,080,035</u>
Supplemental disclosure of non cash activities:				
Contributed Capital - Milestone Scientific Inc Shared Services Expense	120,711	\$ 394,720	\$ 409,828	\$ 1,010,548
Issuance of 10,000 shares of common stock in exchange for intangible assets	\$ -	\$ -	\$ -	\$ 1,500,000

See Notes to Financial Statements



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**NOTE 1 - ORGANIZATION:**

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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. and Subsidiary(the “Company”) 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 regulatory approval. However as of September 2014, the company did receive CE clearance to market the instruments in the European Market. 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 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 also 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 instruments. 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 loan 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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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***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 legally liquid investments purchased with an original maturity of three month 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.

***Advances to Contractors***

During the fourth quarter of 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 Beijing 3H 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 commercialized. The asset's estimated useful life will be based on the average remaining life of the underlying patents. 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 approval. 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.

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

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***Research and Development***

Research and development costs are expensed as incurred. 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 2013. 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.

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NOTE 3 - JOINT VENTURE AGREEMENT:

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In connection with the Joint Venture Agreement with Milestone Scientific, Beijing 3H agreed to contribute up to \$1.5 million to the Company for the fifty (50) percent ownership. Beijing 3H contributed \$670,000 in 2011 and the remaining \$830,000 was contributed in 2012. 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.

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**NOTE 3 - JOINT VENTURE AGREEMENT: (Continued)**

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- 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 monthly 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 Milestone China will distribute products exclusively in the PRC, Macao, Hong Kong and other regions of Asia. The Company will have distribution responsibilities for the rest of the world.

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**NOTE 4 - STOCKHOLDER'S EQUITY:**

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In July 2013, the Company requested additional total capital contribution of \$150,000 from its two joint venture partners. In August 2013, 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 2013, 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.

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**NOTE 5 - RELATED PARTY TRANSACTIONS:**

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The Company is owned by Milestone Scientific Inc., and a group of 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 in 2014, and the amount owed to Milestone Scientific, Inc. at December 31, 2014 is \$125,144.

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 \$384,000, \$410,000 and \$1,000,000 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 loan 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.

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**NOTE 6 - PROVISION FOR INCOME TAXES:**

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The Company's deferred tax asset have 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.

**NOTE 6 - PROVISION FOR INCOME TAXES: (Continued)**

	December 31, 2014	December 31, 2013	Cumulative Inception to Date
Current:			
Federal	\$ 629,500	\$ 347,000	\$ 1,421,500
State	141,200	61,000	279,200
Deferred:			
Federal	2,000	(3,000)	5,000
State	500	(1,000)	1,500
Subtotal	<u>773,200</u>	<u>404,000</u>	<u>1,707,200</u>
Valuation allowance	<u>(773,200)</u>	<u>(404,000)</u>	<u>(1,707,200)</u>
Current deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net operating loss carryforward	<u>1,707,200</u>	<u>934,000</u>	<u>1,707,200</u>
Valuation allowance	<u>(1,707,200)</u>	<u>(934,000)</u>	<u>(1,707,200)</u>
Non-current deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

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	\$ 1,707,200	\$ 934,000
Timing differences for depreciation	(4,000)	4,000
Valuation allowance	<u>(1,703,200)</u>	<u>(938,000)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

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:

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**NOTE 6 - PROVISION FOR INCOME TAXES: (Continued)**

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	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%

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**NOTE 7 - CONCENTRATIONS:**

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***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.

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**NOTE 8 - COMMITMENTS AND OTHERS:**

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**Commitments:**

The Company has entered in a loan 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.

The Company is in the process of finalizing an additional Capital raise (\$6-7 million) and an up listing to the full Warsaw Stock Exchanged. It is anticipated that the capital raise will occur in the first quarter of 2015. Proceeds from the capital raised will be used to repay any funds borrowed under the loan agreement with Milestone Scientific Inc. and for use on future worldwide marketing effort for the Epidural and Intra-Articular Instruments.

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 2013 for the long lead time parts. The instruments are expected to be delivered by April 2015.

In July 2013, Milestone Scientific Inc, (as an agent 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.

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**NOTE 8 - COMMITMENTS AND OTHERS: (Continued)**

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The Company has a commitment with a third party consulting group to conduct clinical and 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.

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

4Q 2014 report 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) was presented in Note 2 to the Financial Statement.

**4. Brief description of the most important achievements or failures of the Issuer 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 fourth quarter ending December 31, 2014, the Issuer 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 Issuer’s estimate for completion of the studies will be in second quarter 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. 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 Issuer as President effective January 1, 2015. As announced last year, the Issuer already has a distribution channel in place with one of the largest specialty distributors of healthcare products in the United States to market and sell the Company epidural instruments. Additionally, the Issuer in December 2014 entered into 2 distribution agreements with Milestone China for both epidural and intra-articular instruments. Under both agreements, Milestone China has agreed to certain minimum purchases annually following CFDA marketing clearance as a condition of the distribution agreements. Year one minimum purchase is 250 epidural instruments and 300 intra-articular instruments; year two is 550 epidural instruments and 600 intra-articular instruments and year three is 750 epidural instruments and 800 intra-articular instruments. CFDA marketing clearance can be sought only following FDA marketing clearance in the United States. The Issuer looks forward to creating similar agreements in other markets in 2015. There are no failures noted during the quarter.

## **5. A description of the status of implementation of activities and investments of the Issuer and the timetable of their implementation.**

The Issuer 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 process is continuing to move forward at a slower rate than previously anticipated but the direction is still optimistic. Since the Issuer'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 section, 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 Issuer successful launch of the instruments in Europe. Board of Directors of the Company considers this registration as a significantly positive step and is currently in the process of finalizing the commercialization of the instruments and arranging distribution of the instruments in the EU community.

As announced earlier this year, the Company Board of Directors has approved plans for the Issuer to uplist from NewConnect Market to the Main Market of the Warsaw Stock Exchange, which it expects to occur in the first/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 Issuer as the Issuer believes this will help increase awareness and expand the number of potential investors in the company.

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

## **6. If the Issuer 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 continues to consider and where appropriate include innovative initiatives for its two Polish medical instruments. In fact, the Company through its subsidiary Milestone Medical Poland Sp. z o.o. 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 and next generation instruments.

Additionally, the Issuer presented its current achievements on 2<sup>nd</sup> 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 Issuer.

During the quarter, there were no other new initiatives, other than those described in this chapter and in chapter 4 above.

## 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 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 Issuer presents some basic information about its subsidiary:

**Table 3 General information about subsidiary of the Issuer**

<b>SUBSIDIARY</b>	<b>MILESTONE MEDICAL POLAND SP. Z.O.O.</b>
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