

# **BioElectronics Corporation**

## **UNAUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Trading Symbol: BIEL  
CUSIP Number: 09062H108

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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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**Management Discussion and Analysis  
Of Operating Results and Financial Position  
For the Year ended December 31, 2018**

The following management discussion and analysis was prepared on March 29, 2018 and should be read in conjunction with the Company's financial statements for the year ended December 31, 2018 together with the notes thereto.

**Summary of Financial Condition and Results**

<u>Income Statement</u>	2018	2017
Sales	\$ 1,045,873	\$ 1,763,765
Inventory Writedown	86,306	-
Cost of Goods Sold	<u>602,165</u>	<u>765,711</u>
Gross profit	357,402	998,054
General and Administrative Expenses	<u>2,393,049</u>	<u>2,358,307</u>
Loss from Operations	(2,035,647)	(1,360,253)
Interest Expense	952,697	758,540
Net Loss	<u>\$ (2,988,344)</u>	<u>\$ (2,118,793)</u>
 <u>Balance Sheet</u>		
Total Assets	\$ 468,969	\$ 503,114
Total Liabilities	(13,491,618)	(11,187,523)
Adjustments:		
Deferred Revenue	536,330	26,077
Convertible Notes Payable	<u>11,352,370</u>	<u>9,698,872</u>
Net Deficit (net of revenue collected and deferred, and debt that can be converted into common stock)	<u>\$ (1,133,949)</u>	<u>\$ (959,460)</u>

**Sales**

The Company's sales for the year 2018 decreased \$717,892 primarily because of a decline of UK sales by \$450,000 and other international sales by \$275,000. The other international sales decline is offset by deferred revenue (deposits) on hold pending regulatory clearances in the United Arab Republic, Korea, Taiwan, and Mundipharma in Southeast Asia.

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## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

The sales decline in the UK was the result of the National Health Service (the Government) currently declining payment for elective hip and knee replacement surgeries, combined with the Company's strategy to move the product off the store shelves to behind the pharmacy counter. ActiPatch® is now reimbursable by prescription and available at all UK pharmacies.

Mundipharma is responsible to obtain regulatory market clearances in their seven countries and are methodological time-consuming sales and marketing planners. The very early positive sales results are indicative that this time investments was worthwhile.

### **Gross Margin**

The Company's gross margin declined because of lower absorption of the fixed production costs and the write down from obsolete boxes and package inserts.

### **Selling, General, & Administrative Expenses**

Selling, General and Administrative Expenses are up slightly, with a greater expenditure for sales and research and development, offset by reduced legal and accounting expenses, and a great tightening of other general and administrative costs.

### **Interest Expense**

Interest expense increased from \$758,540 in 2017 to \$952,697 in 2018, or \$194,157. The increase was the result of \$1.7 million in additional long-term debt at 8%, or approximately \$139,000, and another \$55,000 in interest on short term borrowings.

### **Net Deficit**

The Company's net deficit (define above, representing equity adjusted for convertible debt and deferred revenue) increased \$174,489 in 2018. Management is confident that the prospective sales increases and potential Regulation A financing will provide adequate working capital to sustain and grow operations.

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BioElectronics Corporation  
Balance Sheets  
(Unaudited)

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92,906	\$ 8,894
Trade and other receivables, net	64,718	22,770
Inventory	294,982	441,210
Other Current Assets	15,534	27,201
Total current assets	468,140	500,075
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(180,232)	(178,022)
Property and equipment, net	829	3,039
Total assets	\$ 468,969	\$ 503,114
<b>Liabilities and stockholders' deficiency</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 956,069	\$ 951,077
Deferred revenue	536,330	26,077
Related party notes payable, current portion	6,588,895	4,535,834
Notes Payable, current portion	723,188	81,339
Total current liabilities	8,804,482	5,594,327
Noncurrent liabilities:		
Related party notes payable	4,166,457	5,123,450
Notes Payable	520,679	469,746
Total noncurrent liabilities	4,687,136	5,593,196
Total liabilities	13,491,618	11,187,523
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 25,000,000,000 and 20,000,000,000 shares authorized at December 31, 2018 and December 31, 2017, respectively, and 20,706,218,020 and 18,991,662,712 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively.	20,706,218	18,991,663
Additional paid-in capital	1,032,484	2,096,935
Accumulated deficit	(34,761,351)	(31,773,007)
Total stockholders' deficiency	(13,022,649)	(10,684,409)
Total liabilities and stockholders' deficiency	\$ 468,969	\$ 503,114

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BioElectronics Corporation  
Statements of Operations  
For the Years Ended December 31, 2018 and 2017  
(Unaudited)

	2018	2017
Sales	\$ 1,045,873	\$ 1,763,765
Inventory Writedown	86,306	-
Cost of Goods Sold	602,165	765,711
Gross profit	357,402	998,054
General and Administrative Expenses:		
Bad Debt Expense	73,257	25,820
Depreciation and Amortization	2,210	2,210
Investor Relations Expenses	25,631	63,547
Legal and Accounting Expenses	137,383	251,303
Sales Support Expenses	915,461	730,025
Research and Development	496,931	389,812
Other General and Administrative Expenses	742,176	895,590
Total General and Administrative Expenses	2,393,049	2,358,307
Loss from Operations	(2,035,647)	(1,360,253)
Interest Expense	(952,697)	(758,540)
Loss Before Income Taxes	(2,988,344)	(2,118,793)
Provision for Income Tax Expense	-	-
Net loss and comprehensive loss	\$ (2,988,344)	\$ (2,118,793)
Net loss Per Share - Basic and Diluted	\$ (0.0002)	\$ (0.0001)
Weighted Average Number of Shares Outstanding - Basic and Diluted	19,848,940,366	16,978,720,890

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BioElectronics Corporation  
Statements of Cash Flows  
For the Years Ended December 31, 2018 and 2017  
(Unaudited)

	Year Ended December 31,	
	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Net Loss	\$ (2,988,344)	\$ (2,118,793)
Adjustment to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and amortization	2,210	2,210
Provision for bad debts	73,257	25,820
Stock-based compensation and expenses	204,718	66,602
Non-cash interest related to notes payable	30,019	2,902
Non-cash interest related to related party notes payable	786,058	711,091
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	(121,805)	66,253
Inventory	146,228	140,007
Other Current Assets	-	(35,000)
Increase (Decrease) in:		
Accounts payable and accrued expenses	4,992	253,659
Deferred revenue	510,253	16,341
<b>Net Cash Used In Operating Activities</b>	<b>(1,352,414)</b>	<b>(868,908)</b>
<b>Cash Flows From Investing Activities</b>	<b>-</b>	<b>-</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from debt financing	927,926	58,800
Payments on debt financing	(208,759)	(46,644)
Proceeds from related party notes payable	761,402	871,286
Other	(44,143)	(11,414)
<b>Net Cash Provided By Financing Activities</b>	<b>1,436,426</b>	<b>872,028</b>
<b>Net Increase (Decrease) In Cash</b>	84,012	3,120
<b>Cash- Beginning of Period</b>	8,894	5,774
<b>Cash- End of Period</b>	<b>\$ 92,906</b>	<b>\$ 8,894</b>
<b>Supplemental Disclosures Of Cash Flow Information:</b>		
Cash paid during the periods for interest	\$ 72,811	\$ 36,976
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities:</b>		
Conversion of debt and accrued interest into common stock	\$ 505,707	\$ 1,090,113
Issuance of convertible debt with beneficial conversion interest	\$ 761,402	\$ 871,286

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BioElectronics Corporation  
Notes to Financial Statements  
(Unaudited)

**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 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 State 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.

The United Kingdom's National Health Services has recently reduced its funding for hip and knee replacement surgeries. We anticipate the restoration of this budget allowance in the near future.

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BioElectronics Corporation  
Notes to Financial Statements  
(Unaudited)

**NOTE 1- NATURE OF BUSINESS (Continued)**

The transfer of our UK over-the-counter product sales to reimbursable prescription sales behind the pharmacy counter mandates that the customer obtain a prescription from their assigned physician. As a prescription product, ActiPatch is available for free to 80 to 90% of the population in all 14,000 pharmacies. We have now begun advertising and have engaged a consulting group to detail healthcare professionals on the efficacy, cost savings, and patient acceptance of ActiPatch. ActiPatch therapy has proven to be successful for managed care providers, with clinical economic evidence of a 58% reduction in office visits and a 36% reduction in medication costs, and an overall 41% saving in chronic pain sufferers' costs.

As of November 14, 2018, the Company has three substantive orders that have been received, and are currently being held to ship and record, pending international market clearances.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (“ASC”) and Accounting Standards Update (“ASU”) of the Financial Accounting Standards Board (“FASB”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company’s management evaluates its estimates, which include, but are not limited to, estimates related to accrued expenses, stock-based compensation expense, and reported amounts of revenues and expenses during the reported period. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of funds held with commercial banks and financial institutions. The Company considers all investments in highly liquid financial instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

***Fair Value Measurements***

The Company’s financial instruments include cash and cash equivalents. The Company follows the guidelines in ASC 820, “*Fair Value Measurements and Disclosures*”. Fair value is defined as the price that would be received from selling an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company applies the following fair value, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs, other than quoted prices, in active markets for identical assets and liabilities in inactive markets, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models.

The Company periodically evaluates financial assets and liabilities subject to fair value measurements to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the ASC 820 hierarchy.

The Company had no assets or liabilities that were measured using quoted prices for similar assets and liabilities or significant unobservable inputs (Level 2 and Level 3 assets and liabilities, respectively) as of December 31, 2018 and December 31, 2017. The carrying value of cash held in money market funds of \$92,906 and \$8,894 as of December 31, 2018 and December 31, 2017, respectively, is included in cash and cash equivalents and approximates market values based on quoted market prices (Level 1 inputs).

***Concentration of Credit Risk***

Credit risk represents the risk that the Company would incur a loss if counterparties failed to perform pursuant to the terms of their agreements. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents. These deposits and funds may be redeemed upon demand and, therefore, bear minimal risk. The Company does not anticipate any losses on such balances.

***Property and Equipment***

Property and equipment includes leasehold improvements, office furniture and computers, and all are recorded at cost and depreciated on a straight-line basis over estimated useful lives of five years. Upon retirement or disposition of assets, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations. Expenditures for repairs and maintenance are charged to operations as incurred; major replacements that extend the useful life are capitalized.

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## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### ***Revenue Recognition***

The Company sells its products to wholesale distributors, directly to hospitals and clinics, and now also directly 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 12 months ended December 31, 2018 and 2017. Defective units are replaced at the request of the customer.

### ***Accrued Liabilities***

The Company is required to estimate accrued liabilities as part of the process of preparing its financial statements. The estimation of accrued liabilities involves identifying services that have been performed on the Company's behalf, and then estimating the level of service performed and the associated cost incurred for such services as of each balance sheet date. Accrued liabilities include professional service fees, contractor service fees, and legal support for patents. Pursuant to the Company's assessment of the services that have been performed, the Company recognizes these expenses as the services are provided.

### ***Research and development expenses***

Research and development costs are charged to expense as incurred in performing research and development activities. The costs include employee compensation costs, facilities and overhead, clinical study costs, regulatory and other related costs.

### ***Stock-based compensation expense***

The Company accounts for its stock-based compensation awards to employees and directors in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"). ASC 718 requires all stock-based payments to employees, including grants of employee stock options and restricted stock, to be recognized in the statements of operations based on their grant date fair values. Compensation expense related to awards to employees is recognized on a straight-line basis based on the grant date fair value over the associated service period of the award, which is generally the vesting term. Share-based payments issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period in accordance with the provisions of ASC 718 and FASB ASC Topic 505, *Equity*, ("ASC 505") and are expensed using an accelerated attribution model.

The Company estimates the fair value of its stock options using the Black- Scholes option pricing model, which requires the input of subjective assumptions, including (a) the expected volatility of the Company's stock price, (b) the expected term of the award, (c) the risk-free interest rate,

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) expected dividends and (e) the estimated fair value of the Company's common stock on the measurement date. The Company's actual historical stock price volatility data is the basis for expected volatility.

***Income taxes***

Income taxes are recorded in accordance with FASB ASC Topic 740, *Income Taxes* ("ASC 740"), which provides for deferred taxes using an asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and the tax reporting basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax assets will be realized. The Company has evaluated available evidence and concluded that the Company may not realize the benefit of its deferred tax assets; therefore, a valuation allowance has been established for the full amount of the deferred tax assets.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of December 31, 2018 and December 31, 2017, the Company does not have any significant uncertain tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

***Earnings per share***

Basic earnings per share attributable to common stockholders is calculated by dividing net loss attributable to common stockholders by the weighted average shares outstanding during the period, without consideration for common stock equivalents.

Diluted earnings per share attributable to common stockholders is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock and if-converted methods. For purposes of the diluted net loss per share attributable to common stockholders' calculation, stock options, unvested restricted stock, and warrants are considered to be common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders, as their effect would be anti-dilutive for all periods presented. Therefore, basic and diluted net loss per share were the same for all periods presented.

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## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### ***Recent accounting pronouncements***

The Company adopts new pronouncements relating to generally accepted accounting principles applicable to the Company as they are issued, which may be in advance of their required effective date. Management does not believe that any pronouncement not yet effective but recently issued would, if adopted, have a material effect on the accompanying financial statements.

### ***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 \$29,193 and \$5,032 at December 31, 2018 and December 31, 2017, respectively.

### ***Inventory***

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

### ***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, for which these advertising costs are recorded as prepaid expenses, yet none over past two years. Advertising expenses for the years ended December 31, 2018 and 2017 were \$176,075 and \$288,374, respectively, and included in sales support expenses.

### ***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 multiple increases to get to 16,000,000,000 in 2016, and additional increases to 20,000,000 in 2017, and to 25,000,000 in 2018. 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.

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BioElectronics Corporation  
Notes to Financial Statements  
(Unaudited)

**NOTE 3 – GOING CONCERN**

The Company has incurred substantial losses from operations. The Company sustained a net loss of \$2,988,344 for the year December 31, 2018, and a cumulative net loss since inception of \$34,761,351. 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, 2018	December 31, 2017
Raw materials	\$ 198,571	\$ 253,439
Prepaid inventory	17,990	42,836
Finished goods	78,421	144,935
	<u>\$ 294,982</u>	<u>\$ 441,210</u>

**NOTE 5 – PROPERTY AND EQUIPMENT, NET**

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

	December 31, 2018	December 31, 2017
Machinery & Equipment	\$ 174,179	\$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	180,232	178,022
Total property and equipment, net	<u>\$ 829</u>	<u>\$ 3,039</u>

For the years ended December 31, 2018 and 2017, depreciation expense on property and equipment amounted to \$2,210 for both years.

**NOTE 6 – NOTES PAYABLE**

In May 2013, the Company finalized a line of credit agreement with the Export-Import Bank of the United States (EXIM Bank), with the terms modified through a Loan, Security and Guaranty agreement dated May 16, 2015. This agreement was further amended on January 8, 2018, whereas EXIM Bank agreed to a revised repayment schedule, with a new effective interest rate of 5.23%, with

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BioElectronics Corporation  
Notes to Financial Statements  
(Unaudited)

**NOTES PAYABLE (Continued)**

monthly payments of \$3,200 through November 15, 2023, and the remaining principal of \$396,468 due at that time.

In September 2017, the Company obtained \$60,000 in short-term financing with Power Up Lending Group Ltd., with future receivables as collateral, requiring weekly payments of \$3,548 for 23 weeks. An additional \$78,126 was loaned to the Company in the first quarter of 2018 under this arrangement. This financing was fully paid off during 2018.

During the first quarter of 2018, the Company entered into a convertible note agreement with McLeod Holdings, receiving financing of \$72,000, with an interest rate of 8% per annum and convertible at a rate of \$.0003 per share.

During the second quarter of 2018, the Company entered into a convertible note agreement with Timothy Kim, receiving financing of \$200,000, with an interest rate of 8% per annum and convertible at a rate of \$.0013 per share.

During the second quarter of 2018, the Company entered into a convertible note agreement with Abhinav Humar, receiving financing of \$160,000, with an interest rate of 8% per annum and convertible at a rate of \$.0013 per share.

During the first second quarter of 2018, the Company entered into a convertible note agreement with James Eason, receiving financing of \$135,000, with an interest rate of 8% per annum and convertible at a rate of \$.001 per share.

In July 2018, the Company obtained \$200,000 in short-term financing with WebBank, with future receivables as collateral, requiring weekly payments of \$4,770 for 52 weeks. An additional \$82,000 was loaned to the Company under this financing agreement, with additional weekly payments of \$3,286.

Total interest expense on external financing for the years ended December 31, 2018 and 2017 amounted to \$135,063 and \$39,842, respectively. The corresponding shares to be issued upon the conversion of the external convertible debt amounts to 687,672,273 shares as of December 31, 2018.

**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

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BioElectronics Corporation  
Notes to Financial Statements  
(Unaudited)

**NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)**

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 31, 2018, 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, the corresponding shares to be issued on the conversion of these IBEX notes has increased to 20,860,287,191 at December 31, 2018.

During the year ended December 31, 2018 and 2017, the Company borrowed \$67,900 and \$714,400, respectively, through additional promissory notes with IBEX.

During the year ended December 31, 2018, there were no IBEX notes converted into common stock, while during 2017, \$973,203 of IBEX notes were converted into 1,762,387,717 shares of common stock.

Total interest expense on the IBEX convertible promissory notes payable for the years ended December 31, 2018 and 2017 was \$441,393 and \$404,142, respectively. The balance owed to IBEX amounted to \$5,936,530 as of December 31, 2018, and \$5,457,137 as of December 31, 2017.

***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, as well as the former Chairman 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.

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BioElectronics Corporation  
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**NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)**

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, 2018, \$407,249 of other related party loans were converted into 1,385,488,438 shares of common stock, while during the year ending December 31, 2017, \$116,910 of other related party loans were converted into 467,640,000 shares of common stock.

During the years ended December 31, 2018 and 2017, the Company borrowed \$693,502 and \$156,886, 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 to 18,793,754,450 at December 31, 2018.

Total interest expense on the other related party promissory notes payable for the years ended December 31, 2018 and 2017 was \$344,664 and \$306,949, respectively.

The balance of the other related party notes payable amounted to \$4,818,822 and \$4,202,147, as of December 31, 2018 and 2017, respectively.

**NOTE 8 – INCOME TAXES**

The Company has not provided for income tax expense for the year ended December 31, 2018 because of a significant net operating loss carry-forward of approximately \$35 million. The net operating losses expire in various years through 2038.

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, 2018 and December 31, 2017, and that a full valuation reserve is needed to reduce the net deferred tax asset value to \$0 for each year.

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BioElectronics Corporation  
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**NOTE 9 – NET LOSS PER SHARE**

Basic net loss per common share is determined by dividing net loss by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net income per share is computed by dividing net income by the weighted-average number of common stock equivalents outstanding for the period.

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

	Year Ended December 31,	
	2018	2017
Net Loss	\$ (2,988,344)	\$ (2,118,793)
Basic and Diluted Net Loss per Common Share	\$ (0.0002)	\$ (0.0001)
Weighted Average Number of Shares Outstanding - Basic and Dilute	<u>19,848,940,366</u>	<u>16,978,720,890</u>
Options and Shares Not Included Above (Antidilutive):		
Nonvested and Vested Restricted Share Awards	100,000,000	100,000,000
Options to Purchase Common Stock	<u>1,593,700,000</u>	<u>1,563,700,000</u>
	<u>1,693,700,000</u>	<u>1,663,700,000</u>

**NOTE 10 – 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, in the form of stock options and restricted shares.

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BioElectronics Corporation  
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**NOTE 10 – SHARE BASED COMPENSATION (Continued)**

**Restricted Stock and Stock Option Awards**

A summary of the Company's restricted stock and stock option activity for the plan year ended December 31, 2018 is as follows:

<u>Nonvested Restricted Shares</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2017	100,000,000	\$ 0.00035
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at December 31, 2018	<u>100,000,000</u>	<u>\$ 0.00035</u>

<u>Stock options</u>	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term (years)</u>
Balance at December 31, 2017	1,563,700,000	\$ 0.0019	5.8
Granted	55,000,000	0.0027	
Exercised	(25,000,000)	0.0003	
Forfeited	-	-	
Balance at December 31, 2018	<u>1,593,700,000</u>	<u>\$ 0.0020</u>	5.6

Compensation expense for restricted stock and stock options was \$204,718 and \$66,602 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 11 – 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.

Pending SEC Case

In February 2016, the Securities and Exchange Commission instituted a public administrative and cease-and desist proceedings, pursuant to Section 8A of the Securities Act of 1933 against the Company, its President, and IBEX, LLC, owned by the President's daughter Kelly Whelan, a major debtholder. The SEC objected to IBEX's stock and convertible note sales and the reinvestment of proceeds back into the Company. Ibex maintained that all note and stock sales were to qualified investors in accordance with SEC Rule 144, held for longer than the SEC mandated holding period, and were supported by proper legal opinions. The SEC argued that BioElectronics and IBEX, LLC

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**NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)**

were under the common control of Andrew Whelan and Kelly Whelan which invalidated the Rule 144 exemption. Additionally, the SEC asserted improper timing of two sales transactions in the audited fiscal year 2009 financial statements

In both the initial trial and the Supreme Court ordered retrial the SEC's Administrative Law Judge issued an Initial Decision recommending disgorgement and penalties. He has also recommended a Penny Stock Bar against Andrew Whelan and Kelly Whelan.

Administrative Law Judges' Decisions must be concluded by the SEC Commissioners. The SEC Commissioners have never approved the Decision.

The Company and the Enforcement Division have executed a Settlement Agreement, requiring the Company to pay \$166,000. The Enforcement Division of the SEC has notified our attorneys that the Commissioners have agreed to the Settlement Offer. The Company has not yet recorded this liability as of December 31, 2018, and is awaiting the SEC's formal letter of the acceptance of the Settlement.

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 12 – CONCENTRATIONS**

As of December 31, 2018, approximately 89% of trade receivables was with three customers. For the year ended December 31, 2018 approximately 62% of sales was from three customers, and 62% of accounts payable as of December 31, 2017 was with six vendors.

**NOTE 13 – SUBSEQUENT EVENTS**

See Note 11 above for update on pending SEC case. There are no other known events that have occurred subsequent to December 31, 2018 that would have a material effect on these financial statements, through March 31, 2019.

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