BioElectronics Corporation

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 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 Sheets
(Unaudited)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 8,894	$ 5,774
Trade and other receivables, net	22,770	121,443
Inventory	441,210	581,217
Other Current Assets	27,201	-
Total current assets	500,075	708,434
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(178,022)	(175,812)
Property and equipment, net	3,039	5,249
Total assets	$ 503,114	$ 713,683
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 951,077	$ 697,418
Deferred revenue	26,077	9,736
Related party notes payable, current portion	4,535,834	4,519,733
Notes Payable, current portion	81,339	589,319
Total current liabilities	5,594,327	5,816,206
Noncurrent liabilities:		
Related party notes payable	5,123,450	4,658,701
Notes Payable	469,746	-
Total noncurrent liabilities	5,593,196	4,658,701
Total liabilities	11,187,523	10,474,907
Stockholders' deficiency:		
Common stock, par value $0.001 per share, 20,000,000,000 and 16,000,000,000 shares authorized at December 31, 2017 and December 31, 2016, respectively, and 18,991,662,712 and 14,965,779,068 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively.	18,991,663	14,965,779
Additional paid-in capital	2,096,935	4,927,211
Accumulated deficit	(31,773,007)	(29,654,214)
Total stockholders' deficiency	(10,684,409)	(9,761,224)
Total liabilities and stockholders' deficiency	$ 503,114	$ 713,683

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BioElectronics Corporation
Income Statements
For the Years Ended December 31, 2017 and 2016
(Unaudited)

	2017	2016
Sales	$ 1,763,765	$ 2,089,694
Cost of Goods Sold	765,711	831,021
Gross profit	998,054	1,258,673
General and Administrative Expenses:		
Bad Debt Expense	25,820	18,583
Depreciation and Amortization	2,210	3,217
Investor Relations Expenses	63,547	51,555
Legal and Accounting Expenses	251,303	669,572
Sales Support Expenses	730,025	716,191
Research and Development	389,812	384,928
Other General and Administrative Expenses	895,590	814,831
Total General and Administrative Expenses	2,358,307	2,658,877
Loss from Operations	(1,360,253)	(1,400,204)
Interest Expense and Other:		
Interest Expense	(758,540)	(711,292)
Other Income	-	4,773
Total Interest Expense and Other, Net	(758,540)	(706,519)
Loss Before Income Taxes	(2,118,793)	(2,106,723)
Provision for Income Tax Expense	-	-
Net loss	$ (2,118,793)	$ (2,106,723)
Net loss Per Share - Basic and Diluted	$ (0.0001)	$ (0.0002)
Weighted Average Number of Shares Outstanding - Basic and Diluted	16,978,720,890	12,839,985,305

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BioElectronics Corporation
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(Unaudited)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash Flows From Operating Activities:		
Net Loss	$ (2,118,793)	$ (2,106,723)
Adjustment to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	2,210	3,217
Provision for bad debts	25,820	18,583
Stock-based compensation and expenses	66,602	43,770
Non-cash interest related to notes payable	2,902	15,154
Increase in related party notes payable for services rendered	-	
Non-cash interest related to related party notes payable	711,091	674,564
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	66,253	114,239
Inventory	140,007	12,668
Other Current Assets	(35,000)	-
Increase (Decrease) in:		
Accounts payable and accrued expenses	253,659	49,011
Deferred revenue	16,341	(132,124)
Net Cash Used In Operating Activities	(868,908)	(1,307,641)
Cash Flows From Investing Activities	-	-
Cash Flows From Financing Activities:		
Proceeds from debt financing	58,800	34,140
Payments on debt financing	(46,644)	(2,286)
Proceeds from related party notes payable	871,286	1,214,262
Other	(11,414)	(77,144)
Net Cash Provided By Financing Activities	872,028	1,168,972
Net Increase (Decrease) In Cash	3,120	(138,669)
Cash- Beginning of Period	5,774	144,443
Cash- End of Period	$ 8,894	$ 5,774
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the periods for interest	$ 36,976	$ 27,450
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Conversion of debt and accrued interest into common stock	$ 1,090,113	$ 1,066,335
Issuance of convertible debt with beneficial conversion interest	$ 871,286	$ 1,214,262

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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 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,

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fair values of the financial instruments approximated their carrying values at December 31, 2017 and December 31, 2016, due to their short-term maturities. The Company accounts for recurring and nonrecurring fair value measurements in accordance with ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosures about fair value measurements. The ASC hierarchy ranks the quality of reliability of inputs, or assumptions, used in the determination of fair value, and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

> Level 1—Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.
>
> Level 2—Fair value is determined by using inputs, other than Level 1 quoted prices that are directly and indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models that can be corroborated by observable market data.
>
> Level 3—Fair value is determined by inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments to be made by a reporting entity. In instances where the determination of the fair value measurement is based on inputs from different levels of fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

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, 2017 and December 31, 2016. The carrying value of cash held in money market funds of $8,894 and $5,774 as of December 31, 2017 and December 31, 2016, 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 12 months ended December 31, 2017 and 2016. 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, (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, 2017 and December 31, 2016, 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.

Recent accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. ASU 2014-09 may be adopted either retrospectively or on a modified retrospective basis whereby ASU 2014-09 would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings at the effective date for existing contracts with remaining performance obligations. In 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*, ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* to provide supplemental adoption guidance and clarification to ASU 2014-09. The effective date for these new standards is the same as the effective date and transition requirements for ASU 2014-09. The Company has not yet completed its final review of the impact of this guidance. The Company has also not concluded on the implementation approach to be used. Management plans to adopt the new standard effective January 1, 2018. The Company continues to monitor additional changes, modifications, clarifications or interpretations being undertaken by the FASB, which may impact the implementation approach management decides to use.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern,* which requires management of an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes, Balance Sheet Classification of Deferred Taxes* (ASU 2015-17). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent on a classified balance sheet. ASU 2015-17 is effective for annual and interim reporting periods after December 15, 2016 and companies are permitted to apply ASU 2015-17 either prospectively or retrospectively. The Company plans to adopt this guidance effective January 1, 2017. The adoption of this guidance had no impact on the Company's results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02) that provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for operating leases and changes many key definitions, including the definition of a lease. ASU 2016-02 includes a short-term lease exception for leases with a term of 12 months or less, in which a lessee can make an accounting policy election not to recognize lease assets and lease liabilities. Lessees will continue to differentiate between finance leases (previously referred to as capital leases) and operating leases, using classification criteria that are substantially similar to the previous guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with earlier application permitted.

The Company has evaluated all other ASUs issued through the date the financials were issued and believes that the adoption of any of these will not have a material impact on the Company's 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

rate. The allowance for doubtful accounts was $5,032 and $19,920 at December 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.

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 nine months ended December 31, 2017 and 2016 were $288,374 and $271,700, respectively, and included in sales support expenses. There was no value recorded to prepaid advertising as of December 31, 2017 and December 31, 2016, and no value recorded to amortization expense for prepaid advertising for the years ended December 31, 2017 and 2016, respectively.

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 $2,118,793 for the year December 31, 2017, and a total net loss since inception of $31,773,007. 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, 2017	December 31, 2016
Raw materials	$ 253,439	$ 361,428
Prepaid inventory	42,836	34,145
Finished goods	144,935	185,644
	$ 441,210	$ 581,217

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	December 31, 2017	December 31, 2016
Machinery & Equipment	$ 174,179	$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	178,022	175,812
Total property and equipment, net	$ 3,039	$ 5,249

For the years ended December 31, 2017 and 2016, depreciation expense on property and equipment amounted to $2,210 and $3,217, respectively.

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 though 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 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.

Total interest expense on external financing for the years ended December 31, 2017 and 2016 amounted to $39,842 and $40,318, 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

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

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, 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 19,658,867,082 at December 31, 2017.

During the year ended December 31, 2017 and 2016, the Company borrowed $714,400 and $470,000, respectively, through additional promissory notes with IBEX.

During the year ended December 31, 2017, $973,203 of IBEX notes were converted into 1,762,387,717 shares of common stock, while during the year ended December 31, 2016, $675,912 of IBEX notes were converted into 1,299,521,742 shares of common stock.

Total interest expense on the IBEX convertible promissory notes payable for the years ended December 31, 2017 and 2016 was $404,142 and $415,399, respectively. The balance owed to IBEX amounted to $5,457,137 as of December 31, 2017, and $5,323,211 as of December 31, 2016.

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, 2017, $116,910 of other related party loans were converted into 467,640,000 shares of common stock, while during the year ended December 31, 2016, $259,734 of other related party loans were converted into 697,332,933 shares of common stock.

During the years ended December 31, 2017 and 2016, the Company borrowed $156,886 and $744,262, 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 17,818,918,420 at December 31, 2017.

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

Total interest expense on the other related party promissory notes payable for the years ended December 31, 2017 and 2016 was $306,949 and $259,125, respectively.

The balance of the other related party notes payable amounted to $4,202,147 and $3,855,222, as of December 31, 2017 and 2016, respectively.

NOTE 8 – INCOME TAXES

The Company has not provided for income tax expense for the year ended December 31, 2017 because of a significant net operating loss carry-forward of approximately $32 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 December 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 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,	
	2017	2016
Net Loss	$ (2,118,793)	$ (2,106,723)
Basic and Diluted Net Loss per Common Share	$ (0.0001)	$ (0.0002)
Weighted Average Number of Shares Outstanding - Basic and Diluted	16,978,720,890	12,839,985,305
Options and Shares Not Included Above (Antidilutive):		
Nonvested and Vested Restricted Share Awards	100,000,000	-
Options to Purchase Common Stock	1,563,700,000	1,223,700,000
	1,663,700,000	1,223,700,000

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.

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, 2017 is as follows:

Nonvested Restricted Shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2016	-	$ -
Granted	100,000,000	0.00035
Vested	-	-
Forfeited		-
Balance at December 31, 2017	100,000,000	$ 0.00035

Stock options	Shares	Weighted-average exercise price	Weighted-average remaining contractual term (years)
Balance at December 31, 2016	1,223,700,000	$ 0.0020	6.8
Granted	365,000,000	0.0018	
Vested	-	-	
Forfeited	(25,000,000)	0.0012	
Balance at December 31, 2017	1,563,700,000	$ 0.0019	5.8

Compensation expense for restricted stock and stock options was $31,602 and $0 for the years ended December 31, 2017 and 2016, respectively, all of which was included in research and development expenses.

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.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

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 objects to IBEX's stock and convertible note sales. Additionally, the SEC and is asserting improper timing of two sales transactions in the audited fiscal year 2009 financial statements. 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 and were supported by proper legal opinions.

The SEC's Administrative Law Judge issued an Initial Decision recommending 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 which invalidated the Rule 144 exemption. He has also recommended a Penny Stock Bar against Andrew Whelan and Kelly Whelan. The Supreme Court has subsequently ruled that disgorgement orders are a penalty subject to the five year statute of limitations which has currently reduced the order by $813,000 to $767,000.

The Administrative Law Judge's initial decision has to be finalized by the SEC Commissioner. In February, 2017 the SEC Commissioners agreed to a de novo review of the case. The pending issues in the petition to dismiss the Administrative Law Judge's Initial Decision are:

- There is no evidence that Andrew Whelan controlled his daughter Kelly Whelan, or that Kelly Whelan controlled BioElectronics.

- All the Ibex transactions were supported by independent legal opinion letters and complied with Rule 144. The Administrative Law Judge excluded the independent legal opinions stating that he has never accepted legal opinions as a defense.

- The Administrative Law Judge excluded expert investment testimony to show that Kelly Whelan's conduct was consistent with that of a major investor.

- The Administrative Law Judge also excluded expert legal opinion asserting that BioElectronics was not a reporting company. Additionally, the Administrative Law Judge misstated the number of shareholders to assert that BioElectronics was required to report to the SEC.

- Neither the SEC nor the Courts have the authority to issue disgorgement orders. In the recent decision on the statute of limitations, the Supreme Court noted that the case could not be relied on as the Court's concurrence that the SEC of the lower Courts had authority to issue disgorgement orders.

- The Administrative Law Judges' employment by the SEC is unconstitutional because the scope of their authority mandates that they need to be appointed by the President or directly by the SEC Commissioners. The DC Court of Appeals has ruled the employment of the SEC's law judges was constitutional and subsequently the full court in a tie vote failed to overturn the initial decision. The Colorado Court of appeals and the Department of Justice's Solicitor General have ruled that the SEC's

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

employment of Administrative Law Judges is unconstitutional. The Supreme Court has accepted the issues and will hear oral arguments on April 23, 2018 to resolve the appointment issue.

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 12 – CONCENTRATIONS

As of December 31, 2017, approximately 88% of trade receivables was with two customers. For the year ended December 31, 2017 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

In January 2018, The United Kingdom's government-funded public health service, National Health System, approved the Company's application to cover and pay for ActiPatch® Musculoskeletal Pain Therapy.

See Note 11 above for update on pending SEC case.