BioElectronics Corporation

UNAUDITED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

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)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 37,901	$ 5,774
Trade and other receivables, net	159,613	121,443
Inventory	666,487	581,217
Total current assets	864,001	708,434
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(176,365)	(175,812)
Property and equipment, net	4,696	5,249
Total assets	$ 868,697	$ 713,683
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 658,885	$ 697,418
Deferred revenue	42,319	9,736
Related party notes payable, current portion	5,354,781	4,864,136
Notes Payable	521,810	589,319
Total current liabilities	6,577,795	6,160,609
Long-term liabilities:		
Related party notes payable, net of discount	3,871,064	4,319,298
Total liabilities	10,448,859	10,479,907
Stockholders' deficiency:		
Common stock, par value $0.001 per share, 20,000,000,000 and 15,000,000,000 shares authorized at March 31, 2017 and December 31, 2016, respectively, and 17,340,852,771 and 14,965,779,068 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively.	17,340,853	14,965,779
Additional paid-in capital	3,295,628	4,922,211
Deficit accumulated during the development stage	(30,216,643)	(29,654,214)
Total stockholders' deficiency	(9,580,162)	(9,766,224)
Total liabilities and stockholders' deficiency	$ 868,697	$ 713,683

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BioElectronics Corporation
Income Statements
For the Three Months Ended March 31, 2017 and 2016
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Sales	$ 401,683	$ 528,327
Cost of Goods Sold	128,775	216,456
Gross profit	272,908	311,871
General and Administrative Expenses:		
Depreciation and Amortization	553	552
Investor Relations Expenses	39,622	25,295
Legal and Accounting Expenses	98,441	50,631
Sales Support Expenses	242,546	273,633
Research and Development	94,646	77,362
Other General and Administrative Expenses	177,346	164,988
Total General and Administrative Expenses	653,154	592,461
Loss from Operations	(380,246)	(280,590)
Interest Expense	(182,183)	(176,300)
Loss Before Income Taxes	(562,429)	(456,890)
Provision for Income Tax Expense	-	-
Net loss	$ (562,429)	$ (456,890)
Net loss Per Share - Basic and Diluted	$ (0.00003)	$ (0.00004)
Weighted Average Number of Shares Outstanding - Basic and Diluted	16,153,315,920	10,911,548,308

BioElectronics Corporation
Statements of Cash Flows
For the Three Months Ended March 31, 2017 and 2016

(Unaudited)

	2017	2016
Cash Flows From Operating Activities:		
Net Loss	$ (562,429)	$ (456,890)
Adjustment to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	553	552
Provision for bad debts	-	-
Non-cash expenses	-	21,945
Non-cash interest related to notes payable	714	3,929
Non-cash interest related to related party notes payable	179,684	168,157
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	(38,170)	(18,338)
Inventory	(85,270)	(50,861)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(38,533)	95,457
Deferred revenue	32,583	(66,208)
Net Cash Used In Operating Activities	(510,868)	(302,257)
Cash Flows Used In Investing Activities		
Acquisition of property and equipment	-	-
Cash Flows From Financing Activities		
Proceeds from note payable	-	34,140
Payments on note payable	(15,000)	(2,286)
Proceeds from related party notes payable	514,995	147,975
Other	43,000	-
Net Cash Provided By Financing Activities	542,995	179,829
Net Increase (Decrease) In Cash	32,127	(122,428)
Cash- Beginning of Period	5,774	144,443
Cash- End of Period	$ 37,901	$ 22,015
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the periods for interest	$ 4,540	$ 4,214
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Conversion of debt and accrued interest into common stock	$ 652,268	$ 137,021

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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 $17,992 and $19,920 at March 31, 2017 and December 31, 2016 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 three months ended March 31, 2017 and 2016. 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 three months ended March 31, 2017 and 2016 were $136,732 and $188,043, respectively, and included in sales support expenses. There was no value recorded to prepaid advertising as of March 31, 2017 and 2016, and no value recorded to amortization expense for prepaid advertising for the three months ended March 31, 2017 and 2016, 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 $94,646 and $77,362 in the three months ended March 31, 2017 and 2016, 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 three months ended March 31, 2017 and 2016 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, to 16,000,000,000 in 2016, and to 20,000,000 in 2017. 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 $562,429 for the three months ended March 31, 2017, and a total net loss since inception of $30,216,643. 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:

	March 31, 2017	December 31, 2016
Raw materials	$ 397,012	$ 361,428
Prepaid inventory	88,745	34,145
Finished goods	180,730	185,644
	$ 666,487	$ 581,217

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	March 31, 2017	December 31, 2016
Machinery & Equipment	$ 174,179	$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	176,365	175,812
Total property and equipment, net	$ 4,696	$ 5,249

NOTE 5 – PROPERTY AND EQUIPMENT, NET (Continued)

For the three months ended March 31, 2017 and 2016, depreciation expense on property and equipment amounted to $553 and $552, 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 March 31, 2017, $484,903 was outstanding, at a current interest rate of 5.23%. For the three months ended March 31, 2017 and 2016, total interest expense on the line of credit amounted to $6,240 and $6,500, 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 March 2017, 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 19,203,537,259 at March 31, 2017.

During the three months ended March 31, 2017 and 2016, the Company borrowed $507,000 and $0, respectively, through additional promissory notes with IBEX.

Total interest expense on the IBEX convertible promissory notes payable for the three months ended March 31, 2016 and 2015 was $104,183 and $106,273, respectively. The balance owed to IBEX amounted to $5,279,126 as of March 31, 2017, and $5,323,211 as of December 31, 2016.

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

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. There were no other related party conversions during the three months ended March 31, 2017 and 2016.

During the three months ended March 31, 2017 and 2016, the Company borrowed $15,995 and $158,377, 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 16,819,035,511 at March 31, 2017.

Total interest expense on the other related party promissory notes payable for the three months ended March 31, 2017 and 2016 was $75,501 and $61,884, respectively.

The balance of the other related party notes payable amounted to $3,946,718 and $3,855,222, as of March 31, 2017 and December 31, 2016, respectively.

NOTE 8 – LOSS PER SHARE

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

	Three Months Ended,	
Common Stock:	2017	2016
Weighted Average Number of Shares Outstanding - Basic	16,153,315,920	10,911,548,308
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	16,153,315,920	10,911,548,308
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, 2016	793,700,000	$ 0.0052
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at March 31, 2017	793,700,000	$ 0.0052

There was no compensation expense related to the stock options during the three months ended March 31, 2017 and 2016.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the three months ended March 31, 2017 because of a significant net operating loss carry-forward of approximately $30 million. The net operating losses expire in various years through 2037.

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 March 31, 2017 and December 31, 2016, 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.

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, CPA, age 50, a major debtholder. The SEC objects to Ibex' stock and convertible note sales, and is claiming improper timing of two sales transactions during the fiscal year 2009. Ibex 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 SEC's Administrative Law Judge issued an Initial Decision and has recommended disgorgement of $1,580,593 in profits from Andrew Whelan, Kelly Whelan, and BioElectronics, asserting that BioElectronics and Ibex, LLC were under the common control of Andrew Whelan and Kelly Whelan that invalidated Ibex's Rule 144 exemption. He has also recommended a Penny Stock Bar against Andrew Whelan and Kelly Whelan. The Company has petitioned and the Commissioner has agreed to a de novo review of the case.

In addition to our factual issues in our appeal the contemporaneous legal issues are whether most of the award is barred by the 5-Year Statute of Limitations, can the proposed disgorgement be awarded in an Administrative Proceeding, and are the Administrative Law Judges' constitutionally appointed.

The Tenth Circuit Appeals Court in Colorado has ruled that the appointment of Administrative Law Judges appointment violate the Appointment Clause of the Constitution and has on May 3, 2017 denied the SEC Commission's petition for a rehearing by the full Court.

Subsequent to the Colorado ruling, the full D.C. Court of Appeals has 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. If the full DC Court of Appeals does not concur with the Colorado ruling, the U.S. Supreme Court has already been petitioned to review the issue.

The Supreme Court is currently reviewing, Kokesh v. SEC, the SEC's interpretation of disgorgement and the use of an unlimited time frame to calculate penalties. The Supreme Court limitation of penalties to a 5-year statute of limitations will substantially limit the proposed penalty. The Supreme Court's legal clarification of the term and

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

use of SEC's use of disgorgement orders may also determine if disgorgement can be awarded in Administrative Proceedings.

While the outcome of our case is uncertain at this time, the Company continues to defend its actions, 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 three months ended March 31, 2017 and 2016 amounted to $5,488 and $0, respectively. The balance due from eMarkets as of March 31, 2017 and December 31, 2016 and 2015 was $3,012 and $0, respectively.

NOTE 14 – CONCENTRATIONS

As of March 31, 2017, approximately 85% of trade receivables was from three customers. For the three months ended March 31, 2017 approximately 57% of sales was from four customers, with one customer accounting for 49% of total sales.

As of December 31, 2016, approximately 63% of accounts payable was for six vendors.

A geographic breakdown of sales for the three months ended March 31, 2017 and 2016 is summarized below:

	United States	United Kingdom	Other Foreign	Total Sales
2017	$ 40,840	$ 294,990	$ 65,853	$ 401,683
	10%	**73%**	**16%**	**100%**
2016	$ 16,848	$ 258,993	$ 252,486	$ 528,327
	3%	**49%**	**48%**	**100%**