OSPREY MEDICAL, INC.

HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2017

PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

This half-year financial report is to be read in conjunction with the financial report for the year ended 31 December 2016.

OSPREY MEDICAL, INC.

APPENDIX 4D (RULE 4.2A.3)

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

REPORTING PERIOD

Report for the half-year ended 30 June 2017
All comparisons to half-year ended 30 June 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	$USD	up/down	% movement
Revenue from ordinary activities	697,285	up	238%
Profit (loss) after tax from ordinary activities attributable to members	($6,694,461)	up	9.6%
Net profit (loss) attributable to members	($6,694,461)	up	9.6%

Dividend information	Amount per security $USD	Franked amount per security $USD	Tax rate for franking credit
Interim dividend	Nil	Nil	N/A
Previous corresponding dividend	Nil	Nil	N/A

Net tangible asset backing	30 June 2017 $USD	30 June 2016 $USD
Net tangible asset per share of common stock	$0.12	$0.08
Net tangible asset per CHESS Depositary Instrument (CDI)	$0.06	$0.04

- **Independent Audit Review:** This report is based on the consolidated 2017 Half-Year Financial Statements which have been reviewed by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Review Report included in the 2017 Consolidated Half-Year Financial Statements.
- **Changes in control over entities:** There were no entities over which control was gained or lost during the period.
- **Details of dividends and dividend reinvestment plans:** No dividends have been declared or proposed.
- **Details of associates or joint ventures:** Not applicable
- **Set of accounting standards use in compiling the report:** The unaudited consolidated financial statement have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).
- **Details of audit disputes or audit qualification:** Not applicable

OSPREY MEDICAL, INC. AND SUBSIDIARY

Minnetonka, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Review Report

As of and for the periods ended June 30, 2017 and 2016

OSPREY MEDICAL, INC. AND SUBSIDIARY

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BAKER TILLY

INDEPENDENT AUDITORS' REVIEW REPORT

Board of Directors, Audit Committee and Shareholders
Osprey Medical, Inc. and Subsidiary
Minnetonka, Minnesota
and
Level 13, 41 Exhibition Street
Melbourne, Victoria 3000, Australia
ARBN: 152 854 923

Report on the Consolidated Financial Statements

We have reviewed the accompanying consolidated balance sheets of Osprey Medical, Inc. and Subsidiary as of June 30, 2017 and 2016, and the related consolidated statements of operations, shareholders' equity and cash flows for the six-month periods ended June 30, 2017 and 2016.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 17, 2017

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
As of June 30, 2017 and 2016

ASSETS

	(Unaudited) 2017	(Unaudited) 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 15,054,433	$ 5,806,794
Accounts receivable	263,616	77,717
Prepaid expenses	132,037	134,102
Inventories	495,496	426,712
Total Current Assets	15,945,582	6,445,325
PROPERTY AND EQUIPMENT		
Office and computer equipment	353,121	314,364
Manufacturing and laboratory equipment	797,346	532,065
Furniture and fixtures	46,103	46,103
Less: Accumulated depreciation	(639,725)	(481,169)
Net Property and Equipment	556,845	411,363
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $124,960 and $112,464, as of June 30, 2017 and 2016, respectively.	102,051	114,547
Security deposits	12,250	12,250
Total Other Assets	114,301	126,797
TOTAL ASSETS	$ 16,616,728	$ 6,983,485

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Unaudited) 2017	(Unaudited) 2016
CURRENT LIABILITIES		
Accounts payable	$ 431,259	$ 447,188
Accrued expenses	695,482	412,874
Accrued vacation	169,463	136,382
Total Current Liabilities	1,296,204	996,444
LONG-TERM LIABILITIES		
Accrued rent	12,991	28,873
Total Liabilities	1,309,195	1,025,317
SHAREHOLDERS' EQUITY		
Common stock, $0.0001 par value; 180,000,000 and 80,000,000 authorized shares; 128,929,627 and 77,083,913 shares issued and outstanding as of June 30, 2017 and 2016, respectively.	12,893	7,708
Additional paid-in capital	86,889,612	65,224,451
Accumulated deficit	(71,594,972)	(59,273,991)
Total Shareholders' Equity	15,307,533	5,958,168
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 16,616,728	$ 6,938,485

See accompanying notes to consolidated financial statements and independent auditors' review report.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
For the six-month periods ended June 30, 2017 and 2016

	(Unaudited) Six-month period ended June 30, 2017	(Unaudited) Six-month period ended June 30, 2016
SALES	$ 697,285	$ 206,615
COST OF SALES	658,417	451,401
Gross Income (Loss)	38,868	(244,786)
OPERATING EXPENSES		
Sales and marketing	3,237,403	1,743,950
General and administration	1,584,180	1,407,996
Clinical and regulatory	428,075	1,035,186
Research and development	1,490,189	1,691,600
Total Operating Expenses	6,739,847	5,878,732
Operating Loss	(6,700,979)	(6,123,518)
OTHER INCOME		
Interest income	8,094	9,254
Other income	-	4,859
Net Other Income	8,094	14,113
Loss Before Income Taxes	(6,692,885)	(6,109,405)
Income taxes	1,576	580
NET LOSS	$ (6,694,461)	$ (6,109,985)
EARNINGS PER SHARE:		
Basic and diluted loss per common share	$ 0.05	$ 0.08
Basic and diluted weighted average shares outstanding	128,921,671	77,083,913

See accompanying notes to consolidated financial statements and independent auditors' review report.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the six-month periods ended June 30, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES, December 31, 2016	128,869,627	$ 12,887	$ 86,524,388	$ (64,900,511)	$ 21,636,764
Exercise of stock options	60,000	6	13,494	-	13,500
Stock-based compensation expense	-	-	351,730	-	351,730
Six-month period ended June 30, 2017 net loss	-	-	-	(6,694,461)	(6,694,461)
BALANCES, June 30, 2017 **(Unaudited)**	128,929,627	$ 12,893	$ 86,889,612	$ (71,594,972)	$ 15,307,533

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES, December 31, 2015	77,083,913	$ 7,708	$ 64,798,199	$ (53,164,006)	$ 11,641,901
Stock-based compensation expense	-	-	426,252	-	426,252
Six-month period ended June 30, 2016 net loss	-	-	-	(6,109,985)	(6,109,985)
BALANCES, June 30, 2016 **(Unaudited)**	77,083,913	$ 7,708	$ 65,224,451	$ (59,273,991)	$ 5,958,168

See accompanying notes to consolidated financial statements and
independent auditors' review report.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six-month periods ended June 30, 2017 and 2016

	(Unaudited) Six-month period ended June 30,2017	**(Unaudited)** Six-month period ended June 30,2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,694,461)	$ (6,109,985)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	86,248	49,688
Amortization	6,248	6,248
Stock-based compensation expense	351,730	426,252
Changes in operating assets and liabilities		
Accounts receivable	(128,670)	(41,577)
Prepaid expenses	(70,228)	(44,139)
Inventory	(234,560)	(126,145)
Other current assets	-	7,500
Accounts payable	15,716	144,366
Accrued expenses	(91,337)	(107,582)
Accrued rent	(8,181)	(7,230)
Accrued vacation	51,233	32,998
Net Cash Flows from Operating Activities	(6,716,262)	(5,769,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(96,244)	(208,167)
Net Cash Flows from Investing Activities	(96,244)	(208,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	13,500	-
Net Cash Flows from Financing Activities	13,500	-
Net Change in Cash and Cash Equivalents	(6,799,006)	(5,977,773)
CASH AND CASH EQUIVALENTS - Beginning of Period	21,853,439	11,784,567
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 15,054,433	$ 5,806,794
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for income taxes	$ 1,576	$ 580

See accompanying notes to consolidated financial statements and independent auditors' review report.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

Osprey Medical, Inc. ("Osprey Medical" or the "Company") is a US based company focused on protecting patients from the harmful effects of X-ray dye (contrast) used during commonly performed angiographic imaging procedures. The Company's core technologies originated from research conducted at Melbourne's Baker IDI Heart and Diabetes Institute. Its proprietary dye reduction and monitoring technologies are designed to help physicians minimize dye usage. The Company's DyeVert™ System is a next-generation product that reduces contrast while maintaining image quality in a self-adjusting easy-to-use design.

Osprey Medical's products are designed to reduce the amount of dye injected into patients during standard cardiovascular and peripheral procedures (angiogram and stenting). Published literature indicates approximately 25% of patients undergoing standard cardiovascular procedures have preexisting Chronic Kidney Disease (CKD) and are at high risk of further kidney damage called Contrast Induced Acute Kidney Injury (CI-AKI). Reducing the amount of dye injected in CKD patients is aligned with cardiology and radiology society guidelines that urge physicians to use dye sparing approaches in patients at risk of CI-AKI. Prevention of CI-AKI may lead to shorter hospital stays, improved patient outcomes, and may ultimately save patients' lives.

Following successful clinical trials, the Company obtained European Regulatory approval (CE Mark), TGA approval, and US FDA clearance for the AVERT™, AVERT Plus and DyeVert System. The Company received FDA clearance for medical claims of dye savings, image quality and reflux reduction for its products.

In 2015, the Company commenced a controlled commercial launch of its products in the state of Texas. Following FDA clearance of Osprey's dye savings, image quality and reflux reduction claims, Osprey started increasing its US sales force to commercialize the DyeVert System. As of June 30, 2017, the Company had sales reps in 18 territories.

Osprey Medical's patent portfolio comprises of 12 issued US patents, 15 issued international patents; 15 pending US patent applications, and PCT filings resulting in 19 National Stage Applications in the European Union (Germany, France and Great Britain), Japan and Australia.

On October 30, 2007, the Company formed a wholly-owned Australian subsidiary with the name Osprey Medical Pty. Ltd. (OM Pty) for the purpose of conducting research on future products. The subsidiary began operations in early 2008.

Principles of Presentation

The consolidated financial statements include the accounts of the Company's wholly-owned Australian subsidiary, OM Pty. All intercompany accounts and transactions have been eliminated in consolidation.

The US dollar is the functional currency of OM Pty, and as a result, all currency gains and losses are reflected in operations. Currency gains and losses include realized amounts on transactions, and unrealized amounts related to translating accounts from local currency to the functional currency, with translation accomplished using the current rate method.

In its consolidated statement of operations, the Company segregates its operating expenses into four categories that provide useful information to both management and Company shareholders.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with maturities of three months or less from their date of purchase. The Company maintains cash balances that exceed federally insured limits; however, it has not incurred losses on such amounts.

Accounts Receivable

The Company grants credit to customers in the normal course of business and generally does not require collateral or any other security to support amounts due. Customer accounts with balances outstanding longer than the contractual terms are considered past due. The Company records accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on periodic reviews of all outstanding amounts. The Company determines the need for an allowance for doubtful accounts by considering a number of factors, including length of time accounts receivables are past due, customer financial condition and ability to pay the obligation, historical and expected credit loss experience, and the condition of the general economy and the industry as a whole. It is the Company's policy to write off accounts receivable when deemed uncollectible. There was no allowance for doubtful accounts as of June 30, 2017 and 2016.

Inventories

Inventories are valued at the lower of cost (using the first-in, first-out (FIFO) method) or market and consisted of the following as of June 30:

	2017	2016
Raw materials	$ 465,550	$ 400,651
Finished goods	29,946	26,061
Totals	$ 495,496	$ 426,712

The Company has invested in its manufacturing operations to support future sales. The Company is not currently operating at full capacity. Charges related to excess capacity are included as current period charges to cost of sales, and are not capitalized into inventory.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Property and Equipment

Property and equipment are recorded at cost, and depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets as follows:

	Years
Office and computer equipment	3
Manufacturing and laboratory equipment	5
Furniture and fixtures	7

Maintenance and repairs are charged to expense as incurred. Depreciation expense on property and equipment was $86,248 and $49,688 for the six-month periods ended June 30, 2017 and 2016, respectively.

Intangible Assets

Intellectual property acquired for consideration is recorded either as research and development expense or as intangible assets, as appropriate to the use of the property. Intellectual property that has multiple future uses is capitalized when acquired, and single use property is expensed as research and development. The Company's recorded intangible assets are comprised entirely of patent applications acquired from V-Kardia Pty. (VK Pty) for which there were multiple future uses. At acquisition of these assets there was a difference between the value of the asset acquired and its tax basis, and the Company increased the assigned value of the asset acquired by the amount of the related deferred tax liability. The Company amortizes intangible assets on a straight-line basis over their expected economic lives, which is equivalent to the time from acquisition through expiration of the patents expected to be issued from the acquired patent applications. The intangible assets acquired in June, 2007 are expected to have a life of approximately 18 years from the date of acquisition. Intangible assets are reviewed for impairment whenever events or changes in business circumstances indicate carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from related assets are less than their carrying values.

Revenue Recognition

The Company recognizes revenue when the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Shipping and handling costs charged to customers have been included in net sales. Shipping and handling costs incurred by the Company have been included in cost of sales. The Company presents taxes imposed on revenue-producing transactions on a net basis.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Lease Expense

The Company recognizes rental expense for an operating lease on a straight-line basis over the term of the lease.

Research and Development Costs

Research and development costs are charged to expense as incurred. The Company has acquired licenses to intellectual property that do not have multiple uses, and records such acquisition costs as research and development as incurred. Consideration for such intellectual property includes current and future payments of cash, issuance of common stock and warrants to acquire common stock.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of the assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce net deferred tax assets when it believes it is more likely than not that all or part of its deferred tax assets will not be realized.

Stock-Based Compensation

The Company accounts for stock-based payment transactions when it receives employee or supplier goods and services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments using a fair-value-based method. The Company uses the Black-Scholes-Merton (BSM) option pricing model to determine the fair value of stock-based awards. The fair value of stock-based payment is recognized over the requisite service period.

Issuance of Stock

The Company issues new shares of stock upon the exercise of stock options, warrants and converted instruments.

Going Concern

The financial statements are prepared on a going concern basis. Management evaluates the ability for the entity to continue as a going concern for at least twelve months from the date the financial statements are issued. In the event management concludes that there is substantial doubt regarding the Company's ability to continue as a going concern, the assumption is emphasized in the financial statement disclosures, including management's plan to mitigate the conditions that cause substantial doubt. If substantial doubt regarding the Company's ability to continue as a going concern is alleviated, the Company provides disclosures regarding the conditions or events that raised substantial doubt, management's evaluation of the significance of those conditions or events and management's plans that alleviated the substantial doubt.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. We will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, with no early adoption permitted, using either of two methods: *(a)* retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or *(b)* retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. We have not yet selected a transition method and are currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

During February 2016, the FASB issued ASU No. 2016-02, "Leases." ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. We are currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled, allows an employer to repurchase more of an employee's shares than previously allowed for tax withholding purposes without triggering liability accounting, allows a company to make a policy election to account for forfeitures as they occur, and eliminates the requirement that excess tax benefits be realized before companies can recognize them. The new guidance also requires excess tax benefits and tax shortfalls to be presented on the cash flow statement as an operating activity rather than as a financing activity, and clarifies that cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation are to be presented as a financing activity. The Company adopted the provision ASU 2016-09 effective January 1, 2017. The ASU does not have a material effect on its operations, financial position and cash flows.

Subsequent Events

For the six-month period ended June 30, 2017, the Company has evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the consolidated financial statements for the six-month period ended June 30, 2017 through August 17, 2017. In August 2017, the Company received commitments for 40,625,000 shares of Common Stock to be completed in August and September 2017.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

In August 2017, the Company completed a private offering on the Australian Securities Exchange of 27,732,038, shares of common stock at a price of $0.31 per share.

In addition, in September 2017, the Company expects to close an additional issuance of 12,892,962 shares of common stock at a price of $0.31 per share. As a result of the total financing, the Company expects to raise approximately $25,350,000 in gross proceeds, before issuance costs of approximately $1,900,000.

In August 2017, the Company authorized an additional 400,000,000 shares of common stock.

NOTE 2 – Liquidity

The Company has an accumulated deficit and has not generated significant revenues since inception. The Company expects that its expenses will exceed its revenues at least up to, and likely beyond, the point at which the Company is able to generate significant revenues from its approved products. The Company expects to have enough working capital to operate for at least the next twelve months beyond August 17, 2017.

NOTE 3 - Fair Value Measurements

Generally, fair value is determined on the exchange price which would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company discloses each major asset and liability category measured at fair value on either a recurring or nonrecurring basis and establishes a three tier fair value hierarchy which prioritizes the inputs used in fair value measurements. The three tier hierarchy for inputs used in measuring fair value is as follows:

> Level 1 Observable inputs such as quoted prices in active markets
> Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly
> Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

This table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Total	Level 1	Level 2	Level 3
As of June 30, 2017:				
Cash and cash equivalents - money market securities	$ 3,572,065	$ 3,572,065	$ -	$ -
As of June 30, 2016:				
Cash and cash equivalents - money market securities	$ 4,560,372	$ 4,560,372	$ -	$ -

NOTE 4 - Leases

In March 2013, the Company signed a new lease for an office space in Minnetonka, Minnesota. In March 2014, the Company signed an amendment to the lease for additional square footage. The lease term, as amended expires in March 2018, and contains no extensions or renewal options. The monthly payments are $11,379 for the lease.

Rent expense was $45,902 and $45,567 for the six month periods ended June 30, 2017 and 2016, respectively. Rent is recorded on a straight-line recognition basis and the difference between the rental payments and recorded expense is recorded as an accrued long-term liability.

Under the terms of the lease, the Company paid monthly base rent and was additionally responsible for its pro rata share of estimated operating expenses, which include utilities, taxes, maintenance, repair, and insurance costs. The minimum remaining lease commitments under the terms of the noncancelable lease for the twelve month periods ending June 30:

	Building
2018	$ 106,780
Total	$ 106,780

NOTE 5 - Employee Benefits

The Company provides a 401k plan as a benefit to its employees. The Company does not provide any matching payments under the plan.

NOTE 6 - Intangible Assets

The Company received a license at inception from its then parent company, VK Pty, to certain intellectual property. That license became inoperative when VK Pty assigned its intellectual property to the Company on June 21, 2007, in advance of preferred stock financing from CM Capital Investments (CMCI) and Brandon Capital Partners (BCP). The assignment was done in exchange for issuing 348,098 shares of the Company's common stock to VK Pty, valued at $.50 per share. As a result of these transactions, during 2007, the Company expensed as research and development the full $14,600 of the original intangible asset value and an additional $4,443 of value related to the deferred tax liability assigned to the initial license. The Company capitalized $174,049 of purchased value and an additional $52,962 related to the corresponding deferred tax liability as an intangible asset, reflecting the value of the acquired intellectual property.

The intellectual property is expected to have a useful life equal to the life of the underlying patent applications. Such life will extend, on average, 18 years from 2007 to 2025. Amortization is recorded on a straight-line basis beginning at acquisition date, resulting in amortization expense of $6,248 for both the sixth-month periods ended June 30, 2017 and 2016. Amortization expense will approximate $12,496 in each of the next five twelve-month periods.

NOTE 7 - Income Taxes

Osprey Medical is a C corporation under the U.S. Internal Revenue Code.

As of June 30, 2017, the Company has recorded a valuation allowance to offset its net deferred tax assets due to uncertainty surrounding realization of the net deferred tax assets.

The Company has accumulated net operating losses to be carried forward to future years in the amount of $66,669,238 applicable to income subject to federal income tax and $31,519,331 applicable to income subject to state (Minnesota) income tax as of June 30, 2017. Utilization of these net operating losses to offset future taxable income may be limited.

Income tax expense (benefit) consists of the following:

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Current:		
Federal	$ -	$ -
State	1,576	580
Foreign	-	-
	1,576	580
Deferred:		
Federal	(2,210,114)	(2,057,973)
State	(128,565)	(62,027)
Foreign	-	-
	(2,338,679)	(2,120,000)
Deferred tax asset valuation allowance	2,338,679	2,120,000
Total provision (benefit)	$ 1,576	$ 580

Income tax expense differs from the amount computed at the statutory federal income tax rate of 34% due principally to nondeductible expenses, different rates for foreign jurisdictions and the recognition of a valuation allowance against the net deferred tax asset.

NOTE 7 - Income Taxes (cont.)

Significant components of deferred tax assets and liabilities as of June 30 are as follows:

	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 24,539,000	$ 20,619,000
Research & development credit	1,182,000	992,000
Organization costs	2,000	3,000
Accrued vacation	58,000	46,000
Deferred rent	4,000	10,000
Stock-based compensation expense	140,000	134,000
	25,925,000	21,804,000
Deferred tax liability:		
Intangible assets	(62,000)	(39,000)
	(62,000)	(39,000)
Net deferred tax asset	25,863,000	21,765,000
Valuation allowance	(25,863,000)	(21,765,000)
	$ -	$ -

The valuation allowance for deferred tax assets increased by $2,339,000 and $2,120,000 for the sixth-month periods ended June 30, 2017 and 2016, respectively.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The adoption of the standard did not have a material effect on the Company.

The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense on the Company's statement of operations.

NOTE 8 - Warrants to Purchase Common Stock

The Company had licensed technology from TriCardia in connection with its MVO™ product. That license was executed on December 26, 2006, in exchange for warrants to purchase 160,000 shares of Company common stock at $0.10 per share. The TriCardia warrants were not exercised and expired on December 26, 2016.

NOTE 9 - Common Stock

During the six-month period ended June 30, 2017 options exercised resulted in the Company issuing 60,000 shares of common stock for proceeds of $13,500 and during 2016, there were no options exercised. The intrinsic value of the options exercised as of June 30, 2017 was $23,100.

In August 2016, the Company authorized an additional 100,000,000 shares of common stock resulting in a total amount authorized of 180,000,000. In addition, the Company decreased the number of authorized shares of preferred stock by 12,500,000 to 80,000,000.

In August and September 2016, the Company completed a private offering on the Australian Securities Exchange of 50,000,000 shares of common stock at a price to the public of $0.42 per share. In addition, in September 2016, a Security Purchase Plan (SPP) was offered to qualified shareholders of record of 1,785,714 shares of common stock at a price to the public of $0.42 per share. As a result of the total financing, the Company raised approximately $22,000,000 in gross proceeds, before issuance costs of approximately $900,000.

NOTE 10 – Weighted Average Shares Calculation

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock warrants and options, if dilutive. Diluted loss per share does not include any of these dilutive effects in its calculation. The number of additional dilutive shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from the exercise were used to acquire shares of common stock at the average market price during the reporting period.

Shares used in the loss per share computations for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Weighted average common shares outstanding – basic	128,921,671	77,083,913
Dilutive effect of stock option and warrants	-	-
Weighted average common shares outstanding – diluted	128,921,671	77,083,913

As of June 30, 2017 and 2016, stock options shares of 11,885,105 and 8,366,724, respectively, were not included as their effect is anti-dilutive due to the loss for the periods.

NOTE 11 - Stock-Based Compensation

The Company had a stock incentive plan (the 2006 Plan) that provided for the issuance of incentive and non-qualified stock options to employees and directors, for the purpose of encouraging key officers, directors, employees, and consultants of the Company to remain with the Company and devote their best efforts to the business of the Company. The 2006 Plan expired in 2016, and 8,279,935 shares then outstanding remain available for exercise as of June 30, 2017. On August 29, 2016, the Company's stockholders approved a new stock option plan (the 2016 Plan) with the same directive as the old plan. Under the 2016 Plan, incentive stock options must be granted at exercise prices not less than 100% of the fair value of the Company's stock as of the grant date. If incentive options are granted to persons owning more than 10% of the voting stock of the Company, the Plan provides that the exercise price shall not be less than 110% of the fair value of the Company's stock as of the grant date. These options have exercise and vesting terms established by the Option Committee of the Company's Board of Directors at the time of each grant, but in no event are the options exercisable after ten years from the date of grant. The options granted are subject to time based vesting ranging from immediate vesting to vesting 48 months after the date of grant. The Company has reserved 4,160,000 shares of common stock for issuance under the 2016 Plan, as of June 30, 2017. As of June 30, 2017, options issued under the 2016 plan were 3,672,000.

The following table presents the weighted average assumptions used to estimate the fair values of the stock options granted to employees and non-employees in the periods presented, using the BSM option pricing formula: The risk free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company calculates expected volatility for stock options and awards using the Company's historical volatility.

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Risk-free interest rate	1.77 %	1.38 %
Expected volatility	71.80 %	75.69 %
Expected life (in years)	4.00	3.5
Dividend yield	0.00%	0.00%
Weighted-average estimated fair value of options granted during the period	$ 0.33	$ 0.22

NOTE 11 - Stock-Based Compensation (cont.)

The following table summarizes the activity for outstanding employee and non-employee stock options:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2016	10,297,435	0.71	6.3	
Granted	1,745,000	0.61		
Exercised	(60,000)	0.23		
Expired/Cancelled	(97,330)	0.78		
Balance as of June 30, 2017	11,885,105	$ 0.72	5.9	$ 742,040
Exercisable as of June 30, 2017	8,259,287	$ 0.72	4.8	$ 610,352

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2015	8,351,724	0.78	6.5	
Granted	15,000	0.39		
Exercised	-	-		
Expired/Cancelled	-	-		
Balance as of June 30, 2016	8,366,724	$ 0.78	6.0	$ 119,355
Exercisable as of June 30, 2016	6,905,217	$ 0.73	5.6	$ 118,793

The aggregate intrinsic value is calculated as approximately the difference between the weighted average exercise price of the underlying awards and the Company's estimated current fair value as of June 30, 2017.

The Company recognized stock-based compensation expense related to stock options of $351,730 and $426,252 for the sixth-month periods ended June 30, 2017 and 2016, respectively. As of June 30, 2017, $1,158,704 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average life of 2.29 years. To the extent the forfeiture rate is different than anticipated, stock-based compensation related to these awards will be different from the Company's expectations.