Osprey Medical Preliminary Final Report and Consolidated Financial Statements

February 27, 2017- Minnesota, United States and Melbourne, Australia – Osprey Medical (ASX: OSP) today released its Appendix 4E Preliminary Final Report for the full year ended 31 December 2016 and its audited consolidated financial statements, with accompanying notes.

Key financial details

- Full year sales revenue of US$585,140, up 238.1% from prior corresponding period (FY15: US$173,090)
- Full year net loss of US$11.7 million, down 3.5% from prior corresponding period (FY15: US$12.2 million)
- Proceeds of A$29 million from an oversubscribed capital raising completed in September 2016
- Cash, deposits at call, and long term fixed interest term deposits of US$21.9 million at 31 December 2016 (FY15: US$11.8 million)

Operational achievements

- Nine consecutive quarters of sales growth with double digit growth in each quarter of 2016
- Original sales territory in central Texas reached cash flow positive with 70% of the hospitals in San Antonio purchasing DyeVert
- Full US launch underway with the hiring of 13 new reps in 2016 and plans for up to 28 in 2017
- DyeVert received FDA clearance for expanded marketing claims of dye reduction, image quality and reflux reduction
- DyeVert featured in ten podium presentations at four major cardiology meetings in 2016

Sales momentum in the United States

Osprey initiated full US commercialization in 2016, hiring 13 additional sales reps throughout 2016 ending the year with 15 sales territories. The company's sales strategy was to rapidly increase the number of sales reps once its commercialization platform was in place – an achievement which occurred in late 2015/early 2016 following FDA clearance for expanded marketing claims and the development of a sales blueprint in its pilot territory in San Antonio, Texas.

Osprey's pilot sales program in San Antonio, Texas provided valuable experience and understanding of the sales adoption process for our dye savings technologies. For each step in the sales process, the company established selling systems and tools that could be leveraged to drive product adoption across all territories.

In 2016, Osprey Medical continued to see the results of its investment in the sales platform became evidence, generating data that will be used to further refine the sales approach. More than 85 hospitals evaluated the DyeVert System during the year, with 45 adopting the technology and placing consistent orders and 40 working through the approval process. New sales reps reported that customers were very receptive to the products, with 90% of physicians approached progressing to the evaluate stage of the DyeVert System. These physicians also supported its purchase with the hospital Value Assessment Committee (an independent review group for new technologies), which is a necessary step for Osprey to sell its products within a hospital system.

The process from sample to purchase averages 3-4 months, at which point the focus shifts to expanding the product reach to all physicians within a hospital. This strategy is focused on ensuring that all patients with poor kidney function presenting at a hospital are protected with DyeVert.

Osprey is very pleased with the strong positive response the sales force continue to receive from physicians and the hospital value assessment committees, as it reflects the refinement of the customer acquisition process and compelling value proposition of the DyeVert System at saving dye and its ease of use.

In 2017, Osprey will continue to leverage its sales platform by adding new reps in states where there is a large population of patients who are at risk of Contrast-Induced Acute Kidney Injury (CI-AKI). By the end of 2017, Osprey plans to have up to 28 sales territories and further penetration with existing hospital accounts.

Podium presentations and publications

A key part of Osprey's commercialization strategy is to present on the podium at leading industry events to drive product awareness among the physician community. Osprey's technology was featured in ten podium presentations at key heart meetings in 2016. In April, Osprey had two presentations at the CardioRenal Connections Meeting; in May, Osprey had three presentations at the SCAI and one presentation at the EuroPCR; and in October, Osprey had four presentations at the TCT conference. These presentations featured the DyeVert System benefits of +40% dye savings, without compromised image quality which align with industry guidelines to minimize dye in patients with poor kidney function.

DyeVert™ PLUS receives CE Mark, FDA clearance expected 1Q 2017

The DyeVert PLUS augments Osprey's existing dye savings portfolio with the capability to actively manage dye dose during coronary interventions. DyeVert PLUS received European CE Mark in 4Q 2016 and the company subsequently validated its strong value proposition with multiple physicians in Germany and Italy showing 44% contrast reduction with strong positive feedback on the utility of real-time contrast monitoring.

Through wireless communication, the system interfaces with a "smart syringe" and reusable LCD monitor. Recently published industry guidelines communicated a strong focus on dye management of kidney-impaired patients, for which the DyeVert PLUS addresses. DyeVert PLUS allows for the minimization of contrast dose, contrast monitoring in real-time, and for physicians to be informed when limits (based on kidney function) are reached.

Outlook

Osprey aims to establish the DyeVert System as the standard of care for all physicians treating patients at risk of CI-AKI. Sales revenue is expected to grow as the number of hospitals and physicians using DyeVert and DyeVert PLUS increases and as we pick up momentum from a broader US sales footprint. Importantly, we will continue to expand our network of key opinion leading physicians and hospital centres of excellence which is expected to provide the framework for accelerating sales throughout 2017.

Key areas of focus for 2017 include:

1) **Continued US commercial penetration** – Osprey will hire additional sales representatives in 2017 with the goal of establishing the DyeVert and DyeVert PLUS as the standard of care for physicians treating patients at risk of dye related kidney damage
2) **European pilot commercial launch** – Osprey will initiate EU commercial pilot activities in several countries in Europe to understand the keys to market adoption in preparation for full EU commercialization planned for 2018
3) **Product development** – Osprey is targeting commercialization of the DyeVert PLUS featuring real-time tracking of contrast use through the procedure and accurate measurement of dye delivered to the patient and saved by DyeVert
4) **Market development** – Podium presentations and peer reviewed journal articles on the performance of the DyeVert and DyeVert PLUS System and the importance of dye reduction and monitoring for all patients at risk of dye related kidney damage

The Appendix 4E and attached audited consolidated financial statements for years ended 31 December 2016 and 2015 have been prepared in U.S. dollars. Also attached is the Report of the Independent Auditor, Baker Tilly Virchow Krause, LLP.

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About Osprey

Osprey Medical's vision is to make heart imaging procedures safer for patients with poor kidney function. The amount of dye (contrast) used during angiographic imaging procedures increases the patient's risk for dye-related kidney damage known as Contrast Induced Acute Kidney Injury (AKI). The Company's core technologies originated from research conducted by Dr David Kaye at Melbourne's Baker Institute. Its proprietary dye reduction and monitoring technologies are designed to help physicians minimize dye usage and monitor the dose of dye real time throughout the procedure. The Company's DyeVert™ Plus System reduces contrast while maintaining image quality in a self-adjusting easy-to-use design that monitors dye usage. Osprey Medical's Board and Management are comprised of experienced and successful personnel with established track records covering medical device development, regulatory approvals, sales and marketing, and mergers-acquisitions. Osprey Medical's advisory board comprises world-recognised experts in heart and kidney diseases.

Forward-Looking Statements

This announcement contains or may contain forward-looking statements that are based on management's beliefs, assumptions, and expectations and on information currently available to management. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements, including without limitation our expectations with respect to our ability to commercialize our products including our estimates of potential revenues, costs, profitability and financial performance; our ability to develop and commercialize new products including our ability to obtain reimbursement for our products; our expectations with respect to our clinical trials, including enrolment in or completion of our clinical trials and our associated regulatory submissions and approvals; our expectations with respect to the integrity or capabilities of our intellectual property position. Management believes that these forward-looking statements are reasonable as and when made. You should not place undue reliance on forward-looking statements because they speak only as of the date when made. Osprey does not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Osprey may not actually achieve the plans, projections or expectations disclosed in forward-looking statements, and actual results, developments or events could differ materially from those disclosed in the forward-looking statements.

Foreign Ownership Restriction

Osprey's CHESS Depositary Interests (CDIs) are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers or sales which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. The holders of Osprey's CDIs are unable to sell the CDIs into the US or to a US person unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. Hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

APPENDIX 4E (RULE 4.3A)

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

31 DECEMBER 2016 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2015)

	$USD	up/down	% movement
Revenue from ordinary activities	$585,140	up	238.1%
Loss after tax from ordinary activities attributable to members	($11,736,505)	down	3.51%
Loss after tax attributable to members	($11,736,505)	down	3.51%

Dividend information	Amount per security $USD	Franked amount per security $USD	Tax rate for franking credit
Interim dividend	Nil	Nil	N/A
Previous corresponding dividend	Nil	Nil	N/A

Net tangible asset backing	31 Dec 2016 $USD	31 Dec 2015 $USD
Net tangible asset per share of common stock	$0.17	$0.15
Net tangible asset per CDI	$0.085	$0.075

- **Annual financial results:** This report is based on the accompanying consolidated 2016 Financial Statements which have been audited by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Report included in the 2016 Financial Statements.
- **Changes in control over entities:** There were no entities over which control has been gained or lost during 2016.
- **Details of dividends and dividend reinvestment plans:** No dividends have been declared or proposed.
- **Details of associates or joint ventures:** N/A
- **Set of accounting standards used in compiling the report:** The audited consolidated financial statement have been prepared in accordance with accounting principles generally accepted in the U.S. (US GAAP) and are denominated in U.S. dollars.
- **Details of audit disputes or audit qualification:** None

A commentary on the results for the period:

The net loss for the year decreased to $11,736,505 compared to $12,163,058 for the previous corresponding period.

Total revenue for the year was $585,140 compared to $173,090 for the previous corresponding period.

Total operating expenses decreased to $11,595,036 from $12,027,164 as a result of decreased expenses associated with clinical trial, offset by increased sales and marketing, and research and development activity to support and enhance the company's products and platforms.

The Company had cash and cash equivalents of $21,853,439 at 31 December 2016 compared to 11,784,567 at 31 December 2015. Net cash flow from financing activities for the year was $21,008,532.

The company operated in one segment only during the period and there were no returns to shareholders or share buy backs.

Please refer to our audited consolidated financial statements, with accompanying notes, which are attached hereto.

Annual Meeting of Stockholders

The Annual Meeting of stockholders will be held at *Johnson Winter & Slattery*'s Melbourne office, Level 34, 55 Collins Street, Melbourne, Victoria, Australia on Thursday, 18 May 2017 at 9.00am Australian Eastern Standard Time, (Wednesday, 17 May 2017 at 6.00pm U.S. Central Time).

OSPREY MEDICAL, INC. AND SUBSIDIARY
Minnetonka, Minnesota

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

OSPREY MEDICAL, INC. AND SUBSIDIARY

TABLE OF CONTENTS

INDEPENDENT AUDITORS' 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 audited the accompanying consolidated financial statements of Osprey Medical, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Osprey Medical, Inc. and Subsidiary as of December 31, 2016 and 2015 and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 24, 2017

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 21,853,439	$ 11,784,567
Accounts receivable	134,946	36,140
Prepaid expenses	61,809	89,963
Inventory	260,936	300,567
Other current assets	-	7,500
Total Current Assets	22,311,130	12,218,737
PROPERTY AND EQUIPMENT		
Office and computer equipment	345,637	314,362
Laboratory equipment	708,586	323,900
Furniture and fixtures	46,103	46,103
Less: Accumulated depreciation	(553,477)	(431,481)
Net Property and Equipment	546,849	252,884
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $118,712 and $106,216 as of December 31, 2016 and 2015, respectively	108,299	120,795
Other Asset	12,250	12,250
Total Other Assets	120,549	133,045
TOTAL ASSETS	$ 22,978,528	$ 12,604,666

LIABILITIES AND SHAREHOLDERS' EQUITY

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 415,543	$ 302,822
Accrued expenses	786,819	520,456
Accrued vacation	118,230	103,384
Total Current Liabilities	1,320,592	926,662
LONG-TERM LIABILITIES		
Accrued rent	21,172	36,103
Total Liabilities	1,341,764	962,765
SHAREHOLDERS' EQUITY		
Preferred stock, $0.0001 par value; 20,000,000 and 32,500,000 authorized shares; none issued and outstanding as of December 31, 2016 and 2015, respectively	-	-
Common stock, $0.0001 par value; 180,000,000 and 80,000,000 authorized shares; 128,869,627 and 77,083,913 shares issued and outstanding as of December 31, 2016 and 2015, respectively	12,887	7,708
Additional paid-in capital	86,524,388	64,798,199
Deficit	(64,900,511)	(53,164,006)
Total Shareholders' Equity	21,636,764	11,641,901
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 22,978,528	$ 12,604,666

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015

	2016	2015
SALES	$ 585,140	$ 173,090
COST OF SALES	743,812	371,660
Gross Loss	(158,672)	(198,570)
OPERATING EXPENSES		
Sales and marketing	3,810,267	1,700,295
General and administrative	2,715,580	3,064,715
Clinical and regulatory	1,603,047	4,345,749
Research and development	3,466,142	2,916,405
Total Operating Expenses	11,595,036	12,027,164
Operating Loss	(11,753,708)	(12,225,734)
OTHER INCOME (EXPENSE)		
Other income (expense)	17,783	63,256
Net Other Income	17,783	63,256
Loss Before Taxes	(11,735,925)	(12,162,478)
Income tax provision	580	580
NET LOSS	$ (11,736,505)	$ (12,163,058)
EARNINGS PER SHARE:		
Basic and diluted loss per common share	$ 0.12	$ 0.17
Basic and Diluted Weighted average shares outstanding	94,345,818	73,215,038

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015

	Common Stock		Additional Paid-in	Accumulated	Total Shareholders'
	Shares	Amount	Capital	Deficit	Equity
BALANCES, December 31, 2014	61,608,412	$ 6,161	$ 52,102,859	$ (41,000,948)	$ 11,108,072
Issuance of common stock at $0.82 per share, net of issuance costs of $704,952	15,400,000	1,540	11,894,024	-	11,895,564
Exercise of stock options	75,501	7	26,878	-	26,885
Stock-based compensation expense	-	-	774,438	-	774,438
2015 net loss	-	-	-	(12,163,058)	(12,163,058)
BALANCES, December 31, 2015	77,083,913	7,708	64,798,199	(53,164,006)	11,641,901
Issuance of common stock at $0.42 per share, net of issuance costs of $888,358	51,785,714	5,179	21,003,353		21,008,532
Stock-based compensation expense	-	-	722,836	-	722,836
2016 net loss	-	-	-	(11,736,505)	(11,736,505)
BALANCES, December 31, 2016	128,869,627	$ 12,887	$ 86,524,388	$ (64,900,511)	$ 21,636,764

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOW
For the Years Ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (11,736,505)	$ (12,163,058)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	121,996	120,034
Amortization	12,496	12,496
Stock-based compensation expense	722,836	774,438
Amortization of discount on held-to-maturity investments	-	31,260
Changes in operating assets and liabilities		
Accounts receivable	(98,806)	(31,209)
Prepaid expenses	28,154	(40,787)
Inventory	39,631	(68,113)
Other current assets	7,500	65,071
Accounts payable	112,721	57,971
Accrued expenses	266,363	(37,916)
Accrued rent	(14,931)	(12,954)
Accrued vacation	14,846	(12,335)
Deferred grant	-	(258,861)
Net Cash Flows from Operating Activities	(10,523,699)	(11,563,963)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	-	(550,748)
Proceeds from held-to-maturity investments	-	7,700,748
Purchases of property and equipment	(415,961)	(119,790)
Change in restricted cash	-	253,063
Net Cash Flows from Investing Activities	(415,961)	7,283,273
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock, net of issuance costs	21,008,532	11,895,564
Proceeds from exercise of stock options	-	26,885
Net Cash Flows from Financing Activities	21,008,532	11,922,449
Net Change in Cash and Cash Equivalents	10,068,872	7,641,759
CASH AND CASH EQUIVALENTS - Beginning of Year	11,784,567	4,142,808
CASH AND CASH EQUIVALENTS - END OF Year	$ 21,853,439	$ 11,784,567
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for income taxes	$ 580	$ 580

See accompanying notes to consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

Osprey Medical, Inc. ("Osprey Medical" or the "Company") is a US based company focused on protecting patients from the harmful effects of X-ray dye (contrast) used during commonly performed angiographic imaging procedures. The Company's core technologies originated from research conducted at Melbourne's Baker IDI Heart and Diabetes Institute. Its proprietary dye reduction and monitoring technologies are designed to help physicians minimize dye usage. The Company's DyeVert™ System is a next-generation product that reduces contrast while maintaining image quality in a self-adjusting easy-to-use design.

Osprey Medical's products are designed to reduce the amount of dye injected into patients during standard cardiovascular and peripheral procedures (angiogram and stenting). Published literature indicates approximately 25% of patients undergoing standard cardiovascular procedures have preexisting Chronic Kidney Disease (CKD) and are at high risk of further kidney damage called Contrast Induced Acute Kidney Injury (CI-AKI). Reducing the amount of dye injected in CKD patients is aligned with cardiology and radiology society guidelines that urge physicians to use dye sparing approaches in patients at risk of CI-AKI. Prevention of CI-AKI may lead to shorter hospital stays, improved patient outcomes, and may ultimately save patients' lives.

Following successful clinical trials, the Company obtained European Regulatory approval (CE Mark), TGA approval, and US FDA clearance for the AVERT™, AVERT Plus and DyeVert System. The Company received FDA clearance for medical claims of dye savings, image quality and reflux reduction for its products.

In 2015, the Company commenced a controlled commercial launch of its products in the state of Texas. Following FDA clearance of Osprey's dye savings, image quality and reflux reduction claims, Osprey started increasing its US sales force to commercialize the DyeVert System. As of December 31, 2016, the Company had sales reps in 15 territories.

Osprey Medical's patent portfolio comprises of 10 issued US patents, 14 issued international patents; 15 pending US patent applications, and PCT filings resulting in 11 National Stage Applications in the European Union (Germany, France and Great Britain), Japan and Australia.

On October 30, 2007, the Company formed a wholly-owned Australian subsidiary with the name Osprey Medical Pty. Ltd. (OM Pty) for the purpose of conducting research on future products. The subsidiary began operations in early 2008.

Principles of Presentation

The consolidated financial statements include the accounts of the Company's wholly-owned Australian subsidiary, OM Pty. All intercompany accounts and transactions have been eliminated in consolidation.

The US dollar is the functional currency of OM Pty, and as a result, all currency gains and losses are reflected in operations. Currency gains and losses include realized amounts on transactions, and unrealized amounts related to translating accounts from local currency to the functional currency, with translation accomplished using the current rate method.

In its consolidated statement of operations, the Company segregates its operating expenses into five categories that provide useful information to both management and Company shareholders.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with maturities of three months or less from their date of purchase. The Company maintains cash balances that exceed federally insured limits; however, it has not incurred losses on such amounts.

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 December 31, 2016, and 2015.

Inventories

Inventories are stated at lower of cost (using the first-in, first-out method) or market, and are as follows as of December 31:

	2016	2015
Raw Materials	$ 242,421	$ 275,803
Finished Goods	18,515	24,764
Total	$ 260,936	$ 300,567

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.

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

Property and Equipment

Property and equipment are recorded at cost, and depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets:

	Years
Computer equipment	3
Furniture and fixtures	7
Lab equipment	5

Maintenance and repairs are charged to expense as incurred. Depreciation expense on property and equipment was $ 121,996 and $120,034 for the years ended December 31, 2016 and 2015, respectively.

Intangible Assets

Intellectual property acquired for consideration is recorded either as research and development expense or as intangible assets, as appropriate to the use of the property. Intellectual property that has multiple future uses is capitalized when acquired, and single use property is expensed as research and development. The Company's recorded intangible assets are comprised entirely of patent applications acquired from V Kardia Pty. (VK Pty) for which there were multiple future uses. At acquisition of these assets there was a difference between the value of the asset acquired and its tax basis, and the Company increased the assigned value of the asset acquired by the amount of the related deferred tax liability. The Company amortizes intangible assets on a straight-line basis over their expected economic lives, which is equivalent to the time from acquisition through expiration of the patents expected to be issued from the acquired patent applications. The intangible assets acquired in June 2007 are expected to have a life of approximately 18 years from the date of acquisition. Intangible assets are reviewed for impairment whenever events or changes in business circumstances indicate carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from related assets are less than their carrying values.

Revenue Recognition

The Company recognizes revenue when the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Shipping and handling costs charged to customers have been included in net sales. Shipping and handling costs incurred by the Company have been included in cost of sales. The Company presents taxes imposed on revenue-producing transactions on a net basis.

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

Lease Expense

The Company recognizes rental expense for operating leases on a straight-line basis over the term of the lease.

Research and Development Costs

Research and development costs are charged to expense as incurred. The Company has acquired licenses to intellectual property that do not have multiple uses, and records such acquisition costs as research and development as incurred. Consideration for such intellectual property includes current and future payments of cash, issuance of common stock and warrants to acquire common stock.

Certain activities of OM Pty are eligible for local research grants. The Company has applied for and received portions of amounts related to such grants. All amounts recognized are offset against research and development expenses for reporting purposes. Total amounts offsetting research and development expenses were $0 and $7,223 for the years ended December 31, 2016 and 2015, respectively.

The Company accrues proceeds received under such grants when not earned and offsets research and development expenses over the timelines associated with completion of the contracts' specific objectives and milestones. There were no deferred grant proceeds as of December 31, 2016 and 2015.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of the assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce net deferred tax assets when it believes it is more likely than not that all or part of its deferred tax assets will not be realized.

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

Stock-Based Compensation

The Company accounts for stock-based payment transactions when it receives employee or supplier goods and services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments using a fair-value-based method. The Company uses the Black-Scholes-Merton (BSM) option pricing model to determine the fair value of stock-based awards. The fair value of stock-based payments is recognized over the requisite service period.

Issuance of Stock

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

Going Concern

The financial statements are prepared on a going concern basis. Management evaluates the ability for the entity to continue as a going concern for at least twelve months from the date the financial statements are issued. In the event management concludes that there is substantial doubt regarding the Company's ability to continue as a going concern, the assumption is emphasized in the financial statement disclosures, and 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.

Fair Value

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

Recent Accounting Pronouncements

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

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

In 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, 'Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the Company in the year ended December 31, 2016, and interim periods beginning March 31, 2017, with early application permitted. We do not anticipate a material impact to the financial statements once implemented.

In 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes now requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The amendment takes effect for public entities for fiscal years beginning after December 15, 2016, with early adoption available. The Company is evaluating the impact of the standard on the consolidated financial statements

In February 2016, the FASB issued ASU No. 2016-02, "Leases." ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

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

Subsequent Events

For the year ended December 31, 2016, the Company has evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the consolidated financial statements for the years ended December 31, 2016 on February 24, 2017.

NOTE 2 – Liquidity

The Company has an accumulated deficit and has not generated significant revenues since inception. The Company expects that its expenses will exceed its revenues at least up to, and likely beyond, the point at which the Company is able to generate significant revenues from its approved products. The Company expects to have enough working capital to operate for at least the next twelve months beyond February 24, 2017.

NOTE 3 - Fair Value Measurements

Generally, fair value is determined on the exchange price which would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company discloses each major asset and liability category measured at fair value on either a recurring or nonrecurring basis and establishes a three tier fair value hierarchy which prioritizes the inputs used in fair value measurements. The three tier hierarchy for inputs used in measuring fair value is as follows:

> Level 1 Observable inputs such as quoted prices in active markets

> Level 2 Inputs other than the quoted prices in active markets that are observable either directly or indirectly

> Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

As of December 31, 2016:	Total	Level 1	Level 2	Level 3
Cash and cash equivalents - money market securities	$ 3,564,015	$ 3,564,105	$ -	$ -

As of December 31, 2015:	Total	Level 1	Level 2	Level 3
Cash and cash equivalents - money market securities	$ 8,051,118	$ 8,051,118	$ -	$ -

NOTE 4 - Leases

In March 2013, the Company signed a new lease for an office space in Minnetonka, Minnesota. In March 2014, the Company signed an amendment to the lease for additional square footage. The lease term, as amended expires in March 2018, and contains no extensions or renewal options. The monthly payments ranging from the same amounts $11,379 to $11,379 for the lease.

Rent expense was $87,100 and $111,942 for the years ended December 31, 2016 and 2015, respectively. Rent is recorded on a straight-line recognition basis and the difference is recorded as an accrued long-term liability.

Under the terms of the leases including the lease for office space, the Company paid monthly base rent and was additionally responsible for its pro rata share of estimated operating expenses, which include utilities, taxes, maintenance, repair, and insurance costs. The minimum remaining lease commitments under the terms of the noncancelable building and equipment lease for the years ending December 31:

NOTE 4 – Leases (cont.)

2017	$	142,177
2018		35,692
Total	$	177,869

NOTE 5 - Employee Benefits

The Company provides a 401k plan as a benefit to its employees. The Company did not provide any matching contributions under the plan during the years ended December 31, 2016 and 2015.

NOTE 6 - Intangible Assets

The Company received a license at inception from its then parent company, VK Pty, to certain intellectual property. That license became inoperative when VK Pty assigned its intellectual property to the Company on June 21, 2007, in advance of preferred stock financing from CM Capital Investments (CMCI). 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 $12,496 for both years ended December 31, 2016 and 2015. Amortization expense will approximate $12,496 in each of the next five years.

NOTE 7 - Income Taxes

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

The Company incurred income tax expense of $580 for both years ended December 31, 2016 and 2015.

As of December 31, 2016, the Company has recorded a valuation allowance to offset its net deferred tax assets due to uncertainty surrounding realization of the net deferred tax assets.

The Company has accumulated net operating losses to be carried forward to future years in the amount of $60,424,646 applicable to income subject to federal income tax and $30,158,186 applicable to income subject to state (Minnesota) income tax as of December 31, 2016. Utilization of these net operating losses to offset future taxable income may be limited and begin to expire in the year ended December 31, 2027.

NOTE 7 – Income Taxes (cont.)

Income tax expense (benefit) consists of the following:

	Year ended December 31, 2016	Year ended December 31, 2015
Current:		
Federal	$ -	$ -
State	580	580
Foreign	-	-
	580	580
Deferred:		
Federal	(3,879,000)	(4,243,000)
State	-	-
Foreign	-	-
	(3,879,000)	(4,243,000)
Deferred tax asset valuation allowance	3,879,000	4,243,000
Total provision (benefit)	$ 580	$ 580

Income tax expense differs from the amount computed at the statutory federal income tax rate of 34% due principally to nondeductible expenses, different rates for foreign jurisdictions and the recognition of a valuation allowance against the net deferred tax asset.

Significant components of deferred tax assets and liabilities as of December 31 are as follows:

	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	$ 22,411,000	$ 18,616,000
Research and development credit	992,000	858,000
Organization costs	2,000	3,000
Accrued vacation	40,000	40,000
Deferred rent	7,000	11,000
Stock-based compensation expense	128,000	104,000
	23,580,000	19,632,000
Deferred tax liability:		
Intangible assets	(37,000)	(38,000)
Property and equipment depreciation	(19,000)	51,000
	(56,000)	13,000
Net deferred tax asset	23,524,000	19,645,000
Valuation allowance	(23,524,000)	(19,645,000)
	$ -	$ -

The valuation allowance for deferred tax assets increased by $3,879,000 and $4,243,000 for the years ended December 31, 2016 and 2015, 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

NOTE 7 – Income Taxes (cont.)

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.

NOTE 8 - Warrants to Purchase Common Stock

The Company had licensed technology from TriCardia in connection with its MVO™ product. That license was executed on December 26, 2006, in exchange for warrants to purchase 160,000 shares of Company common stock at $0.10 per share. The TriCardia warrants were not exercised and expired on December 26, 2016.

NOTE 9 - Common Stock and Preferred Shares

In August 2016, the Company authorized an additional 100,000,000 shares of common stock resulting in a total amount authorized of 180,000,000. In addition, the Company decreased the number of authorized shares of preferred stock by 12,500,000 to 80,000,000.

In August and September 2016, the Company completed a private offering on the Australian Securities Exchange of 50,000,000 shares of common stock at a price to the public of $0.42 per share. In addition, in September 2016, a Security Purchase Plan (SPP) was offered to qualified shareholders of record of 1,785,714 shares of common stock at a price to the public of $0.42 per share. As a result of the total financing, the Company raised approximately $22,000,000 in gross proceeds, before issuance costs of approximately $900,000.

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

As of December 31, 2016 and 2015, respectively, the common shares outstanding were 128,869,627 and 77,083,913. As of December 31, 2016 and 2015 there are no preferred shares outstanding.

NOTE 10 – Weighted Average Shares Calculation

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock warrants and options, if dilutive. Diluted loss per share does not include any of these dilutive effects in its calculation. The number of additional dilutive shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from the exercise were used to acquire shares of common stock at the average market price during the reporting period.

NOTE 10 – Weighted Average Shares Calculation (cont.)

Shares used in the loss per share computations for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Weighted average common shares outstanding – basic	94,345,818	73,215,038
Dilutive effect of stock option and warrants	-	-
Weighted average common shares outstanding – diluted	94,345,818	73,215,038

As of December 31, 2016 and 2015, stock options shares of 10,297,435 and 8,351,726, respectively, were not included as their effect is anti-dilutive due to the loss for the years.

NOTE 11 - 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 8,339,935 shares then outstanding remain available for exercise as of December 31, 2016. 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 Company has reserved 4,160,000 shares of common stock for issuance under the 2016 Plan, as of December 31, 2016. As of December 31, 2016, options issued under the 2016 plan were 1,972,500.

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 a representative sample of four comparable companies in our industry sector.

	Year Ended December 31,2016	Year Ended December 31, 2015
Risk-free interest rate	1.24%	1.59%
Expected volatility	75.44%	76.06%
Expected life (in years)	4.00	3.51
Dividend yield	0.00%	0.00%
Weighted-average estimated fair value of options granted	$ 0.30	$ 0.51

NOTE 11 - 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, 2014	7,533,911	$ 0.75	7.0	
Granted	1,277,500	0.96		
Exercised	(75,500)	(0.36)		
Expired	(384,187)	(0.89)		
Balance as of December 31, 2015	8,351,724	0.75	6.5	
Granted	1,972,500	0.53		
Exercised	-	-		
Expired	(26,789)	(0.95)		
Balance as of December 31, 2016	10,297,435	$ 0.71	6.3	$ 940,205
Exercisable as of December 31, 2016	7,450,322	$ 0.99	5.3	$ 697,628

The aggregate intrinsic value is calculated as approximately the difference between the weighted average exercise price of the underlying awards and the share fair value as of December 31, 2016. The intrinsic value of stock options exercised during the year ended December 31, 2015 was $42,121.

The Company recognized stock-based compensation expense related to stock options of $722,836 and $774,438 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, $1,023,536 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.86 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.