



OSPREY MEDICAL, INC.

**HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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 2017.

OSPREY MEDICAL, INC.

APPENDIX 4D (RULE 4.2A.3)

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

REPORTING PERIOD

Report for the half-year ended 30 June 2018

All comparisons to half-year ended 30 June 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$USD	up/down	% movement
Revenue from ordinary activities	1,180,310	up	69.3%
Profit (loss) after tax from ordinary activities attributable to members	(\$8,761,104)	up	30.9%
Net profit (loss) attributable to members	(\$8,761,104)	up	30.9%

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 2018 \$USD	30 June 2017 \$USD
Net tangible asset per share of common stock	\$0.14	\$0.12
Net tangible asset per CHES Depositary Instrument (CDI)	\$0.07	\$0.06

- **Independent Audit Review:** This report is based on the consolidated 2018 Half-Year Financial Statements which have been reviewed by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Review Report included in the 2018 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, 2018 and 2017

OSPREY MEDICAL, INC. AND SUBSIDIARY

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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, 2018 and 2017, and the related consolidated statements of operations, shareholders' equity and cash flows for the six-month periods ended June 30, 2018 and 2017.

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 24, 2018

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS As of June 30, 2018 and 2017

ASSETS	(Unaudited) 2018	(Unaudited) 2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,333,804	\$ 15,054,433
Accounts receivable	353,924	263,616
Prepaid expenses	177,433	132,037
Inventories	<u>676,300</u>	<u>495,496</u>
Total Current Assets	<u>24,541,461</u>	<u>15,945,582</u>
PROPERTY AND EQUIPMENT		
Office and computer equipment	435,240	353,121
Manufacturing and laboratory equipment	1,064,403	797,346
Furniture and fixtures	46,103	46,103
Less: Accumulated depreciation	<u>(857,234)</u>	<u>(639,725)</u>
Net Property and Equipment	<u>688,512</u>	<u>556,845</u>
OTHER ASSETS		
Intangible assets, net of accumulated amortization of \$137,456 and \$124,960 as of June 30, 2018 and 2017, respectively.	89,555	102,051
Security deposits	<u>12,250</u>	<u>12,250</u>
Total Other Assets	<u>101,805</u>	<u>114,301</u>
TOTAL ASSETS	<u>\$ 25,331,778</u>	<u>\$ 16,616,728</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 608,992	\$ 431,259
Accrued expenses	699,639	695,482
Accrued vacation	<u>192,102</u>	<u>169,463</u>
Total Current Liabilities	<u>1,500,733</u>	<u>1,296,204</u>
LONG-TERM LIABILITIES		
Accrued rent	<u>2,329</u>	<u>12,991</u>
Total Liabilities	<u>1,503,062</u>	<u>1,309,195</u>
SHAREHOLDERS' EQUITY		
Common stock, \$0.0001 par value; 630,000,000 and 180,000,000 authorized shares; 169,754,103 and 128,929,627 shares issued and outstanding as of June 30, 2018 and 2017, respectively.	16,975	12,893
Additional paid-in capital	111,809,767	86,889,612
Accumulated deficit	<u>(87,998,026)</u>	<u>(71,594,972)</u>
Total Shareholders' Equity	<u>23,828,716</u>	<u>15,307,533</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 25,331,778</u>	<u>\$ 16,616,728</u>

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, 2018 and 2017

	(Unaudited) Six-month period ended June 30, 2018	(Unaudited) Six-month period ended June 30, 2017
SALES	\$ 1,180,310	\$ 697,285
COST OF SALES	<u>671,691</u>	<u>658,417</u>
Gross Income	<u>508,619</u>	<u>38,868</u>
OPERATING EXPENSES		
Sales and marketing	4,863,939	3,237,403
General and administration	1,707,556	1,584,180
Clinical and regulatory	754,319	428,075
Research and development	<u>2,112,051</u>	<u>1,490,189</u>
Total Operating Expenses	<u>9,437,865</u>	<u>6,739,847</u>
Operating Loss	<u>(8,929,246)</u>	<u>(6,700,979)</u>
OTHER INCOME		
Interest income	<u>174,892</u>	<u>8,094</u>
Net Other Income	<u>174,892</u>	<u>8,094</u>
Loss Before Income Taxes	(8,754,354)	(6,692,885)
Income taxes	<u>6,750</u>	<u>1,576</u>
NET LOSS	<u>\$ (8,761,104)</u>	<u>\$ (6,694,461)</u>
EARNINGS PER SHARE:		
Basic and diluted loss per common share	\$ 0.05	\$ 0.05
Basic and diluted weighted average shares outstanding	169,754,103	128,921,671

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, 2018 and 2017

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES, December 31, 2017	169,754,103	\$ 16,975	\$ 111,578,760	\$ (79,236,922)	\$ 32,358,813
Stock-based compensation expense	-	-	231,007	-	231,007
Six-month period ended June 30, 2018 net loss	-	-	-	(8,761,104)	(8,761,104)
BALANCES, June 30, 2018 (Unaudited)	<u>169,754,103</u>	<u>\$ 16,975</u>	<u>\$ 111,809,767</u>	<u>\$ (87,998,026)</u>	<u>\$ 23,828,716</u>
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)	<u>128,929,627</u>	<u>\$ 12,893</u>	<u>\$ 86,889,612</u>	<u>\$ (71,594,972)</u>	<u>\$ 15,307,533</u>

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, 2018 and 2017

	(Unaudited) Six-month period ended June 30, 2018	(Unaudited) Six-month period ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (8,761,104)	\$ (6,694,461)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	118,381	86,248
Amortization	6,248	6,248
Stock-based compensation expense	231,007	351,730
Changes in operating assets and liabilities		
Accounts receivable	(43,821)	(128,670)
Prepaid expenses	(32,987)	(70,228)
Inventories	85,885	(234,560)
Accounts payable	51,528	15,716
Accrued expenses	(363,042)	(91,337)
Accrued rent	(2,001)	(8,181)
Accrued vacation	32,442	51,233
Net Cash Flows from Operating Activities	<u>(8,677,464)</u>	<u>(6,716,262)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(123,580)</u>	<u>(96,244)</u>
Net Cash Flows from Investing Activities	<u>(123,580)</u>	<u>(96,244)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	<u>-</u>	<u>13,500</u>
Net Cash Flows from Financing Activities	<u>-</u>	<u>13,500</u>
Net Change in Cash and Cash Equivalents	(8,801,044)	(6,799,006)
CASH AND CASH EQUIVALENTS - Beginning of Period	<u>32,134,848</u>	<u>21,853,439</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 23,333,804</u>	<u>\$ 15,054,433</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for income taxes	\$ 6,750	\$ 1,576

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

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

Osprey Medical, Inc. (“Osprey”, “Osprey Medical” or the “Company”) is a US based, commercial stage company focused on protecting patients from the harmful effects of X-ray dye (contrast) used during commonly performed angiographic imaging procedures. Osprey’s mission is to improve outcomes in patients with Chronic Kidney Disease (CKD) and at high risk of acquiring Contrast-Induced Acute Kidney Injury (AKI). Patients with AKI experience long term and costly side effects from this disease. The incidence of AKI also has a negative economic impact on the health care providers caring for these patients. Osprey Medical is committed to making angiography safer for patients suffering from CKD, improving outcomes, and reducing economic impact.

The Company’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 CKD and are at high risk of further kidney damage due to AKI. Cardiology and Radiology clinical society guidelines strongly recommend reducing the risk of AKI by screening patients for risk of kidney disease, adequately hydrating hi-risk patients pre- and post-procedure and minimizing the amount of contrast delivered to the patient.

Osprey Medical’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 volumes administered to patients. The Company’s DyeVert™ System reduces contrast while maintaining image quality in a self-adjusting easy-to-use design. The system’s monitoring component allows for real-time contrast monitoring throughout the procedure and the ability to establish maximum contrast thresholds for each patient. The monitoring system displays total dye administered to the patient and the amount saved during the procedure.

Following successful clinical trials, the Company obtained European Regulatory approval (CE Mark), TGA approval, and United States of America Food and Drug Administration (“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.

The company commenced its commercial strategy in 2015 and has since built a sales organization focused on commercializing its DyeVert Systems to hospitals throughout the United States. As of June 30, 2018, the company has a VP of Sales, 3 Sales Directors, 18 territory managers, and 5 clinical specialists.

Osprey Medical’s patent portfolio comprises of 16 issued US patents, 23 issued international patents; 14 pending US patent applications, and PCT filings resulting in 20 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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

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

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

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, 2018, and 2017.

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>2018</u>	<u>2017</u>
Raw materials	\$ 370,028	\$ 465,550
Finished goods	<u>306,272</u>	<u>29,946</u>
Totals	<u>\$ 676,300</u>	<u>\$ 495,496</u>

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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2018 and 2017

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:

	<u>Years</u>
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 \$118,381 and \$86,248 for the six-month periods ended June 30, 2018 and 2017, 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 in accordance with Accounting Standards Codification ("ASC"), Topic 606, *Revenue from Contracts with Customers*, which the Company adopted effective January 1, 2018. Accordingly, the Company recognizes revenue when its customers obtain control of its products, which occurs at a point in time, generally upon delivery to the customer, which is the invoiced price adjusted for variable consideration and other factors affecting the transaction price, in exchange for goods delivered. All revenue is recognized when the Company satisfies its performance obligations. All of the Company's contracts with its customers have a single performance obligation. The Company does not have any contract assets or liabilities as of June 30, 2018 or 2017 and the adoption of ASC Topic 606 did not have an impact on the financial statements.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flow from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

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.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

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

Recent Accounting Pronouncements

In May 2014, August 2015, March 2016, April 2016 and May 2016, the Financial Accounting Standards Board ("FASB") issued amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted this new standard on January 1, 2018, utilizing the modified retrospective approach. There were no impacts to the amount or timing of revenue that the Company had recognized in prior periods.

In February 2016, the FASB issued updated guidance to improve financial reporting about leasing transactions. This guidance will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. This guidance is effective for the Company's annual periods beginning January 1, 2019, and for quarterly periods thereafter. The Company is evaluating the impact that the adoption of this standard will have, if any, on its financial statements and disclosures.

Subsequent Events

For the six-month period ended June 30, 2018, 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, 2018 through August 24, 2018.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2018 and 2017

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 has relied on cash raised from financing to fund operations. The Company expects to have enough working capital to operate for at least the next twelve months beyond August 24, 2018, although no certainty exists that the Company will continue to obtain future additional financing.

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, 2018:				
Cash and cash equivalents - money market securities	\$ 21,846,823	\$ 21,846,823	\$ -	\$ -
As of June 30, 2017:				
Cash and cash equivalents - money market securities	\$ 3,572,065	\$ 3,572,065	\$ -	\$ -

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2018 and 2017

NOTE 4 - Leases

In March 2018, the Company signed a new lease for their offices in Minnetonka, Minnesota. The lease term expires in May 2023 and contains no extensions or renewal options. The monthly payments are \$13,061 for the lease.

Rent expense was \$37,428 and \$45,902 for the six-month periods ended June 30, 2018 and 2017, 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
2019	\$ 156,728
2020	156,728
2021	156,728
2022	156,728
2023	143,667
Total	<u>\$ 770,579</u>

NOTE 5 - Employee Benefits

The Company provides a 401k plan as a benefit to its employees. In April 2018, the Company started a 5% match of qualified payments under the 401K plan. Under the plan, eligible employees may contribute amounts through payroll deductions supplemented by employer contributions for investment in various investments specified in the plan. Company contributions to the plan were \$62,430 and \$0 for the six-months ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017. 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, 2018 and 2017

NOTE 7 - Income Taxes

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

The Company incurred income tax expense of \$6,750 and \$1,576, respectively for the six-month periods ended June 30, 2018 and 2017.

As of June 30, 2018 and 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 \$78,428,822 applicable to income subject to federal income tax and \$37,477,570 applicable to income subject to state income tax as of June 30, 2018. These state tax carryforwards begin to expire in 2023. 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, 2018	Six-month period ended June 30, 2017
Current:		
Federal	\$ -	\$ -
State	6,750	1,576
Foreign	-	-
	<u>6,750</u>	<u>1,576</u>
Deferred:		
Federal	(2,576,883)	(2,210,114)
State	(865,678)	(128,565)
Foreign	-	-
	<u>(3,442,561)</u>	<u>(2,338,679)</u>
Deferred tax asset valuation allowance	<u>3,442,561</u>	<u>2,338,679</u>
Total provision	<u>\$ 6,750</u>	<u>\$ 1,576</u>

Income tax expense differs from the amount computed at the statutory federal income tax rate of 21% due principally to nondeductible expenses, different rates for foreign jurisdictions and the recognition of a valuation allowance against the net deferred tax asset. The Company has revalued its deferred tax assets and liabilities as of December 31, 2017. The deferred tax assets and liabilities are fully offset with a valuation allowance, and therefore the Company did not recognize any income tax expense related to the revaluation.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

NOTE 7 - Income Taxes (cont.)

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

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 20,180,000	\$ 24,539,000
Research and development credit	1,426,000	1,182,000
Organization costs	1,000	2,000
Accrued vacation	47,000	58,000
Deferred rent	1,000	4,000
Stock-based compensation expense	102,000	140,000
	<u>21,758,000</u>	<u>25,925,000</u>
Deferred tax liability:		
Intangible assets	<u>(51,000)</u>	<u>(62,000)</u>
	<u>(51,000)</u>	<u>(62,000)</u>
Net deferred tax asset	21,706,000	25,863,000
Valuation allowance	<u>(21,706,000)</u>	<u>(25,863,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for deferred tax assets changed by \$3,443,000 and \$2,339,000 for the sixth-month periods ended June 30, 2018 and 2017, 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 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, 2018 and 2017

NOTE 8 - Common Stock

During the six-month period ended June 30, 2018, there were no options exercised. During 2017 options exercised resulted in the Company issuing 60,000 shares of common stock for proceeds of \$13,500. The intrinsic value of the options exercised was \$23,100.

In August 2017, the Company authorized an additional 450,000,000 shares of common stock resulting in a total amount authorized of 630,000,000.

As of June 30, 2018 and 2017, respectively, the common shares outstanding were 169,754,103 and 128,929,627. As of June 30, 2018 and 2017, there were no preferred shares outstanding.

NOTE 9 – 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 periods ended June 30, are as follows:

	<u>2018</u>	<u>2017</u>
Weighted average common shares outstanding – basic	169,754,103	128,921,671
Dilutive effect of stock option and warrants		-
Weighted average common shares outstanding – diluted	<u>169,754,103</u>	<u>128,921,671</u>

As of June 30, 2018 and 2017, stock options shares of 13,490,956 and 11,885,105, respectively, were not included as their effect is anti-dilutive due to the loss for the periods.

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2018 and 2017

NOTE 10 - 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 7,549,073 shares then outstanding remain available for exercise as of June 30, 2018. 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 Board of Directors approved an increase in the 2016 Plan of 2,575,750 shares in May 2018. The Company has reserved 6,902,150 shares of common stock for issuance under the 2016 Plan, as of June 30, 2018. As of June 30, 2018, options issued under the 2016 plan were 5,941,883.

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, 2018	Six-month period ended June 30, 2017
Risk-free interest rate	2.69 – 2.83 %	1.77 %
Expected volatility	91.09 %	71.80 %
Expected life (in years)	5.92	4.00
Dividend yield	0.00%	0.00%
Weighted-average estimated fair value of options granted during the period	\$ 0.11	\$ 0.33

OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the six-month periods ended June 30, 2018 and 2017

NOTE 10 - 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, 2017	11,138,073	\$ 0.71	6.0	
Granted	2,390,383	0.15		
Exercised	-	-		
Expired/Cancelled	(37,500)	0.62		
Balance as of June 30, 2018	<u>13,490,956</u>	<u>\$ 0.61</u>	<u>6.3</u>	<u>\$ 0</u>
Exercisable as of June 30, 2018	<u>8,680,075</u>	<u>\$ 0.74</u>	<u>4.7</u>	<u>\$ 0</u>
	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	<u>11,885,105</u>	<u>\$ 0.72</u>	<u>5.9</u>	<u>\$ 742,040</u>
Exercisable as of June 30, 2017	<u>8,259,287</u>	<u>\$ 0.72</u>	<u>4.8</u>	<u>\$ 610,352</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, 2018.

The Company recognized stock-based compensation expense related to stock options of \$231,007 and \$351,730 for the sixth-month periods ended June 30, 2018 and 2017, respectively. As of June 30, 2018, \$1,087,686 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average life of 2.76 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.