

Consolidated report of

MILESTONE MEDICAL INC. and its SUBSIDIARY

2nd quarter (April 1, 2023 to June 30, 2023)

Report includes:

1. General information about Milestone Medical, Inc. (“Issuer”) and Milestone Medical Poland Sp. Z o.o. (the Subsidiary), collectively the Company or Milestone Medical.
2. Consolidated financial statements prepared according to the accounting rules applicable to the Issuer together with information on accounting rules (policy) applied to the preparation of report.
3. Information on the rules applied to the preparation of the report, including information on changes to the applied accounting rules (policies).
4. Brief description of the most important achievements or failures of the Issuer and its Subsidiary during the period of the report as well as a description of the most important factors and events, atypical ones, which affect the achieved results.
5. A description of the status of implementation of activities and investments of the Issuer and its Subsidiary and the timetable of their implementation.
6. If the Issuer and its Subsidiary took initiatives to develop, its activities aimed to implement innovative solutions at the enterprise during the period of the report – information on such activities.
7. Description of the organization of the group indicating consolidated entities.

New Jersey, August 14, 2023

1. General information

Table 1 General Information about the Issuer

THE ISSUER	MILESTONE MEDICAL INC.
	(Earlier: Milestone Scientific Research and Development, Inc.)
Registered office/Office:	425 Eagle Rock Avenue, Roseland, NJ 07068, USA
Telephone number:	011-973-535-2717
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Main website address:	www.medicalmilestone.com

Source: The Issuer

1.1 Shareholding structure

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

Table 2 Shareholder structure with specification of shareholders holding at least 5% of votes at the General Meeting of Shareholders at the date of the report.

Name of Shareholder	Number of owned shares/votes	Shareholding/votes at General Meeting of Shareholders [%]
MILESTONE SCIENTIFIC, INC.	21,633,084	98.33%
OTHERS (<5%)	366,916	1.67%
TOTAL	22,000,000	100.00%

Source: The Issuer

1.2. Board of Directors

Board of Directors

On September 23, 2022 the Annual General Meeting of Shareholders adopted the resolution on the appointment of two directors: Zhu Yun and Martin S. Siegel, to the Board of Directors for new term of office.

On June 28, 2023 Milestone Scientific Inc. majority shareholder of the outstanding shares of Milestone Medical Inc. pursuant to Section 228 of the Delaware General Corporation Law and the bylaws of Milestone Medical Inc., adopted the resolutions to dismiss the current members of the Board of Directors: Zhu Yun and Martin S. Siegel and appoint three new members of the Board of Directors: Neal Goldman, Benedetta Casamento and Arjan Haverhals

The Board of Directors of Milestone Medical Inc. (“Company”) informs that the Annual Meeting of Shareholders of the Company shall be held on Friday September 1, 2023, at 9:00 am ET in Roseland, New Jersey, United States of America at the corporate office of the Company, located at 425 Eagle Rock Avenue, Suite 403. The record date for the notice of the meeting, the record date for voting, and the date of the determination of beneficial ownership shall be July 5, 2023.

1.3. Information on the number of persons employed by the Issuer converted into FTEs.

As of June 30, 2023, the Issuer employed three (2) full time employees and eleven (11) persons allocated from the parent company (Milestone Scientific Inc.) converted into full-time equivalents (“FTEs”). The Company is currently concentrating on certain territories in the USA and certain areas in the international market as well.

2. Condensed Consolidated quarterly financial statements

Condensed Consolidated quarterly financial statements prepared according to the accounting rules applicable to the Issuer and its Subsidiary together with information on accounting rules (policy) applied to the preparation of report.

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Financial Statements
As of June 30, 2023 and December 31, 2022, and
for the three and six months ended June 30, 2023 and 2022

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Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Balance Sheets
(unaudited)

	June 30, 2023	December 31, 2022
<u>ASSETS</u>		
Cash	\$ 4,051	\$ 20,288
Accounts receivable	-	650
Inventories	309,555	404,461
Advances to contractors	75,686	75,686
Prepaid expenses and other current assets	61,961	115,904
Total current assets	451,253	616,989
Equipment, net	1,721	3,383
Total assets	\$ 452,974	\$ 620,372
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Accounts payable	\$ 41,814	\$ 101,739
Accounts payable, related party	84	1,628
Accrued expenses and other payables	337,295	48,120
Accrued expenses and other payables, related party	33,333	91,666
Accrued interest payable- related party	721,259	676,134
Advances from related party	24,061,033	22,736,885
Due to related party	2,800,000	2,800,000
Total current liabilities	\$ 27,994,818	\$ 26,456,172
Stockholders' deficit		
Common stock, par value \$.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at June 30, 2023 and December 31, 2022.	2,200	2,200
Additional paid-in capital	7,561,946	7,533,363
Accumulated deficit	(35,105,990)	(33,371,363)
Total stockholders' deficit	(27,541,844)	(25,835,800)
Total liabilities and stockholders' deficit	\$ 452,974	\$ 620,372
See Notes to Condensed Consolidated Financial Statements		

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Product sales, net	\$ (2,200)	\$ 38,600	\$ 4,000	\$ 46,150
Cost of products sold	78,604	441,555	84,597	444,341
Gross (loss) profit	<u>\$ (80,804)</u>	<u>\$ (402,955)</u>	<u>\$ (80,597)</u>	<u>\$ (398,191)</u>
Selling, general and administrative expenses	772,810	1,181,009	1,583,984	2,412,894
Research and development expenses	9,590	30,301	21,194	38,251
Depreciation and amortization	694	1,019	1,662	2,038
Total operating expenses	<u>\$ 783,094</u>	<u>\$ 1,212,329</u>	<u>\$ 1,606,840</u>	<u>\$ 2,453,183</u>
Loss from operations	(863,898)	(1,615,284)	(1,687,437)	(2,851,374)
Interest expense	(24,523)	(24,136)	(48,796)	(48,023)
Loss before income tax	<u>\$ (888,421)</u>	<u>\$ (1,639,420)</u>	<u>\$ (1,736,233)</u>	<u>\$ (2,899,397)</u>
Provision for income taxes	-	-	-	-
Net loss	<u><u>\$ (888,421)</u></u>	<u><u>\$ (1,639,420)</u></u>	<u><u>\$ (1,736,233)</u></u>	<u><u>\$ (2,899,397)</u></u>

See Notes to Condensed Consolidated Financial Statements

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Changes in Stockholders' Deficit
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, January 1, 2023	22,000,000	\$ 2,200	\$ 7,533,363	\$ (33,371,363)	\$ (25,835,800)
Stock Compensation from Parent	-	-	14,291	-	14,291
Net loss	-	-	-	(846,206)	(846,206)
Balance, March 31, 2023	<u>22,000,000</u>	<u>\$ 2,200</u>	<u>\$ 7,547,654</u>	<u>\$ (34,217,569)</u>	<u>\$ (26,667,715)</u>
Stock Compensation from Parent	-	-	14,292	-	14,292
Net loss	-	-	-	(888,421)	(888,421)
Balance, June 30, 2023	<u>22,000,000</u>	<u>\$ 2,200</u>	<u>\$ 7,561,946</u>	<u>\$ (35,105,990)</u>	<u>\$ (27,541,844)</u>

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, January 1, 2022	22,000,000	\$ 2,200	\$ 7,502,363	\$ (28,486,275)	\$ (20,981,712)
Stock Compensation from Parent	-	-	57,921	-	57,921
Net loss	-	-	-	(1,259,977)	(1,259,977)
Balance, March 31, 2022	<u>22,000,000</u>	<u>\$ 2,200</u>	<u>\$ 7,560,284</u>	<u>\$ (29,746,252)</u>	<u>\$ (22,183,768)</u>
Stock Compensation from Parent	-	-	(44,044)	-	(44,044)
Net loss	-	-	-	(1,639,420)	(1,639,420)
Balance, June 30, 2022	<u>22,000,000</u>	<u>\$ 2,200</u>	<u>\$ 7,516,240</u>	<u>\$ (31,385,672)</u>	<u>\$ (23,867,232)</u>

See Notes to Condensed Consolidated Financial Statements

Milestone Medical, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows from operating activities:		
Net loss	\$ (1,734,627)	\$ (2,899,397)
Adjustments to reconcile net cash (used in) operating activities:		
Depreciation and amortization expense	1,662	2,038
Stock compensation from parent	28,583	13,877
Inventory reserve	82,409	430,206
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	650	(13,508)
Decrease in inventories	12,497	86,853
(Increase) in advances to contractors	-	(6,756)
Decrease to prepaid expenses and other current assets	53,943	23,828
Increase (decrease) in accounts payable and accrued expenses	229,250	(137,272)
Increase in accounts payable and accrued expenses, related party	(59,877)	65,880
Increase in accrued interest related party	45,125	45,125
Net cash used in operating activities	\$ (1,340,385)	\$ (2,389,126)
Cash flows from investing activities:		
Net cash used in investing activities	\$ -	\$ -
Cash flows from financing activities:		
Advances from parent	1,324,148	2,356,811
Net cash provided by financing activities	\$ 1,324,148	\$ 2,356,811
Net (decrease) increase in cash	(16,237)	(32,315)
Cash at beginning of period	20,288	35,448
Cash at end of period	\$ 4,051	\$ 3,133

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For three and six months ended June 30, 2023 and 2022

NOTE 1 – ORGANIZATION AND BUSINESS:

In March 2011, Milestone Scientific Inc entered into an agreement with Beijing 3H Scientific Technology Co, Ltd (“ Beijing 3H”) a medical equipment distribution company organized in the People’s Republic of China (“PRC”), to establish a medical joint venture entity now named Milestone Medical Inc. (the “Company”) to develop intra-articular and epidural drug delivery instruments. The controlling shareholders of Beijing 3H and other shareholders contributed \$1.5 million in cash for a 50% ownership interest in this medical joint venture and Milestone Scientific Inc. contributed a royalty – free right to use its patented CompuFlo Technology, which was valued initially at \$1.5 million for the remaining 50% ownership interest.

In June 2013, the Company changed its name to Milestone Medical Inc. The Company changed its Certificate of Incorporation to authorize 50,000,000 common shares, par value \$0.0001 per share and authorized 5,000,000 Preferred Shares, (preferred stock) at \$0.0001 per share in September 2013. Additionally, the common stock outstanding was split 10,000 to 1 into an aggregate of 20,000,000 shares. All periods presented have been recast to reflect these changes.

In October and November 2013, the Company raised \$2,363,206 in net proceeds (gross funding was \$3 million) through a Private Placement Offering. The offering resulted in the issuance of 2 million shares of common stock at \$1.50 (4.65 PLN) per share in a private placement in Poland.

On June 17, 2016, Milestone Scientific initiated a share exchange program pursuant to which would exchange one share of Milestone Scientific Inc. common stock for every two outstanding shares of Milestone Medical common stock. As of December 31, 2017, 5,319,042 shares of Milestone Scientific common stock have been issued in exchange for 10,638,084 shares of Milestone Medical common stock. Because of these exchanges, Milestone Scientific owns approximately 99% of Milestone Medical at December 31, 2017.

The Company received notification from the FDA in December 2016 that based upon the 510(k)-application submitted for the Company's Compu-Flo Intra Articular Computer Controlled Injection System, the Company did not adequately document that the device met the equivalency standard required for 510(k) clearances. The Company provided an additional data submission to the FDA in April 2017, in support of a resubmission 510(k) application for the device. The Company has decided not to proceed with securing the FDA approval for the intra-articular instrument at this time.

On June 12, 2017, the company announced that the CompuFlo® Epidural Computer Controlled Anesthesia System has received 510(k) clearances from the U.S. Food and Drug Administration (FDA). The CompuFlo® Epidural System provides anesthesiologists and other Health Care Providers for the first time, the ability to quantitatively determine and document the pressure at the needle tip in real-time. The CompuFlo® Epidural's proprietary DPS Dynamic Pressure Sensing Technology™ (DPS) allows the CompuFlo® Epidural to provide objective visual and audible in-tissue pressure feedback that allows anesthesiologists to identify the epidural space.

On February 27, 2023 the Company announced that its CompuFlo Epidural System has received 510(k)FDA clearance for use in the thoracic region of the spine, including the cervical thoracic junction. This approval expands upon the Company's prior approval of CompuFlo for use within the lumbar region of the spine, where the focus has been on labor

Milestone Medical's immediate focus is on marketing its epidural device throughout the United States and Europe. The Company is in the process of attending medical device trade shows and attending introductory meetings with medical device distributors within the United States, Europe, and other international markets. The Company's focus will be on marketing the Epidural medical and trainer instruments in the United States.

NOTE 2 - LIQUIDITY AND GOING CONCERN:

The Company has evaluated whether there are conditions or events, considered taken together, which raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are issued. Milestone Medical has incurred significant operating losses since its inception. As of June 30, 2023, cash on hand was \$4,051 with negative working capital of approximately \$27.5 million.

As of June 30, 2023, the Company does not have sufficient cash to meet all its anticipated obligations for the next twelve months from the financial statement issuance date. These factors raise substantial doubt about the Company's ability to continue as a going concern. Milestone Medical will continue to manage its cash position while taking strategic steps to commercialize the Epidural instrument in the USA and throughout the world.

If Milestone Scientific, Inc. does not or is not able to lend appropriate amounts of funding and Milestone Medical is unable to obtain other sources of funding, there will be a material adverse effect on the Company. The financial statements do not include any adjustments relating to recoverability and classification of assets carrying amounts or the amounts and classification of liabilities that might result should the company be unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present such interim results. Interim results are not necessarily indicative of the results of operations which may be expected for a full year or any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2022, included in Milestone Medical's Annual Report filed on March 21, 2023.

Basis of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses

during the reporting period. The most significant estimates relate to inventory realization and cash flow assumptions regarding going concern considerations. Actual results could differ from estimates.

Inventories

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or net realizable value. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess, slow moving, defective, and obsolete inventory is recorded if required based on past and expected future sales, potential technological obsolescence, and product expiration requirements. The valuation allowance creates a new cost basis for the inventory, and it is not subsequently marked up through a reduction in the valuation allowance based on any changes in the underlying facts and circumstances. The valuation allowance is only reduced if or when the underlying inventory is sold or destroyed.

Advances to Contractors

The advances to contractors represent funding to a subcontractor for parts required for epidural instrument manufacturing and repairs. On June 30, 2023 and December 31, 2022, advances to contractors were \$75,686.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To assess revenue recognition for its customer arrangements, the Company performs the following five steps:

- i. identification of the promised goods or services in the contract;
- ii. determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; a performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account;
- iii. measurement of the transaction price, including the constraint on variable consideration;
- iv. allocation of the transaction price to the performance obligations based on estimated selling prices; and
- v. recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company derives its revenues from the sale of its products, primarily medical instruments, handpieces/disposables, and other related products. The Company sells its products primarily through medical facilities and a global distribution network. Revenue from product sales is recognized upon transfer of control of a product to a customer, generally upon date of shipment. For certain arrangements where the shipping terms are FOB destination, revenue is recognized upon delivery.

The Company has no obligation on product sales for any installation, set-up, or maintenance, these being the responsibility of the buyer. The Company's only obligation after sale, except for specific contracts and arrangements that provide for customer right to return provisions, is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period. We generally do not accept non-defective returns from our customers. Product returns under warranty are accepted, evaluated, and repaired or replaced in accordance with the Company's warranty policy. Returns not within the warranty policy are evaluated and the customer is charged for repair.

Sales Returns

The Company records allowances for product returns as a reduction of revenue at the time the product sales are recorded. Several factors are considered in determining whether an allowance for product returns is required, including the customers' return rights, the Company's historical experience with returns and the amount of product in the distribution channel not consumed by end users and subject to return.

The Company relies on historical return rates to estimate returns. In the future, if any of these factors and/or the history of product returns change, an adjustment to the allowance for product returns may be required.

Financing and Payment

Our payment terms differ by geography and customer, but payment is generally required within 90 days from the date of shipment or delivery.

Costs to Obtain or Fulfill a Customer Contract

Sales commissions are expensed when incurred because the amortization period would be one year or less. These costs are recorded in selling, general and administrative expense in the condensed consolidated statements of operations.

Shipping and handling costs, if any, are paid by or billed to customers at the time of shipment. Domestic and international shipments are FOB shipping point. The Company accounts for any shipping and handling activities related to contracts with customers as fulfillment costs which are included in cost of products sold in the condensed consolidated statements of operations.

Disaggregated Revenue Information

	Three months ended June 30,	
	2023	2022
Domestic: US		
Instruments	\$ (1,000)	\$ -
Handpieces	(1,200)	18,600
Accessories	-	-
Grand Total	<u>\$ (2,200)</u>	<u>\$ 18,600</u>
International: Rest of World		
Instruments	\$ -	\$ -
Handpieces	-	20,000
Accessories	-	-
Grand Total	<u>\$ -</u>	<u>\$ 20,000</u>
Total Product Sales	<u>\$ (2,200)</u>	<u>\$ 38,600</u>

	Six months ended June 30,	
	2023	2022
Domestic: US		
Instruments	\$ -	\$ -
Handpieces	-	26,150
Accessories	-	-
Grand Total	\$ -	\$ 26,150
International: Rest of World		
Instruments	\$ -	\$ -
Handpieces	4,000	20,000
Accessories	-	-
Grand Total	\$ 4,000	\$ 20,000
Total Product Sales	\$ 4,000	\$ 46,150

Research and Development

Research and development costs, which consist principally of new product development costs payable to third parties, are expensed as incurred. Advance payments for the research are amortized to expense either as services are performed or over the relevant service period using the straight-line method.

Income Taxes

Milestone Medical accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company and its Parent Company file a federal income tax return on a consolidated basis. State Income Taxes are filed on a separate company tax return. Income taxes are calculated on a separate return basis.

Deferred tax assets and liabilities are recognized as temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company currently does not recognize certain deferred tax assets because they file a consolidated tax return with Milestone Scientific, Inc., and does not have the legal ability to utilize the deferred tax assets.

On June 30, 2023 and 2022, we had no uncertain tax positions that required recognition in the condensed consolidated financial statements. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the statement of operations. Tax returns for 2019, 2020 and 2021 years are subject to audit by federal and state jurisdictions.

Stock-Based Compensation

Share-based payments to employees and third parties for services are recognized in the Statements of Operations over the service period, as an operating expense, based on the grant-date fair values. The Stock-based compensation has been allocated to Milestone Medical for employees and officers of Milestone

Scientific, Inc. that have provided services to Milestone Medical and were issued stock options and restricted stock awards of Milestone Scientific, Inc.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which amends the guidance on measuring credit losses for certain financial assets measured at amortized cost, including trade receivables. The FASB has subsequently issued several updates to the standard, providing additional guidance on certain topics covered by the standard. This update requires entities to recognize an allowance for credit losses using a forward-looking expected loss impairment model, taking into consideration historical experience, current conditions, and supportable forecasts that impact collectability.

In November 2019, the FASB issued ASU 2019-10, Financial Instruments - Credit Losses (Topic, 326), Derivatives and hedging (Topic 815), and Leases (Topic 842): Effective dates, which deferred the effective date of ASU 2016-13 for the Company. As a result of ASU 2019-10, ASU 2016-13 is effective for all entities with fiscal years beginning after December 15, 2022, including interim periods. As January 1, 2023, the Company adopted ASU 2019-10, Financial Instruments - Credit Losses (Topic, 326), Derivatives and hedging (Topic 815), and Leases (Topic 842) the adoption of this ASU did not have a material impact on our financial statements.

NOTE 4 - INVENTORIES:

Inventories, net consist of the following:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Inventories consists of the following:		
Epidural instruments, net reserve	\$ 199,710	\$ 232,153
Epidural instruments - Trainer	1,626	1,626
Intra-articular instruments, net reserve	-	-
Epidural instruments disposables	53,861	100,344
Component parts and other materials	53,144	69,124
Component parts and other materials - Trainer	1,214	1,214
Total	<u>\$ 309,555</u>	<u>\$ 404,461</u>

There is a full reserve for all intra-articular instrument which was approximately \$450,000 for the period ended June 30, 2023, and December 31, 2022. The Company has an inventory reserve for epidural instruments, handpieces, as of June 30, 2023 and December 31, 2022 for approximately \$582,000. As June 30, 2023 the company made allowance for \$50,000 of obsolete component parts used to make epidural handpieces. These items will be destroyed during third quarter 2023.

NOTE 5 - RELATED PARTY TRANSACTIONS:

On December 31, 2014, Milestone Scientific, Inc. executed a \$2 million line of credit agreement to provide bridge financing to the Company through April 15, 2016. Borrowings under the line bear interest at a rate of 3.25%, the prime rate at the inception of the agreement. In September 2015, the company requested and received approval from the Board of Directors of Milestone Scientific, Inc. to increase the limit of the line of credit increased to \$2.5 million. In January 2016, the credit agreement was again increased to \$3 million hold.

As of June 30, 2023 and December 31, 2022, \$2.8 million is outstanding as due to - related party on the accompany condensed consolidated balance sheets. Additionally, as of June 30, 2023 and December 31, 2022, the Company owes accrued interest on the line of credit of approximately \$721,000 and \$676,000, which is reported as accrued interest payable- related party on the condensed consolidated balance sheets. Interest is payable based on availability of funds. No interest has been paid to the parent Company since the inception of the loan. As of the financial report issuance date, Milestone Scientific, Inc. has not demanded payment of the line of credit.

The technology underlying the CompuFlo®, and an improvement to the controls for CompuDent® were developed by the Director of Clinical Affairs and assigned to the Parent Company. Milestone Medical purchased a license to this technology pursuant to an agreement dated January 1, 2005. The Director of Clinical Affairs will receive payments of 5% of the total sales of the Company's products until the expiration of the last patent carried by Milestone Scientific, Inc. The Director of Clinical Affairs' royalty fee was approximately \$0 and \$310 for the three and six months ended June 30, 2023 and \$1,900 and \$2,300 for the three and six months ended June 30, 2022 respectively.

Also, as of June 30, 2023 and December 31, 2022, the Company owes approximately \$24 million and \$22.7 million, respectively, to Milestone Scientific, Inc. for expenses and cash advances paid on the Company's behalf. As of the financial report issuance date, Milestone Scientific, Inc. has not demanded payment from the Company and these advances bear no interest.

NOTE 6 – CONCENTRATIONS AND SUPPLY UNCERTAINTIES:

The Company relationship with any of its manufacturers could have a material adverse effect on Milestone Medical's ability to produce and sell its products. Although alternate sources of supply exist, and new manufacturing relationships could be established, Milestone Medical would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay.

As of June 30, 2023 and December 31, 2022, the company had no open purchase orders to purchase instruments or handpieces. The advances on contracts represent funding of future epidural instruments, and epidural replacements parts. The balance of the advances as of June 30, 2023 and December 31, 2022 is approximately \$75,000 respectively. The advance is classified as current based on the estimated annual usage of the underlying inventory.

The termination of the manufacturing relationship with any of these manufacturers could have a material adverse effect on Milestone Medical's ability to produce and sell its products. Although alternate sources of supply exist, and new manufacturing relationships could be established, Milestone Medical would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay.

Any curtailment or interruption of the supply, because of termination of such a relationship, would have a material adverse effect on Milestone Medical's financial condition, business, and results of operations.

There were no sales for the three months ended June 30, 2023, For the three months ended June 30, 2022, 100% of net product sales were from three customers/distributors, 12%, 41%, and 52%, respectively.

For the six months ended June 30, 2023, 100% of net product sales were to one customers/distributors, For the six months ended June 30, 2022, 100% of net product sales were to two customers/distributors, 35%, and 43%, respectively.

There were no accounts receivable at June 30, 2023. At December 31, 2022, we had one customer account for 100% of accounts receivable.

NOTE 7 – STOCK BASED COMPENSATION:

Stock-based compensation cost is measured at the grant date on the fair value of the award. Generally, compensation expense is recognized over the vesting period. The stock compensation has been allocated to Milestone Medical for officers and employees of Milestone Scientific, Inc. that have provided services to Milestone Medical and were issued stock options and restricted stock awards of Milestone Scientific, Inc.

Milestone Scientific recognizes compensation expense over the requisite service period. For three and six months ended June 30, 2023 Milestone Scientific recognized \$4,900 and \$9,800, and for three and six months ended June 30, 2022, Milestone Scientific recognized \$4,000, and \$40,000 of total employee compensation cost, respectively, recorded in general and administrative expenses on the statement of operations.

As of June 30, 2023, there were 49,616 restricted shares granted and deferred under the terms of an employment agreement with the Territory Manager of Milestone Scientific. Such shares will be issued to each party upon completion of 2 years of employment. For the three and six months ended June 30, 2023, 2023, the Company recognized stock compensation expense of approximately \$9,400 and \$19,000. As of June 30, 2023, the total unrecognized compensation expense was approximately \$18,700 related to unvested restricted stock awards, which the Company expects to recognize over an estimated weighted-average period of .53 years.

NOTE 8 - COMMITMENTS:

On April 6, 2021, Leonard Osser and Milestone Scientific, Inc. restructured the U.S. Asian Consulting Group, LLC, agreements originally signed July 10, 2017, with the Company. The Consulting Agreement dated as of July 10, 2017 (the “Consulting Agreement”) between the Company and U.S. Asian Consulting Group, LLC, a company of which Mr. Osser is a principal, the compensation increased by \$100,000 to \$200,000, equally split between a cash amount and an amount in shares of Milestone Scientific, Inc. common stock. Compensation under the Consulting Agreement is payable for 9.5 years from the date Mr. Osser steps down as Interim-CEO. Leonard Osser resigned as Interim Chief Executive Officer of the Company effective May 19, 2021. The Company recorded expense of \$50,000 and \$100,000 related to the US Asian Consulting Group, LLC for the three and six months ended June 30, 2023, the Company recorded expense of \$50,000 and \$100,000 related to the US Asian Consulting Group, LLC for the three and six months ended June 30, 2022.

NOTE 9 – SUBSEQUENT EVENTS:

After June 30, 2023 Milestone Scientific, Inc. has advanced Milestone Medical approximately \$95,000 to support the commercialization process for the epidural instrument and other expenses necessary for the day-to-day operations of the Company.

3. Information on the rules applied to the preparation of the report, including information on the changes in applied account rules (policies)

Condensed Consolidated quarterly report for the second quarter of 2023 was prepared in accordance with the rules indicated in Exhibit 3 to the Alternative Trading System Rules “Current and Periodical Information in the Alternative Trading System on the NewConnect market”. Information on applied accounting rules (policies) is presented in Note 3 to the Financial Statement.

4. Brief description of the most important achievements or failures of the Issuer and its Subsidiary during the period of the report as well as a description of the most important factors and events, atypical ones, which impact the achieved results.

On May 9, 2023 the Company announced on ESPI/5/2023 that it has commenced sales of CompuFlo® Epidural disposables into The Sports and Spine Center in Tualatin, Oregon. Adoption of the technology by this clinic follows a successful evaluation process by its founder, Dr. Jimmy Huebert, MD, an interventional pain and sports medicine physician, board certified by the American College of Internal Medicine.

On May 10, 2023 the Company announced on ESPI/6/2023 the successful completion of the first series of epidural steroid injections (ESI) using the CompuFlo Epidural System by physicians under the new American Medical Association (AMA) Current Procedural Terminology (CPT®) guidelines for AI-assisted analgesic epidural needle placement in patients.

On May 16, 2023 the Company announced on ESPI/7/2023 that it has commenced sales of CompuFlo® Epidural disposables into The Pain and Rehabilitation Medical Group in Torrance, California. Adoption of the technology by this clinic follows a successful evaluation process by its founder, Dr. Fabian Proano, an interventional pain medicine physician, who is board-certified by the American Board of Anesthesiology in both anesthesiology and pain medicine. Dr. Proano initially conducted eight cases using the CompuFlo Epidural system, in which he reported 100% success. The evaluation included Epidural Steroid Injection (ESI) procedures within the lumbar, thoracic, and cervical thoracic junction of the spine.

On August 9, 2023 the Company announced on ESPI/9/2023 that it has received positive reimbursement from three commercial payers for the use of the CompuFlo® Epidural System for patients who were involved in motor vehicle accidents and required the epidural procedure for pain management. The epidural procedures were performed by Dr. Didier Demesmin, MD, an interventional pain medicine physician who is board-certified in both anesthesiology and pain medicine. In the opinion of the Board of Directors of the Company, although receipt of reimbursement is encouraging, and opens the door to approval for other use cases, on its own, these initial payments do not yet confer broad coverage for other epidural procedures. Reimbursement can be a time-consuming process, standard for all new medical devices. Nevertheless, it is an important validation of the technology and reimbursement strategy. The Company remains focused on advancing positive reimbursement for the CompuFlo technology amongst all payers by continuing to support the clinicians’ adoption and utilization of the technology in their practices.

5. A description of the status of implementation of activities and investments of the Issuer and its Subsidiary and the timetable of their implementation

The Company remains focused on advancing efforts establishing Milestone’s platform painless and precise drug delivery, providing for the first time objective visual and audible in-tissue pressure feedback, and continuing to expand platform applications. Commercializing our CompuFlo Epidural System, a transformative device for epidural anesthesia procedures expanding the global footprint of our CompuFlo Epidural System by partnering with distribution companies worldwide.

6. If the Issuer and its Subsidiary took initiatives to develop its activities aimed to implement

Milestone Medical, Inc.

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innovative solutions at the enterprise during the period of the report – information on such activities.

The Issuer and its Subsidiary continues to consider and where appropriate include innovative initiatives for its medical instrument in the EU community. The Company continues to work and introduce the Epidural instrument in key medical institutions in the United States.

7. Description of the organization of the group indicating consolidated entities

Up to the date of this report completion, the Issuer does have a special purpose subsidiary Milestone Medical Poland Sp. z.o.o. The purpose of this company is the application and acceptance of Polish Government Grants for research and development of the current and future improvements to the medical instruments. Below the Issuer presents some basic information about its subsidiary:

Table 6 General information about Subsidiary of the Issuer

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

Source: The Issuer

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

Jan A. Haverhals
Chief Executive Officer