BioElectronics Corporation

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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 Sheet
(Unaudited)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 5,774	$ 144,443
Trade and other receivables, net	121,443	254,265
Inventory	581,217	593,885
Total current assets	708,434	992,593
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(175,812)	(172,595)
Property and equipment, net	5,249	8,466
Total assets	$ 713,683	$ 1,001,059
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 697,418	$ 648,407
Deferred revenue	9,736	141,860
Related party notes payable, current portion	4,519,733	4,247,673
Notes Payable	589,319	699,737
Total current liabilities	5,816,206	5,737,677
Long-term liabilities:		
Related party notes payable, net of discount	4,658,701	4,118,671
Total liabilities	10,474,907	9,856,348
Stockholders' deficiency:		
Common stock, par value $0.001 per share, 16,000,000,000 and 15,000,000,000 shares authorized at December 31, 2016 and December 31, 2015, respectively, and 14,965,779,068 and 10,714,191,541 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively.	14,965,779	10,714,191
Additional paid-in capital	4,927,211	7,978,011
Deficit accumulated during the development stage	(29,654,214)	(27,547,491)
Total stockholders' deficiency	(9,761,224)	(8,855,289)
Total liabilities and stockholders' deficiency	$ 713,683	$ 1,001,059

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BioElectronics Corporation
Income Statements
For the Years Ended December 31, 2016 and 2015
(Unaudited)

	2016	2015
Sales	$ 2,089,694	$ 2,339,646
Cost of Goods Sold	831,021	997,946
Gross profit	1,258,673	1,341,700
General and Administrative Expenses:		
Bad Debt Expense	18,583	45,292
Depreciation and Amortization	3,217	10,956
Investor Relations Expenses	51,555	201,049
Legal and Accounting Expenses	669,572	232,558
Sales Support Expenses	716,191	1,068,332
Research and Development	384,928	506,424
Other General and Administrative Expenses	814,831	1,063,546
Total General and Administrative Expenses	2,658,877	3,128,157
Loss from Operations	(1,400,204)	(1,786,457)
Interest Expense and Other:		
Interest Expense	(711,292)	(667,191)
Other Income	4,773	3,399
Total Interest Expense and Other, Net	(706,519)	(663,792)
Loss Before Income Taxes	(2,106,723)	(2,450,249)
Provision for Income Tax Expense	-	-
Net loss	$ (2,106,723)	$ (2,450,249)
Net loss Per Share - Basic and Diluted	$ (0.0002)	$ (0.0003)
Weighted Average Number of Shares Outstanding - Basic and Diluted	12,839,985,305	8,561,703,614

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BioElectronics Corporation
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

(Unaudited)

	2016	2015
Cash Flows From Operating Activities:		
Net Loss	$ (2,106,723)	$ (2,450,249)
Adjustment to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	3,217	10,956
Provision for bad debts	18,583	45,292
Non-cash expenses	43,770	194,113
Non-cash interest related to notes payable	15,154	33,552
Non-cash interest related to related party notes payable	674,564	633,639
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	114,239	(205,848)
Inventory	12,668	(200,555)
Increase (Decrease) in:		
Accounts payable and accrued expenses	49,011	95,545
Deferred revenue	(132,124)	123,846
Net Cash Used In Operating Activities	(1,307,641)	(1,719,709)
Cash Flows Used In Investing Activities		
Acquisition of property and equipment	-	-
Cash Flows From Financing Activities		
Proceeds from note payable	34,140	185,000
Payments on note payable	(2,286)	(26,834)
Proceeds from related party notes payable	1,214,262	1,712,360
Other	(77,144)	(51,716)
Net Cash Provided By Financing Activities	1,168,972	1,818,810
Net Increase (Decrease) In Cash	(138,669)	99,101
Cash- Beginning of Period	144,443	45,342
Cash- End of Period	$ 5,774	$ 144,443
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the periods for interest	$ 27,450	$ 26,834
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Conversion of debt and accrued interest into common stock	$ 1,066,335	$ 1,871,962

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NOTE 1- NATURE OF BUSINESS

BioElectronics is an electroceutical company that develops wearable, neuromodulation devices to safely mitigate neurological diseases and improve quality of life. Our innovative pulsed shortwave therapy technology (PSWT) that uses low power pulsed electromagnetic fields regulate electrical activity of the nervous system. The neuromodulation basis of PSWT presents significant opportunities for BioElectronics to develop optimized technology for diabetic neuropathy, postoperative surgery, chronic wounds, and other applications.

Our current OTC product line includes ActiPatch® Musculoskeletal Pain Therapy, Allay® Menstrual Pain Therapy, Smart Insole™ Heel Pain Therapy, and RecoveryRx® Post-operative and Chronic Wounds Therapy. The US FDA clearance is for our flagship product the ActiPatch® Musculoskeletal Pain Therapy, developed to relieve chronic pain. ActiPatch is a drug-free, wearable nonprescription medical device that provides 720-hours (90, 8-hour treatments) of on/off therapy. Most users obtain relief with only 8 hours per day of use, so the device will generally last several months, depending on use.

In February 2017, BioElectronics announced that it has received over-the-counter use market clearance from the US FDA for ActiPatch® for the adjunctive treatment of musculoskeletal pain related to plantar fasciitis of the heel, and osteoarthritis of the knee.

The chronic pain market is larger than diabetes, heart disease, and cancer combined, with 20% of adults globally suffering from chronic pain. ActiPatch addresses the unmet need for 1.5 billion worldwide chronic pain sufferers. The Company's medical devices modulate 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 Sate University of New York, explains in a short video how the technology and ActiPatch works at http://actipatch.com/why-actipatch/ . The technology has the potential to become the standard of care 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.

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, Sweden, Singapore, Malaysia, Canada, Scandinavia, Australia, South America and India. 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.

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $19,920 and $71,827 at December 31, 2016 and December 31, 2015, respectively. Bad debt expense for the years ended December 31, 2016 and 2015 was $18,583 and $45,292, 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, directly to hospitals and clinics, and now also direct to consumers with the US FDA market clearance. 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 in most cases on a net basis of 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, 2016 and 2015. Defective units are replaced at the request of the customer.

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, 2016 and 2015 were $353,322 and $845,840, respectively, and included in sales support expenses. There was no value recorded to prepaid advertising as of December 31, 2016 and 2015, and no value recorded to amortization expense for prepaid advertising for the years ended December 31, 2016 and 2015, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $384,928 and $506,424 in the years ended December 31, 2016 and 2015, 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, 2016 and 2015 the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the years presented.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, to 15,000,000,000 in 2015, and to 16,000,000,000 in 2016. 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 $2,106,723 for the year ended December 31, 2016, and a total net loss since inception of $29,654,214. 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, 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, 2016	December 31, 2015
Raw materials	$ 361,428	$ 361,868
Prepaid inventory	34,145	82,287
Finished goods	185,644	149,730
	$ 581,217	$ 593,885

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	December 31, 2016	December 31, 2015
Machinery & Equipment	$ 174,179	$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	175,812	172,595
Total property and equipment, net	$ 5,249	$ 8,466

NOTE 5 – PROPERTY AND EQUIPMENT, NET (Continued)

For the years ended December 31, 2016 and 2014, depreciation expense on property and equipment amounted to $3,217 and $10,956, 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 2016, $499,903 was outstanding, at a current interest rate of 5.23%, with the full amount payable, including interest, amounting to $502,189. For the years ended December 31, 2016 and 2015, total interest expense on the line of credit amounted to $27,450 and $26,834, 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. 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 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 EX-IM Bank.

The conversion prices on the convertible notes payable 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.

Starting in 2012 and continuing through December 2016, the Company has extended the maturity dates by up to 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 11,955,316,378 at December 31, 2015 to 20,343,265,243 at December 31, 2016.

During the years ended December 31, 2016 and 2015, the Company borrowed $470,000 and $1,359,000, respectively, through additional promissory notes with IBEX.

Total interest expense on the IBEX convertible promissory notes payable for the years ended December 31, 2016 and 2015 was $415,399 and $413,332, respectively.

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

The balance of the IBEX related party notes payable amounted to $5,323,211 and $5,251,815 as of December 31, 2016 and 2015, 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 former 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.

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. During the year ended December 31, 2016, $259,734 of other related party notes were converted into BioElectronics' shares, with no other related party loan conversions during the year ending December 31, 2015.

During the years ended December 31, 2016 and 2015, the Company borrowed $744,262 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 7,790,977,668 at December 31, 2015 to 16,386,424,981 at December 31, 2016.

Total interest expense on the other related party promissory notes payable for the years ended December 31, 2016 and 2015 was $259,125 and $221,397, respectively.

The balance of the other related party notes payable amounted to $3,855,222 and $3,114,529, as of December 31, 2016 and 2015, respectively.

NOTE 8 – LOSS PER SHARE

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

	Year Ended December 31,	
Common Stock:	2016	2015
Weighted Average Number of Shares Outstanding - Basic	12,839,985,305	8,561,703,614
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	12,839,985,305	8,561,703,614
Options and Shares Not Included Above (Antidilutive)		
Nonvested and Vested Restricted Share Awards	40,000,000	40,000,000
Options to Purchase Common Stock	793,700,000	793,700,000
	833,700,000	833,700,000

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.

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).

NOTE 9 – SHARE BASED COMPENSATION (continued)

Stock options	Shares		Weighted-average grant date fair value
Balance at December 31, 2015	793,700,000	$	0.0052
Granted	-		-
Vested	-		-
Forfeited	-		-
Balance at December 31, 2016	793,700,000	$	0.0052

There was no compensation expense related to the stock options during the years ended December 31, 2016 and 2015.

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.

Total compensation cost related to the restricted stock awards granted was $0 and $70,501 for the years ended December 31, 2016 and 2015, respectively.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the year ended December 31, 2016 because of a significant net operating loss carry-forward of approximately $29 million. The net operating losses expire in various years through 2036.

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, 2016 and 2015, 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

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.

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. In December 2016, the SEC's Administrative Law Judge issued an Initial Decision that ordered that BioElectronics, Andrew Whelan, and Kelly Whelan jointly and severally disgorge a total of $1,820,886, plus prejudgement interest. The judge also recommended a Penny Stock Bar against Andrew Whelan and Kelly Whelan. In February 2017, The Company petitioned for a review of the facts and the law and the constitutionality of the Administrative Law Judge appointment by the SEC Commissioners. In February 2017, the Commission has agreed to a review. The Tenth Court of Appeals in Colorado has subsequently ruled in a separate case that the appointment of Administrative Law Judges was unconstitutional. The full Washington, DC Court of Appeals has since vacated its initial decision that SEC's Administrative Hearings are constitutional and has scheduled a hearing for the full court to hear and review the issue.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

While the outcome of our case is uncertain at this time, the Company is confident that its actions were in compliance with SEC requirements, and thus no liability has been recorded as of the date of issuance of these financial statements.

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. The distribution agreement lists the prices to be paid for the company's products by 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, 2016 and 2015 amounted to $11,692 and $16,713, respectively. The balance due from eMarkets as of December 31, 2016 and 2015 was $0 and $5,945, respectively.

NOTE 14 – CONCENTRATIONS

As of December 31, 2016, approximately 80% of trade receivables was from one customer. For the year ended December 31, 2016 approximately 65% of sales was from five customers, with one customer accounting for 37% of total sales.

As of December 31, 2016, approximately 65% of accounts payable was for seven vendors.

A geographic breakdown of sales is summarized below:

	United States	United Kingdom	Other Foreign	Total Sales
2016	$ 47,770	$ 958,653	$1,083,271	$ 2,089,694
	2%	**46%**	**52%**	**100%**
2015	$ 66,380	$1,471,458	$ 801,808	$ 2,339,646
	3%	**63%**	**34%**	**100%**

NOTE 15 – SUBSEQUENT EVENTS

In February 2017, BioElectronics received over-the-counter use market clearance from the US FDA for ActiPatch® for the adjunctive treatment of musculoskeletal pain related to plantar fasciitis of the heel, and osteoarthritis of the knee.