Osprey Medical Preliminary Final Report and Consolidated Financial Statements

February 26, 2018- 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 2017 and its audited consolidated financial statements, with accompanying notes.

Key financial details

- Full year sales revenue of US$1.6 million is 178% higher than in prior corresponding period (FY16: US$0.6 million)
- Full year net loss of US$14.3 million, increased 22% from prior corresponding period (FY16: US$11.7 million)
- Proceeds of A$32.5 million from an oversubscribed capital raising completed in August 2017
- Cash, deposits at call, and long term fixed interest term deposits of US$32.1 million at 31 December 2017 (FY16: US$21.9 million)

Operational achievements

- **Strong quarterly growth trajectory continued:** thirteenth consecutive quarter of sales growth achieved in 4Q17
- **181% year-on-year growth in unit sales**
- **Strong leading indicators for future growth**, with **98 hospitals** having purchased DyeVert or DyeVert Plus by the end of 2017 and **62 hospitals** in the evaluation-to-purchase phase
- **Sales force growth of 53%** with a total of 23 field personnel at the end of CY2017
- DyeVert featured in **ten podium presentations** at six major cardiology meetings in 2017
- New product DyeTect launched in three pilot territories in response to customer demand

Strong sales momentum in the United States

Osprey delivered strong unit sales growth in CY2017 with 4Q17 representing the Company's 13th consecutive quarter of growth since its inception. Unit sales increased by 181% from CY2016.

In CY2017, Osprey increased its sales force by 53%, ending the year with 23 active field personnel. The sales force is comprised of 18 sales representatives, all of whom are seasoned medical device professionals with at least ten years of previous selling experience, and 5 clinical specialists who are either registered nurses or certified technologists. Osprey's sales representatives focus on opening new hospital accounts; clinical specialists focus on driving increased adoption in new hospitals purchasing and using Osprey's devices. Osprey's sales approach is focused on educating physicians on disease protection, and on how to administer the product ensuring that all patients with poor kidney function presenting at a hospital are protected.

More broadly, the Company's sales strategy is focused on leveraging U.S. Food and Drug Administration (USFDA) claims received for dye reduction, along with medical society guidelines that call for reduced dye use in Chronic Kidney Disease (CKD) patients to avoid Contrast Induced Acute Kidney Injury (CI-AKI). Osprey has successfully established selling systems and tools to drive product adoption across all territories using these medical society guidelines, as well as a market development approach highlighting the advantages of DyeVert Plus relative to other devices.

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

In CY2018, Osprey intends to continue to leverage its sales platform by adding new reps in states where there is a large population of patients at risk of CI-AKI. By the end of CY2018, Osprey plans to have up to 35 sales force personnel to open new hospital accounts and drive further penetration and adoption in existing hospital accounts.

Podium presentations and publications

A key component of Osprey's commercialisation strategy is to make podium presentations at leading industry events to drive product awareness among the physician community. Osprey's technology was featured in ten podium presentations at key cardiology conferences in CY2017. These included:

- A presentation at the American College of Cardiology conference (March 2017)
- Three presentations at the Cardio-Renal Connections conference (April 2017)
- Two presentations at the Society of Cardiovascular Angiography and Interventions conference (May 2017)
- Four presentations at the Transcatheter Cardiovascular Therapeutics conference (October 2017)

These presentations prominently featured the DyeVert and DyeVert Plus System benefits of >40% dye savings and dye monitoring, without compromised image quality which align with medical society guidelines to minimize and monitor dye in patients with poor kidney function.

New product DyeTect™ was developed in direct response to customer requests

In 2017 the Company launched the new DyeTect system, which leverages Osprey's existing technology to address an adjacent market opportunity. The concept for DyeTect originated from customers who had used DyeVert Plus and wanted the benefits of real-time dye threshold monitoring and accurate accounting of total dye dose for all dye-based procedures.

The new DyeTect system leverages the DyeVert Plus wireless "smart syringe" and reusable LCD monitor to actively manage dye administration during heart procedures. Cardiology performance measures address the need for dye management and accurate dye dose reporting for all heart procedures. DyeTect allows for real-time dye monitoring and keeps physicians informed when limits (based on kidney function) are reached allowing for the accurate reporting of total dye dose to the patient.

Pilot sales were initiated in the 4Q17, with full roll-out planned in all sales territories in 1Q18.

Outlook

Osprey remains focused on establishing the DyeVert System as the standard of care for all physicians treating patients at risk of CI-AKI. In 2018 the Company expects sales revenue to continue to grow as the number of hospitals and physicians using DyeVert and DyeVert Plus increases, with increased sales momentum from a broader sales footprint and presence in the US. The Company will continue to expand its strong and growing network of key opinion leading physicians and hospital centres of excellence, which is expected to provide the framework for accelerating sales over the course of CY2018 and beyond.

Osprey's key areas of focus for CY2018 include:

1) **Continued US commercial penetration** – Osprey will continue to drive penetration in all existing accounts and rapidly open new hospital accounts throughout CY2018 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; the Company will continue to grow and upskill its sales team in support of this objective
2) **European pilot commercial launch** – Osprey plans to initiate EU commercial pilot activities in several countries in Europe to identify the relevant success factors for adoption of the DyeVert Plus system in each health system; pilot activities are designed to support the Company's preparation for full EU commercial roll-out, currently planned for CY2019
3) **Portfolio development** – In CY2018, Osprey's top product development priority is the addition of a power injector compatible with the DyeVert Plus system. This technology will allow power injection procedures to have the same dye saving advantages as manual injection procedures with DyeVert Plus.
4) **Market development** – the Company continues to advance physician awareness of the importance of dye reduction and monitoring for all patients at risk of dye related kidney damage, and the performance of the DyeVert Plus System, through podium presentations and peer reviewed journal articles

The Appendix 4E and attached audited consolidated financial statements for years ended 31 December 2017 and 2016 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 2017

31 DECEMBER 2017 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2016)

	$USD	up/down	% movement
Revenue from ordinary activities	$1,630,615	up	178.67%
Loss after tax from ordinary activities attributable to members	($14,336,411)	up	22.15%
Loss after tax attributable to members	($14,336,411)	up	22.15%

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 2017 $USD	31 Dec 2016 $USD
Net tangible asset per share of common stock	$0.19	$0.17
Net tangible asset per CDI	$0.095	$0.085

- **Annual financial results:** This report is based on the accompanying consolidated 2017 Financial Statements which have been audited by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Report included in the 2017 Financial Statements.
- **Changes in control over entities:** There were no entities over which control has been gained or lost during 2017.
- **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 increased to $14,336,411 compared to $11,736,505 for the previous corresponding period.

Total revenue for the year was $1,630,615 compared to $585,140 for the previous corresponding period.

Total operating expenses increased to $14,680,083 from $11,595,036 because of increased expenses associated with sales and marketing, in relation to the commercialization efforts of the company.

The Company had cash and cash equivalents of $32,134,848 at 31 December 2017 compared to $21,853,439 at 31 December 2016. Net cash flow from financing activities for the year was $24,449,487.

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, 10 May 2018 at 9.00am Australian Eastern Standard Time (Wednesday, 9 May 2018 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, 2017 and 2016

OSPREY MEDICAL, INC. AND SUBSIDIARY

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BAKER TILLY

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, 2017 and 2016, 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, 2017 and 2016 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 23, 2018

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 32,134,848	$ 21,853,439
Accounts receivable	310,103	134,946
Prepaid expenses	144,446	61,809
Inventory	762,185	260,936
Total Current Assets	33,351,582	22,311,130
PROPERTY AND EQUIPMENT		
Office and computer equipment	374,215	345,637
Laboratory equipment	1,001,848	708,586
Furniture and fixtures	46,103	46,103
Less: Accumulated depreciation	(738,853)	(553,477)
Net Property and Equipment	683,313	546,849
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $131,208 and $118,712 as of December 31, 2017 and 2016, respectively	95,803	108,299
Other asset	12,250	12,250
Total Other Assets	108,053	120,549
TOTAL ASSETS	$ 34,142,948	$ 22,978,528

LIABILITIES AND SHAREHOLDERS' EQUITY

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 557,464	$ 415,543
Accrued payroll and related	1,062,681	786,819
Accrued vacation	159,660	118,230
Total Current Liabilities	1,779,805	1,320,592
LONG-TERM LIABILITIES		
Accrued rent	4,330	21,172
Total Liabilities	1,784,135	1,341,764
SHAREHOLDERS' EQUITY		
Preferred stock, $0.0001 par value; 20,000,000 authorized shares; none issued and outstanding as of December 31, 2017 and 2016, respectively	-	-
Common stock, $0.0001 par value; 630,000,000 and 180,000,000 authorized shares; 169,754,103 and 128,869,627 shares issued and outstanding as of December 31, 2017 and 2016, respectively	16,975	12,887
Additional paid-in capital	111,578,760	86,524,388
Deficit	(79,236,922)	(64,900,511)
Total Shareholders' Equity	32,358,813	21,636,764
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 34,142,948	$ 22,978,528

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016

	2017	2016
SALES	$ 1,630,615	$ 585,140
COST OF SALES	1,393,722	743,812
Gross Profit (Loss)	236,893	(158,672)
OPERATING EXPENSES		
Sales and marketing	7,113,767	3,810,267
General and administrative	3,100,607	2,715,580
Clinical and regulatory	1,239,023	1,603,047
Research and development	3,226,686	3,466,142
Total Operating Expenses	14,680,083	11,595,036
Operating Loss	(14,443,190)	(11,753,708)
OTHER INCOME		
Other income	110,253	17,783
Net Other Income	110,253	17,783
Loss Before Taxes	(14,332,937)	(11,735,925)
Income tax provision	3,474	580
NET LOSS	$ (14,336,411)	$ (11,736,505)
EARNINGS PER SHARE:		
Basic and diluted loss per common share	$ 0.10	$ 0.12
Basic and Diluted Weighted average shares outstanding	142,497,786	94,345,818

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2017 and 2016

	Common Stock		Additional Paid-in	Accumulated	Total Shareholders'
	Shares	Amount	Capital	Deficit	Equity
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
Issuance of common stock at $0.62 per share, net of issuance costs of $1,156,773	40,625,114	4,062	24,332,244	-	24,336,306
Exercise of stock options	259,362	26	113,155	-	113,181
Stock-based compensation expense	-	-	608,973	-	608,973
2017 net loss	-	-	-	(14,336,411)	(14,336,411)
BALANCES, December 31, 2017	169,754,103	$ 16,975	$ 111,578,760	$ (79,236,922)	$ 32,358,813

See accompanying notes to consolidated financial statements.

OSPREY MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (14,336,411)	$ (11,736,505)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	185,376	121,996
Amortization	12,496	12,496
Stock-based compensation expense	608,973	722,836
Changes in operating assets and liabilities		
Accounts receivable	(175,157)	(98,806)
Prepaid expenses	(82,637)	28,154
Inventory	(501,249)	39,631
Other current assets	-	7,500
Accounts payable	141,921	112,721
Accrued payroll and related	275,862	266,363
Accrued rent	(16,842)	(14,931)
Accrued vacation	41,430	14,846
Net Cash Flows from Operating Activities	(13,846,238)	(10,523,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(321,840)	(415,961)
Net Cash Flows from Investing Activities	(321,840)	(415,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock, net of issuance costs	24,336,306	21,008,532
Proceeds from exercise of stock options	113,181	-
Net Cash Flows from Financing Activities	24,449,487	21,008,532
Net Change in Cash and Cash Equivalents	10,281,409	10,068,872
CASH AND CASH EQUIVALENTS - Beginning of Year	21,853,439	11,784,567
CASH AND CASH EQUIVALENTS - END OF Year	$ 32,134,848	$ 21,853,439
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for income taxes	$ 3,474	$ 580

See accompanying notes to consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

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

The Company’s products are designed to reduce the amount of dye injected into patients during standard cardiovascular and peripheral procedures (angiogram and stenting). Published literature indicates approximately 25% of patients undergoing standard cardiovascular procedures have preexisting CKD and are at high risk of further kidney damage due to AKI. Cardiology and Radiology clinical society guidelines strongly recommend reducing the risk of AKI by screening patients for risk of kidney disease, adequately hydrating hi-risk patients pre- and post-procedure, and minimizing the amount of contrast delivered to the patient.

Osprey Medical’s core technologies originated from research conducted at Melbourne’s Baker IDI Heart and Diabetes Institute. Its proprietary dye reduction and monitoring technologies are designed to help physicians minimize dye volumes administered to patients. The Company’s DyeVert™ Plus System reduces contrast while maintaining image quality in a self-adjusting easy-to-use design. The system’s monitoring component allows for establishing maximum contrast thresholds to be used in the procedures and displays total dye administered to the patient and the amount saved during the procedure.

Following successful clinical trials, the Company obtained European Regulatory approval (CE Mark), TGA approval, and United States of America Food and Drug Administration (“FDA”) clearance for the AVERT™, AVERT Plus, DyeVert System and DyeVert Plus 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 Plus System. As of December 31, 2017, the Company had sales representatives in 18 territories and 5 Clinical Specialists.

Osprey Medical’s patent portfolio comprises of 12 issued US patents, 15 issued international patents; 15 pending US patent applications, and PCT filings resulting in 19 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.

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

Principles of Presentation

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

The Company grants credit to customers in the normal course of business and generally does not require collateral or any other security to support amounts due. Customer accounts with balances outstanding longer than the contractual terms are considered past due. The Company records accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on periodic reviews of all outstanding amounts. The Company determines the need for an allowance for doubtful accounts by considering a number of factors, including length of time accounts receivables are past due, customer financial condition and ability to pay the obligation, historical and expected credit loss experience, and the condition of the general economy and the industry as a whole. It is the Company's policy to write-off accounts receivable when deemed uncollectible. There was no allowance for doubtful accounts as of December 31, 2017, and 2016.

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

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:

	2017	2016
Raw materials	$ 563,121	$ 242,421
Finished goods	199,064	18,515
Total	$ 762,185	$ 260,936

The Company has invested in its manufacturing operations to support future sales. The Company is not currently operating at full capacity. Charges related to excess capacity are included as current period charges to cost of sales, and are not capitalized into inventory.

Property and Equipment

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

	Years
Office and computer equipment	3
Furniture and fixtures	7
Laboratory equipment	5

Maintenance and repairs are charged to expense as incurred. Depreciation expense on property and equipment was $185,376 and $121,996 for the years ended December 31, 2017 and 2016, 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.

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

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.

Impairment of Long-Lived Assets

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

Lease Expense

The Company recognizes rental expense for 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. The Company expenses patent acquisition costs as incurred. Consideration for such intellectual property includes current and future payments of cash, issuance of common stock and warrants to acquire common stock.

Income Taxes

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

Stock-Based Compensation

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

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

Issuance of Stock

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

Going Concern

The financial statements are prepared on a going concern basis. Management evaluates the ability for the entity to continue as a going concern for at least twelve months from the date the financial statements are issued. In the event management concludes that there is substantial doubt regarding the Company's ability to continue as a going concern, the assumption is emphasized in the financial statement disclosures, including management's plan to mitigate the conditions that cause substantial doubt. If substantial doubt regarding the Company's ability to continue as a going concern is alleviated, the Company provides disclosures regarding the conditions or events that raised substantial doubt, management's evaluation of the significance of those conditions or events and management's plans that alleviated the substantial doubt.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. We will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, with no early adoption permitted, using either of two methods: *(a)* retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or *(b)* retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. We have not yet selected a transition method and are currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

During 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, 2018, including interim periods within those fiscal years, 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. We are currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

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

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled, allows an employer to repurchase more of an employee's shares than previously allowed for tax withholding purposes without triggering liability accounting, allows a company to make a policy election to account for forfeitures as they occur, and eliminates the requirement that excess tax benefits be realized before companies can recognize them. The new guidance also requires excess tax benefits and tax shortfalls to be presented on the cash flow statement as an operating activity rather than as a financing activity, and clarifies that cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation are to be presented as a financing activity. The Company adopted the provision ASU 2016-09 effective January 1, 2017. The adoption of the ASU did not have a material effect on its operations, financial position and cash flows.

Subsequent Events

For the year ended December 31, 2017, 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, 2017 on February 23, 2018.

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 23, 2018.

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

NOTE 3 - Fair Value Measurements (Cont.)

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

As of December 31, 2017:	Total	Level 1	Level 2	Level 3
Cash and cash equivalents - money market securities	$ 28,674,801	$ 28,674,801	$ -	$ -

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	$ -	$ -

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 Company is currently negotiating an extended lease provision. The monthly payments ranging from the same amounts $11,897 to $11,379 for the lease.

Rent expense was $91,525 and $87,100 for the years ended December 31, 2017 and 2016, 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 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 lease for the years ending December 31:

2018	$ 35,692
Total	$ 35,692

NOTE 5 - Employee Benefits

The Company provides a 401k plan as a benefit to its employees. The Company does not provide any matching payments under the plan for the years ended December 31, 2017 or 2016.

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, 2017 and 2016. 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 $3,474 and $580, respectively for the years ended December 31, 2017 and 2016.

As of December 31, 2017, the Company has recorded a valuation allowance to offset its net deferred tax assets due to uncertainty surrounding realization of the net deferred tax assets.

The Company has accumulated net operating losses to be carried forward to future years in the amount of $73,889,654 applicable to income subject to federal income tax and $33,090,333 applicable to income subject to state income tax as of December 31, 2017. These state carryforwards begin to expire in 2023. Utilization of these net operating losses to offset future taxable income may be limited.

Income tax expense (benefit) consists of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Current:		
Federal	$ -	$ -
State	3,474	580
Foreign	-	-
	3,474	580
Deferred:		
Federal	5,263,000	(3,879,000)
State	-	-
Foreign	-	-
	5,263,000	(3,879,000)
Deferred tax asset valuation allowance	(5,263,000)	3,879,000
Total provision (benefit)	$ 3,474	$ 580

NOTE 7 – Income Taxes (cont.)

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. On December 22, 2017, the U.S. President signed into law the Tax Cuts and Jobs Act (the "Act"), which enacted tax law changes largely effective for tax years beginning after December 31, 2017. The Act reduces the corporate tax rate to 21%, effective January 1, 2018, for all corporations. The Company has revalued its deferred tax assets and liabilities as of December 22, 2017. The deferred tax assets and liabilities are fully offset with a valuation allowance, and therefore the Company did not recognize any income tax expense related to the revaluation.

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:

	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 17,814,000	$ 22,411,000
Research and development credit	371,000	992,000
Organization costs	1,000	2,000
Accrued vacation	34,000	40,000
Deferred rent	1,000	7,000
Stock-based compensation expense	85,000	128,000
	18,306,000	23,580,000
Deferred tax liability:		
Intangible assets	(45,000)	(56,000)
	(45,000)	(56,000)
Net deferred tax asset	18,261,000	23,524,000
Valuation allowance	(18,261,000)	(23,524,000)
	$ -	$ -

The valuation allowance for deferred tax assets changed by $(5,263,000) and $3,879,000 for the years ended December 31, 2017 and 2016, respectively.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense on the Company's statement of operations.

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

During the year ended December 31, 2017 options exercised resulted in the Company issuing 259,362 shares of common stock for proceeds of $113,181. During 2016, there were no options exercised. The intrinsic value of the options exercised as of December 31, 2017 was $67,012.

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

In August and September 2017, the Company completed a private offering on the Australian Securities Exchange of 27,732,038 shares of common stock at a price to the public of $0.62 per share. In addition, in September 2017, a pro rata non-renounceable Entitlement Offer was offered to qualified shareholders of record of 12,893,076 shares of common stock at a price to the public of $0.62 per share. As a result of the total financing, the Company raised approximately $25,500,000 in gross proceeds, before issuance costs of approximately $1,200,000.

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 20,000,000.

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.

As of December 31, 2017 and 2016, respectively, the common shares outstanding were 169,754,103 and 128,869,627. As of December 31, 2017 and 2016 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.

Shares used in the loss per share computations for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Weighted average common shares outstanding – basic	142,497,786	94,345,818
Dilutive effect of stock option and warrants	-	-
Weighted average common shares outstanding – diluted	142,497,786	94,345,818

As of December 31, 2017 and 2016, stock options shares of 11,138,073 and 10,297,435, 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 7,549,073 shares then outstanding remain available for exercise as of December 31, 2017. 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 4,326,400 shares of common stock for issuance under the 2016 Plan, as of December 31, 2017. As of December 31, 2017, options issued under the 2016 plan were 3,589,000.

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 31,2017	Year Ended December 31,2016
Risk-free interest rate	1.23% - 2.15%	1.24%
Expected volatility	69.67% - 71.80%	75.44%
Expected life (in years)	4.00	4.00
Dividend yield	0.00%	0.00%
Weighted-average estimated fair value of options granted	$0.29	$ 0.30

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, 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	
Granted	1,841,500	0.61		
Exercised	(259,362)	(0.44)		
Expired	(741,500)	(0.79)		
Balance as of December 31, 2017	11,138,073	$ 0.71	6.0	$ 826,897
Exercisable as of December 31, 2017	8,152,729	$ 0.75	5.0	$ 663,003

NOTE 11 – Stock-Base Compensation (cont.)

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, 2017. The intrinsic value of stock options exercised during the year ended December 31, 2017 was $67,012.

The Company recognized stock-based compensation expense related to stock options of $608,973 and $722,836 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, $833,485 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.78 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.