Consolidated Annual report of

MILESTONE MEDICAL, INC. AND SUBSIDIARY

For the Year Ended December 31, 2016

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 2016
7. Report with the opinion on the audit of the annual financial statements
8. Application of corporate governance rules

New Jersey, March 30, 2017

1. THE LETTER OF THE BOARD OF DIRECTORS AND MANAGEMENT

To Our Valued Shareholders,

2016 was a transformative year for Milestone Medical, Inc. ("the Company") in which we reported significant progress on a number of fronts including advancements towards regulatory approval and the commercial rollout of our epidural and intra-articular instruments. We are particularly pleased to have successfully completed the clinical trials for our epidural instrument in the United States, and have submitted our 510(k) application for marketing clearance to the United States Food & Drug Administration.

As previously announced, we completed our COMPASS Study, a randomized, controlled, parallel group, multicenter, pivotal study to assess the safety and effectiveness of epidural space verification with the CompuFlo® Epidural Computer Controlled System. 400 patients took part in our clinical trial for the epidural instrument in the United States. The trial consisted of two separate arms: pain management; and labor and delivery. Both arms were compared against the current medical standards of care. It is important to note, this study was designed to support not only submission to the FDA, but also facilitate U.S. reimbursement and worldwide deployment.

Based on the positive results of this study, we submitted our 510(k) application to the FDA in July 2016 and we are prepared, along with our regulatory advisors, to respond to any further questions from the FDA. We expect to receive FDA marketing clearance for our epidural instrument in the first half of 2017. In advance of marketing clearance, we have been cultivating relationships with key opinion leaders, who have been supportive and recognize the advantages of our technology.

The epidural instrument has already obtained CE mark approval and may now be marketed and sold in most European countries and many other countries accepting CE approved instruments. The Company has entered into a limited number of European and Middle East distributor arrangements for our epidural instrument and plans to develop an international marketing network of independent distributors upon receipt of FDA approval. We are moving forward with preparations for the full commercial roll-out of the computer controlled epidural injection system to the global marketplace.

We were also pleased to announce that abstracts describing the results of the clinical trial of the CompuFlo® technology have been published in prestigious pain management journals. The authors of these abstracts, leading anesthesiologists and key opinion leaders, presented the findings during the premier American and European pain management society meetings in 2016.

By way of background, the addressable market for epidurals in Poland alone is estimated to be over 8 million people, many of whom experience chronic pain. Since July 2015, the number of epidural injections increased significantly due to National Health Fund reimbursement for natural childbirth.

The epidural market in the U.S. is estimated at over $7 billion annually. Over 2.4 million women in the U.S. receive epidurals while in labor each year, while another 1.6 million women who give birth choose not to have an epidural, mainly due to safety concerns. Our epidural instrument has been developed to improve the safety of epidural procedures, lower costs, and significantly reduce malpractice risk by eliminating guess work.

Late in 2016, we received feedback from the FDA requiring the Company to submit additional information and a new 501(k) application for the Company's CompuFlo Intra Articular Computer Controlled Injection System. We were surprised by the FDA's response to our application for the intra-articular instrument; however, based on the feedback, we made the necessary adjustments and resubmitted a new application and we are confident that with the results of the incremental HFV Study and other data, the 510(k) marketing approval will be granted in the second half of 2017.

This development did not detract from our current commercialization initiatives, substantially all of which have focused on our CompuFlo epidural instrument. The epidural instrument remains our primary focus among our medical instruments for near term commercialization and revenue.

Despite reporting first revenues in 2015, Milestone Medical is still in the development stage as we prepare for full commercial rollout of our medical instruments. We continue to carefully manage our expenses, which are mainly attributable to regulatory approval, pursuing new distribution partners and marketing of our medical instruments.

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

Sincerely,

Board of Directors

Leonard Osser - Chief Executive Officer

Joseph D’Agostino - Chief Financial Officer

2. STATEMENTS OF THE BOARD OF DIRECTORS AND MANAGEMENT

The management of the Company declare that, the annual consolidated financial statements and comparable data were prepared in accordance with accounting principles generally accepted in the United States of America and present a true and fair view of the Company and its Subsidiary's property financial situation and their financial results and that the report on the Company and its Subsidiary's activities presents a fair view of the Company and its Subsidiary's situation, including a description of basic exposures and risks.
As of December 31, 2016, the Company believes that it does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. The Company will continue to manage its cash position while taking strategic steps to finalize the clinical studies and to expand its business in the medical business sectors.

On behalf of the Board of Directors and management of the Company:
Leonard Osser – Chief Executive Officer
Joseph D'Agostino – Chief Financial Officer

The Board of Directors and management of Milestone Medical, Inc. and Subsidiary ("the Company") declares that, the authorized entity to audit financial statements, Friedman LLP, which audited the annual consolidated financial statements, was selected by the Audit Committee effective July 18, 2016 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. Friedman LLP's report on the December 31, 2016 consolidated financial statements, included herein, expresses an unqualified opinion and includes explanatory paragraph referring to the Company's ability to continue as a going concern.

On behalf of the Board of Directors and management of the Company:
Leonard Osser – Chief Executive Officer
Joseph D'Agostino – Chief Financial Officer

3. GENERAL INFORMATION

Table 1: Basic information about Milestone Medical Inc.

THE 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 on the date of annual report preparations

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

Table 2: Shareholder structure with specification of shareholders holding at least 5% of votes at the general meeting as of December 31, 2016

Name of Shareholder	Number of owned shares/votes	Shareholding/votes at General Meeting of Shareholders [%]
MILESTONE SCIENTIFIC, INC.	20,000,000	90.91%
OTHERS (<5%)	2,000,000	9.09%
TOTAL	**22,000,000**	**100%**

Source: The Issuer

The company reported on ESPI report 6/2016 published on June 17, 2016 that Milestone Scientific initiated a share exchanged program pursuant to which would exchange one share of common stock for every two outstanding shares of Milestone Medical common stock.

Through the report date (March 30, 2017), Milestone Scientific Inc. acquired additional 10,070,084 (45.77%) shares of the Issuer's outstanding share from various shareholders. Because of these transactions, Milestone Scientific Inc. owned 90.91% of the outstanding shares of the Issuer as of December 31, 2016

In February 2017, the parent company continued its exchange program to exchange 1,065,084 shares of Milestone Medical shares from a shareholder. The Company reported on ESPI report 2/2017 published on February 21, 2017 that after the exchange, Milestone Scientific owned 21,065,084 (95.75%) shares of Milestone Medical.

3.2. Board of Directors

Table 3 Board of Directors

NAME OF DIRECTOR	CURRENT AGE	DIRECTOR SINCE	END OF TERM
Leonard A. Osser	69	Mar-11	Next Annual Meeting of Shareholders
Zhu Yun	52	Sep-13	Next Annual Meeting of Shareholders
Martin S. Siegel	73	Sep-14	Next Annual Meeting of Shareholders

* On May 25, 2016 the Annual General Meeting of Shareholders adopted the resolution on the appointment of three Directors to the Board of Directors for new one year term of office.

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

On December 31, 2016, the Issuer employed one full time employee and three (3) persons converted into full-time equivalents ("FTEs"). There is an open position for an additional one (1) full time employee: a Nurse Anesthesiologist. The Company has contracted with a business development consultant for business activities in Europe and the Middle East in 2017. The open position is scheduled to be hired sometime in 2017.

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:

31.12.2016: 1 EUR = 1,0525 USD 31.12.2015: 1 EUR = 1,0861 USD

Table 4 Selected consolidated financial data of the balance sheet of Milestone Medical as of December 31, 2016 with comparable consolidated data for year 2015.

1 Eur = 1.0525 for 2016
1 Eur = 1.0861 for 2015

Selected consolidated financial data from the balance sheet	USD		EUR	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total Assets	2,413,840	2,637,425	2,293,435	2,428,345
Cash	13,187	1,222	12,529	1,125
Prepaid expenses and other current assets	53,537	42,637	50,867	39,257
Inventory	741,392	885,961	704,410	815,727
Accounts receivable	-	45,075	-	41,502
Advance to contractors	44,148	43,524	41,946	40,075
Equipment, net depreciation	61,576	119,006	58,505	109,572
Intangible Assets	1,500,000	1,500,000	1,425,178	1,381,088
Current Liabilities	7,273,278	4,314,105	6,910,478	3,972,107
Common Stock	2,200	2,200	2,090	2,026
Accumulated paid-in-capital	6,861,634	6,693,000	6,519,367	6,162,416
Accumulated deficit during the development stage	(11,723,272)	(8,371,880)	(11,138,501)	(7,708,204)
Stockholder's Equity	(4,859,438)	(1,676,680)	(4,617,043)	(1,543,762)

Source: The Issuer

4.2. Selected consolidated financial data from Statement of Operations

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

01.01.2016 to 31.12.2016: 1 EUR = 1,1072 USD 01.01.2015 to 31.12.2015: 1 EUR = 1,0198 USD

Table 5 Selected consolidated financial data of the statement of operations of Milestone Medical Inc. from January 1, 2016 to December 31, 2016 with comparable consolidated data for year 2015.

1 Eur = 1.1072 for 2016
1 Eur = 1.0198 for 2015

Selected consolidated financial data from	USD		EUR	
statement of operations	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Revenue	21,253	50,975	19,195	49,985
Cost of Goods	12,183	13,037	11,003	12,784
Gross Profit	9,070	37,938	8,192	37,201
Depreciation	62,720	57,094	56,647	55,985
Research and development expenses	509,797	791,397	460,438	776,031
Other expenses	2,693,084	3,189,155	2,432,337	3,127,237
Total Expenses	3,265,601	4,037,646	2,949,423	3,959,253
Interest Expense	92,861	40,330	83,870	39,547
Net loss before income tax	(3,349,392)	(4,040,038)	(3,025,101)	(3,961,599)
Provision from Tax	2,000	-	1,806	-
Net Loss	(3,351,392)	(4,040,038)	(3,026,908)	(3,961,599)

Source: The Issuer

5. AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

Milestone Medical Inc. And Subsidiary

For the Years ended December 31, 2016 and 2015

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FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Milestone Medical, Inc. and subsidiary (the "Company") as of December 31, 2016, and the related consolidated statement of operation, consolidated statement of changes in stockholders' deficit, and consolidated cash flow for the year ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit included consideration of 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 the Company as of December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Friedman LLP

East Hanover, New Jersey
March 30, 2017

100 Eagle Rock Avenue, Suite 200, East Hanover, NJ 07936 p 973.929.3500 f 973.929.3501 friedmanllp.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Milestone Medical, Inc. and Subsidiary (the "Company") as of December 31, 2015, and the related consolidated statements of operations, changes in stockholders' (deficit) equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit included consideration of the Company's 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milestone Medical, Inc. as of December 31, 2015 and the results of their consolidated operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Baker Tilly Virchow Krause, LLP

New York, New York
April 15, 2016

Accountants' Acknowledgment

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

We hereby agree to the inclusion in this annual report of our report dated April 15, 2016 on our audit of the consolidated financial statements of Milestone Medical, Inc. and Subsidiary.

Baker Tilly Virchow Krause, LLP

New York, New York
March 30, 2017

MILESTONE MEDICAL INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,187	$ 1,222
Accounts receivable, net	-	45,075
Inventories	741,392	885,961
Advances on contracts	44,148	43,524
Prepaid expenses and other current assets	53,537	42,637
Total current assets	852,264	1,018,419
Equipment net of accumulated depreciation of $185,040 as of December 31, 2016 and $122,320 as of December 31, 2015	61,576	119,006
Intangible asset	1,500,000	1,500,000
Total assets	$ 2,413,840	$ 2,637,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 183,095	$ 461,290
Accrued expenses and other payables	432,313	354,362
Advances on line of credit from Milestone Scientific Inc.	2,800,000	2,500,000
Due to related party	3,857,870	998,453
Total current liabilities	7,273,278	4,314,105
Commitments and Contingencies		
Stockholders' Equity Deficit		
Common stock, par value $.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at December 31, 2016 and 2015	2,200	2,200
Additional paid-in capital	6,861,634	6,693,000
Accumulated deficit	(11,723,272)	(8,371,880)
Total equity deficit	(4,859,438)	(1,676,680)
Total liabilities and stockholders' equity deficit	$ 2,413,840	$ 2,637,425

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Product sales, net	$ 21,253	$ 50,975
Cost of products sold	12,183	13,037
Gross profit	9,070	37,938
Selling, general and administrative expenses	2,524,450	3,039,294
Depreciation	62,720	57,094
Shared services	168,634	149,862
Research and development expenses	509,797	791,397
Total operating expenses	3,265,601	4,037,647
Loss from operations	(3,256,531)	(3,999,709)
Interest expense	(92,861)	(40,330)
Loss before income tax	(3,349,392)	(4,040,039)
Provision from tax	2,000	-
Net loss	$ (3,351,392)	$ (4,040,039)

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY

STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY

YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, January 1, 2015	22,000	$ 2,200	$ 6,543,138	$ (4,331,841)	$ 2,213,497
Contributed Captial-MilestoneScientific Inc. Shared Services Expenses			149,862		149,862
Net loss				(4,040,039)	(4,040,039)
Balance, December 31, 2015	22,000	$ 2,200	$ 6,693,000	$ (8,371,880)	$ (1,676,680)
Contributed Captial-MilestoneScientific Inc. Shared Services Expenses			168,634		168,634
Net loss				(3,351,392)	(3,351,392)
Balance, December 31, 2016	22,000	$ 2,200	$ 6,861,634	$ (11,723,272)	$ (4,859,438)

See Notes to Consolidated Financial Statements

MILESTONE MEDICAL INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016	2015
Cash flows from operating activities:		
Net loss	$ (3,351,392)	$ (4,040,039)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	62,720	57,094
Contributed capital - Milestone Scientific, Inc. shared services expense	168,634	149,862
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	45,075	(45,075)
Decrease (increase) in inventories	144,569	(840,717)
(Increase) decrease to advances on contracts	(624)	326,706
(Increase) decrease to prepaid expenses and other current assets	(10,900)	44,269
Increase due to related parties	2,859,416	498,453
(Decrease) increase in accounts payable and accrued expenses	(200,243)	352,997
Net cash (used in) operating activities	(282,745)	(3,496,450)
Cash flows from investing activities:		
Purchases of property and equipment	(5,290)	(82,363)
Net cash (used in) investing activities	(5,290)	(82,363)
Cash flows from financing activities:		
Proceeds from line of credit	300,000	2,500,000
Net cash provided by investing activities	300,000	2,500,000
Net increase (decrease) in cash and cash equivalents	11,965	(1,078,813)
Cash and cash equivalents at beginning of period	1,222	1,080,035
Cash and cash equivalents at end of period	$ 13,187	$ 1,222

See Notes to Consolidated Financial Statements

NOTE 1 - ORGANIZATION AND BUSINESS:

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

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

As of December 31, 2016, the Company has not yet obtained U.S. Food and Drug Administration ("FDA") regulatory clearance. However, as of September 2014, the company did receive European Union (CE) clearance to market the instruments in the European Market. The Company is now awaiting final regulatory marketing clearance in the U.S. by the FDA for the epidural and intra-articular instruments. In 2014, the Company began to prepare for commercialization with the commitment to purchase 500 instruments (250 epidural and 250 intra-articular instruments) from the instrument manufacturer. All 500 instruments ordered were received in September 2015. In December 2016, the Company received notification from the FDA that based upon the 510(k) application submitted for the Company's Compu-Flo Intra Articular Computer Controlled Injection System, the Company did not adequately document that the device met the equivalency standard required for 510(k) clearance. Following consultation with the FDA Office of Device Evaluation, the Company intends to provide additional data, which could include a new Human Factor Validation study (HFV Study) in support of a new 510(k) application for the device. An HFV Study demonstrates the ease of use of a product. The cost to generate this incremental data is estimated to be approximately $100,000.

In the interim of receiving final FDA approval, introductory meetings are being held with medical device distributors within the foreign market. The Company's focus will be on marketing its two instruments throughout the world.

On June 17, 2016, Milestone Scientific initiated a share exchange program pursuant to which would exchange one share of Milestone Scientific Inc. common stock for every two outstanding shares of Milestone Medical common stock. As of December 31, 2016, 5,035,042 shares of Milestone Scientific common stock have been issued in exchange for 9,005,000 shares of Milestone Medical common stock. As a result of these exchanges, Milestone Scientific owned approximately 90.91% of Milestone Medical at December 31, 2016.

In February 2017, the parent company continued its exchange program to exchange 1,065,084 shares of Milestone Medical shares from a shareholder. The Company reported on ESPI report 2/2017 published on February 21, 2017 that after the exchange, Milestone Scientific owned 95.75% of the shares in Milestone Medical.

In March 2017 on the ESPI 3/2017 report the Company announced it has begun its clinical rollout for the epidural instrument in the Middle East and North Africa (MENA) regions, by initiating clinical evaluations at key hospitals in the United Arab Emirates and in Lebanon. Given the extensive published clinical data supporting successful epidural catheter placement in patients with complex comorbidities, clinicians and key opinion leaders in these territories have expressed further interest in broadening the technique scope into challenging thoracic epidural procedures, as well as extending its use into pediatric cases.

The Company is also continuing its collaboration with key opinion leaders in Italy with a focus on expanding its clinical utilization at key hospitals in Rome, Florence, Naples and Pesaro, which resulted in additional scientific data accepted for presentation at the upcoming meeting of the European Society for Anesthesiology to be held in Geneva, Switzerland from June 3-5, 2017. Euroanaesthesia is Europe's largest annual event showcasing the latest and the most relevant knowledge with medical experts active in the fields of anesthesia, perioperative medicine, intensive care, emergency medicine and pain treatment.

NOTE 2 LIQUIDITY AND GOING CONCERN

Milestone Medical Inc. has incurred significant operating losses since its inception as a development company. Milestone Medical Inc. had negative cash flows from operating activities for the year December 31, 2016 of $282,745. At December 31, 2016 Milestone Medical Inc. had cash of $13,187 and a negative working capital of approximately $6,421,000 as compared to negative working capital of $3,296,000 at December 31, 2015.

As of December 31, 2016, (same as mentioned in previous periodic reports) Milestone Medical Inc. believes that it does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. Milestone Medical Inc. will continue to manage its cash position while taking strategic steps to finalize the FDA clearance process and to expand its business in the medical business sectors. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Milestone Medical Inc. is actively pursuing the generation of positive cash flows from operating activities through an increase in revenue based upon management's assessment of expected contracts for delivery of epidural and intra-articular instruments to both customers in EU countries and for when FDA clearance is ultimately obtained in the United States. Although the Company's instruments have progressed beyond the development stage, additional equity financing will be necessary to fund the further commercialization of the medical instruments. To this end, the Company and Milestone Scientific, Inc. are currently in the process of pursuing additional financings. However, the Company and Milestone Scientific, Inc. can provide no assurance that additional financings will be consummated on acceptable terms, or at all.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

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

Basis of Consolidation

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

Cash

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

Accounts Receivable

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

Inventory

Inventories principally consist of finished goods stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand is reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on the status of the FDA approval process in the U.S. and expected future sales both domestically and in the European Union .

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United

States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advances to Contractors

The advances to contractors represent funding to a subcontractor, for spare parts required for both epidural and intra articular instruments repairs.

Equipment

Equipment (molds for pre-production and commercialized instruments) is recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which is five years. The costs of maintenance and repairs are charged to operations as incurred.

Revenue Recognition

Revenue from product sales are recognized net of discounts and allowances to distributors on the date of shipment for essentially all shipments, since the shipment terms are FOB warehouse. In all cases, the price to the buyer is fixed and the collectability is reasonably assured. Further, Milestone Medical Inc. has no obligation on these sales for any post installation, set-up or maintenance, these being the responsibility of the buyer. Milestone Medical Inc. only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit are returned within the warranty period.

Intangible Asset

In connection with the formation and capitalization of the Company, the business was valued at inception using the discounted cash flow method, which resulted in a valuation of approximately $3 million. The Company allocated the business valuation between the cash that investors agreed to contribute ($1.5 million) and the remaining $1.5 million was allocated to Milestone Scientific, Inc.'s contribution of a royalty-free right to use its patented CompuFlo technology (intangible asset). The Company will begin amortizing the intangible asset contributed when either of the two medical devices has been fully commercialized which includes obtaining final FDA approval. The asset estimated useful life is based on the average remaining life of the underlying patents. Currently the remaining useful life of the patents is approximately 8.5 years. The Company assesses the intangible asset for impairment at each reporting period or sooner if there are indicators that trigger an earlier assessment. The Company's impairment assessment are 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 recent feedback received from professionals as the Company applies for FDA clearance. CE clearance was received in September 2014. All these factors indicate that the technology continues to be feasible and to be used in the two instruments. Accordingly, no impairment has been recorded as of December 31, 2016 and 2015.

Research and Development

Research and development costs are expensed as incurred. A portion of the Company's research and development efforts is sub-contracted to vendors and progress are 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 uncertainty in income taxes 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, 2016, there are no significant income tax uncertainties have been included in the Company's financial statements.

The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the statement of operations. Tax returns since inception are subject to audit by federal and state audit.

Services Provided by Stockholder

Management, financial, engineering, regulatory and accounting services are provided by the staff of Milestone Scientific, Inc. The Company formalized this agreement in writing during the third quarter of 2014. The value related to these services will be charged to the Company on a periodic basis. These charges are included in the financial statements as shared service expense.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. The FASB continues to release guidance clarifying certain aspects of the revenue guidance. We do not believe that this new accounting pronouncement will have a material impact on our financial statements.

In August 2014, the FASB issued a new standard Accounting Standards Update ("ASU") No.2014-15, "Presentation of Financial Statements – Going Concern" (Subtopic 205-40).The new standard is intended to increase the disclosure as it relates to management's assessment of the abilities to continue as a going concern. The standard will be effective for the annual period ending after December 15, 2016. Milestone Medical Inc. adopted as of December 31, 2016.

In November 2015, the FASB issued guidance simplifying the balance sheet classification of deferred taxes. The new guidance requires that all deferred taxes be presented as noncurrent, rather than separated into current and noncurrent amounts. The guidance is effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. In addition, the adoption of guidance can be applied either prospectively or retrospectively to all periods presented.

In February 2016, the FASB issued a new standard ASU No.2016-02, "Leases"(Topic 842). The new standard is intended to increase transparency and comparability among organizations to recognize lease assets and liabilities on the balance sheet and disclose key information about leasing arrangements. It will be effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Milestone Medical Inc. is in the process of determining what impact, if any, the adoption of this ASU will have on its financial position, results of operations and cash flows.
In August 2016, the FASB issued a new standard ASU No.2016-15, "Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Disbursements" (Topic 230). The new standard provides guidance as to the conformity of presentation of certain cash receipts and disbursements. It will be effective for all entities for fiscal years and interim periods, beginning after December 15, 2017. Milestone Medical Inc. is in the process of determining what impact, if any, the adoption of this ASU will have on its presentation within the statement of cash flows.

NOTE 4 - JOINT VENTURE AGREEMENT:

Pursuant to the Joint Venture Agreement, Milestone Scientific, Inc. contributed an exclusive worldwide royalty-free license for the development and commercialization of intra-articular and epidural drug delivery instruments, utilizing its patented CompuFlo technology and a group of individual investors contributed $1.5 million to the Company. At inception, the Company reviewed the transaction to assess the technological feasibility of the product being develop. Based on the following factors, the Company believed the technology was feasible from inception.

- Milestone Scientific Inc. patented its CompuFlo technology,
- The patents were generic for use in the medical and dental markets when granted.
- The capabilities to use this technology existed from CompuFlo technology and as technology evolved, the Company has improved the technology over a number of years.

- The Director of Clinical Affairs of the Company has had significant involvement in developing these patents initially and his conclusions are that technology is feasible for use in medical devices.

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

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

NOTE 5 - RELATED PARTY TRANSACTIONS:

On December 31, 2014, Milestone Scientific Inc. executed a $2 million line of credit agreement to provide bridge financing to the Company through April 15, 2016. Borrowings under the line bear interest at a rate of 3.25%, the prime rate at the inception of the agreement. In September 2015, the company requested and received approval from the Board of Directors of Milestone Scientific Inc. to increase the limit of the line of credit to a maximum of $2.5 million (an increase of $500,000). In January 2016, the credit agreement increased to $3 million. As of December 31, 2016, Milestone Scientific, Inc. has advanced $2,800,000 to Milestone Medical. All other terms in the line of credit agreement remain unchanged. Milestone Scientific Inc. is not legally obligated to provide any other funding to Milestone Medical Inc.

The shared expenses relate to the management, financial, engineering and accounting services provided by the staff of Milestone Scientific Inc. These expenses relate to the costs incurred related to obtaining CE and FDA approval and represent additional contributions from Milestone Scientific. The shared expenses for the year ended at December 31, 2016, and 2015 were approximately $169,000 and $150,000 respectively. The expenses relate to financial and accounting services performed by Milestone Scientific Inc.'s employees at the cost to Milestone Scientific Inc.

As of December 31, 2016, the Company owes $3,857,870 to Milestone Scientific, Inc. for expenses paid on the Company's behalf. As of December 31, 2015, the Company owed $998,453 to Milestone Scientific, Inc. for expenses paid on the Company's behalf.

The company reported on ESPI report 6/2016 published on June 17, 2016 that Milestone Scientific initiated a share exchanged program pursuant to which would exchange one share of Milestone Scientific Inc. common stock for every two outstanding shares of Milestone Medical common stock. As of December 31, 2016, 5,035,042 shares of Milestone Scientific common stock have been issued in exchange for 9,005,000 shares of Milestone Medical common stock. As a result of these exchanges, Milestone Scientific owned 90.91% of Milestone Medical at December 31, 2016.

In February 2017, the parent company continued its exchange program to exchange 1,065,084 shares of Milestone Medical shares from a shareholder. The Company reported on ESPI report 2/2017 published on February 21, 2017 that after the exchange, Milestone Scientific owned 95.75% of the shares in Milestone Medical.

NOTE 6 - PROVISION FOR INCOME TAXES:

The Company has loss carry-forwards which can be used to offset future taxable income. The loss carry-forwards, which will begin to expire through 2036, total approximately $11,400,000 and $8,000,000 at December 31, 2016 and 2015, respectively, for federal and state income taxes. Additionally, the Company has tax credits which can be used to offset future federal tax liabilities. Such tax credits amounted to approximately $262,000 and $215,000 at December 31, 2016 and 2015, respectively. However, management does not believe any of the benefits attributed to the loss carry-forwards or tax credits to be currently realizable and has recorded a full valuation allowance of approximately $4,800,000 and $3,400,000 at December 31, 2016 and 2015, respectively. Accordingly, the financial

statements do not reflect a current and/or deferred asset or benefit.

NOTE 7 - CONCENTRATIONS:

The Company has informal arrangements for the manufacture of its products, the epidural and intra-articular instruments are manufactured by Tricor Systems, Inc. pursuant to specific purchase orders. The Company sub-contracts its research and development to a vendor, which accounted for 15%, and 20% of total expenses incurred for the year ended December 31, 2016, and 2015, respectively. The epidural and intra-articular handpiece with needle are supplied to Milestone Medical by several independent contractors in the United States, which arrange for its manufacture in China.

The termination of the manufacturing relationship with any of the above manufacturers could have a material adverse effect on Milestone Medical's ability to produce and sell its products. Although alternate sources of supply exist and new manufacturing relationships could be established, Milestone Medical would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay. Any curtailment or interruption of the supply, whether or not as a result of termination of such a relationship, would adversely affect Milestone Medical.

NOTE 8 - COMMITMENTS:

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. This agreement was terminated in June 2015, due to a delay in receiving FDA clearance on the epidural instrument.

NOTE 9 - SUBSEQUENT EVENTS

In February 2017, the parent company continued its exchange program to exchange 1,065,084 shares of Milestone Medical shares from a shareholder. The Company reported on ESPI report 2/2017 published on February 21, 2017 that after the exchange, Milestone Scientific owned 95.75% of the shares in Milestone Medical.

6. REPORT ON MILESTONE MEDICAL INC. AND SUBSIDAIRY'S ACTIVITIES IN YEAR 2016

During the fourth quarter, ending December 31, 2016, the Issuer and its Subsidiary continued the process of obtaining regulatory approval for the two medical instruments (Epidural and Intra-Articular Injections Systems) in the United States of America. The regulatory approval process for the USA (FDA) continues to move forward at a pace that is slower than we expected. As of December 31, 2016, the Issuer completed the process of a clinical study at the remaining premier sites in the U.S. Successful completion of the studies was a necessary step in obtaining FDA clearance to market the instrument in the USA. The Issuer received CE clearance for both instruments in September 2014. The company has enrolled over 400 patients in the clinical study in the USA. As of December 31, 2016, 220 patients have completed the enrollment in the pain management study and over 200 patients have completed the labor and delivery enrollment process to date.

The Company currently employs one full time employee, the Senior Vice President of Marketing and Sales, who also holds the same position in Milestone Scientific Inc; however, he provides essentially all of his time to the Issuer. The Issuer has one position currently open, Anesthesiologist Registered Nurse. Additionally, the Issuer is continuing its efforts to identify and meet with potential distributors for both instruments throughout the world. The Issuer's Senior Vice President of Marketing and Sales, and a contracted Business Development Representative for Europe and the Middle East are actively pursuing distribution partners. Because of the above activities performed by the Issuer, the Company during the second quarter 2015 signed a Memorandum of Understanding with Fidia Farmaceutici SpA ("Fidia"), a specialty pharmaceutical company based in Italy, for the co-development and manufacture of a custom intra-articular drug delivery instrument for Fidia's hyaluronic acid formulations. Additionally, during the second quarter of 2015 the Company reported on EBI report no. 25/2015 published on June 10, 2015 that a medical distributor in Italy, Moss S.P.A. agreed to a three-year agreement that included minimum purchases of the epidural instrument and disposals for the Italian market. These activities are continuing into 2017.

In the second quarter of 2015, the Issuer also commenced the first shipments of its CompuFlo™ Epidural Instrument to distributors and key opinion leaders in Europe. Since receiving CE Mark marketing clearance for the Company's epidural instrument, the Issuer has been in negotiations with distributors in a number of countries in Europe and, as previously announced, signed an exclusive agreement with TRIMED Sp. z.o.o. ("Trimed"), one of the largest distributors of diagnostic equipment in Poland (EBI report no. 12/2015, published on March 23, 2015). Trimed has purchased a small number of instruments, initially for internal use and training purposes as it ramps up for a formal launch later in 2016. The agreement with Trimed terminated in the fourth quarter of 2016, due to slow performance in the Polish Market.

For the year ended, December 31, 2016, the Issuer and its Subsidiary have generated a net loss of $3,351,392. This loss was due to research and development costs of $509,797 and to a high level of general and administrative expenses, which amounted to $2,524,450. These expenses were incurred due to FDA clearance process in the United States, the marketing and commercialization of the instruments in Europe, as well as increased controlled expenses for travel and the addition of a Business Development Consultant for Europe and the Middle East. The Issuer suspended its effort to raise capital in Poland on December 2015. The capital market in Poland was not conducive due to financial market turmoil in the fourth quarter of 2015. As such, the Issuer has little cash available to continue its operations. In January 2016, the Issuer borrowed an additional $300,000 from Milestone Scientific Inc. However, Milestone Scientific Inc. is not legally obligated to loan additional funds to the Issuer. As such, the Issuer reduced its cash expenditure in 2016, until additional capital has been raised or revenues increase to cover these costs.

The company reported on EBI report no 13/2016 May 16, 2016 that the Issuer concluded an agreement with Navigator Capital S.A. with its registered office in Warsaw on rendering services of an Authorized Adviser to the Company. The subject of the agreement includes cooperation with the Company in fulfilling its disclosure obligations set out in the Alternative Trading System Rules and advising the Issuer in the scope of Company's presence in Alternative Trading System on the NewConnect Market. The agreement becomes effective on the day of signing.

The company reported on EBI report no 16/2016 resolutions adopted by the Annual General Meeting of Shareholders on May 25, 2016 (among others the resolution about appointment of an entity authorized to audit financial statements for the year 2016 - Baker Tilly Virchov, LLP). In June 2016, the company terminated Baker Tilly Virchov, LLP and appointed Friedman LLP as its new auditors.

The company reported on ESPI report on 6/2016 published on June 17, 2016 that Milestone Scientific initiated a share exchange program pursuant to which would exchange on share of common stock for every two outstanding shares of Milestone Medical common stock. As of December 31, 2016, Milestone Scientific through the exchange program acquired a total 9,005,000 additional shares of Milestone Medical. Milestone Scientific Inc. has also entered

agreements to exchange an additional 1,633,084 shares of Milestone Medical Inc. common shares later in 2017.

The Warsaw Stock Exchange announced, that based on the Management Board resolution no. 452/2007 of July 3, 2007, as amended, following the trading session on June 21, 2016, there will be an extraordinary adjustment and shares of the Issuer (ISIN USU6005B1045) will be excluded from the portfolio of NCIndex. The Issuer no longer meets criteria of the above-mentioned index, because their free float is lower than 10%.

In February 2017, the parent company continued its exchange program to exchange 1,065,084 shares of Milestone Medical shares from a shareholder. The Company reported on ESPI report 2/2017 published on February 21, 2017 that after the exchange, Milestone Scientific owned 95.75% of the shares in Milestone Medical.

The Issuer had a successful showing at Arab Health 2017, which is the largest gathering of healthcare and trade professionals in the MENA region and the 2nd largest healthcare exhibition and congress in the world. Numerous distributors from the MENA and the Asia/Pacific regions expressed the interest in distribution of its epidural and intra-articular injection instruments.

6.1. Description of basic exposures and risks

The Issuer, in 2016, emerged as a Commercial company with revenue. However, there are several risk areas that are identifiable:

1. Instrument commercialization delays; the two instruments have passed this risk feature with the instruments finalized by the third party developer and the instruments submitted for regulatory approval; the (FDA); additionally, the Issuer is moving forward in Europe for distribution partners in several countries for the epidural and intra-articular instruments;

2. The instruments will not receive regulatory approval; the core software included in each instrument has already received approval in the USA (FDA) for a dental instrument. Therefore, management believes that this risk has been significantly mitigated. Additionally, the Company has gained marketing clearance to both instruments (CE) in the European Union during September 2014;

3. The instruments will not attract medical device distributors to sell the instruments; the distributor agreement have been signed in Italy. Therefore, management believes that this risk has been mitigated.

4. The Issuer may not be able to obtain financing or raise capital to continue in existence; The Issuer is exploring several means of additional loans, a capital raise, or other financing alternatives. In the meantime, Milestone Scientific Inc. is supporting the expenses of the Issuer on a limited basis until alternative financing is available.

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

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

The value of the Issuer's total assets for the period covered by the consolidated financial information decreased to approximately $2.4 million in year ended December 31, 2016 from $2.6 million in year ended December 31, 2015. At the end of year 2016, the balance sheet in total was lower by approximately 8% in comparison to year 2015.

During years 2016 and 2015 the assets' structure was similar. In 2016 nearly 63% of total assets were intangible assets, primarily for royalty – free license to use Milestone Scientific's patented CompuFlo Technology. These rights were valued initially at $1.5 million for the remaining 50% ownership interest in the Company (the valuation was made by Tinari Economics Group, an independent valuation company, which certified that the valuation and analysis was completed in accordance with the National Association of Certified Valuators and Analysts Professional Standards). The second major decrease in the asset in 2016 compared to 2015 was a decrease in inventory. The cash balance of $13,187 is a critical issue for the Company moving into 2017. As noted earlier in the report, Milestone Scientific Inc. is supporting the expenses of the Issuer on a limited basis until alternate financing is available.

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

	Year ended December 31, 2016	Year ended December 31, 2015
Current Assets	**852,264**	**1,018,419**
Cash	13,187	1,222
Accounts receiable	0	45,075
Prepaid expenses and other current assets	53,537	42,637
Inventory	741,392	885,961
Advances to contractors	44,148	43,524
Equipment, net depreciation	61,576	119,006
Intangible Assets	1,500,000	1,500,000
TOTAL ASSETS	2,413,840	2,637,425

Source: The Issuer

During 2016, the main source of the Issuer's financing was borrowing from Milestone Scientific Inc. In November 2013, the Issuer 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 Issuer believed it would have sufficient cash flow to continue on its plan for the commercialization of the medical instruments. However, delays and additional costs in obtaining FDA clearance required a second capital raise in November and December 2015. Due to a slow-down in the capital markets in late 2015 and 2016, the Issuer delayed the capital raise until 2016 and finally the anticipated offering was cancelled. The Issuer intends to slow its' cost structure until the next capital raise, or until alternative financing is available.

In years ended December 31, 2016 and 2015, the Issuer had no long-term debt or any other long-term liabilities. The Company had only current liabilities (accounts payable, accrued expenses, line of credit and advances for Milestone Scientific Inc. in the amount of approximately $7.2 million in year ended December 31, 2016 and approximately $4.3 million in the year ended December 31, 2015. The substantial increase in current liabilities is primarily due to the costs related to the delay in finalizing the clinical studies in the USA and the resulting delay in obtaining FDA clearance for the epidural instrument.

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

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

	Year ended December 31, 2016	Year ended December 31, 2015
Current Liabilities	**7,273,278**	**4,314,105**
Accounts payable and accrued expenses	615,408	815,652
Commitments and Contingencies	6,657,870	3,498,453
TOTAL LIABILITIES	7,273,278	4,314,105

Source: The Issuer

The $6,657,870 at December 31, 2016 includes $2.8 million of advances on a line of credit established by Milestone Scientific Inc, and $3,857,870 of other advances prior to the line of credit began established.

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

	Year ended December 31, 2016	Year ended December 31, 2015
1. Common stock, par value $.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at December 31, 2015 and December 31, 2014	2,200	2,200
2. Additional paid in capital	6,861,634	6,693,000
3. Accumulated deficit during the development stage	(11,723,272)	(8,371,880)
TOTAL SHAREHOLDERS' EQUITY	(4,859,438)	(1,676,680)

Source: The Issuer

Liquidity analysis

All liquidity ratios decreased in year ended December 31, 2016 in comparison to year ended December 31, 2015. As of December 31, 2016, the Issuer had a higher level of total current liabilities and a low amount of cash that resulted in a lower liquidity ratio. The reduction in the liquidity ratios in 2016 was primarily caused by a significant increase in total current liabilities (from approximately $4,314,000 in 2015 to approximately $7,238,000 in 2016) due to an increase in research and development costs, general and administrative cost for clinical studies, marketing expenses and shared services expenses. The decrease in the value of all liquidity ratios were significant in 2016 compared to 2015 as described above due to the increase net loss for the Issuer in 2016.

Table 9: Basic liquidity ratios of the Company

	Year ended December 31, 2016	Year ended December 31, 2015
Current ratio (CR)	0.12	0.24
Quick ratio (QR)	0.11	0.23
Cash ratio	0.00	0.00

Source: The Issuer

The algorithm of above ratios' calculation was:

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

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

Cash ratio = Cash and cash equivalents/Total current liabilities

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

In December 2015, the Issuer obtained approval of a Prospectus filed with the regulatory authority in Poland to raise an additional $4.0 million of capital, and to uplist the Issuer to the Warsaw Stock Exchange from the New Connect Market (Alternative Trading System). The Issuer is not expecting to continue its capital raising activities, unless the financial conditions improve in Poland.

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

The Issuer has expensed approximately $510,000 in research and development for the two instruments in 2016. With the CE clearance to market both instruments in the European Union ("EU") beginning September 2014, our investment in both instruments was realized in a limited number of instrument sales in 2016 and 2015. The Issuer plans to expand its marketing efforts including attending medical device trade conference in the CE authorized countries in Europe and the Middle East in 2017.

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

Up to the date of this report completion, the Company does have a special purpose subsidiary, the purpose of which is the application and acceptance of Polish Government Grants for research and development of the current and future improvements to the two instruments. Below the Company presents some basic information about its subsidiary:

Table 10: General information about subsidiary of the Company

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

Source: The Issuer

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

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

The Company continues to work on obtaining FDA approval for both instruments in the United States. This process is moving steadily forward for the epidural instrument. Currently, clinical studies are finalized at five major medical facilities in the USA. The company expects FDA clearance of the Epidural instruments in second quarter of 2017. In late December 2016, The Company received notification from the FDA that based upon the 510(k) application submitted for the Company's Compu-Flo Intra Articular Computer Controlled Injection System, the Company did not adequately document that the device met the equivalency standard required for 510(k) clearance. Following consultation with the FDA Office of Device Evaluation, the Company intends to provide additional data, including a new Human Factor Validation study (HFV Study) in support of a new 510(k) application for the device. An HFV Study demonstrates the ease of use of a product. The cost to generate this incremental data is estimated to be approximately $100,000.

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

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

6.8 Remuneration to Directors and Officers

The Issuer does not pay any remuneration for their service provided. The Officers of the Company were paid through charges amounting to; Chief Executive Officer $137,160, President $99,258, and Chief Financial Officer $61,373 in 2016.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FRIEDMAN LLP®
ACCOUNTANTS AND ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Milestone Medical, Inc. and subsidiary (the "Company") as of December 31, 2016, and the related consolidated statement of operation, consolidated statement of changes in stockholders' deficit, and consolidated cash flow for the year ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit included consideration of 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 the Company as of December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Friedman LLP

East Hanover, New Jersey
March 30, 2017

100 Eagle Rock Avenue, Suite 200, East Hanover, NJ 07936 p 973.929.3500 f 973.929.3501 friedmanllp.com

MILESTONE
MEDICAL

BAKER TILLY

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Milestone Medical, Inc. and Subsidiary (the "Company") as of December 31, 2015, and the related consolidated statements of operations, changes in stockholders' (deficit) equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit included consideration of the Company's 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Milestone Medical, Inc. as of December 31, 2015 and the results of their consolidated operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Baker Tilly Virchow Krause, LLP

New York, New York
April 15, 2016

Accountants' Acknowledgment

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

We hereby agree to the inclusion in this annual report of our report dated April 15, 2016 on our audit of the consolidated financial statements of Milestone Medical, Inc. and Subsidiary.

Baker Tilly Virchow Krause, LLP

New York, New York
March 30, 2017

8. APPLICATION OF CORPORATE GOVERNANCE RULES

According to the paragraph 6.3 of the Exhibit 3 to the Alternative Trading System Rules "Current and Periodical Information in the Alternative Trading System on the NewConnect Market", Board of Directors of Milestone Medical include its statement on compliance with "Best Practices of Companies Listed on the NewConnect" contained in Annex 1 of Resolution No. 795/2008 of the Management Board of the Stock Exchange in Warsaw SA of 31 October 2008 and its subsequent amendments in whole year 2016.

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

No	RULE	YES/NO/NOT APPLICABLE	COMMENTS
1.	The Company should pursue a transparent and effective information policy, using both traditional methods and modern technologies, Ensuring fast, secure and convenient access to information. The Company using the fullest extent of these methods should ensure adequate communication with investors and analysts, line broadcasts of General Meetings over the Internet, record meetings and publish it on a website.	YES	The Issuer shall apply this practice with an exception of broadcast and publication of General Meetings over the Internet, since in the opinion of the Company's use of this practice will not bring benefits compared to the projected costs of such proceedings.
2.	The Company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations.	YES	
3.	The Company should maintain a corporate website and publish:		
	3.1 Basic information about the Company and its business (home page);	YES	
	3.2. Description of the Issuer's business including indication of the Issuer's business segment generating the highest revenue;	YES	In 2015 and currently, the Issuer began to generate revenue. Additionally the Company has only one business segment.
	3.3 Description of the issuer's market including indication of the Issuer's market position;	YES	The Issuer applies this practice with an exception of indication of the Company's market position.
	3.4 Professional CVs of the members of the company's governing bodies;	YES	
	3.5. Information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the Company's General Meeting;	NOT APPLICABLE	The Company has 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 2016, the

			Company didn't place such documents
	3.7. Outline of the Company's strategic plans;	YES	Strategic plans of the Company were placed in Chapter 4.12.11 of Information Document
	3.8. Published financial forecasts for the current financial year including their assumptions and adjustments of such targets (if targets are published by the Issuer);	NO	The Issuer did not publish financial forecasts. When the Company decides to publish financial forecasts, it will apply this practice.
	3.9. The issuer's shareholding structure including indication of the main shareholders and free-float shares;	YES	
	3.10 Personal and contact data for the Company's officer responsible for investor relations and media contacts;	YES	
	3.11. [deleted]	-	
	3.12. Published current and periodic reports;	YES	On Milestone Medical website there is a direct link to website of GPWInfoStrefa.pl, where all reports are published
	3.13. Dates of planned publication of periodic financial reports, General Meetings, meetings with investors and analysts and press conferences;	YES	
	3.14. Information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	NOT APPLICABLE	In future, the Company will disclose if 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	The Company has sometimes delays in immediate actualization of its corporate website but the Issuer is making great efforts to make such actualization on timely basis.

4.	The Company should publish its corporate website in Polish or in English, at the Issuer's discretion. Current and periodic reports should be published on the website in the same language in which they are published according to regulations applicable to the Issuer.	YES	
5.	The Company should pursue an information policy with a particular emphasis on the needs of individual investors. For this purpose, in addition to its corporate website, the Company should use its individual investor relations section on the website www.gpwinfostrefa.pl	YES	
6.	The Issuer should maintain ongoing contacts with representatives of the Authorized Adviser in order to enable it to properly perform its obligations towards the issuer. The Company should appoint a person responsible for contacts with the Authorized Adviser.	YES	
7.	If an event occurs in the Company which, in the opinion of the Issuer, has material significance to the performance of obligations by the Authorized Adviser, the Issuer should immediately inform the Authorized Adviser thereof.	YES	
8.	The Issuer should give the Authorized Adviser access to all documents and information necessary to perform the obligations of an Authorized Adviser. In the annual report the Issuer should publish:	YES	
9.	9.1. information about the total amount of remuneration of all members of the Management Board and the Supervisory Board	YES	The Issuer applies this practice with an exception of Supervisory Board since the Company does not have a Supervisory Board.
	9.2. information about the fee paid by the Issuer to the Authorized Advisor in respect of all services provided to the Issuer.	NO	The remuneration is regulated by an Agreement with Authorized Adviser and is confidential information. The Issuer cannot publish such data without Authorized Adviser permission.
10.	A General Meeting should be attended by members of the Management Board and the Supervisory Board who can answer questions asked at the General Meeting.	YES	The Issuer applies this practice with an exception of Supervisory Board since the Company does not have a Supervisory Board.
11.	The Issuer in cooperation with the Authorized Adviser should organize meetings with investors, analysts and the media open to the public at least 2 times per year.	YES	The Issuer organized at least 2 such meetings in year 2015.
12.	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	NOT APPLICABLE	Yes, if will be applicable
13.	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	NOT APPLICABLE	Yes, if will be applicable

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

Leonard A. Osser,
Chief Executive Officer

Joseph D'Agostino
Chief Financial Officer