Annual report of

MILESTONE MEDICAL, INC.

for the Year Ended

December 31, 2013

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 2013
7. Report with the opinion on the audit of the annual financial statements
8. Application of corporate governance rules

New Jersey, April 17, 2014

1. THE LETTER OF THE BOARD OF DIRECTORS AND MANAGEMENT

To our Shareholders,

I would like to present you our first annual report of Milestone Medical, Inc.

During fiscal-year 2013 we achieved a number of strategic initiatives. Most recently, we completed a financing with WDM, whereby we raised $3 million from European investors and subsequently listed and commenced trading on the Warsaw Stock Exchange (NewConnect Market). We are now in a position to accelerate the commercialization of our epidural and intra-articular instruments and related handpieces.

We believe that there is significant market potential for our two instruments. For example, in the U.S. alone, the epidural market is estimated at over $1 billion annually and the intra-articular market is expected to reach $7 billion by next year. To give you a sense of the epidural market, over 2.4 million women in the U.S. receive epidurals while in labor each year. Of this number, 1.6 million women who give birth chose not to have an epidural given, mostly due to safety concerns. More than 8.9 million epidurals are administered in the U.S. for other purposes each year. Doctors using conventional syringes identify the epidural space by relying on subjective perception. As a result, 1 in 30 women suffer complications ranging from severe pain to wet tap to paraplegia and rarely death. As a result, the average cost per epidural malpractice settlement in the U.S. is $362,000. In comparison, proto-types of our epidural instrument were able to reliably identify the epidural space by sensing the pressure characteristics of surrounding tissue and the decrease in pressure when the needle reached the epidural space. The proper location of the needle was determined in real-time in 100% of the cases during the clinical studies using first year residents. Turning to the intra-articular market, this market is expected to reach $7 billion by 2015 in the U.S. alone. Osteoarthritis affects 33 million patients in the U.S., of which, 21 million receive intra-articular injections. Conventional injections are less efficacious, as doctors often fail to locate the intra-articular space or use inappropriate volumes of hyaluronic acid. In contrast, our instrument has been successful in identifying the intra-articular space.

Our technology is based on a patented *Dynamic Pressure Sensing*® system (DPS®), intended to measure the density of body tissue and thus help a clinician know the location of a hypodermic needle during an injection. In applications that have already received clearance, the instrument utilizes computer controlled technology to provide real-time feedback to the medical practitioner, providing precision for the administration of a drug into a patient.

Currently, our two instruments are awaiting Food and Drug Administration (“FDA”) and European Commission (“CE”) approval. We hope to see approval for at least one of our instruments by one of these agencies in 2014. A distribution channel is already in place upon approval for the epidural instrument. During the year, we signed a three year agreement with Tri-Anim to be the distributor of our epidural injection technology for childbirth and other pain management needs in the pain management/hospital sector. Tri-Anim is one of largest specialty distributors of healthcare products in the United States. The fact that our partner is the largest

distributor to birthing hospitals across the U.S., and that they have committed to certain guaranteed minimums is a strong validation of our technology. This will ensure immediate sales of the instrument upon regulatory approval.

We anticipated our growth and in 2014 began expanding our team with new hires, including Joe Bjorklund, our Director of Sales and Business Development and Craig Bowmen, Product Specialist Trainer. Mr. Bjorklund has a solid track record in medical device sales and has been an important addition to our team. Mr. Bowmen is an expert on medical devices and brings years of product knowledge and training to our Company.

As anticipated, we did not generate revenue in 2013, but we carefully managed our expenses to minimize losses. As a result, net loss was approximately $1 million, compared to approximately $1.2 million for 2012. We ended the year with approximately $1,900,000 of cash, compared to $200,000 for 2012, and over $3,800,000 in total assets, and approximately $126,000 in liabilities.

We had a very productive year at Milestone Medical and continue to make progress. We look forward to keeping you apprised of new developments as they unfold. We wish to thank our shareholders and investors for their continued trust, confidence, and support as we continue to grow and develop our products and company.

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. ("Issuer") declare that, according to their best knowledge, the annual financial statements and comparable data were prepared in accordance with U.S. Generally Accepted Accounting Principles applicable to the Issuer.

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

Leonard Osser – Chief Executive Officer

Joseph D'Agostino – Chief Financial Officer

The Board of Directors and management of Milestone Medical, Inc. ("Issuer") declares that, the authorized entity to audit financial statements, Baker Tilly Virchow Krause, LLP , which audited the annual 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

Leonard Osser – Chief Executive Officer

Joseph D'Agostino – Chief Financial Officer

3. General information

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

Source: The Issuer

3.1. Shareholding structure

In the table below shares issuable pursuant to options or warrants are not deemed to be outstanding for computing the ownership percentage of shareholders holding at least 5% of votes at the general meeting, because only currently outstanding shares can vote at the general meeting. For this reason applicable percentages are based only on 22,000,000 shares outstanding on the date of this annual report preparation. All percentages are rounded.

Table 1 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.	10,000,000	45.45%
FENG YULIN*	2,000,000	9.09%
DONG BINGMEI*	2,000,000	9.09%
ZHU YUN*	1,600,000	7.27%
WANG TAO*	1,600,000	7.27%
OTHERS (<5%)	4,800,000	21.83%
TOTAL	**22,000,000**	**100%**

Source: The Issuer

* These shareholders are controlling shareholders of Beijing 3H, the Joint-Venture partner with Milestone Scientific, Inc., as discussed in Note 1 of the audited financial statements.

3.2. Board of Directors

Table 2 Board of Directors

NAME OF DIRECTOR	CURRENT AGE	DIRECTOR SINCE	END OF TERM
Leonard A. Osser	66	March 2011	Next Annual Meeting of Shareholders
Feng Yulin	48	March 2011	Next Annual Meeting of Shareholders
Zhu Yun	48	September 2013	Next Annual Meeting of Shareholders
Martin S. Siegel	69	September 2013	Next Annual Meeting of Shareholders

Source: The Issuer

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

On December 31, 2013 the Issuer employed 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:

31.12.2013: 1 EUR = 1,3758 USD
31.12.2012: 1 EUR = 1,3197 USD

Table 3 Selected financial data of the balance sheet of Milestone Medical as of December 31, 2013 with comparable data for year 2012.

Selected financial data from balance sheet	USD		EUR	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Current Assets	2,258,809	216,177	1,641,815	163,808
Cash	1,881,910	198,049	1,367,866	150,071

Prepaid expense and other current assets	4,825	-	3,507	-
Advances to contractors	372,074	18,128	270,442	13,736
Equipment, net depreciation	61,130	76,529	44,432	57,990
Intangible Assets	1,500,000	1,500,000	1,090,275	1,136,622
Current Liabilities	125,962	2,157	91,555	1,634
Common Stock	2,200	2,000	1,599	1,515
Accumulated paid-in capital	6,126,834	3,204,000	4,453,288	2,427,825
Accumulated deficit during the development stage	(2,435,057)	(1,415,451)	(1,769,921)	(1,072,555)
Stockholders' Equity	3,693,977	1,790,549	2,684,967	1,356,785

Source: The Issuer

4.2. Selected 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:

01.01.2013 to 31.12.2013: 1 EUR = 1,3282 USD
01.01.2012 to 31.12.2012: 1 EUR = 1,2857 USD

Table 4 Selected financial data of the statement of operations of Milestone Medical from January 1, 2013 to December 31, 2013 with comparable data for year 2012.

Milestone Medical, Inc. is a development stage company. As such there are no revenues.

Selected financial data from balance sheet	USD		EUR	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Revenue	-	-	-	-
Depreciation	15,400	471	11,594	366
Research and development expenses	315,124	916,263	237,256	712,657
Total other expenses	689,082	255,419	518,809	198,661
Net loss	(1,019,606)	(1,172,153)	(767,660)	(911,685)

Source: The Issuer

5. AUDITED ANNUAL FINANCIAL STATEMENTS

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

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

Years ended December 31, 2013 and 2012
and for the period March 8, 2011 (Inception) to December 31, 2013

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

ASSETS	December 31, 2013	December 31, 2012
Current Assets:		
Cash	$ 1,881,910	$ 198,049
Prepaid expenses and other current assets	4,825	-
Advances to contractors	372,074	18,128
Total current assets	2,258,809	216,177
Equipment, net of accumulated depreciation of $15,871 as of December 31, 2013 and $471 as of December 31, 2012	61,130	76,529
Intangible Asset	1,500,000	1,500,000
Total assets	$ 3,819,939	$ 1,792,706
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 125,962	$ 2,157
Total current liabilities	125,962	2,157
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; 22,000,0000 shares issued and outstanding at December 31, 2013 and 20,000,000 shares issued and outstanding at December 31, 2012	2,200	2,000
Additional paid-in capital	6,126,834	3,204,000
Accumulated deficit during the development stage	(2,435,057)	(1,415,451)
Total stockholders' equity	3,693,977	1,790,549
Total liabilities and stockholders' equity	$ 3,819,939	$ 1,792,706

See Notes to Financial Statements

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

	Year Ended December 31, 2013	Year Ended December 31, 2012	March 8, 2011 (Inception) to December 31, 2013
Revenue	$ -	$ -	$ -
Research and development expenses	315,124	916,263	1,474,184
Other expenses:			
Shared Services	409,828	206,000	615,828
Depreciation	15,400	471	15,871
General and administrative expenses	279,254	49,419	329,174
Total expenses	1,019,606	1,172,153	2,435,057
Net loss	$ (1,019,606)	$ (1,172,153)	$ (2,435,057)

See Notes to Financial Statements

MILESTONE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
STATEMENT 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 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	2000	3,204,000	(1,415,451)	1,790,549
Contributed Services-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

See Notes to Financial Statements

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

	Year Ended December 31, 2013	Year Ended December 31, 2012	March 8, 2011 (Inception) to December 31, 2013
Cash flows from operating activities:			
Net loss	$ (1,019,606)	$ (1,172,153)	$ (2,435,057)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	15,400	471	15,871
Contributed Services - Milestone Scientific Inc Shared Services Expense	409,828	206,000	615,828
Changes in operating assets and liabilities:			
Advances to contractors	(353,946)	331,043	(372,074)
Increase to prepaid expenses and other current assets	(4,825)	-	(4,825)
Increase in accounts payable and accrued expenses	123,804	2,157	125,962
Net cash used in operating activities	(829,345)	(632,482)	(2,054,296)
Cash flows from investing activities:			
Purchase of equipment	-	(77,000)	(77,000)
Net cash used in investing activities	-	(77,000)	(77,000)
Cash flows from financing activities:			
Proceeds from sale of stock (initial capital)	-	830,000	1,500,000
Capital contribution received (cash) - shareholders	150,000	-	150,000
Net Proceeds on Private Placement Offering	2,363,206	-	2,363,206
Net cash provided by financing activities	2,513,206	830,000	4,013,206
NET INCREASE IN CASH	1,683,861	120,518	1,881,910
Cash at beginning of period	198,049	77,531	-
Cash at end of period	$ 1,881,910	$ 198,049	$ 1,881,910
Supplemental disclosure of non cash activities:			
Contributed Capital - Milestone Scientific Inc Shared Services Expense	$ 409,828	$ 206,000	$ 615,828
Issuance of 10 million shares of common stock in exchange for contributed technology	$ -	$ -	$ 1,500,000

See Notes to Financial Statements

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. (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, 2013, the Company has not yet obtained regulatory approval. As a development stage company, the Company is limited to expending funds provided by its stockholders. In 2014, the Company entered a commerical 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) and 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 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.

The Company has incurred operating losses since its inception. The Company has used cash in operations since inception of approximately $2.4 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 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 over the next twelve months.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

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

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

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.

Advances to Contractors

The advances to contractors represent funding to a subcontractor, in the fourth quarter for year ended December 31, 2013, for advances on parts required to produce both epidural and intra articular instruments. The advance is expected to be utilized in 2014.

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 is five 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 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.

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.

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

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 2013 and 2012, 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, 2013 and 2012 and from March 8, 2011 (inception) to December 31, 2013. 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.

Subsequent Events

Management has evaluated subsequent events through April 14, 2014, the date the financial statements are available to be issued, for inclusion or disclosure in the financial statements.

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 2012 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. 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 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.

NOTE 5 - RELATED PARTY TRANSACTIONS:

The Company is owned by Milestone Scientific Inc., Beijing 3H 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 $28,126, $16,956 and $45,082 for years ended December 31, 2013 and 2012 and from March 8, 2011 (Inception) to December 31, 2013, 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.

The Company reimbursed Milestone Scientific Inc $421,458 for expenses paid by Milestone Scientific Inc. for the benefit of the Company and the amount owed to Milestone Scientific, Inc at December 31, 2013 is $24,088.

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, 2013, Milestone Scientific Inc. expended approximately $176,000 on regulatory legal fees (FDA Regulations) and charged the Company $410,000, $206,000 and $616,000 in time charges relating to project management for the years ended December 31, 2013 and 2012 and from March 8, 2011 (Inception) to December 31, 2013, respectively. These charges have been credited to additional paid-in capital.

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, 2013 and 2012 and for the period March 8, 2011 (Inception) to December 31, 2013.

	December 31, 2013	December 31, 2012	Cumulative Inception to Date
Current:			
Federal	$ 347,000	$ 399,000	$ 792,000
State	61,000	70,000	138,000
Non-Current			
Federal	(3,000)	-	3,000
State	(1,000)	-	1,000
Subtotal	404,000	469,000	934,000
Valuation allowance	(404,000)	(469,000)	(934,000)
Current deferred tax asset	$ -	$ -	$ -
Net operating loss carryforward	934,000	566,000	934,000
Valuation allowance	(934,000)	(566,000)	(934,000)
Non-current deferred tax asset	$ -	$ -	$ -

NOTE 6 - PROVISION FOR INCOME TAXES: (Continued)

As of December 31, 2013 and 2012, the Company has federal and state net operating loss carryforwards of approximately $2,400,000 and $1,341,000, respectively that will be available to offset future taxable income, if any, through December 2032.

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, 2013 and 2012, the deferred tax assets are comprised of the following:

	December 31, 2013	December 31, 2012
Benefit from net operating loss	$ 934,000	$ 566,000
Timing differences for depreciation	4,000	-
Valuation allowance	(938,000)	(566,000)
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, 2013 and 2012 and March 8, 2011 (Inception) to December 31, 2013 are as follows:

	December 31, 2013	December 31, 2012
Statutory rate	(34)%	(34)%
State income tax - all states	(6)%	(6)%
	(40)%	(40)%
Current year valuation allowance	40%	40%
Benefit for income taxes	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%, 91% and 79% of total expenses incurred for the years ended December 31, 2013 and 2012, and from March 8, 2011 (Inception) to December 31, 2013, respectively.

NOTE 8 - COMMITMENTS AND OTHERS:

Subsequent events:

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 over the periods of April 2014 through December 2014.

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 $98,000. This study will take place in 2014.

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.

6. REPORT ON MILESTONE MEDICAL'S ACTIVITIES IN YEAR 2013

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) and in the European Union (CE). Both processes are moving forward, but as with any regulatory system, the timing of the process of approval is not possible to determine. The Company continues to respond to question (s), if any, for both regulatory authorities and the process continues to move forward. In 2013, the Company participated in a USA tradeshow and has met with several large traditional distributors (medical device distributors in specific geographic areas). The interviewing and selection process with significant territorial medical device distributors is continuing with the Company's new employees, Joe Bjorklund, Director of Sales and Market Development and Crag Coleman, Product Specialist Trainer. All of the planning and identification of territorial distributors will significantly reduce the Company's going to market time line when the instrument receives the regulatory approval.

The Company was successful in raising $3.0 million by selling two million shares at $1.50, (4,65 PLN), per share in a Private Placement in Poland in the fourth quarter of 2013. The two million shares were issued and listed on the NewConnect Market of the Warsaw Stock Exchange.

6.1. Description of basic exposures and risks

The Company, in 2013, 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 and CE);

(2) the instruments will not receive regulatory approval; the core software included in each instrument has already received approval in both the USA (FDA) and in Europe (CE) for a dental instrument. Therefore, management believes that this risk has been significantly mitigated;

(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.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Milestone Medical Inc.
Livingston, New Jersey

We have audited the accompanying balance sheets of Milestone Medical Inc. (a development stage company) (the "Company") as of December 31, 2013 and 2012, and the related 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, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milestone Medical Inc. (a development stage company) as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended and the cumulative period from March 8, 2011 (inception) to December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP

New York, New York
April 14, 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.

Statement of Milestone Medical Inc. ("the Company", "the Issuer") 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 2013 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 since according to the best knowledge of the Company's Board of Directors there is no competition on this particular market.
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 2013, 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 contracts;	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 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.	YES	
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.	NO	Due to the fact that those meeting are not popular among shareholders, and costs of reparation are relatively high, the Issuer does not intend to apply this practice.
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	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

	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.		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