



Quarterly report of

MILESTONE MEDICAL, INC.

4th quarter

(from October 1, 2013 to December 31, 2013)

Report include:

1. General information about Milestone Medical
2. Condensed quarterly 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 of the rules applied to the preparation of the report, including information on charges to the applied accounting rules (policies).
4. Brief description of the most important achievements or failures of the issuer during the period of the report as well as a description of the most important factors and events, in particular atypical ones, which impact the achieved results
5. A description of the status of implementation of activities and investments of the issuer and the timetable of their implementation
6. If the issuer 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, February 14, 2014

1. General information

THE ISSUER	MILESTONE MEDICAL, INC. (earlier: Milestone Scientific Research and Development, Inc.)
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Source: The Issuer

1.1. Shareholding structure

In below table shares issuable pursuant to options or warrants are not deemed to be outstanding for computing the ownership percentage of shareholders holding at least 5% of votes at the general meeting, because only currently outstanding shares can vote at the general meeting. For this reason applicable percentages are based only on 22,000,000 shares outstanding on the date of this quarterly report preparation. All percentages are rounded.

Table 1 Shareholder structure with specification of shareholders holding at least 5% of votes at the general meeting

Name of Shareholder	Number of owned shares/votes	Shareholding/votes at General Meeting of Shareholders [%]
MILESTONE SCIENTIFIC, INC.	10,000,000	45.45%
FENG YULIN	2,000,000	9.09%
DONG BINGMEI	2,000,000	9.09%
ZHU YUN	1,600,000	7.27%
WANG TAO	1,600,000	7.27%
OTHERS (<5%)	4,800,000	21.83%
TOTAL	22,000,000	100%

Source: The Issuer

1.2. Board of Directors

Table 2 Board of Directors

NAME OF DIRECTOR	CURRENT AGE	DIRECTOR SINCE	END OF TERM
Leonard A. Osser	67	March 2011	Next Annual Meeting of Shareholders
Feng Yulin	48	March 2011	Next Annual Meeting of Shareholders
Zhu Yun	48	September 2013	Next Annual Meeting of Shareholders
Martin S. Siegel	69	September 2013	Next Annual Meeting of Shareholders

Source: The Issuer

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

On December 31, 2013 the Issuer employed three (3) persons converted into FTEs.

2. Condensed quarterly 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

Milestone Medical Inc.
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.

FINANCIAL STATEMENTS

Three months ended December 31, 2013 and 2012 (unaudited)
Years ended December 31, 2013 (unaudited) and 2012
And from March 8, 2011 (Inception) to December 31, 2013 (unaudited)

Milestone Medical Inc.
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.

Three months ended December 31, 2013 and 2012 (unaudited)
Years ended December 31, 2013 (unaudited) and 2012
and from March 8, 2011 (Inception) to December 31, 2013 (unaudited)

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MILESTONE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
BALANCE SHEETS

<u>ASSETS</u>	December 31, 2013 (Unaudited)	December 31, 2012
Current Assets:		
Cash	\$ 1,881,910	\$ 198,049
Prepaid expenses and other current assets	4,825	-
Advances to contractors	372,074	18,128
Total current assets	2,258,809	216,177
Equipment, net of accumulated depreciation of \$15,871 as of December 31, 2013 and \$471 as of December 31, 2012	61,129	76,529
Intangible Asset	1,500,000	1,500,000
Total assets	<u>\$ 3,819,939</u>	<u>\$ 1,792,706</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable and Accrued Expense	\$ 125,962	\$ 2,157
Total current liabilities	<u>125,962</u>	<u>2,157</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value \$.0001; authorized 5,000,000 shares; 0 shares issued		
Common stock, par value \$.0001; authorized 50,000,000 shares; 22,000,000 shares issued and outstanding at December 31, 2013 and 20,000,000 shares issued and outstanding at December 31, 2012	2,200	2,000
Additional paid-in capital	6,126,834	3,204,000
Accumulated deficit during the development stage	(2,435,057)	(1,415,451)
Total stockholders' equity	<u>3,693,977</u>	<u>1,790,549</u>
Total liabilities and stockholders' equity	<u>\$ 3,819,939</u>	<u>\$ 1,792,706</u>

See Notes to Financial Statements

MILESTONE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
STATEMENTS OF OPERATIONS

	<u>Three Months Ended</u> <u>December 31, 2013</u> <u>(Unaudited)</u>	<u>Three Months Ended</u> <u>December 31, 2012</u> <u>(Unaudited)</u>	<u>Year Ended</u> <u>December 31, 2013</u> <u>(Unaudited)</u>	<u>Year Ended</u> <u>December 31, 2012</u>	<u>March 8, 2011</u> <u>(Inception) to</u> <u>December 31, 2013</u> <u>(Unaudited)</u>
Revenue	\$ -	-	\$ -	\$ -	\$ -
Research and development expenses	39,094	886,263	315,124	916,263	1,474,184
Expenses:					
Shared Services	230,257	206,000	409,828	206,000	615,828
Depreciation	11,165	471	15,400	471	15,871
General and administrative expenses	161,593	34,523	279,254	49,420	329,175
Total expenses	442,109	1,127,257	1,019,606	1,172,154	2,435,057
Net loss	<u>\$ (442,109)</u>	<u>\$ (1,127,257)</u>	<u>\$ (1,019,606)</u>	<u>\$ (1,172,154)</u>	<u>\$ (2,435,057)</u>
Net loss applicable to common stockholders	<u>\$ (442,109)</u>	<u>\$ (1,127,257)</u>	<u>\$ (1,019,606)</u>	<u>\$ (1,172,154)</u>	<u>\$ (2,435,057)</u>

See Notes to Financial Statements

MILESTONE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
From March 8, 2011 (Inception) to December 31, 2013
(Unaudited)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in	Deficit	Total
	(in thousands)		Capital		
Balance, March 8, 2011 (Inception)	-	\$ -	\$ -	\$ -	\$ -
Beijing 3H - Capital contributions received			670,000		670,000
Common stock issued to Milestone Scientific Inc on April 21, 2011 for	10,000	1,000	1,499,000		1,500,000
Net Loss	-	-	-	(243,298)	(243,298)
Balance, December 31, 2011	10,000	1,000	2,169,000	(243,298)	1,926,702
Beijing 3H - Capital contributions received	-	-	830,000	-	830,000
Common Stock issued to Beijing 3H on August 14, 2012	10,000	1,000	(1,000)		-
Contributed Capital-Milestone Scientific Inc Shared Service Expense	-	-	206,000	-	206,000
Net Loss	-	-	-	(1,172,153)	(1,172,153)
Balance, December 31, 2012	20,000	2000	3,204,000	(1,415,451)	1,790,549
Contributed Capital-Milestone Scientific Inc Shared Service Expense	-	-	409,828	-	409,828
Capital contribution received (cash) shareholders	-	-	150,000	-	150,000
Net proceeds on Private Placement Offering	2,000	200	2,363,006	-	2,363,206
Net Loss	-	-	-	(1,019,606)	(1,019,606)
Balance, December 31, 2013	22,000	\$ 2,200	\$ 6,126,834	\$ (2,435,057)	\$ 3,693,977

See Notes to Financial Statements

MILESTONE MEDICAL INC.
(A DEVELOPMENT STAGE COMPANY)
(Formerly known as MILESTONE SCIENTIFIC RESEARCH & DEVELOPMENT INC.)
STATEMENTS OF CASH FLOWS

	Three Months Ended December 31, 2013 (Unaudited)	Year Ended December 31, 2013 (Unaudited)	Year Ended December 31, 2012	March 8, 2011 (Inception) to December 31, 2013 (Unaudited)
Cash flows from operating activities:				
Net loss	\$ (442,109)	\$ (1,019,606)	\$ (1,172,153)	\$ (2,435,057)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation expense	11,165	15,400	471	15,871
Contributed Capital - Milestone Scientific Inc Shared Services Expense	230,257	409,828	206,000	615,828
Changes in operating assets and liabilities:				
Advances to contractors	(372,074)	(353,946)	331,043	(22,903)
Decrease to prepaid expenses and other current assets	200,827	(4,825)	-	(4,825)
Increase in accounts payable and accrued expenses	(194,761)	123,805	2,157	125,963
Net cash used in operating activities	(566,695)	(829,345)	(632,482)	(1,705,124)
Cash flows from investing activities:				
Purchase of equipment	-	-	(77,000)	(77,000)
Net cash used in investing activities	-	-	(77,000)	(77,000)
Cash flows from financing activities:				
Proceeds from sale of stock (initial capital)	-	-	830,000	1,500,000
Capital contribution received (cash) - shareholders	-	150,000	-	150,000
Net Proceeds on Private Placement Offering	2,363,206	2,363,206	-	2,363,206
Net cash provided by financing activities	2,363,206	2,513,206	830,000	4,013,206
NET (INCREASE) DECREASE IN CASH	1,796,511	1,683,861	120,518	2,231,082
Cash at beginning of period	85,399	198,049	77,531	-
Cash at end of period	\$ 1,881,910	\$ 1,881,910	\$ 198,049	\$ 2,231,082
Supplemental disclosure of non cash activities:				
Contributed Capital - Milestone Scientific Inc Shared Services Expense	230,257	\$ 409,828	\$ 206,000	\$ 615,828
Issuance of 10 million shares of common stock in exchange for intangible assets	\$ -	\$ -	\$ -	\$ 1,500,000

See Notes to Financial Statements

Milestone Medical Inc.
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

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 named Milestone Scientific Research & Development Inc (the “Company”) and develop an intra-articular and epidural drug delivery instruments. Beijing 3H, agreed to contribute up to \$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.

The Company was incorporated in the State of Delaware and is in its development stage. This stage is characterized by significant expenditures for the development, commercialization and for regulatory approval for two medical instruments. As a development stage company, the Company is limited to expending funds provided by its stockholders. Once the Company’s planned principal operations commence, its focus will be on the marketing its two instruments throughout the world.

In June 2013, the Company changed its name to Milestone Medical Inc. The Company changed its Certificate of Incorporation to authorized shares of 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 have been recasted to reflect these changes.

The unaudited financial statements of Milestone Medical have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the six months ended June 30, 2013 and the year ended December 31, 2012.

The Company has incurred operating losses since its inception. The Company has used cash in operations since inception of approximately \$2.8 million. In October and November 2013, the Company raised \$2,363,206 in net proceeds (gross funding was \$3 million) from 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. As a result of the offering and the receipt of the net proceeds, the Company believes it will have sufficient cash flow to continue on its plan for the commercialization of the medical instruments.

Milestone Medical Inc.
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION: (Continued)

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present Milestone's financial position as of December 31, 2013 and the results of its operations for the three and twelve months then ended.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advances to Contractors

The advances to contractors represent funding to a subcontractor, in the fourth quarter for year ended December 31, 2013, for advances on parts required to produce both epidural and intra articular instruments.

Equipment

Equipment (molds for pre-production and commercialized instruments) are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from five to seven years. The costs of maintenance and repairs are charged to operations as incurred.

Intangible Asset

In connection with the formation and capitalization of the Company, the business was valued at inception using the discounted cash flow method, which resulted in a valuation of approximately \$3 million. The Company allocated the business valuation between the cash that Beijing 3H agreed to contribute (\$1.5 million) and the remaining \$1.5 million was allocated to Milestone Scientific Inc.'s contribution of a royalty-free right to use its patented CompuFlow technology

Milestone Medical Inc.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(intangible asset). The Company will begin amortizing the intangible asset contributed when either of the two medical devices has been commercialized. The asset's estimated useful life will be based on the average remaining life of the underlying patents. In the development stage the Company assesses the intangible asset for impairment at each reporting period or sooner if there are indicators that trigger an earlier assessment. The Company's impairment assessment is based on several factors including the progress made in developing the two medical instruments, the results from the research performed by the vendor, the Company's ability to use its technical capabilities to forecast the outcome of the research being performed and more recently feedback received from professionals as the Company applies for FDA approval. All these factors indicate that the technology continues to be feasible to be used in the two instruments being developed. Accordingly, no impairment has been recorded in these financial statements for the periods being reported.

Research and Development

Research and development costs are expensed as incurred. The Company's research and development efforts are sub-contracted to vendors and progress is monitored periodically.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Accounting for Uncertain Tax Positions

The Company follows the Income Taxes Topic of the FASB Accounting Standards Codification, which provides clarification on accounting for uncertainty in income taxes recognized in the Company's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition.

At December 31 2013 and 2012, no significant income tax uncertainties have been included in the Company's 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. No interest and penalties have been incurred for the years ended December 31, 2013 and 2012 and from

Milestone Medical Inc.
(A Development Stage Company)
Formerly known as Milestone Scientific Research & Development Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

March 8, 2011 (inception) to December 31, 2013. Tax returns since inception are subject to audit by federal and state jurisdictions.

Services Provided by Stockholder

The Company is provided management, financial, engineering and accounting services by the staff of Milestone Scientific, Inc, its joint venture partner. The joint venture partners formalized this agreement in writing during the third quarter of 2013. The value related to these services are charged to the Company on a periodic basis. These charges are included in the financial statements as shared service expense. Additional Paid in Capital has been credited for the rendered services.

NOTE 3 - JOINT VENTURE AGREEMENT:

In connection with the Joint Venture Agreement with Milestone Scientific, Beijing 3H agreed to contribute up to \$1.5 million to the Company for the fifty (50) percent ownership. Beijing 3H contributed \$670,000 in 2011 and the remaining \$830,000 was contributed in 2012. At inception, the Company reviewed this transaction to assess the technological feasibility of the products being developed. Based on the following factors, the Company believed the technology was feasible from inception.

- Milestone Scientific Inc. patented its CompuFlo technology in several instruments.
- The patents were generic for use in the medical and dental markets when granted.
- The capabilities to use this technology existed from CompuFlo technology and as technology evolved the Company has improved the technology over a number of years.
- The Director of Clinical Affairs of the Company was involved significantly in developing these patents initially and his conclusions are that technology is feasible for use in medical devices.

Milestone Scientific Inc. was authorized by the joint venture agreement to manage and oversee the development of the two medical instruments for the Company. In connection with this, Milestone Scientific Inc. entered into an agreement with a vendor to develop the two instruments. Milestone personnel monitored the development of the instruments with the third party vendors on a monthly basis thus ensuring that the instruments are being developed on a timely basis.

Milestone Scientific Inc. charged expenses to the Company based on estimated time expended on the development, supervision and management of the project. For the year ended December 31, 2013, Milestone Scientific Inc. expended approximately \$176,000 on regulatory legal fees (FDA Regulations) and charged the Company \$410,000, \$206,000 and \$616,000 in time charges relating to project management for the years ended December 31, 2013 and 2012 and from

Milestone Medical Inc.
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Formerly known as Milestone Scientific Research & Development Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - JOINT VENTURE AGREEMENT: (Continued)

March 8, 2011 (Inception) to December 31, 2013, respectively. These charges have been credited to additional paid-in capital.

Milestone Scientific Inc. will have distribution responsibility in the U.S. and Canada, while Beijing 3H will distribute products exclusively in the PRC, Macao, Hong Kong and other regions of Asia. The Company will have distribution responsibilities for the rest of the world.

NOTE 4 - STOCKHOLDER'S EQUITY:

In July 2013, the Company requested additional total capital contribution of \$150,000 from its two joint venture partners. In August 2013, such funds were deposited in the Company's cash account.

In June 2013, the Company entered an agreement with an agent in Poland to provide assistance in raising capital in a Private Placement Memorandum (PPM). Such amount, if any, raised in the PPM, are subject to the Company's approval and subsequent listing on the Warsaw stock exchange in Poland. The agreement calls for a service fee payable to the agent if the transaction is consummated. In addition, the Company entered a three year advisory agreement with a firm in Poland for their services provided capital is raised and shares of common stock are listed on the stock exchange.

In October and November 2013, the Company signed subscription agreements for the sale of 2 million shares of the Company's common stock at \$1.50 (4.65 PLN) per share (\$3 million capital raised – net proceeds of \$2,363,006) in a private placement in Poland. The consummation of the private placement was subject to the satisfaction of all the closing conditions including, but not limited to, the admission of the Company's common stock for trading in the Alternative Trading System on the NewConnect Market of the Warsaw Stock Exchange in Poland. As of December 2013, the payment by the new investors was fully received.

The Company changed the Certificate of Incorporation to authorized shares of 50,000,000 common shares, par value \$0.0001 per share and to authorize 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 have been recasted to reflect these changes.

NOTE 5 - RELATED PARTY TRANSACTIONS:

The Company is owned by Milestone Scientific Inc., Beijing 3H and a group of investor (owning approximately nine percent of the outstanding shares). The Company reimbursed approximately \$105,000 of previous research and development expenditures to Milestone Scientific Inc. in 2011. The Company periodically reimburses Milestone Scientific Inc. for the travel and other cost related to the development of the two medical instruments. These expenses reimbursed were \$28,126, \$16,956 and \$45,082 for years ended December 31, 2013 and 2012 and from March 8, 2011 (Inception) to December 31, 2013, respectively.

The Company is provided management, financial, engineering and accounting services by the staff of Milestone Scientific, Inc, its joint venture partner. The cost related to these services are charged to the Company on a periodic basis as described in Note 3.

During the year ended December 31, 2013, the Company purchased equipment for \$77,000 from a supplier who is also an investor in the Company and Milestone Scientific, Inc.

NOTE 6 - PROVISION FOR INCOME TAXES:

The Company's deferred tax asset has not been recognized in the accompanying financial statements due to the Company's history of operating losses, which required full valuation allowances for all of the Company's deferred tax assets at December 31, 2013 and 2012 and for the period March 8, 2011 (Inception) to December 31, 2013.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>Cumulative Inception to Date</u>
Current:			
Federal	\$ 338,000	\$ 376,000	\$ 792,000
State	59,000	66,000	138,000
Deferred:			
Federal	3,000	-	3,000
State	1,000	-	1,000
Subtotal	<u>401,000</u>	<u>442,000</u>	<u>934,000</u>
Valuation allowance	<u>(401,000)</u>	<u>(442,000)</u>	<u>(934,000)</u>
Current deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net operating loss carryforward	<u>934,000</u>	<u>566,000</u>	<u>934,000</u>
Valuation allowance	<u>(934,000)</u>	<u>(566,000)</u>	<u>(934,000)</u>
Non-current deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2013 and 2012, the Company has federal net operating loss carryforwards of approximately \$2,400,000 and \$1,341,000, respectively that will be available to offset future taxable income, if any, through December 2032.

The Company has state net operating losses of approximately \$2,400,000 and \$1,341,000 as of December 31, 2013 and 2012, respectively, expiring through December 2016. The utilization of the Company's net operating losses may be subject to a substantial limitation due to the "change of

NOTE 6 - PROVISION FOR INCOME TAXES: (Continued)

ownership provisions” under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of the net operating loss carry forwards before their utilization. Milestone has established a 100% valuation allowance for all of its deferred tax assets due to uncertainty as to their future realization.

At the years ended December 31, 2013 and 2012, the deferred tax assets are comprised of the following:

	December 31, 2013	December 31, 2012
Benefit from net operating loss	\$ 934,000	\$ 536,000
Timing differences for depreciation	4,000	-
Valuation allowance	(938,000)	(536,000)
Total	<u>\$ -</u>	<u>\$ -</u>

A full valuation allowance has been established against deferred tax assets since there is no assurance that the Company will generate taxable income to utilize some or all of its net loss carryforwards.

Reconciliation between the amount of income tax expense attributable to continuing operations and the amount determined by applying the applicable U.S. statutory income tax rate to pre-tax. There were no significant differences between the Company’s effective tax rate and the statutory tax rates in any of the financial periods reported.

A reconciliation of the statutory tax rates for the years ended December 31, 2013 and 2012 and March 8, 2011 (Inception) to December 31, 2013 are as follows:

	December 31, 2013	December 31, 2012	Cumulative Inception to Date
Statutory rate	(34)%	(34)%	(34)%
State income tax - all states	(6)%	(6)%	(6)%
	(40)%	(40)%	(40)%
Current year valuation allowance	40%	40%	40%
Benefit for income taxes	<u>0%</u>	<u>0%</u>	<u>0%</u>

NOTE 7 - CONCENTRATIONS:

Cash

The Company maintains cash balances in a financial institution. At various times during the period, balances may have exceeded insured limits.

Vendor

The Company sub-contracts its research and development to a vendor which accounted for 44%, 78% and 70% of total expenses incurred for the years ended December 31, 2013 and 2012, and from March 8, 2011 (Inception) to December 31, 2013, respectively.

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

4Q 2013 report was prepared in accordance with 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) was presented in Note 2 to financial Statement.

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

During the fourth quarter ending December 31, 2013, the Company continued the process of obtaining regulatory approval for the two medical instruments (Epidural and Intra-Articular Injections Systems). The regulatory approval process is both for the USA (FDA) and the European Community (CE) and both processes are paralleling each other. The Company has also participated in a medical device trade show in the USA, during the quarter. Additionally, the Company is continuing its efforts to identify and meet with potential distributors for both instruments throughout the world. This is an ongoing process, but it is important to have the respective distributors identified and ready to begin the sales process once regulatory approval is received. Additionally, the Company was successful, during the quarter in raising \$3.0 million (2 million shares), \$1.50 (4.65 PLN) per share in a Private Placement Memorandum in Poland. The two million shares were issued and listed on the NewConnect Market of the Warsaw Stock Exchange during the fourth quarter. There were no failures noted during the quarter.

5. A description of the status of implementation of activities and investments of the issuer and the timetable of their implementation

The Issuer expects to commence marketing and sale of its epidural instruments, following obtaining U.S. FDA or CE (European Markets) marketing approval, which approval is expected

before the end of the third quarter 2014. The process is moving forward at a slower rate than previously anticipated. Since the Issuer's intra-articular instrument is at an earlier stage of development and further development of that instrument and its disposable to reflect the needs and preferences of potential users is expected marketing and sales will occur at a later date, even if the U.S. FDA marketing approval is obtained on the recently filed application. Marketing and sale of the intra-articular instrument is expected to begin approximately one year following FDA marketing approval.

6. If the issuer took initiatives to develop its activities aimed to implement innovative solutions at the enterprise during the period of the report – information on such activities

The Company continues to consider and where appropriate include innovative initiatives for its two medical instruments. During the quarter, there were no new initiatives, other than those described in Item #3, above.

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

Up to the date of this report completion, the Issuer doesn't have any subsidiary, so it doesn't constitute a capital group. For this reason the Issuer doesn't prepare consolidated financial statements.

Leonard A. Osser
Chief Executive Officer