



**OSPREY MEDICAL, INC.**

**HALF-YEAR INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

**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 2018.

# OSPREY MEDICAL, INC.

## APPENDIX 4D (RULE 4.2A.3)

### HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

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#### REPORTING PERIOD

Report for the half-year ended 30 June 2019

All comparisons to half-year ended 30 June 2018

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$USD	up/down	% movement
Revenue from ordinary activities	\$1,820,403	up	54.2%
Profit (loss) after tax from ordinary activities attributable to members	(\$9,207,896)	up	5.1%
Net profit (loss) attributable to members	(\$9,207,896)	up	5.1%

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#### 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

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#### Net tangible asset backing

	30 June 2019 \$USD	30 June 2018 \$USD
Net tangible asset per share of common stock	\$0.08	\$0.14
Net tangible asset per CHES Depositary Instrument (CDI)	\$0.04	\$0.07

- **Independent Audit Review:** This report is based on the consolidated 2019 Half-Year Financial Statements which have been reviewed by Baker Tilly Virchow Krause, LLP with the Independent Auditors' Review Report included in the 2019 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, 2019 and 2018

# 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, 2019 and 2018, and the related consolidated statements of operations, shareholders' equity and cash flows for the six-month periods ended June 30, 2019 and 2018.

### ***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.

### ***Auditors' 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.



Minneapolis, Minnesota  
August 12, 2019

# OSPREY MEDICAL, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS As of June 30, 2019 and 2018

<b>ASSETS</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,274,842	\$ 23,333,804
Accounts receivable	418,435	353,924
Prepaid expenses	174,015	177,433
Inventories	<u>936,527</u>	<u>676,300</u>
Total Current Assets	<u>17,803,819</u>	<u>24,541,461</u>
<b>PROPERTY AND EQUIPMENT</b>		
Office and computer equipment	456,836	435,240
Laboratory equipment	1,093,060	1,064,403
Furniture and fixtures	46,103	46,103
Leasehold improvements	212,635	-
Less: Accumulated depreciation	<u>(1,134,201)</u>	<u>(857,234)</u>
Net Property and Equipment	<u>674,433</u>	<u>688,512</u>
<b>OTHER ASSETS</b>		
Intangible assets, net of accumulated amortization of \$149,952 and \$137,456 as of June 30, 2019 and 2018, respectively.	77,059	89,555
Right of use operating lease asset	420,302	-
Other asset	<u>12,250</u>	<u>12,250</u>
Total Other Assets	<u>509,611</u>	<u>101,805</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,987,863</u>	<u>\$ 25,331,778</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 827,160	\$ 608,992
Accrued payroll and commissions	754,176	699,639
Accrued vacation	242,363	192,102
Right of use operating lease liability	<u>125,241</u>	<u>-</u>
Total Current Liabilities	<u>1,948,940</u>	<u>1,500,733</u>
<b>LONG-TERM LIABILITIES</b>		
Accrued rent	-	2,329
Right of use operating lease liability – noncurrent	<u>435,376</u>	<u>-</u>
Total Liabilities	<u>2,384,316</u>	<u>1,503,062</u>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.0001 par value; 20,000,000 authorized shares; none issued and outstanding as of June 30, 2019 and 2018	-	-
Common stock, \$0.0001 par value; 1,130,000,000 and 630,000,000 authorized shares; 215,898,685 and 169,754,103 shares issued and outstanding as of June 30, 2019 and 2018, respectively.	21,590	16,975
Additional paid-in capital	122,548,742	111,809,767
Accumulated deficit	<u>(105,966,785)</u>	<u>(87,998,026)</u>
Total Shareholders' Equity	<u>16,603,547</u>	<u>23,828,716</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 18,987,863</u>	<u>\$ 25,331,778</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, 2019 and 2018

	<b>(Unaudited)</b> Six-month period ended June 30, 2019	<b>(Unaudited)</b> Six-month period ended June 30, 2018
<b>SALES</b>	\$ 1,820,403	\$ 1,180,310
<b>COST OF SALES</b>	<u>877,554</u>	<u>671,691</u>
Gross Income	<u>942,849</u>	<u>508,619</u>
<b>OPERATING EXPENSES</b>		
Sales and marketing	5,478,951	4,863,939
General and administration	2,016,272	1,707,556
Clinical and regulatory	1,074,632	754,319
Research and development	<u>1,730,178</u>	<u>2,112,051</u>
Total Operating Expenses	<u>10,300,033</u>	<u>9,437,865</u>
Operating Loss	<u>(9,357,184)</u>	<u>(8,929,246)</u>
<b>OTHER INCOME</b>		
Interest income	<u>159,355</u>	<u>174,892</u>
Net Other Income	<u>159,355</u>	<u>174,892</u>
Loss Before Income Taxes	(9,197,829)	(8,754,354)
Income taxes	<u>10,067</u>	<u>6,750</u>
<b>NET LOSS</b>	<u>\$ (9,207,896)</u>	<u>\$ (8,761,104)</u>
<b>EARNINGS PER SHARE:</b>		
Basic and diluted loss per common share	\$ (0.04)	\$ (0.05)
Basic and diluted weighted average shares outstanding	215,898,685	169,754,103

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, 2019 and 2018

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES, December 31, 2018	215,898,685	\$ 21,590	\$ 122,271,893	\$ (96,758,889)	\$ 25,534,594
Stock-based compensation expense	-	-	276,849	-	276,849
Six-month period ended June 30, 2019 net loss	-	-	-	(9,207,896)	(9,207,896)
<b>BALANCES, June 30, 2019 (Unaudited)</b>	<u>215,898,685</u>	<u>\$ 21,590</u>	<u>\$ 122,548,742</u>	<u>\$(105,966,785)</u>	<u>\$ 16,603,547</u>
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)
<b>BALANCES, June 30, 2018 (Unaudited)</b>	<u>169,754,103</u>	<u>\$ 16,975</u>	<u>\$ 111,809,767</u>	<u>\$(87,998,026)</u>	<u>\$ 23,828,716</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, 2019 and 2018

	<b>(Unaudited)</b> Six-month period ended June 30, 2019	<b>(Unaudited)</b> Six-month period ended June 30, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (9,207,896)	\$ (8,761,104)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	133,920	118,381
Amortization	6,248	6,248
Stock-based compensation expense	276,849	231,007
Changes in operating assets and liabilities		
Accounts receivable	(25,801)	(43,821)
Prepaid expenses	117,363	(32,987)
Inventories	(164,685)	85,885
Accounts payable	(48,645)	51,528
Accrued payroll and commissions	(59,897)	(363,042)
Accrued rent	-	(2,001)
Accrued vacation	73,180	32,442
Net Cash Flows from Operating Activities	<u>(8,899,364)</u>	<u>(8,677,464)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(77,584)</u>	<u>(123,580)</u>
Net Cash Flows from Investing Activities	<u>(77,584)</u>	<u>(123,580)</u>
<b>Net Change in Cash and Cash Equivalents</b>	(8,976,948)	(8,801,044)
CASH AND CASH EQUIVALENTS - Beginning of Period	<u>25,251,790</u>	<u>32,134,848</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>\$ 16,274,842</u>	<u>\$ 23,333,804</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>		
Cash paid for income taxes	\$ 10,067	\$ 6,750

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, 2019 and 2018

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## **NOTE 1 - Summary of Significant Accounting Policies**

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### *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) by reducing contrast induced Acute Kidney Injury (AKI), and lowering hospital costs. 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 contrast 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 these patients pre- and post-procedure, minimizing the amount of contrast delivered to the patient, and monitoring in real time the amount of contrast delivered during the angiography procedure.

Osprey Medical’s core technologies originated from research conducted at Melbourne’s Baker IDI Heart and Diabetes Institute. Its proprietary contrast reduction and monitoring technologies are designed to help physicians minimize and track contrast volumes administered to patients. The Company’s DyeVert™ System reduces contrast delivered to the patient while maintaining image quality in a simple 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 contrast administered to the patient and the amount diverted away from the patient 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 the DyeVert NG, Plus, and Plus EZ Systems. The Company received FDA clearance for medical claims of contrast savings, image quality and reflux reduction for its various 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, 2019, the number of field sales representatives (sales reps + clinical specialists) was 26 and 6 in sales management.

Osprey Medical’s patent portfolio comprises of 16 issued US patents, 26 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, 2019 and 2018

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

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### *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 to date.

### *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, 2019 and 2018.

### *Inventories*

Inventories are stated at lower of cost (using the first-in, first-out method) or net realizable value, and are as follows as of June 30:

	2019	2018
Raw materials	\$ 550,280	\$ 370,028
Finished goods	386,247	306,272
Totals	<u>\$ 936,527</u>	<u>\$ 676,300</u>

# OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the six-month periods ended June 30, 2019 and 2018

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

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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.

### *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
Furniture and fixtures	7
Laboratory equipment	5
Leasehold improvements	5

Maintenance and repairs are charged to expense as incurred. Depreciation expense on property and equipment was \$133,920 and \$118,381 for the six-month periods ended June 30, 2019 and 2018, 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*. 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. The amount recognized as revenue is the invoiced price adjusted for variable consideration, if any, in exchange for goods delivered. All revenue is recognized when the Company satisfies its performance obligations. The Company does not have any contract assets or liabilities as of June 30, 2019 or 2018.

# OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the six-month periods ended June 30, 2019 and 2018

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

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### *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.

### *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.

The Company evaluates change in options for modification treatment in order to determine whether to recognize the grant date fair value of the newly issued options or the incremental grant date fair value as the stock-based compensation expense.

### *Issuance of Stock*

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

# OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the six-month periods ended June 30, 2019 and 2018

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

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### *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.

### *Recent Accounting Pronouncements*

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, "Leases" "Topic 842" under which lessees will recognize most leases on the balance sheet. At the date of adoption of the standard the Company recorded a right of use asset of \$463,000 and a corresponding lease liability of \$610,000. The Company elected the modified retrospective adoption method option under Topic 842 which does not require companies to restate comparative periods in the transition. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard which allowed it to carry forward the historical lease classification. Additional information and required disclosures for Topic 842 are contained in Note 4.

### *Subsequent Events*

For the six-month period ended June 30, 2019, 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, 2019 through August 12, 2019.

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## **NOTE 2 – Liquidity**

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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. Based on its current liquidity, future operating budget and ability to adjust expenditures if necessary, the Company expects to have enough working capital to operate for at least the next twelve months beyond August 12, 2019.

# OSPREY MEDICAL, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2019 and 2018

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### NOTE 3 - Fair Value Measurements

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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, 2019:				
Cash and cash equivalents - money market securities	\$ 12,175,540	\$ 12,175,540	\$ -	-
As of June 30, 2018:				
Cash and cash equivalents - money market securities	\$ 21,846,823	\$ 21,846,823	\$ -	-

# OSPREY MEDICAL, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2019 and 2018

### NOTE 4 – Leases

The Company leases space for our corporate headquarters in Minnetonka, Minnesota under a non-cancelable operating lease which expires in May 2023. This lease has escalating lease terms and also includes a tenant incentive that was recorded at the time the lease was originally entered into. The lease does not contain contingent rent provisions or renewal options. Further, the lease does not have significant rent escalation holidays, concessions, or other build-out clauses. The lease includes both lease (e.g., fixed rent payments) and non-lease components (e.g., common-area or other maintenance and utility costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components for all leases.

We use our incremental borrowing rate based on the information available at the lease commencement date for a similar asset and similar term in determining the present value of the lease payments.

The cost components of our operating leases were as follows for the period ended June 30, 2019:

	Corporate Headquarters
Operating lease cost	\$ 76,117
Variable lease cost	43,111
Totals	<u>\$ 119,228</u>

Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for our leased corporate headquarters which are paid based on actual costs incurred by the lessor. Rent expense for the six months ended June 30, 2018 was \$37,428.

Maturities of our lease liabilities for our corporate headquarters operating lease is as follows at June 30, 2019:

2019	\$ 75,917
2020	155,250
2021	159,908
2022	164,704
2023	<u>69,960</u>
Total lease payments	625,739
Less: interest	<u>(65,122)</u>
Present value of lease liabilities	<u>\$ 560,617</u>

The following table is shown for comparative purpose only. The future minimum lease payments under the non-cancelable lease at June 30, 2018 are as follows:

2018	\$ 73,706
2019	150,728
2020	155,250
2021	159,908
2022	164,704
2023	<u>69,960</u>
Total	<u>\$ 774,256</u>

The remaining lease term as of June 30, 2019 is 3.9 years and the discount rate was 5.5%. The cash outflow for operating leases for the six months ended in June 30, 2019 was \$74,811.



## OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the six-month periods ended June 30, 2019 and 2018

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### **NOTE 5 - Employee Benefits**

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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 \$131,487 and \$62,430 for the six-months ended June 30, 2019 and 2018, respectively.

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### **NOTE 6 - Intangible Assets**

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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, 2019 and 2018. 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, 2019 and 2018

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### NOTE 7 - Income Taxes

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

The Company incurred income tax expense of \$10,067 and \$6,750, respectively for the six-month periods ended June 30, 2019 and 2018.

As of June 30, 2019 and June 30, 2018, 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 \$99,045,599 applicable to income subject to federal income tax and \$45,756,876 applicable to income subject to state income tax as of June 30, 2019. These federal tax and state tax carryforwards begin to expire in 2028 and 2023, respectively. 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 <u>June 30, 2019</u>	Six-month period ended <u>June 30, 2018</u>
Current:		
Federal	\$ -	\$ -
State	10,067	6,750
Foreign	-	-
	<u>10,067</u>	<u>6,750</u>
Deferred:		
Federal	(1,726,000)	(2,577,000)
State	(907,000)	(866,000)
Foreign	-	-
	<u>(2,633,000)</u>	<u>(3,443,000)</u>
Deferred tax asset valuation allowance	<u>2,633,000</u>	<u>3,443,000</u>
Total provision	<u>\$ 10,067</u>	<u>\$ 6,750</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.

## OSPREY MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the six-month periods ended June 30, 2019 and 2018

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### NOTE 7 - Income Taxes (cont.)

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

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 24,183,000	\$ 20,180,000
Research and development credit	1,391,000	1,426,000
Organization costs	1,000	1,000
Accrued vacation	59,000	47,000
Deferred rent	-	1,000
Stock-based compensation expense	110,000	102,000
	<u>25,744,000</u>	<u>21,757,000</u>
Deferred tax liability:		
Intangible assets	<u>(46,000)</u>	<u>(51,000)</u>
	<u>(46,000)</u>	<u>(51,000)</u>
Net deferred tax asset	25,698,000	21,706,000
Valuation allowance	<u>(25,698,000)</u>	<u>(21,706,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for deferred tax assets changed by \$2,633,000 and \$3,443,000 for the sixth-month periods ended June 30, 2019 and 2018, 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, 2019 and 2018

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### NOTE 8 - Common Stock

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During the six-month period ended June 30, 2019 and 2018, respectively, there were no options exercised.

In May 2019, the Company authorized an additional 500,000,000 shares of common stock resulting in a total amount authorized of 1,130,000,000.

In November 2018, the Company completed a private offering on the Australian Securities Exchange of 32,258,065 shares of common stock at a price to the public of \$0.22 per share. In addition, in October 2018, a pro rata non-renounceable Entitlement Offer was offered to qualified shareholders of record. Under the Entitlement Offer, 13,886,517 shares of common stock were issued in November 2018 at a price of \$0.22 per share. As a result of the total financing, the Company raised approximately \$10,323,080 in gross proceeds, before issuance costs of approximately \$136,247.

As of June 30, 2019 and 2018, the common shares outstanding were 215,898,685 and 169,754,103, respectively. As of June 30, 2019 and 2018, there were no preferred shares outstanding.

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### NOTE 9 – Weighted Average Shares Calculation

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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>2019</u>	<u>2018</u>
Weighted average common shares outstanding – basic	215,898,685	169,754,103
Dilutive effect of stock option and warrants	<u>-</u>	<u>-</u>
Weighted average common shares outstanding – diluted	<u>215,898,685</u>	<u>169,754,103</u>

As of June 30, 2019 and 2018, stock options shares of 18,446,796 and 13,490,956, 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, 2019 and 2018

### 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 1,817,231 shares then outstanding remain available for exercise as of June 30, 2019. 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 9,772,284 shares in May 2019. The Company has reserved 16,950,520 shares of common stock for issuance under the 2016 Plan, as of June 30, 2019. As of June 30, 2019, options issued under the 2016 plan were 16,629,565.

Effective April 5, 2019, the ASX Limited ("ASX"), permitted the Company to cancel 9,215,104 stock options issued to its employees, consultants and independent non-executive directors under its 2006 Stock Incentive Plan and 2016 Stock Incentive Plan with an exercise price of A\$0.60 or higher per share (equivalent to A\$0.30 or higher per CDI) in consideration for issue of 9,202,500 new stock options that have reduced exercise prices and extended exercise periods under a proposed exchange offer. Common stock option holders had to elect the cancellation of these stock options in exchange for the same number of new common stock options with an exercise price of A\$0.23 (equivalent to A\$0.115 per CDI) and an expiration date of May 27, 2029, with vesting terms to occur as follows: 25% vesting one year after the date of the grant and the remainder over 36 months.

In connection with the stock option exchange, the Company cancelled and reissued 9,202,500 common stock options. The estimated fair value of additional compensation cost related to the stock options exchanged was \$498,879, which will be recognized over the vesting term of the new option grants which become fully vested in 2023.

The following table presents the weighted average assumptions used to estimate the fair values of the stock options granted to employees and nonemployees 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 expected life and expected volatility are based on the average reported lives and volatilities of our company.

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Risk-free interest rate	2.11 – 2.62 %	2.69 – 2.83 %
Expected volatility	73.28 – 74.28 %	91.09 %
Expected life (in years)	5.92	5.92
Dividend yield	0.00 %	0.00 %
Weighted-average estimated fair value of options granted during the period	\$ 0.16	\$ 0.11

## OSPREY MEDICAL, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the six-month periods ended June 30, 2019 and 2018

#### **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, 2018	13,564,956	\$ 0.64	5.78	
Granted	14,352,882	0.16		
Exercised	-	-		
Expired/Cancelled	(9,471,042)	0.77		
Balance as of June 30, 2019	<u>18,446,796</u>	<u>0.20</u>	<u>8.94</u>	<u>\$ 0</u>
Exercisable as of June 30, 2019	<u>2,692,044</u>	<u>\$ 0.34</u>	<u>3.55</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, 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>

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, 2019.

The Company recognized stock-based compensation expense related to stock options of \$276,849 and \$231,007 for the sixth-month periods ended June 30, 2019 and 2018, respectively. As of June 30, 2019, \$1,895,456 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average life of 1.63 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.