

BioElectronics Corporation

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Trading Symbol: BIEL
CUSIP Number: 09062H108

These financial statements have not been subjected to an audit, review or compilation engagement, and no assurance is provided on them.

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BioElectronics Corporation
Balance Sheets
(Unaudited)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,443	\$ 45,342
Trade and other receivables, net	254,265	234,523
Inventory	593,885	393,330
Total current assets	992,593	673,195
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(172,595)	(161,639)
Property and equipment, net	8,466	19,422
Total assets	\$ 1,001,059	\$ 692,617
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	\$ 648,407	\$ 482,361
Deferred revenue	141,860	18,014
Related party notes payable, current portion	4,247,673	2,058,447
Notes Payable	699,737	564,138
Total current liabilities	5,737,677	3,122,960
Long-term liabilities:		
Related party notes payable, net of discount	4,118,671	5,718,002
Total liabilities	9,856,348	8,840,962
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 15,000,000,000 and 7,000,000,000 shares authorized at December 31, 2015 and December 31, 2014, respectively, and 10,714,191,541 and 6,409,215,686 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	10,714,191	6,409,216
Additional paid-in capital	7,978,011	10,519,966
Deficit accumulated during the development stage	(27,547,491)	(25,077,527)
Total stockholders' deficiency	(8,855,289)	(8,148,345)
Total liabilities and stockholders' deficiency	\$ 1,001,059	\$ 692,617

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BioElectronics Corporation
Income Statements
For the Years Ended December 31, 2015 and 2014
(Unaudited)

	2015	2014
Sales	\$ 2,339,646	\$ 1,289,896
Cost of Goods Sold	997,946	744,816
Gross profit	<u>1,341,700</u>	<u>545,080</u>
General and Administrative Expenses:		
Bad Debt Expense	45,292	5,175
Depreciation and Amortization	10,956	16,683
Investor Relations Expenses	148,632	173,657
Legal and Accounting Expenses	232,558	159,414
Sales Support Expenses	1,068,332	988,931
Research and Development	506,424	360,449
Other General and Administrative Expenses	<u>1,134,047</u>	<u>914,142</u>
Total General and Administrative Expenses	<u>3,146,241</u>	<u>2,618,451</u>
Loss from Operations	(1,804,541)	(2,073,371)
Interest Expense and Other:		
Interest Expense	(668,822)	(603,958)
Other Income(Expenses)	<u>3,399</u>	<u>-</u>
Total Interest Expense and Other, Net	<u>(665,423)</u>	<u>(603,958)</u>
Loss Before Income Taxes	(2,469,964)	(2,677,329)
Provision for Income Tax Expense	<u>-</u>	<u>-</u>
Net loss	<u>\$ (2,469,964)</u>	<u>\$ (2,677,329)</u>
Net loss Per Share - Basic and Diluted	<u>\$ (0.0003)</u>	<u>\$ (0.0006)</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>8,561,703,614</u>	<u>4,836,167,956</u>

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BioElectronics Corporation
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

(Unaudited)

	2015	2014
Cash Flows From Operating Activities:		
Net Loss	\$ (2,469,964)	\$ (2,677,329)
Adjustment to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and amortization	10,956	16,683
Provision for bad debts	45,292	5,175
Non-cash expenses	110,473	154,820
Non-cash interest related to notes payable	35,183	6,388
Non-cash interest related to related party notes payable	633,639	581,102
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	(205,848)	(119,383)
Inventory	(200,555)	323,573
Increase (Decrease) in:		
Accounts payable and accrued expenses	166,046	(199,206)
Deferred revenue	123,846	(106,022)
Net Cash Used In Operating Activities	(1,750,932)	(2,014,199)
Cash Flows Used In Investing Activities	-	(11,050)
Cash Flows From Financing Activities		
Proceeds from note payable	185,000	116,500
Payments on note payable	(26,834)	-
Proceeds from related party notes payable	1,743,583	1,925,488
Other	(51,716)	-
Net Cash Provided By Financing Activities	1,850,033	2,041,988
Net Increase (Decrease) In Cash	99,101	16,739
Cash- Beginning of Period	45,342	28,603
Cash- End of Period	\$ 144,443	\$ 45,342
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the periods for interest	\$ 26,834	\$ 16,468
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Conversion of debt and accrued interest into common stock	\$ 1,871,962	\$ 2,111,472

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 1- NATURE OF BUSINESS

BioElectronics Corporation is the leading commercial stage company in the field of non-invasive electroceutical medical devices. The devices are small, lightweight, and wearable that produces a pulsating electromagnetic field that affects cells and nerves to treat acute and chronic pain. The leading product ActiPatch Therapy is a drug-free, safe, and effective chronic pain therapy that reduces inflammation and pain by 57% and medication use by 50%. 48% of the UK users take opioids for chronic pain and 76% have experienced a moderate to complete elimination of the opioids.

ActiPatch therapy is the leading analgesic in Walgreens/Boots in the UK. The Company is aggressively pursuing US FDA over-the-counter market clearance to access the United States market.

Chronic Pain 20% of adults globally suffers from chronic pain. The chronic pain market is larger than diabetes, heart disease, and cancer combined. ActiPatch is an over-the-counter \$30.00 medical device, which addresses the unmet need for 1.5 billion worldwide chronic pain sufferers. Chronic pain modifies the way the central nervous system works. The modification results in an increase in pain perception from less provocation. The technology of the ActiPatch modulates the body's nerve activity to dampen the pain perception, which reduces drug use. Ken McLeod, PhD. Director of Clinical Science and Engineering Research, Binghamton University State University of New York short video explains how the technology and ActiPatch work at <http://actipatch.com/why-actipatch/>. The technology has the potential to become the standard of care to be used throughout the healthcare continuum across the OTC and healthcare markets. BioElectronics technology offers significant opportunities in menstrual pain, heel pain, migraine headaches, diabetic neuropathy, postoperative surgery, chronic wounds, bone growth stimulation, and other applications.

US FDA OTC Market Clearance: BioElectronics and its consulting regulatory attorneys are confident that US market clearance can be achieved based on the filed data. The devices have recently been reclassified from Class III risk down to a Class II. The devices are approved for home use in the EU, Canada, and Australia and the Company has sold 1 million devices. Statistically significant and clinically meaningful pain reduction has been demonstrated in the three submitted ActiPatch random clinical trials, two in chronic and one acute musculoskeletal pain. Additionally we have included in the application the medical journal Pain Management published our 5,000+ survey results A UK registry study of the effectiveness of a new over-the-counter chronic pain therapy, Pain Manag. 2015 Nov; 5(6): 413-23, <http://www.futuremedicine.com/doi/full/10.2217/PMT.15.35> reported an average baseline Visual Analogue Scale (VAS) score of 8.02 (scale is 0-10) and 2/3 of participants had more than 57% pain relief and the following long-term results:

- 2/3 (including opioid users) reported moderate to complete elimination of pain medications;
- 2/3 reported improved sleep;
- 3/4 reported increased physical activity; and,
- 4/5 a substantial improvement in overall quality of life

The consumer data demonstrates a consistent clinically meaningful effect in chronic musculoskeletal pain from a variety of etiologies (osteoarthritis, rheumatoid arthritis, fibromyalgia, post-surgical, neuropathic) affecting different regions of the body (back, hip, knee, wrist, elbow, and shoulder).

Demonstrates Marketability to Consumers the Company has Try and Tell sales and marketing campaign has won the OTC Bulletin "Best OTC Marketing Campaign on a Small Budget" award. Current chronic pain therapies do not meet the need for chronic pain relief and sufferers are skeptical. To overcome the skepticism and accelerate product acceptance, we promote a discounted 7-Day Trial device without an on/off switch. 65% of testers averaged a 57% reduction in pain and said they "intended" to or would "maybe" purchase and 80% did purchase an average of 1.75 devices within 90-days. After one year, the users purchased an average of 2.7 devices.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

The Company was granted its first approval from the FDA under a 510(k) in August 2002. Prior to FDA approval and the establishment of its research and development group, PAW, LLC (an entity owned by the family of Andy Whelan, President) funded the operations and costs of product development.

The accompanying financial statements are those of a development stage company. The Company is currently engaged in and devotes considerable time to planning, product design changes, recruiting distributors and establishing a market presence for its product.

The Company has focused attention on international customers to expand its distributions and sales. The Company has established distribution agreements with distributors in the United Kingdom, Singapore, Malaysia, Canada, Scandinavia, Australia, and South America. The distribution agreements grant the right to sell BioElectronics' products in certain territories. The distributors are responsible for advertising and promotion in their assigned territories. In addition, the distributors are subject to minimum annual product purchases, minimum initial purchases and minimum inventory requirements.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Development Stage Company

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 915, “Development Stage Entities”, the Company is devoting substantially all of its present efforts to developing its business. The Company has not yet commenced one of its planned principal activities, the sale of products in the U.S. retail market. All losses accumulated since inception have been considered as part of the Company’s development stage activities. Costs of start-up activities, including organizational costs, are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less as cash equivalents.

Trade Receivables

The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of trade and other receivable balances and historical loss rate. The allowance for doubtful accounts was \$71,827 and \$5,480 at December 31, 2015 and December 31, 2014, respectively. Bad debt expense for the years ended December 31, 2015 and 2014 was \$45,292 and \$5,175, respectively.

Inventory

Inventory is valued at the lower of cost or market using the first-in, first-out method. Market is current replacement cost.

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. Revenue is recognized when evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 60 days. If the customer is deemed not credit worthy, payment in advance is required. Payments received in advance of when revenue is recognized are recorded as deferred revenue on the balance sheets and recognized as revenue when the goods are shipped and all other general revenue recognition criteria have been met. No allowance for sales returns is required for the years ended December 31, 2015 and 2014. Defective units are replaced at the request of the customer.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

Advertising Costs

The Company expenses the costs associated with advertising as incurred, except if costs are for the production of advertisements that have not yet been broadcast. These advertising costs are recorded as prepaid expenses and amortized over a one-year period beginning when the advertisements are aired. Advertising expenses for the years ended December 31, 2015 and 2014 were \$845,840 and \$370,860, respectively, and included in sales support expenses. There was no value recorded to prepaid advertising as of December 31, 2015 and 2014, and no value recorded to amortization expense for prepaid advertising for the years ended December 31, 2015 and 2014, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Research and Development

Research and development costs include the costs of clinical studies, which are expensed as incurred, along with staff dedicated to research and development. The Company incurred \$506,424 and \$360,449 in the years ended December 31, 2015 and 2014, respectively.

Stock Incentive Plans and Other Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, "Earnings per Share", which requires the presentation of basic and diluted net loss per share on the face of the Statement of Operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the years ended December 31, 2015 and 2014 the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the years presented.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Issuance Of Stock For Non-Cash Consideration

All issuances of the Company’s stock for non-cash consideration have been assigned a per share amount determined with reference to the value of consideration received, which has been determined to be a more readily determinable fair value than the fair value of the common stock. The majority of the non-cash consideration pertains to services rendered by consultants and vendors. The fair value of the services received was used to record the related expense in the statement of operations and fair value was attributed to the shares issued.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC Topic 505-50, “Equity-Based Payments to Non-Employees.” The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete.

Stockholders’ Equity Transactions

On June 18, 2009, the Company authorized to increase the number of common shares from 750,000,000 to 1,000,000,000, with further increases to 1,500,000,000 in 2010, to 2,000,000,000 in 2011, to 3,000,000,000 in 2012, to 4,000,000 in 2013, to 7,000,000,000 in 2014, and to 15,000,000 in 2015. These increases are a result of the continued requirement to cover the potential issuance of common stock resulting from the conversion of debt to equity. The holders of the remaining shares to be issued upon conversion or exercise of equity instruments can sell those shares into the public market. The resale of these shares could have a negative impact on the stock price, and these conversions would have a dilutive impact on our shareholders. As a result, our net income per share could decrease for future periods, and the market price of our common stock could decline.

NOTE 3 – GOING CONCERN

The Company has incurred substantial losses from operations. The Company sustained a net loss of \$2,450,249 for the year ended December 31, 2015, and a total net loss since inception of \$27,527,776. The Company is currently seeking financing to provide the needed funds for operations. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations, and thus there is substantial doubt of the Company’s ability to continue as a going concern.

NOTE 4 - INVENTORY

The components of inventory consisted of the following as of:

	December 31, 2015	December 31, 2014
Raw materials	\$ 361,868	\$ 258,781
Prepaid inventory	82,287	51,060
Finished goods	149,730	83,489
	<u>\$ 593,885</u>	<u>\$ 393,330</u>

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

Property and equipment, net consists of the following as of:

	December 31, 2015	December 31, 2014
Machinery & Equipment	\$ 174,179	\$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	172,595	161,639
Total property and equipment, net	<u>\$ 8,466</u>	<u>\$ 19,422</u>

For the years ended December 31, 2015 and 2014, depreciation expense on property and equipment amounted to \$10,956 and \$16,683, respectively.

NOTE 6 – LINE OF CREDIT

In May 2013, the Company finalized a line of credit agreement with the Export-Import Bank of the United States. The line of credit was for \$500,000 at a fixed interest rate of 3.99%, with the amount borrowed owed in full in May 2014. This line of credit has been extended, and as of December 2015, the full line of credit of \$500,000, at a current interest rate of 5.23% was utilized, with the full amount payable, including interest, amounting to \$502,189. For the years ended December 31, 2015 and 2014, total interest expense on the line of credit amounted to \$26,834 and \$20,000, respectively.

NOTE 7 – RELATED PARTY NOTES PAYABLE

IBEX Promissory Convertible Notes Payable

IBEX, LLC is a limited liability company, whose President is the daughter of the President of the Company. On January 1, 2005, the Company entered into an unsecured revolving convertible promissory note agreement (“the Revolver”) with IBEX, LLC (“IBEX”) a related party, for a maximum limit of \$2,000,000, with interest at the Prime Rate plus 2%, and all accrued interest and principal due on or before January 1, 2015, whether by the payment of cash or by conversion into shares of the Company’s common stock.

The above-described revolving note payable was fully paid by the Company as of December 31, 2014. IBEX sold \$760,325 of the outstanding balances during 2014 to external parties. These notes were subsequently converted into 1,396,694,318 shares in 2014, at conversion prices ranging from \$.00018 to \$.003 per share.

In addition to the revolving note described above, beginning on August 1, 2009, the Company started entering into convertible promissory note agreements with IBEX with simple interest at 8% per annum. All accrued interest and principal on the various notes payable are due on or before the end of the month two years from the date of issuance, whether by the payment of cash or by conversion into shares of the Company’s common stock, unless otherwise extended with new terms. According to the original Security Agreement dated August 1, 2009, the Company grants IBEX a security interest in, all of the right, title, and interest of the Company, in and to all of

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

the Company's personal property and intellectual property, and all proceeds or replacements as collateral for the convertible promissory note agreements. The Security Agreement has been subordinated to the EXIM Bank.

The conversion prices on the convertible notes payable, along with the advances under the IBEX revolving convertible promissory note, have generally been 50% or less of the pink sheet closing price of the common stock on the date the notes or advances are issued to reflect the restricted nature of the stock into which the notes could be converted and the Board of Directors' belief that the closing stock price is not reflective of the fair market value of the common stock due to the price volatility, and lack of an active market for trading shares resulting in limited trading volume of share transactions. The Board of Directors is active in negotiating conversion prices for each issuance and takes into consideration all information in establishing the issuance date fair market value.

On August 31, 2011, the date of maturity for notes payable of \$519,920, the Company did not have sufficient cash on hand to pay the amount due, so the Company and issuer entered into an agreement to change the conversion price of the note to the market price of the restricted shares. The Conversion Price was thus changed from the original amount of \$.019 per share to \$.015 per share, the share market price on that date. The maturity date on the note agreement was extended to September 30, 2015, with a new conversion price of \$.0008 per share.

Starting in 2012 and continuing through December 2015, the Company extended the maturity dates by one year and two years on several separate notes through multiple agreements with IBEX, as a result of insufficient cash to make payments on amounts owed. In exchange for the extensions, the conversion prices were changed to 50% of the existing market price of the Common Stock on the date of the maturity. Due to the drop in stock prices since the original note issuances, offset by the sales of IBEX notes during 2015, the corresponding shares to be issued on the conversion of these IBEX notes has increased from 11,716,139,856 at December 31, 2014, to 11,955,316,378 at December 31, 2015.

During the years ended December 31, 2015 and 2014, the Company borrowed \$1,359,000 and \$1,899,305, respectively, through additional promissory notes with IBEX.

Total interest expense on the IBEX convertible promissory notes payable for the years ended December 31, 2015 and 2014 was \$413,332 and \$359,705, respectively.

The balance of the IBEX related party notes payable amounted to \$5,251,815 and \$5,273,536 as of December 31, 2015 and 2014, respectively.

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. Other related parties consist of family members of the President of the Company. Additionally, St. Johns, LLC is a limited liability company, which is owned by a family member of the President of the Company.

Other related parties consist of Robert Whelan and Janel Zaluski, the son and daughter of the President, Mary Whelan, the sister of the President, St. John's LLC, which is owned by family members of the President, and Richard Staelin, who is Chairman of the Board of Directors.

Each of the promissory notes bears simple interest at 8% per annum, and all accrued interest and principal is due on the maturity date. At the option of the holder, the promissory notes are convertible into common shares of the Company's stock at a conversion rate equal to the quotient of (i) a sum equal to the entire outstanding principal and interest, divided by (ii) the conversion price.

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

Similar to the IBEX promissory convertible notes, the conversion prices per the terms of the note agreements are based on the fair value of the OTC closing price of the Company's stock as of the date of issuance, discounted based on the factors previously discussed in the disclosures related to the IBEX Revolver Agreement. There were no related party loan conversions during the years ending December 31, 2015 and 2014.

During the years ended December 31, 2015 and 2014, the Company borrowed \$391,309 and \$164,022, respectively, through additional promissory notes with other related parties.

Due to the drop in stock prices since the original note issuances, and the new notes, the corresponding shares to be issued on the conversion of these other related party loans has increased from 5,393,518,265 at December 31, 2014 to 7,790,977,668 at December 31, 2015.

Total interest expense on the other related party promissory notes payable for the years ended December 31, 2015 and 2014 was \$220,307 and \$221,397, respectively.

The balance of the other related party notes payable amounted to \$3,114,529 and \$2,502,913 as of December 31, 2015 and 2014, respectively.

NOTE 8 – LOSS PER SHARE

The following table sets forth the computation of basic and diluted share data:

	Year Ended December 31,	
	2015	2014
Common Stock:		
Weighted Average Number of Shares Outstanding - Basic	8,561,703,614	4,836,167,956
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	<u>8,561,703,614</u>	<u>4,836,167,956</u>
Options and Shares Not Included Above (Antidilutive)		
Nonvested and Vested Restricted Share Awards	40,000,000	40,000,000
Options to Purchase Common Stock	<u>793,700,000</u>	<u>793,700,000</u>
	<u>833,700,000</u>	<u>833,700,000</u>

NOTE 9 – SHARE BASED COMPENSATION

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons.

The Plan initially reserved 10 million shares of common stock for issuance, which was amended to 100 million shares on March 1, 2010. In 2012 the plan was amended to 200 million shares available for future grant, further amended to 300 million shares in 2013, and 500 million shares in 2014. The issuance can be in the forms of options or shares. The options may be incentive, nonqualified or stock appreciation rights. The shares may be issued for performance.

NOTE 9 – SHARE BASED COMPENSATION (Continued)

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

Stock Option Awards

On September 1, 2011, the Company granted stock options to a third party vendor with a grant date fair value of \$0.005 per share. The exercise price is \$0.005 per share with a term of ten years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

In January 2012, the Company granted 55.0 million stock options with an exercise price of \$0.0029 per share, with immediate vesting. The option awards were granted with an exercise price slightly less than the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant.

On August 29, 2012, the Company granted stock options to employees of the Company, the Chairman of the Board and a shareholder of the Company with a grant date fair value of \$0.0029 per share. The exercise price is \$0.0022 per share with a term of five years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

In April 2013, the Company granted 85.0 million stock options to employees of the Company, with a grant date exercise price of \$0.0015 per share. The exercise price is at a discount of around 50% relative to the market price of \$0.0031 per share.

In December 2013, the Company granted 90.0 million stock options to employees of the Company, with a grant date exercise price of \$0.0007 per share. The exercise price is at a discount of around 13% relative to the market price of \$0.0008 per share.

In March 2014, the Company granted 210.0 million stock options to an Executive Vice President, with three tranches of 70.0 million each with prices ranging from \$.0014 to \$.015 per share, with each tranche exercisable on the first, second and third anniversaries of the grant, and each vesting over a three-year period.

In March 2014, the Company granted 250.0 million stock options to employees of the Company, with a grant date exercise price of \$0.0015 per share (50% of market price).

Stock options	Shares	Weighted-average grant date fair value
Balance at December 31, 2014	793,700,000	\$ 0.0052
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at December 31, 2015	<u>793,700,000</u>	<u>\$ 0.0052</u>

Compensation expense related to the stock options during the years ended December 31, 2015 and 2014 was \$0 and \$107,818, respectively.

NOTE 9 – SHARE BASED COMPENSATION (Continued)

These financial statements have not been subjected to an audit, review or compilation engagement, and no assurance is provided on them.

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Nonvested Restricted Share Awards

In prior years, the Company also issued nonvested restricted share awards to directors, consultants and employees. The nonvested restricted share awards vest over a three year period based on the requisite service period. Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest. The fair value of grants is measured by the market price of the Company's common stock on the date of grant discounted by 50 percent based on the restricted nature of the stock, the volatility in the market and other variables taken into account by the Board of Directors in determining the fair value of the restricted share awards.

Restricted stock awards generally vest ratably over the service period beginning with the first anniversary of the grant date. After shares are vested, they will be issued upon the request of the grantee.

In March 2014, the Company issued 40.0 million shares of restricted stock to an Executive Vice President, with all restricted shares becoming fully vested during 2015.

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2014	40,000,000	\$ 0.0047
Granted	-	-
Vested	(40,000,000)	0.0047
Forfeited	-	-
Balance at December 31, 2015	<u>-</u>	<u>\$ -</u>

Total compensation cost related to the restricted stock awards granted was \$70,501 and \$23,499 for the years ended December 31, 2015 and 2014, respectively.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the year ended December 31, 2015 because of a significant net operating loss carry-forward of approximately \$27 million. The net operating losses expire in various years through 2035.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible.

Based on available evidence, Company's management believes that it is more likely than not that the Company will not be able to realize the benefit of its net deferred tax assets as of December 31, 2015 and 2014, and that a full valuation reserve is needed to reduce the net deferred tax asset value to \$0 for each year.

NOTE 11 – FAIR VALUE MEASUREMENTS

These financial statements have not been subjected to an audit, review or compilation engagement, and no assurance is provided on them.

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The Company's financial instruments consist primarily of cash, trade and other receivables, accounts payable and accrued expenses and related party notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows. The Company adopted ASC Topic 820-10, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly including inputs in markets that are not considered to be active
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of conducting its business, the Company may become involved in various legal actions and other claims, some of which are currently pending. Litigation is subject to many uncertainties and management may be unable to accurately predict the outcome of individual litigated matters. Some of these matters may possibly be decided unfavorably towards the Company.

The Company is involved, on a continuing basis, in monitoring our compliance with environmental laws and in making capital and operating improvements necessary to comply with existing and anticipated environmental requirements. While it is impossible to predict with certainty, management currently does not foresee such expenses in the future as having a material effect on the business, results of operations, or financial condition of the Company.

NOTE 13 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 7, BioElectronics signed a distribution agreement on February 9, 2009 with eMarkets Group, LLC (eMarkets) a company owned and controlled by a member of the Board of Directors and sister of the company's President. The agreement provides for eMarkets to be the exclusive distributor of the veterinary products of the Company to customers in certain countries outside of the United States for a period of three years. The distribution agreement lists the prices to be paid for the company's products by

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NOTE 13 – RELATED PARTY TRANSACTIONS (Continued)

eMarkets and provides for the company to provide training and customer support at its own cost to support the distributor's sales function.

Revenue from eMarkets for the years ended December 31, 2015 and 2014 amounted to \$16,713 and 13,759, respectively. The balance due from eMarkets as of December 31, 2015 and 2014 was \$5,945 and \$617, respectively.

NOTE 14 – CONCENTRATIONS

As of December 31, 2015, approximately 80% of trade receivables was from three customers. For the year ended December 31, 2015 approximately 67% of sales was from five customers, with one customer accounting for 40% of total sales.

As of December 31, 2015, approximately 53% of accounts payable was for five vendors.

A geographic breakdown of sales is summarized below:

	<u>United States</u>	<u>United Kingdom</u>	<u>Other Foreign</u>	<u>Total Sales</u>
2015	\$ 66,380	\$ 1,471,458	\$ 801,808	\$ 2,339,646
	3%	63%	34%	100%
2014	\$ 75,556	\$ 405,929	\$ 808,411	\$ 1,289,896
	6%	31%	63%	100%

NOTE 15 – SUBSEQUENT EVENTS

In February 2016, the Securities and Exchange Commission instituted public administrative and cease-and-desist proceedings, pursuant to Section 8A of the Securities Act of 1933, against the Company, its President, and a major debtholder. It appears that the SEC objects to some of the Company's convertible note sales, and is claiming improper timing of two sales transactions during the fiscal year 2009. The Company maintains that all note sales were to qualified investors in accordance with SEC Rule 144 and held for longer than the SEC mandated holding period. The Company also believes that it properly accounted for the sales transactions in 2009, which were validated by an independent auditor. While the outcome is uncertain at this time, the Company is confident that its actions were in compliance with SEC requirements, and the respondents will be properly vindicated.

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