

BioElectronics Corporation

UNAUDITED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

Trading Symbol: BIEL
CUSIP Number: 09062H108

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

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BioElectronics Corporation
Balance Sheet
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,958	\$ 144,443
Trade and other receivables, net	216,429	254,265
Inventory	492,325	593,885
Total current assets	<u>730,712</u>	<u>992,593</u>
Property and equipment	181,061	181,061
Less: Accumulated depreciation	(175,259)	(172,595)
Property and equipment, net	<u>5,802</u>	<u>8,466</u>
Total assets	<u><u>\$ 736,514</u></u>	<u><u>\$ 1,001,059</u></u>
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	\$ 679,764	\$ 648,407
Deferred revenue	9,636	141,860
Related party notes payable, current portion	5,405,504	4,247,673
Notes Payable	<u>722,887</u>	<u>699,737</u>
Total current liabilities	6,817,791	5,737,677
Long-term liabilities:		
Related party notes payable, net of discount	<u>3,668,969</u>	<u>4,118,671</u>
Total liabilities	<u>10,486,760</u>	<u>9,856,348</u>
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 15,000,000,000 shares authorized at September 30, 2016 and December 31, 2015 and 12,603,985,010 and 10,714,191,541 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively.	12,603,985	10,714,191
Additional paid-in capital	6,820,170	7,978,011
Deficit accumulated during the development stage	<u>(29,174,401)</u>	<u>(27,547,491)</u>
Total stockholders' deficiency	<u>(9,750,246)</u>	<u>(8,855,289)</u>
Total liabilities and stockholders' deficiency	<u><u>\$ 736,514</u></u>	<u><u>\$ 1,001,059</u></u>

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BioElectronics Corporation (A Development Stage Company)
Condensed Statements of Operations
For the Three and Nine Months Ended September 30, 2016 and 2015
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales	\$ 472,247	\$ 499,869	\$ 1,688,438	\$ 1,678,665
Cost of Goods Sold	\$ 150,205	\$ 180,065	690,208	\$ 846,467
Gross profit	<u>322,042</u>	<u>319,804</u>	<u>998,230</u>	<u>832,198</u>
General and Administrative Expenses:				
Bad Debt Expense	\$ 12,929	\$ 46,170	18,309	\$ 45,292
Depreciation and Amortization	\$ 1,559	\$ 2,794	2,664	\$ 10,025
Investor Relations Expenses	\$ 710	\$ 83,580	10,305	\$ 203,206
Legal and Accounting Expenses	\$ 344,862	\$ 53,685	564,269	\$ 187,052
Sales Support Expenses	\$ 184,373	\$ 243,708	616,129	\$ 743,373
Research and Development	\$ 108,949	\$ 178,992	337,622	\$ 384,610
Other General and Administrative Expenses	\$ 98,283	\$ 283,914	543,370	\$ 904,834
Total General and Administrative Expenses	<u>751,665</u>	<u>892,843</u>	<u>2,092,668</u>	<u>2,478,392</u>
Loss from Operations	(429,623)	(573,039)	(1,094,438)	(1,646,194)
Interest Expense and Other, Net:				
Other Income(Expense)	\$ -	\$ -	-	-
Interest Expense	\$ (168,984)	\$ (154,310)	(532,472)	\$ (468,606)
Total Interest Expense and Other, Net	<u>(168,984)</u>	<u>(154,310)</u>	<u>(532,472)</u>	<u>(468,606)</u>
Loss Before Income Taxes	<u>(598,607)</u>	<u>(727,349)</u>	<u>(1,626,910)</u>	<u>(2,114,800)</u>
Provision for Income Tax Expense	\$ -	\$ -	-	\$ -
Net loss	<u>\$ (598,607)</u>	<u>\$ (727,349)</u>	<u>\$ (1,626,910)</u>	<u>\$ (2,114,800)</u>
Net loss Per Share - Basic and Diluted	<u>\$ -</u>	<u>\$ (0.0001)</u>	<u>\$ (0.0001)</u>	<u>\$ (0.0003)</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>12,149,904,742</u>	<u>8,636,687,667</u>	<u>11,659,088,276</u>	<u>7,841,781,209</u>

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BioElectronics Corporation
Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net Loss	\$ (1,720,910)	\$ (2,114,800)
Adjustment to Reconcile Net Loss to		
Net Cash Used in Operating Activities:		
Depreciation and amortization	2,664	10,025
Provision for bad debts	5,380	45,292
Stock-based compensation and expenses	21,945	140,000
Non-cash interest related to notes payable	31,204	-
Increase in related party notes payable for services rendered	35,000	-
Non-cash interest related to related party notes payable	501,268	469,692
Changes in Assets and Liabilities		
(Increase) Decrease in:		
Trade and other receivables	32,456	(62,268)
Inventory	101,560	43,418
Increase (Decrease) in:		
Accounts payable and accrued expenses	125,357	268,749
Deferred revenue	(132,224)	10,746
Net Cash Used In Operating Activities	(996,300)	(1,189,146)
Cash Flows From Investing Activities	-	-
Cash Flows From Financing Activities:		
Proceeds from note payable	34,140	45,000
Payments on note payable	(20,490)	(30,834)
Proceeds from related party notes payable	883,271	1,223,985
Other	(23,106)	(70,826)
Net Cash Provided By Financing Activities	873,815	1,167,325
Net Increase (Decrease) In Cash	(122,485)	(21,821)
Cash- Beginning of Period	144,443	45,342
Cash- End of Period	\$ 21,958	\$ 23,521
Supplemental Disclosures Of Cash Flow Information:		
Cash paid during the periods for interest	\$ 20,590	\$ 15,931
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Conversion of debt and accrued interest into common stock	\$ 563,073	\$ 1,114,390
Issuance of convertible debt with beneficial conversion interest	\$ 917,411	\$ 53,413

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 1- NATURE OF BUSINESS

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

The Company is aggressively pursuing US FDA over-the-counter market clearance to access the United States market.

The chronic pain market is larger than diabetes, heart disease, and cancer combined, with 20% of adults globally suffering from chronic pain. ActiPatch is an over-the-counter US\$30 medical device, which addresses the unmet need for 1.5 billion worldwide chronic pain sufferers. Chronic pain modifies the way the central nervous system works. The 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 short video explains how the technology and ActiPatch work at <http://actipatch.com/why-actipatch/>. The technology has the potential to become the standard of care throughout the healthcare continuum across the OTC and healthcare markets. BioElectronics' technology offers significant opportunities in menstrual pain, heel pain, migraine headaches, diabetic neuropathy, postoperative surgery, chronic wounds, bone growth stimulation, and other applications.

US FDA OTC Market Clearance: The US FDA has reclassified non-thermal pulsed shortwave to a class II device. The Company has filed an application for US market clearance for nonprescription use of the devices for the treatment of musculoskeletal pain. The application is supported by:

- 3 published clinical studies showing statistically significant and clinically meaningful pain reduction, two in chronic and one acute musculoskeletal pain.
- Our Pain Management refereed medical journal published Registry of 5,600+ back pain users. The FDA is now accepting Real World Evidence in clinical evaluations. Supplemented with our Sleep Study, Medication Use submitted for publication, and 6 Month Observation Study showing pain relief durability.
- Consumer Usability Study showing that consumers can read and understand our Directions for Use.

The Company's devices are approved for home use in the EU, Canada, and Australia and the Company has sold one million devices with exceptional consumer acceptance.

The medical journal Pain Management published our 5,000+ survey results A UK registry study of the effectiveness of a new over-the-counter chronic pain therapy, Pain Manag. 2015 Nov; 5(6): 413-23, <http://www.futuremedicine.com/doi/full/10.2217/PMT.15.35> reported an average baseline Visual Analogue Scale (VAS) scores of 8.02 (scale is 0-10) and 2/3 of participants had more than 57% pain relief and the following long-term results:

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

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 1- NATURE OF BUSINESS (Continued)

The Company's Try & Tell sales and marketing 7-Day trial device campaign has won the *OTC Bulletin's* 2015 "Best OTC Marketing Campaign on a Small Budget" award. Current chronic pain therapies do not meet the need for chronic pain relief and sufferers are skeptical. To overcome the skepticism and accelerate product acceptance, we promote a discounted 7-Day Trial device without an on/off switch. 65% of testers averaged a 57% reduction in pain and said they "intended" to or would "maybe" purchase and 80% did purchase an average of 1.75 devices within 90-days. After one year, the users purchased an average of 2.7 devices.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Development Stage Company

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

Use of Estimates

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

Cash and Cash Equivalents

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

Trade Receivables

The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of trade and other receivable balances and historical loss

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

rate. The allowance for doubtful accounts was \$20,235 and \$71,827 at September 30, 2016 and December 31, 2015, respectively.

Inventory

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

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. Revenue is recognized when evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 60 days. If the customer is deemed not credit worthy, payment in advance is required. Payments received in advance of when revenue is recognized are recorded as deferred revenue on the balance sheets and recognized as revenue when the goods are shipped and all other general revenue recognition criteria have been met. No allowance for sales returns is required for the nine months ended September 30, 2016 and 2015. Defective units are replaced at the request of the customer.

Advertising Costs

The Company expenses the costs associated with advertising as incurred, except if costs are for the production of advertisements that have not yet been broadcast. These advertising costs are recorded as prepaid expenses and amortized over a one-year period beginning when the advertisements are aired. Advertising expenses for the nine months ended September 30, 2016 and 2015 were \$271,700 and \$611,071, respectively, and included in sales support expenses. There was no value recorded to prepaid advertising as of September 30, 2016 and December 31, 2015, and no value recorded to amortization expense for prepaid advertising for the nine months ended September 30, 2016 and 2015, respectively.

Income Taxes

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

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$337,622 and \$384,610 in the nine months ended September 30, 2016 and 2015, respectively.

Stock Incentive Plans and Other Share-Based Compensation

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

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, “Earnings per Share”, which requires the presentation of basic and diluted net loss per share on the face of the Statement of Operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the nine months ended September 30, 2016 and 2015, the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the time periods 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.

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

Stockholders’ Equity Transactions

On June 18, 2009, the Company authorized to increase the number of common shares from 750,000,000 to 1,000,000,000, with further increases to 1,500,000,000 in 2010, to 2,000,000,000 in 2011, to 3,000,000,000 in 2012, to 4,000,000 in 2013, to 7,000,000,000 in 2014, and to 15,000,000 in 2015. These increases are a result of the continued requirement to cover the potential issuance of common stock resulting from the conversion of debt to equity. The holders of the remaining shares to be issued upon conversion or exercise of equity instruments are likely to promptly 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 \$1,720,910 for the nine months ended September 30, 2016, and a total net loss since inception of \$29,268,401. The Company is currently seeking financing to provide the needed funds for operations. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations, and thus there is substantial doubt of the Company's ability to continue as a going concern.

NOTE 4 - INVENTORY

The components of inventory consisted of the following as of:

	September 30, 2016	December 31, 2015
Raw materials	\$ 334,363	\$ 361,868
Prepaid inventory	82,225	82,287
Finished goods	75,737	149,730
	<u>\$ 492,325</u>	<u>\$ 593,885</u>

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	September 30, 2016	December 31, 2015
Machinery & Equipment	\$ 174,179	\$ 174,179
Leasehold improvements	6,882	6,882
	181,061	181,061
Less: accumulated depreciation	175,259	172,595
Total property and equipment, net	<u>\$ 5,802</u>	<u>\$ 8,466</u>

For the nine months ended September 30, 2016 and 2015, depreciation expense on property and equipment amounted to \$2,664 and \$10,025, 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 September 30, 2016, the balance due is \$499,903, at a current interest rate of 5.23%. For the nine months ended September 30, 2016 and 2015, total interest expense on the line of credit amounted to \$20,590 and \$18,739, respectively.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 7 – RELATED PARTY NOTES PAYABLE

IBEX Promissory Convertible Notes Payable

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

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

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

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

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

Starting in 2012 and continuing through September 2016, the Company extended the maturity dates by one year and two years on several separate notes through multiple agreements with IBEX, as a result of insufficient cash to make payments on amounts owed. In exchange for the extensions, the conversion prices were changed to 50% of the existing market price of the Common Stock on the date of the maturity. Due to the drop in stock prices since the original note issuances, offset by the sales of IBEX notes through September 2016, the corresponding shares to be issued on the conversion of these IBEX notes has increased to 14,277,001.837 at September 30, 2016.

During the nine months ended September 30, 2016, the company borrowed \$199,000 from IBEX, compared to borrowing \$898,860 during the nine months ended September 30, 2015.

Total interest expense on the IBEX convertible promissory notes payable for the nine months ended September 30, 2016 and 2015 was \$316,634 and \$319,572, respectively.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

The balance of the IBEX related party notes payable amounted to \$5,343,764 at September 30, 2016 and \$5,273,536 as of December 31, 2015.

Other Related Party Loans

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

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

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

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. Related party loans valued at \$259,734 were converted into 697,332,933 common stock shares at conversion prices ranging from \$.0003-\$.0004 per share during the nine months ended September 30, 2016, with no conversions during the same period in 2015.

During the nine months ended September 30, 2016 and 2015, the Company borrowed \$716,507 and \$374,375, respectively, through additional promissory notes with other related parties.

Due to the drop in stock prices since the original note issuances, and the new notes, the corresponding shares to be issued on the conversion of these other related party loans has increased from 7,790,977,668 at December 31, 2015 to 10,479,037,432 at September 30, 2016.

Total interest expense on the other related party promissory notes payable for the nine months ended September 30, 2016 and 2015 was \$187,397 and \$150,120, respectively.

The balance of the other related party notes payable amounted to \$3,755,699 at September 30, 2016 and \$3,114,529 at December 31, 2015.

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 8 – LOSS PER SHARE

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

	Nine Months Ended September 30,	
Common Stock:	2016	2015
Weighted Average Number of Shares Outstanding - Basic	11,659,088,276	7,841,781,209
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	11,659,088,276	7,841,781,209
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 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.

As of September 30, 2016, the Plan has awarded options for 1,128,700,000 and is authorized to issue 1.5 billion shares. 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

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.

There was no compensation expense related to stock options during the nine months ended September 30, 2016 and 2015, respectively.

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

Total compensation cost related to the restricted stock awards granted was \$0 and \$17,625 for the nine months ended September 30, 2016 and 2015, respectively.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the nine months ended September 30, 2016 and 2015, respectively, because of a significant net operating loss carry-forward of approximately \$29 million. The net operating losses expire in various years through 2036.

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

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BioElectronics Corporation
Notes to Financial Statements
(Unaudited)

NOTE 10 – INCOME TAXES (Continued)

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 September 30, 2016 and 2015, and that a full valuation reserve is needed to reduce the net deferred tax asset value to \$0 for each year.

NOTE 11 – FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash, trade and other receivables, accounts payable and accrued expenses and related party notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows. The Company adopted ASC Topic 820-10, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value

which focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

In February 2016, the Securities and Exchange Commission instituted public administrative and cease-and-desist proceedings, pursuant to Section 8A of the Securities Act of 1933, against the Company, its President, and a major debtholder. It appears that the SEC objects to some of the Company's convertible note sales, and is claiming improper timing of two sales transactions during the fiscal year 2009. The Company maintains that all

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note sales were to qualified investors in accordance with SEC Rule 144 and held for longer than the SEC mandated holding period. The Company also believes that it properly accounted for the sales transactions in 2009,

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

which were validated by an independent auditor. There was an Administrative Judge hearing the week of September 19, 2016, the Company and the SEC's Enforcement Division have filed post-hearing briefs and each may respond to the others brief by November 18, 2016. While the outcome is uncertain at this time, the Company is confident that its actions were in compliance with SEC requirements, and the respondents will be properly vindicated.

The Company is involved, on a continuing basis, in monitoring 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 nine months ended September 30, 2016 and 2015 amounted to \$8,023 and \$10,543, respectively. The balance due from eMarkets as of September 30, 2016 and December 31, 2015 was \$206 and \$617, respectively.

NOTE 14 – CONCENTRATIONS

As of September 30, 2016, approximately 90% of trade receivables was from three customers. For the nine months ended September 30, 2016, approximately 65% of sales was from five customers, with one customer accounting for 38% of total sales.

As of September 30, 2016, approximately 64% of accounts payable was for six vendors.

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