



OSPREY MEDICAL, INC.

**HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

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 2015.

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OSPREY MEDICAL, INC.

APPENDIX 4D (RULE 4.2A.3)

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016

REPORTING PERIOD

Report for the half-year ended 30 June 2016

All comparisons to half-year ended 30 June 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$USD	up/down	% movement
Revenue from ordinary activities	206,615	up	323%
Profit (loss) after tax from ordinary activities attributable to members	(\$6,109,985)	down	3.2%
Net profit (loss) attributable to members	(\$6,109,985)	down	3.2%

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 2016 \$USD	30 June 2015 \$USD
Net tangible asset per share of common stock	\$0.08	\$0.22
Net tangible asset per CHES Depository Instrument (CDI)	\$0.04	\$0.11

- **Independent Audit Review:** This report is based on the consolidated 2016 Half-Year Financial Statements which have been reviewed by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Review Report included in the 2016 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

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OSPREY MEDICAL, INC. AND SUBSIDIARY

Minnetonka, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Accountants' Review Report

As of and for the periods ended June 30, 2016 and 2015

OSPREY MEDICAL, INC. AND SUBSIDIARY

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors, Audit Committee and Shareholders
Osprey Medical, Inc. and Subsidiary
Minnetonka, Minnesota
and
Professional Chambers
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, 2016 and 2015, and the related statements of operations, shareholders' equity and cash flows for the six-month periods ended June 30, 2016 and 2015.

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 the applicable financial reporting framework.

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 26, 2016

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OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS As of June 30, 2016 and 2015

ASSETS	(Unaudited) 2016	(Unaudited) 2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,806,794	\$ 16,575,233
Restricted cash	-	59,383
Held-to-maturity investments	-	500,781
Accounts receivable	77,717	38,097
Prepaid expenses	134,102	171,691
Inventory	426,712	332,766
Other current assets	-	1,422
Total Current Assets	6,445,325	17,679,373
PROPERTY AND EQUIPMENT		
Office and computer equipment	314,364	302,055
Manufacturing and laboratory equipment	532,065	240,398
Furniture and fixtures	46,103	46,103
Less: Accumulated depreciation	(481,169)	(372,138)
Net Property and Equipment	411,363	216,418
OTHER ASSETS		
Intangible assets, net of accumulated amortization of \$112,464 and \$99,968, as of June 30, 2016 and 2015, respectively.	114,547	127,043
Security deposits	12,250	12,250
Total Other Assets	126,797	139,293
TOTAL ASSETS	\$ 6,983,485	\$ 18,035,084
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 447,188	\$ 268,215
Accrued expenses	412,874	458,499
Accrued vacation	136,382	129,694
Total Current Liabilities	996,444	856,408
LONG-TERM LIABILITIES		
Accrued rent	28,873	42,864
Total Liabilities	1,025,317	899,272
SHAREHOLDERS' EQUITY		
Common stock, \$0.0001 par value; 80,000,000 authorized shares; 77,083,913 and 77,062,599 shares issued and outstanding as of June 30, 2016 and 2015, respectively.	7,708	7,706
Additional paid-in capital	65,224,451	64,442,626
Accumulated deficit	(59,273,991)	(47,314,520)
Total Shareholders' Equity	5,958,168	17,135,812
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,938,485	\$ 18,035,084

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

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OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS For the six-month periods ended June 30, 2016 and 2015

	(Unaudited) Six-month period ended June 30, 2016	(Unaudited) Six-month period ended June 30, 2015
SALES	\$ 206,615	\$ 48,905
COST OF SALES	<u>451,401</u>	<u>142,586</u>
Gross Loss	<u>(244,786)</u>	<u>(93,681)</u>
OPERATING EXPENSES		
Sales and marketing	1,743,950	712,270
General and administration	1,407,996	1,709,043
Clinical and regulatory	1,035,186	2,444,500
Research and development	<u>1,691,600</u>	<u>1,311,645</u>
Total Operating Expenses	<u>5,878,732</u>	<u>6,177,458</u>
Operating Loss	<u>(6,123,518)</u>	<u>(6,271,139)</u>
OTHER INCOME (EXPENSE)		
Interest income	9,254	6,291
Other income (expense)	<u>4,859</u>	<u>(48,144)</u>
Net Other Income (expense)	<u>14,113</u>	<u>(41,853)</u>
Loss Before Income Taxes	(6,109,405)	(6,312,992)
Income taxes	<u>580</u>	<u>580</u>
NET LOSS	<u>\$ (6,109,985)</u>	<u>\$ (6,313,572)</u>

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

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OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY For the six-month periods ended June 30, 2016 and 2015

	Common StockShares	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)	<u>77,083,913</u>	<u>\$ 7,708</u>	<u>\$ 65,224,451</u>	<u>\$ (59,273,991)</u>	<u>\$ 5,958,168</u>
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES, December 31, 2014	61,608,412	\$ 6,161	\$ 52,102,859	\$ (41,000,948)	\$ 11,108,072
Issuance of common stock at \$0.82 per share	15,400,000	1,540	11,894,024	-	11,895,564
Exercise of stock options	54,187	5	13,541	-	13,546
Stock-based compensation expense	-	-	432,202	-	432,202
Six-month period ended June 30, 2015 net loss	-	-	-	(6,313,572)	(6,313,572)
BALANCES, June 30, 2015 (Unaudited)	<u>77,062,599</u>	<u>\$ 7,706</u>	<u>\$ 64,442,626</u>	<u>\$ (47,314,520)</u>	<u>\$ 17,135,812</u>

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

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS For the six-month periods ended June 30, 2016 and 2015

	(Unaudited) Six-month period ended June 30, 2016	(Unaudited) Six-month period ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (6,109,985)	\$ (6,313,572)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	49,688	60,691
Amortization	6,248	6,248
Stock-based compensation expense	426,252	432,202
Amortization of discount on held-to-maturity investments	-	30,479
Changes in operating assets and liabilities		
Accounts receivable	(41,577)	(33,166)
Prepaid expenses	(44,139)	(122,515)
Inventory	(126,145)	(100,312)
Other current assets	7,500	71,149
Accounts payable	144,366	23,364
Accrued expenses	(107,582)	(99,873)
Accrued rent	(7,230)	(6,193)
Accrued vacation	32,998	13,975
Deferred grant	-	(258,861)
Net Cash Flows from Operating Activities	<u>(5,769,606)</u>	<u>(6,296,384)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	-	7,200,748
Proceeds from held-to-maturity investments	-	(550,748)
Purchases of property and equipment	(208,167)	(23,981)
Change in restricted cash	-	193,680
Net Cash Flows from Investing Activities	<u>(208,167)</u>	<u>6,819,699</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock, net of issuance costs	-	11,895,564
Proceeds from exercise of stock options	-	13,546
Net Cash Flows from Financing Activities	<u>-</u>	<u>11,909,110</u>
Net Change in Cash and Cash Equivalents	(5,977,773)	12,432,425
CASH AND CASH EQUIVALENTS - Beginning of Period	<u>11,784,567</u>	<u>4,142,808</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 5,806,794</u>	<u>\$ 16,575,233</u>

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

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OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

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). 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. In 2015, the Company completed a 587 patient randomized, controlled clinical trial at 36 hospitals in the US, Australia and New Zealand. Based on the data from this trial the Company received FDA clearance for expanded marketing 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. The controlled launch led to adoption of our products by key opinion leading physicians at leading hospitals. 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, 2016 Osprey had sales reps in 9 territories. Osprey will hire new reps primarily in the US southern states where there is a high incidence of chronic kidney disease

Osprey Medical's patent portfolio comprises of 10 issued US patents, 14 issued international patents; 15 pending US patent applications, and PCT filings resulting in 11 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 five categories that provide useful information to both management and Company shareholders.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

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.

Restricted Cash

Restricted cash consists of deposits on hand for use under a grant program.

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, 2016 and 2015.

Investments

Short-term investments in debt securities which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income, using the interest method, over the period to maturity. At each reporting date, the Company performs evaluations of impaired debt securities to determine if the unrealized losses are other-than-temporary. Unrealized losses on held-to-maturity securities reflecting a decline in value determined to be other than temporary are charged to income.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

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

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:

	<u>2016</u>	<u>2015</u>
Raw materials	\$ 400,651	\$ 323,596
Finished goods	26,061	9,170
Totals	<u>\$ 426,712</u>	<u>\$ 332,766</u>

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:

	<u>Years</u>
Computer equipment	3
Manufacturing and lab equipment	5
Furniture and fixtures	7

Maintenance and repairs are charged to expense as incurred. Depreciation expense on property and equipment was \$49,688 and \$60,691 for the six-month periods ended June 30, 2016 and 2015, 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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

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

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.

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.

Certain activities of OM Pty are eligible for local research grants. The Company has applied for and received portions of amounts related to such grants. All amounts recognized are offset against research and development expenses for reporting purposes. Total amounts offsetting research and development expenses were \$0 and \$28,988 for the sixth-month periods ended June 30, 2016 and 2015, respectively.

The Company accrues proceeds received under such grants when not earned and offsets research and development expenses over the timelines associated with completion of the contracts' specific objectives and milestones. The Company had deferred grant proceeds of \$28,988 as of June 30, 2015.

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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2016 and 2015

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

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.

Fair Value

The carrying value of cash and cash equivalents, accounts receivable, held-to-maturity investments, prepaid expenses, accounts payable and accrued expenses approximate fair value because of the short term maturity of those instruments.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Company may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently assessing the effect that ASU No. 2014-09 will have on its results of operations, financial position and cash flows.

In 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, 2019, and interim periods within fiscal years beginning after December 15, 2020, 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. The Company is 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 FASB issued ASU No. 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting", which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is evaluating the impact the adoption of this ASU will have on our financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six-month periods ended June 30, 2016 and 2015

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

Subsequent Events

For the six-month period ended June 30, 2016, the Company has evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements for the six-month period ended June 30, 2016 through August 26, 2016. On August 4, 2016, the Company announced that it had received commitments from sophisticated and institutional investors to subscribe for 50,000,000 shares of Common Stock and that the Placement was to be completed in two Tranches.

On August 11, 2016 Osprey completed Tranche 1 of the Placement consisting of 19,270,000 shares of Common Stock raising approximately \$8,280,000 in gross proceeds, before issuance costs. Tranche 2 of the Placement will consist of approximately 30,730,000 shares of Common Stock, subject to stockholder approval at a special meeting of stockholders to be convened by the Company on or about August 30, 2016. Gross proceeds for Tranche 2 will be approximately \$13,140,000, before issuance costs.

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 26, 2016.

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:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of June 30, 2016:				
Cash and cash equivalents - money market securities	\$ 4,560,372	\$ 4,560,372	\$ -	-
As of June 30, 2015:				
Cash and cash equivalents - money market securities	\$ 7,547,381	\$ 7,547,381	\$ -	-

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 4 - Investments

The following is a summary of held-to-maturity investments:

	Amortized cost (net carrying amount)	Gross unrealized gains	Gross unrealized losses	Fair value
As of June 30, 2015:				
US corporate securities	\$ 500,781	\$ 2,123	\$ -	\$ 502,904

For debt securities, management determines whether it intends to sell or if it is more likely than not that it will be required to sell impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. For all impaired debt securities for which there was no intent or expected requirements to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered. The Company conducts a regular assessment of its debt securities with unrealized losses to determine whether securities have other-than-temporary impairment considering, among other factors, the nature of the securities, credit rating or financial condition of the issue, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and whether the Company intends to sell or it is more likely than not the Company will be required to sell the debt securities. The Company did not identify any impairment in its debt securities for the period ended June 30, 2015.

The Company does not consider unrealized losses on its other debt securities to be credit-related. The losses relate to changes in interest rates and market spreads subsequent to purchase. The Company does not believe that any unrealized losses are material to the overall investment balance. The Company has not made a decision to sell securities with unrealized losses and believes it is more likely than not it would not be required to sell such securities before recovery of its amortized cost.

NOTE 5 - Leases

In March 2013, the Company signed a 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 range from \$11,379 to \$11,897 for the lease.

Rent expense was \$45,567 and \$58,098 for the years ended June 30, 2016 and 2015, respectively. Rent is recorded on a straight-line recognition basis and the difference is recorded as an accrued long term liability.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 5 - Leases (cont.)

Under the terms of the leases, 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 leases for the twelve month periods ending June 30:

	<u>Building</u>
2017	\$ 140,777
2018	107,075
Total	<u>\$ 247,852</u>

NOTE 6 - 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 7 - 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, 2016 and 2015. Amortization expense will approximate \$12,496 in each of the next five twelve-month periods.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 8 - Income Taxes

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

As of June 30, 2016, 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 \$55,160,223 applicable to income subject to federal income tax and \$30,153,975 applicable to income subject to state (Minnesota) income tax as of June 30, 2016. 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, 2016	Six-month period ended June 30, 2015
Current:		
Federal	\$ -	\$ -
State	580	580
Foreign	-	-
	<u>580</u>	<u>580</u>
Deferred:		
Federal	(2,057,973)	(1,604,638)
State	(62,027)	-
Foreign	-	-
	<u>(2,120,000)</u>	<u>(1,604,638)</u>
Deferred tax asset valuation allowance	<u>2,120,000</u>	<u>1,604,638</u>
Total provision (benefit)	<u>\$ 580</u>	<u>\$ 580</u>

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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 8 - Income Taxes (cont.)

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

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 20,619,000	\$ 16,162,000
Research & development credit	992,000	788,000
Organization costs	3,000	4,000
Accrued vacation	46,000	53,100
Deferred rent	10,000	19,400
Other	-	29,000
Stock-based compensation expense	134,000	111,200
	<u>21,804,000</u>	<u>17,166,700</u>
Deferred tax liability:		
Intangible assets	<u>(39,000)</u>	<u>(56,300)</u>
	<u>(39,000)</u>	<u>(56,300)</u>
Net deferred tax asset	21,765,000	17,110,400
Valuation allowance	<u>(21,765,000)</u>	<u>(17,110,400)</u>
	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for deferred tax assets increased by \$2,120,000 and \$1,604,638 for the sixth-month periods ended June 30, 2016 and 2015.

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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 9 - Warrants to Purchase Common Stock

The Company has 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 expire on December 26, 2016, and vest on the achievement of specific business and development milestones. The fair value of the warrants were estimated using the BSM option pricing model and determined to be \$.05 per share of common stock. On June 21, 2007, 8,000 of the warrants vested as the result of achieving the first milestone and the Company expensed \$400 as research and development expense. On December 31, 2008, an additional 8,000 warrants vested as a result of the achievement of another milestone in the technology license, resulting in an additional \$400 research and development expense. As of June 30, 2016, 144,000 warrants remain unvested, and any future vesting will result in additional research and development expenses.

NOTE 10 - Common Stock

During the six-month period ended June 30, 2016, there were no options exercised. During the six-month period ended June 30, 2015, options exercised resulted in the Company issuing 54,187 shares of common stock for proceeds of \$13,546.

On March 27, 2015, the Company completed a private offering on the Australian Securities Exchange of 15,400,000 shares of common stock at a price of \$0.82 per share. As a result of the financing, the Company raised approximately \$12,600,000 in gross proceeds, before issuance costs of approximately \$700,000.

NOTE 11 - Stock-Based Compensation

The Company has a stock incentive plan (the Plan) that provides 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. Under the 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 more than ten years after the date of grant. The options granted are subject to time based vesting ranging from immediate vesting to vesting of 48 months after the date of grant. The expense to be recognized will not be finalized until the awards vest. The Company has reserved 9,320,000 shares of common stock for issuance under the Plan as of June 30, 2016.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 11 - Stock-Based Compensation (cont.)

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, 2016	Six-month period ended June 30, 2015
Risk-free interest rate	1.38 %	1.59%
Expected volatility	75.69 %	59.00%
Expected life (in years)	3.5	3.5
Dividend yield	0.00%	0.00%
Weighted-average estimated fair value of options granted during the period	\$ 0.22	\$ 0.42

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, 2015	8,351,724	0.78	6.5	
Granted	15,000	0.39		
Exercised	-	-		
Expired	-	-		
Balance as of June 30, 2016	<u>8,366,724</u>	<u>\$ 0.78</u>	<u>6.0</u>	<u>\$ 119,355</u>
Exercisable as of June 30, 2016	<u>6,905,217</u>	<u>\$ 0.73</u>	<u>5.6</u>	<u>\$ 118,793</u>

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance as of December 31, 2014	7,533,911	0.75	7.0	
Granted	1,222,000	0.97		
Exercised	(54,187)	0.25		
Expired	(299,583)	1.08		
Balance as of June 30, 2015	<u>8,402,141</u>	<u>\$ 0.78</u>	<u>7.0</u>	<u>\$ 1,646,009</u>
Exercisable as of June 30, 2015	<u>6,278,814</u>	<u>\$ 0.70</u>	<u>6.4</u>	<u>\$ 1,570,248</u>

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, 2016.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2016 and 2015

NOTE 11 - Stock-Based Compensation (cont.)

The Company recognized stock-based compensation expense related to stock options of \$426,252 and \$432,202 for the sixth-month periods ended June 30, 2016 and 2015, respectively. As of June 30, 2016, \$1,224,133 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average life of .94 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.

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