
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended September 30, 2017

Commission File No. 000-52542

Spotlight Innovation Inc.

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or
organization)

98-0518266

(I.R.S. Employer Identification No.)

**11147 Aurora Avenue
Aurora Business Park, Building 3
Urbandale, IA 50322**

(Address of principal executive offices)

(515) 274-9087

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if smaller reporting company)		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 15, 2017, the Company had 34,290,934 outstanding shares of its common stock, par value \$0.001.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**SPOTLIGHT INNOVATION INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)**

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 150,644	\$ 313,333
Prepaid expenses	8,581	214,500
Inventory	197,368	-
Notes receivable	-	1,000,000
Total current assets	356,593	1,527,833
Property, and equipment, net	10,088	13,155
In-process research and development	6,977,347	6,977,347
Total assets	\$ 7,344,028	\$ 8,518,335
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 462,792	\$ 395,849
Accounts payable and accrued liabilities – related parties	306,362	3,560
Accrued liabilities	656,503	699,567
Stock payable	400,082	3,921,973
Notes payable	171,014	174,769
Short-term debt – related party	660,574	290,064
Lines of credit, net of discounts of \$0 and \$4,929, respectively	-	998,370
Total current liabilities	2,657,327	6,484,152
Long-term liabilities:		
Convertible debenture, net of debt discount of \$547,652 and \$0, respectively	209,458	-
Convertible debenture – related party, net of debt discount of \$261,798 and \$0, respectively	73,202	-
Loan payable – related party, net of debt discount of \$281,304 and \$0, respectively	1,218,696	-
Derivative liability	13,508	-
Royalty liability	2,068,324	713,442
Total liabilities	6,240,515	7,197,594
Equity:		
Series A preferred stock, \$0.001 par value, 3,000,000 shares authorized, 0 shares issued and outstanding	-	-
Series C preferred stock, \$0.001 par value, 500,000 shares authorized, 0 shares issued and outstanding	-	-
Preferred stock, \$0.001 par value, 4,000,000 shares authorized 0 shares issued and outstanding	-	-
Common stock, \$0.001 par value, 4,000,000,000 shares authorized, 35,656,593 and 27,276,054 shares issued, and 33,041,593 and 27,276,054 outstanding, respectively	35,656	27,276
Additional paid-in capital	39,532,399	34,035,015
Accumulated deficit	(40,848,377)	(35,369,670)
Common stock held in treasury stock, 2,615,000 and 0 shares, respectively, at cost	-	-
Total equity attributable to Spotlight Innovation Inc.	(1,280,322)	(1,307,379)
Non-controlling interest	2,383,835	2,628,120
Total equity	1,103,513	1,320,741
Total liabilities and equity	\$ 7,344,028	\$ 8,518,335

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SPOTLIGHT INNOVATION INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
REVENUE	\$ 910	\$ -	\$ 910	\$ -
COST OF SALES	1,943	-	123,043	-
OPERATING EXPENSES:				
General and administrative expenses	617,094	1,510,615	3,057,786	3,620,712
Research and development expense	117,901	68,150	685,207	181,572
Depreciation expense	1,280	1,182	3,841	3,545
Total operating expenses	736,275	1,579,947	3,746,834	3,805,829
LOSS FROM OPERATIONS	(737,308)	(1,579,947)	(3,868,967)	(3,805,829)
OTHER INCOME (EXPENSE):				
Unrealized gain (loss) on change in present value of royalties	29,582	-	(21,319)	-
Interest expense	(97,739)	(172,268)	(997,096)	(497,908)
Loss on settlement of debt	-	(195,656)	-	(195,656)
Gain (loss) on derivative liability	-	26,068	(4,364)	78,160
Gain on extinguishment of debt and related derivative liability	-	-	243,716	-
Loss due to impairment of notes receivable	(1,116,075)	-	(1,116,075)	-
Other income	-	4,955	59,692	7,988
Gain (loss) on foreign currency exchange	(4,620)	193	(18,579)	111
Total other income (expense)	(1,188,852)	(336,708)	(1,854,025)	(607,305)
Net loss from continuing operations	(1,926,160)	(1,916,655)	(5,722,992)	(4,413,134)
Net loss from discontinued operations	-	(45,753)	-	(156,177)
Net loss	(1,926,160)	(1,962,408)	(5,722,992)	(4,569,311)
Net loss attributable to non-controlling interest holder	(51,551)	(12,755)	(244,285)	(41,490)
Net loss attributable to Spotlight Innovation Inc.	<u>\$ (1,874,609)</u>	<u>\$ (1,949,653)</u>	<u>\$ (5,478,707)</u>	<u>\$ (4,527,821)</u>
Net loss per common share - basic and diluted				
Continued operations	\$ (0.06)	\$ (0.12)	\$ (0.17)	\$ (0.29)
Discontinued operations	-	(0.00)	-	(0.01)
Total	<u>\$ (0.06)</u>	<u>\$ (0.12)</u>	<u>\$ (0.17)</u>	<u>\$ (0.30)</u>
Weighted average number of common shares outstanding - basic and diluted	33,400,764	15,920,123	31,554,450	15,447,745

See accompanying notes to the unaudited consolidated financial statements.

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SPOTLIGHT INNOVATION INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(5,722,992)	\$(4,569,311)
Less: net loss from discontinued operations	-	(156,177)
Net loss from continuing operations	(5,722,992)	(4,413,134)
<i>Adjustments to reconcile net loss to cash used in operating activities:</i>		
Share-based compensation	1,042,588	1,697,117
Depreciation and amortization	3,841	4,027
Impairment of notes receivable	1,116,075	-
Loss on settlement of debt and payables	-	195,656
Gain (loss) on change of fair value of derivative liability	4,364	(78,159)
Amortization of debt discount	780,370	157,786
Interest expense on derivative liability that exceeds face value	96,541	-
Gain on extinguishment of debt and related derivative liability	(243,716)	-
Unrealized loss on change in present value of royalty liability	21,319	-
(Gain) loss on foreign currency exchange	18,577	(111)
Changes in operating assets and liabilities:		
Prepaid expense	8,551	(97,167)
Accounts payable	66,943	102,857
Accounts payable and accrued liabilities - related party	2,802	-
Accrued liabilities	(47,053)	271,194
Accrued interest from notes receivable	(59,693)	-
Cash used in continuing operating activities	(2,911,483)	(2,159,934)
Cash used in discontinued operating activities	-	(32,327)
Total cash used in operating activities	(2,911,483)	(2,192,261)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for notes receivable	(56,382)	-
Cash paid for purchase of fixed assets	(774)	(5,643)
Cash used in continuing investing activities	(57,156)	(5,643)
Cash provided by discontinued investing activities	-	482
Total cash used in investing activities	(57,156)	(5,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(1,087,250)	(98,373)
Proceeds from line of credit, net	-	115,000
Repayment of line of credit	(1,003,300)	-
Proceeds from convertible debenture - net	1,542,000	1,195,000
Proceeds from convertible debenture – related party, net	415,000	-
Proceeds from loan from related party	1,537,500	-
Proceeds from demand note	1,402,000	870,000
Proceeds from sale of common shares and warrants	-	105,140
Cash provided by continuing financing activities	2,805,950	2,186,767
Cash provided by discontinued financing activities	-	-
Total cash provided by financing activities	2,805,950	2,186,767
Decrease in cash	(162,689)	(10,655)
Cash, beginning of the period	313,333	299,919
Cash, end of the period	<u>\$ 150,644</u>	<u>\$ 289,264</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 52,820	\$ 73,373
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common shares issued for extinguishment of debt and related derivative liability	<u>\$ 495,816</u>	<u>\$ -</u>

Beneficial conversion feature for convertible debt	\$ -	\$ 1,486,179
Shares issued in settlement of convertible debt	\$ -	\$ -
Debt discount for relative fair value of warrants attached to convertible debentures	\$ 40,388	\$ 146,003
Reclassification of debt and interest to accrued liabilities	\$ -	\$ 102,748
Shares issued in settlement of accounts payable	\$ -	\$ 96,781
Debt discount for relative fair value of royalties attached to convertible debentures	\$ 1,333,563	\$ -
Debt discount on related party loan	\$ 300,000	\$ -
Common shares issued for stock payable	\$ 3,926,973	\$ 21,500
Stock payable issued for conversion of convertible debenture	\$ 400,082	\$ 50,000
Derivative liability related to convertible debentures	\$ 288,676	\$ (200,323)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**SPOTLIGHT INNOVATION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Spotlight Innovation Inc. (the “Company”) was organized under the laws of the state of Nevada on March 23, 2012 under the name Spotlight Innovation, LLC. In December 2013, the Company, through a reverse acquisition, merged with American Exploration Corporation (“American Exploration”). Spotlight Innovation Inc. is a pharmaceutical company focused on acquiring the intellectual property rights to innovative and proprietary therapeutics designed to address unmet medical needs, with an emphasis on rare, emerging, or neglected diseases. To find and evaluate unique opportunities, we leverage our extensive relationships with leading scientists, academic institutions and other sources. We provide value-added development capability to accelerate progress. When scientifically significant benchmarks have been achieved, we will endeavor to partner with proven market leaders via sale, out-license or strategic alliance.

As of September 30, 2017, the Company had four subsidiaries: Celtic Biotech Iowa, Inc. “Celtic Iowa”, Caretta Therapeutics, LLC (“Caretta”), SMA Therapeutics, LLC (“SMA”), and Zika Therapeutics, LLC (“Zika”).

Cancer

On June 4, 2014, Celtic Biotech Iowa, Inc. acquired Celtic Biotech Limited (subsidiary of Celtic Iowa, hereinafter “CBL”). CBL was founded in 2003 in Dublin, Ireland and is developing novel and highly specialized compounds derived from snake venom, for the treatment of solid cancers and cancer imaging.

Pain Management

Caretta was formed in August 2016 to develop the commercialization of over-the-counter products. Caretta holds a license agreement to develop, manufacture and sell certain products derived from snake venom that may have analgesic properties.

Zika Virus Infection

On August 19, 2016, the Company entered a Sponsored Research Agreement (the “SRA”) with the Florida State University Research Foundation (“FSURF”) starting September 1, 2016, to perform certain research, over a two-year period, related to the discovery, synthetic modification, and preclinical validation of drug-like compounds intended to treat patients with Zika virus infection. The research is being conducted under the direction of Professor Hengli Tang.

Spinal Muscular Atrophy

In October 2016, the Company entered into an Exclusive License Agreement with Indiana University Research and Technology Corporation to commercialize STL-182, an orally-available small molecule that may have therapeutic potential for treating spinal muscular atrophy. Spinal Muscular Atrophy is an autosomal recessive disorder that is a leading genetic cause of death in infants and toddlers.

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Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate disclosures contained in the audited financial statements for the most recent fiscal year, as reported in the Form 10-K for the period ended December 31, 2016 filed with the SEC, have been omitted.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those regarding the valuation of the assets acquired and liabilities assumed in the acquisition of Memcine and share-based compensation.

Principles of Consolidation

The consolidated financial statements include the Company's accounts, including those of the Company's subsidiaries. Accordingly, the Company has consolidated CBL, Celtic Iowa, CDT (Suspended), Caretta, Zika, and SMA. All significant intercompany accounts and transactions have been eliminated.

Non-Controlling Interest

The Company is required to report its non-controlling interest in all subsidiaries as a separate component of shareholders' equity. The Company is also required to present the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interest and to the shareholders of the Company separately in its consolidated statements of operations. Losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interest's investment basis.

Loss per Common Share

Basic net income (loss) per common share is computed by dividing the net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by the weighted-average number of common and common equivalent shares outstanding during the period. Common share equivalents included in the diluted computation represent shares issuable upon assumed exercise of stock options and warrants or the assumed conversion of convertible debt instruments, using the treasury stock and "if converted" method. For periods in which net losses are incurred, weighted average shares outstanding is the same for basic and diluted loss per share calculations, as the inclusion of common share equivalents would have an anti-dilutive effect.

For the nine months ended September 30, 2017 and 2016, the dilutive effect of the issuance of 0 and 0 options, 1,087,100 and 0 warrants, and 948,079, and 0 shares of common stock issuable for conversion of convertible debt, respectively, were excluded from the diluted earnings per share calculation because their effect would have been anti-dilutive.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. The Company maintains its cash in institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company had \$150,644 and \$313,333 cash equivalents at September 30, 2017 and December 31, 2016, respectively.

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Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash deposits placed with financial institutions. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation ("FDIC"). As of September 30, 2017, the Company had \$0 of cash balances that were uninsured. The Company has not experienced any losses on such accounts.

Foreign exchange and currency translation

The Company maintains cash accounts in U.S. dollars as well as European Union euros, and incurred certain expenses denominated in U.S. dollars and European Union euros. The Company's functional and reporting currency is the U.S. dollar. Transactions denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on the date of the transactions. Assets and liabilities are translated using exchange rates at the end of each period. Exchange gains or losses on transactions are included in earnings. For all periods presented, any exchange gains or losses or translation adjustments resulting from foreign currency transactions are included in the statements of operations as other income (expense).

Inventory

Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis.

In-Process Research and Development

In-process research and development ("IPR&D") represents the estimated fair value assigned to research and development projects acquired in a purchased business combination that have not been completed at the date of acquisition and which have no alternative future use. IPR&D assets acquired in a business combination are capitalized as indefinite-lived intangible assets. These assets remain indefinite-lived until the completion or abandonment of the associated research and development efforts. During the periods prior to completion or abandonment, those acquired indefinite-lived assets are not amortized but are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. During periods after completion, those acquired indefinite-lived assets are amortized based on their useful life. The fair value of the assets acquired was \$6,977,347. These assets are still subject to research and development completion and accordingly, no amortization has been recorded.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the life or improve existing equipment are capitalized. Upon disposition or retirement of equipment, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which is 3-10 years.

Impairment of Long-Lived Assets and Intangibles

The Company performs impairment tests on its long-lived assets when circumstances indicate that their carrying amounts may not be recoverable. If required, recoverability is tested by comparing the estimated future undiscounted cash flows of the asset or asset group to its carrying value. If the carrying value is not recoverable, the asset or asset group is written down to fair value. For the nine months ended September 30, 2017 and 2016, the Company recorded an impairment to the Company's long-lived assets. On September 20, 2017, the U.S. Food and Drug Administration ("FDA") denied approval of the application for the SOLX glaucoma treatment. With this development, the Company has determined that the note receivable is fully impaired. See Note 7 below for further details.

Deferred Financing Costs

We have incurred debt origination costs in connection with the issuance of short-term convertible debt. These costs are capitalized as deferred financing costs and amortized using the straight-line method over the term of the related convertible debt.

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Stock-Based Compensation

The Company measures the cost of employee services received in exchange for stock and stock options based on the grant date fair value of the awards. The Company determines the fair value of stock option grants using the Black-Scholes option pricing model. The Company determines the fair value of shares of non-vested stock (also commonly referred to as restricted stock) based on the last quoted price of our stock on the date of the share grant. The fair value determined represents the cost for the award and is recognized over the vesting period during which an employee is required to provide service in exchange for the award. As share-based compensation expense is recognized based on awards ultimately expected to vest, the Company reduces the expense for estimated forfeitures based on historical forfeiture rates, if historical forfeiture rates are available. Previously recognized compensation costs may be adjusted to reflect the actual forfeiture rate for the entire award at the end of the vesting period. Excess tax benefits, if any, are recognized as an addition to paid-in capital.

Income Taxes

The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry-forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

Fair Value of Financial Instruments

The Company follows FASB ASC 820, *Fair Value Measurement* ("ASC 820"), which clarifies fair value as an exit price, establishes a hierarchical disclosure framework for measuring fair value, and requires extended disclosures about fair value measurements. The provisions of ASC 820 apply to all financial assets and liabilities measured at fair value.

As defined in ASC 820, fair value, clarified as an exit price, represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering these assumptions, ASC 820 defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's IPR&D assets were valued on a discounted cash flow model using the income approach. The inputs to the model were within Level 3 of the fair value hierarchy.

Subsequent Events

The Company evaluated subsequent events through the date when financial statements are issued for disclosure consideration.

Recent Accounting Pronouncements

There were various accounting standards and interpretations issued recently, none of which are expected to have a material effect on the Company's operations, financial position or cash flows.

NOTE 3. GOING CONCERN

The Company is an early stage company and as such has not generated material revenues from operations and there is no assurance of any future revenues. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. As of September 30, 2017, the Company had accumulated net losses of \$40,848,377 and had a working capital deficit of \$2,300,734. These factors raise substantial doubt as to the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon the Company's successful efforts to raise sufficient capital and then attain profitable operations. Management is investigating all options to raise enough funds to meet the Company's working capital requirements through either the sale of the Company's common stock or other financings. There can be no assurances, however, that management will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtained on terms satisfactory to the Company.

NOTE 4. DISCONTINUED OPERATIONS

Memcine

On June 2, 2015, the Company acquired 82.25% of the ownership in Memcine for \$30,000. The Company recorded the 17.75% non-controlling interest in Memcine at a fair value of \$6,364.

On October 12, 2016, the Company terminated its interests in Memcine pursuant to a Termination Agreement with Memcine, the University of Iowa Research Foundation, and Dr. Tony Vanden Bush. The Company has reclassified the results from operations of Memcine to discontinued operations.

The following table summarizes the results of the Memcine business included in the consolidated statement of income as discontinued operations:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Sales	\$ -	\$ -
General and administrative expenses	45,316	154,866
Depreciation	437	1,311
Loss before taxes	(45,753)	(156,177)
Income taxes	-	-
Net loss from discontinued operations	<u>\$ (45,753)</u>	<u>\$ (156,177)</u>

Non-transferable balance sheet positions, such as intercompany payables of \$299,574 as of October 12, 2016 were considered forgiven and netted against the gain on the disposal.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Description	Useful lives (years)	September 30, 2017	December 31, 2016
Computers	5	\$ 9,620	\$ 9,620
Software	3	761	761
Furniture	5	1,974	1,200
Equipment	10	9,000	9,000
Subtotal		21,355	20,581
Less accumulated depreciation		(11,267)	(7,426)
Property and equipment, net		<u>\$ 10,088</u>	<u>\$ 13,155</u>

NOTE 6. INVENTORY

Inventory consisted of the following:

	September 30, 2017
Venom	\$ 28,771
Packaging	\$ 19,594
Bottles, Caps & Roll-Ons	\$ 2,026
Finsihed Goods	\$ 146,978
Total Inventory	<u>\$ 197,368</u>

NOTE 7. NOTES RECEIVABLE

During 2016, the Company made two investments in SOLX, Inc. ("SOLX"), a Massachusetts-based, privately-held medical device company that develops innovative surgical technologies to treat refractory glaucoma and preserve vision. The Company purchased \$200,000 and \$800,000 in Senior Convertible Promissory Notes, maturing October 1, 2017. The notes carry an interest rate of 10%. No periodic interest payments will be made, upon maturity the principal balance and the accrued interest will be paid unless converted to equity. On a fully converted basis, the principal represents about a 10% interest in SOLX. Of the 10% interest, 3% has been assigned to K4 Enterprise, LLC ("K4"). During the nine months ended September 30, 2017, the Company purchased an additional note from SOLX in the amount of \$36,771, and accrued interest income of \$59,693.

The Company has been issued a warrant to purchase Series A Preferred stock or Series A-2 Preferred stock of SOLX. The warrant allows the Company to purchase 35% of the face value of the Company investment at a price of \$0.8170 for Series A Preferred stock or \$0.940 for Series A-2 Preferred stock. The expiration date is the earlier of (i) December 6, 2026, (ii) the closing of the initial public offering (IPO) of the SOLX Common Stock, (iii) the closing of the sale or substantially all of the assets of SOLX. The Company accrued interest income of \$59,693.

The Company was advised that on September 20, 2017, the FDA sent a formal denial to SOLX of the application for FDA approval of the treatment for refractory glaucoma. SOLX has informed the Company that they will cease operations. The Company has determined, with the FDA denial of the application and SOLX's assertion to cease operations, the note receivable is fully impaired, and the Company has charged the total balance of \$1,116,075 against earnings in the quarter ended September 30, 2017. The value of the warrants issued to the Company by SOLX have been written off given the assertion by SOLX.

NOTE 8. NOTES PAYABLE

During 2016, the Company conducted a private offering of up to \$2,500,000 in principal amount of the Company's convertible promissory notes (the "Private Placement"), which bear interest at the rate of 7.5% per annum. The notes are convertible into shares of common stock of the Company at a price per share equal to 90% of the closing bid price of the common stock during the 20 consecutive trading days immediately preceding such conversion. The notes mature 24 months after issuance, if not converted prior to the maturity date, the notes automatically convert into shares of common stock of the Company at a per share price equal to 80% of the closing bid price of the common stock of the Company during the 20 consecutive trading days immediately preceding the maturity date. The holders of the notes will receive, in the aggregate, pro rata based on investment, a total of five percent of the revenues of Caretta Therapeutics, LLC during the years ending December 31, 2017, 2018, 2019 and 2020. The investors shall also receive warrants to purchase a number of shares equal to 30% of the amount invested, for a period of two years, at an exercise price per share equal to 110% of the closing bid price of the common stock of the Company on the six-month anniversary of the date of issuance of such warrant. During the year ended December 31, 2016, the Company issued convertible notes in the aggregate principal amount of \$1,382,000, under the Private Placement.

During the nine months ended September 30, 2017, under the Private Placement, the Company issued convertible notes in the aggregate principal amount of \$1,957,000. During the nine months ended September 30, 2017, the Company recorded \$192,134 and \$1,333,562 of derivative liability and royalty liability, respectively, associated with these convertible notes. In addition, the Company also recorded debt discount related to the relative fair value of the warrants in the amount of \$40,389. As of September 30, 2017, the convertible notes converted into shares 948,079 of common stock, fair valued at \$446,564, and stock payable of \$400,082. The Company also recorded a gain on extinguishment of debt and related derivative liability in the amount of \$243,716. For the nine months ended September 30, 2016, the Company recorded an unrealized loss on the change of present value of the royalty liabilities in the amount of \$21,319.

NOTE 9. LEASES

As of September 30, 2017, the Company has one lease agreement. On December 15, 2016, the Company entered into a commercial sublease with K4 in Urbandale, Iowa, for a term of five years, commencing December 15, 2016, ending December 1, 2021, and automatically continuing on a year-to-year basis thereafter, unless terminated in accordance with the provisions thereof. K4 is a related party. Monthly rent is \$1,314, which will increase by two percent (2%) annually, plus a proportionate share of expenses, which will initially be \$800 per month.

NOTE 10. INCOME TAXES

Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carry-forwards are expected to be available to reduce taxable income.

As of September 30, 2017, the Company's deferred tax assets consisted primarily of net operating loss carry forwards. For the nine months ended September 30, 2017 and 2016, the material reconciling items between the tax benefit computed at the statutory rate and the actual benefit recognized in the financial statements consisted of expenses related to share-based compensation and the change in the valuation allowance during the applicable period. For the nine months ended September 30, 2017 and 2016, the Company recorded a 100% valuation allowance as management believes it is likely that any deferred tax assets will not be realized.

As of September 30, 2017, the Company has a net operating loss carry forward of approximately \$39.4 million, which will expire between years 2028 and 2036. Due to the change in ownership provisions of the Tax Reform Act of 1986, our net operating loss carry forwards are expected to be subject to significant annual limitations for the change in ownership that resulted in the merger with American Exploration.

NOTE 11. EQUITY

The authorized equity of the Company consists of: 4,000,000 shares of preferred stock (3,000,000 shares designated as Series A preferred stock, 500,000 shares designated as Series C preferred stock), and 4,000,000,000 shares of common stock.

Common Stock

The Company issued common stock for services during the nine months ended September 30, 2017. The table below details the issuances:

Month	Shares Issued	Fair Value at Issue Date
January 2017	1,360,000	\$ 884,000
February 2017	100,000	50,000
April 2017	136,250	48,450

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Treasury Stock

During the nine months ended September 30, 2017, the Company reacquired a total of 2,615,000 shares of its common stock. The shares were previously held by Cris Grunewald, former executive officer and director of the Company, and the shares remained issued, but not outstanding, at September 30, 2017. The shares are recorded at cost of \$0.

Options

2009 Plan

In 2009, the Company adopted the 2009 Stock Option Plan (the “2009 Plan”). The 2009 Plan allows the Company to issue options to officers, directors and employees, as well as consultants, to purchase up to 7,000,000 shares of common stock. As of September 30, 2017, there are 5,200 stock options outstanding under the 2009 Plan.

2015 Equity Incentive Plan

On November 25, 2015, the Company authorized the Spotlight Innovation Inc. 2015 Equity Incentive Plan (the “2015 Plan”). The total number of shares of common stock which may be issued under the options granted pursuant to the 2015 Plan is 3,600,000. The shares covered by the portion of any grant under the 2015 Plan which expires unexercised shall become available again for grant under the 2015 Plan.

2016 Equity Incentive Plan

On December 13, 2016, the Company adopted the Spotlight Innovation Inc. 2016 Equity Incentive Plan (the “2016 Plan”) and reserved 5,000,000 shares of common stock under the 2016 Plan. During the nine months ended September 30, 2017, the Company issued no options. A summary of the stock option activity for the nine months ended September 30, 2017 is presented below.

	Options	Weighted-Average Exercise Price
Outstanding December 31, 2017	153,771	\$ 12.48
Granted	-	-
Exercised	-	-
Expired/Forfeited	-	-
Outstanding September 30, 2017	<u>153,771</u>	<u>\$ 12.48</u>
Exercisable September 30, 2017	153,771	12.48

Warrants

During the nine months ended September 30, 2017, the Company issued 587,100 warrants to purchase shares of common stock. These warrants were issued in connection with the Company’s private placement conducted during the nine months ended September 30, 2017. These warrants have an exercise price equal to the closing price of the common stock of the Company on the six-month issuance thereof. The relative fair value of the warrants based on the Black-Scholes model was \$43,088 on the grant date.

During the nine months ended September 30, 2017, the Company issued 500,000 warrants to purchase shares of common stock as stock compensation pursuant to the consulting agreement with an advisor of the Company. These warrants have a fixed exercise price of \$1.25. The relative fair value of the warrants based on the Black-Scholes model was \$45,274 on the grant date.

During the nine months ended September 30, 2017, warrants to purchase 794,171 common shares expired with an average exercise price of \$1.27.

The fair value of the above warrants was determined by using the Black-Scholes option-pricing model. Variables used in the model for the warrants issued include: i) discount rates ranging from 1.38% to 1.66%; ii) expected terms of 3.00 years; iii) expected volatility ranging from 110.71% to 270.27%; iv) zero expected dividends and v) stock price of \$0.11 to \$0.52.

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A summary of the warrant activity for the nine months ended September 30, 2017 is presented below:

	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2016	5,826,271	\$ 1.29
Granted	1,087,100	1.07
Exercised		-
Expired/forfeited/terminated	(794,171)	1.27
Outstanding September 30, 2017	<u>6,119,200</u>	<u>\$ 1.16</u>
Exercisable September 30, 2017	6,119,200	\$ 1.16

The weighted average remaining contractual term of the outstanding warrants and exercisable warrants as of September 30, 2017 is 1.77 years.

NOTE 12. RELATED PARTY TRANSACTIONS

John M. Krohn, President, Chief Operating Officer and Director of the Company, is a 50% owner of K4. The Company has entered into several financing agreements with K4. The Company entered into a sublease with K4, to occupy the current offices of the Company. On December 16, 2016, the Company (i) issued 350,000 common membership units of its subsidiary Caretta Therapeutics, LLC to K4, (ii) issued 200,000 common membership units of its subsidiary Zika Therapeutics, LLC to K4, (iii) issued 200,000 common membership units of its subsidiary SMA Therapeutics, LLC to K4 and (iv) assigned to 30% of the distributions and income receive by the Corporation from its investment in SOLX, Inc. to K4.

On October 5, 2016, Caretta entered into a license agreement with Dr. Paul Reid, of Celtic Biotech, Iowa. Dr Reid is the founder of Celtic Biotech Iowa.

In August 2016, Mr. Ralph Arthur (Board Member) purchased a convertible note in the principal amount of \$20,000 from the Company, in a private placement, and received a warrant to purchase 6,000 shares of the Company's common stock. These warrants have an exercise price equal to the closing price of the Company common stock on the six-month issuance thereof.

The material terms of the note are:

- At any time prior to the September 25, 2019, the note is convertible into shares of common stock of the Company at a price per share equal to 90% of the closing bid price of the common stock during the 20 consecutive trading days immediately preceding such conversion.
- Interest will accrue at 7.5% computed on a 365-day basis. Interest is payable upon conversion of the convertible note at the applicable conversion price.

In December 2016, Mr. Arthur converted the note in its entirety into 54,054 shares of the Company's common stock.

The warrant issued to Mr. Arthur provides for the purchase of that number of shares of common stock of the Company equal to 30% of the amount invested in the convertible notes based on the exercise price of the warrants (the exercise price is defined as 110% of the closing bid price of the common stock of the Company on the six month anniversary of the issuance date of the convertible note).

In August and November 2016, Dr. Agarwal (Board Member) purchased an aggregate principal amount of \$350,000 of the note (as described above) from the Company, in a private placement, and received warrants to purchase an aggregate of 105,000 shares of the Company's common stock. The warrants issued to Dr. Agarwal provides for the issuance of warrants to purchase that number of shares of common stock of the Company equal to 30% of the amount invested in the convertible notes based on the exercise price of the Warrants (the exercise price is defined as 110% of the closing bid price of the common stock of the Company on the six-month anniversary of the issuance date of the convertible note).

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In connection with the issuance of the notes, Caretta Therapeutics, LLC (a subsidiary of the Company) entered into a Royalty Agreement with Mr. Arthur and Dr. Agarwal pursuant to which Mr. Arthur and Dr. Agarwal will receive a pro rata share of a royalty during 2017, 2018, 2019 and 2020 of the Company's subsidiary Caretta Therapeutics, LLC as follows:

- Aggregate of 5% of net revenue.
- Net revenues defined as gross revenues, minus all license/royalty fees and cost of goods sold.
- Royalties will cease once investor has received two times the amount invested in the respective note.

As of September 30, 2017, the Company has a demand note due to K4 in the amount of \$447,000. There are no formal payment terms, this loan is payable upon demand.

On July 25, 2017, the Company settled its line-of-credit with the Denver Savings Bank through a promissory note from Mike Kemery, a Principal at K4 Enterprises, LLC, in the principal amount of \$1,500,000. The note carries an interest rate of 4.5% and mature in 3 years. Pursuant to the terms of the agreement, the Company incurred a \$300,000 loan origination fee, payable on demand. The Company recorded the fee as a debt discount.

On August 2, 2017, the Company received \$37,500 from Paul Reid in the form of a demand note. There are no formal terms, this loan is payable upon demand.

As of September 30, 2017, the Company has a demand note due to Mary Reid, a parent of Paul Reid, a Principal with Celtic Ltd. in the principal amount of 150,000 Euros. The Company assumed the note in the acquisition of Celtic. The Company periodically reviews the notes making adjustments based upon the value of the Euro compared to the U.S. Dollar ("USD"). The USD value of the notes at period end September 30, 2017 and 2016 are \$176,074 and \$168,514, respectively.

NOTE 13. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company issued 1,143,091 shares to Daniel Pettit through a conversion of a \$400,000 convertible note. The conversion price was \$0.35 per share and included \$82 of accrued interest.

Subsequent to September 30, 2017, the Company issued 75,000 shares to John Krohn and 31,250 to William Pim at \$0.133 per share in accordance with their employment agreements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a pharmaceutical company focused on acquiring the intellectual property rights to innovative and proprietary therapeutics designed to address unmet medical needs, with an emphasis on rare, emerging, or neglected diseases. To find and evaluate unique opportunities, we leverage our extensive relationships with leading scientists, academic institutions and other sources. We provide value-added development capability to accelerate progress. When scientifically significant benchmarks have been achieved, we will endeavor to partner with proven market leaders via sale, out-license or strategic alliances.

Plan of Operation

As of September 30, 2017, the Company had four (active) subsidiaries: Celtic Biotech Iowa, Inc., Caretta Therapeutics, LLC, SMA Therapeutics, LLC, and Zika Therapeutics, LLC.

Cancer

On June 4, 2014, Celtic Biotech Iowa, Inc. (hereinafter "Celtic Iowa," a subsidiary of the Company) acquired Celtic Biotech Limited (hereinafter "CBL"). CBL was founded in 2003 in Dublin, Ireland and is developing novel and highly specialized compounds derived from snake venom, for the treatment of solid cancers and cancer imaging.

Pain Management

Caretta Therapeutics, LLC ("Caretta") was formed in August 2016 to develop the commercialization of over-the-counter products. Caretta holds a license agreement to develop, manufacture and sell certain products derived from snake venom that may have analgesic properties.

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Spinal Muscular Atrophy

On October 13, 2016, the Company entered into an Exclusive License Agreement with Indiana University Research and Technology Corporation to commercialize STL-182, an orally-available small molecule that may have therapeutic potential for treating spinal muscular atrophy. Spinal muscular atrophy is an autosomal recessive disorder that is a leading genetic cause of death in infants and toddlers.

Zika Virus Infection

On August 19, 2016, the Company entered a Sponsored Research Agreement (the "SRA") with the Florida State University Research Foundation ("FSURF") starting September 1, 2016, to perform certain research, over a two-year period, related to the discovery, synthetic modification, and preclinical validation of drug-like compounds intended to treat patients with Zika virus infection. The research is being conducted under the direction of Professor Hengli Tang.

Generally, we have financed operations to date through the proceeds of the private placement of equity and debt instruments. Management anticipates additional increases in operating expenses and capital expenditures relating to retention of additional personnel, and advancement of our technologies. We anticipate that we will finance these expenses with further issuances of equity securities and debt issuances.

During the nine months ended September 30, 2017, the Company raised \$1,957,000 in convertible debt proceeds. The Company anticipates securing additional financing in 2017. Additional issuances of equity or convertible debt securities could result in dilution to our current shareholders. Further, such securities may have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. There can be no assurances, however, that management will be able to obtain sufficient additional funds when needed, or that such funds, if available, will be obtained on terms satisfactory to the Company

Critical Accounting Policies

The following describes the critical accounting policies used in reporting our financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting. In those cases, our reported results of operations would be different should we employ an alternative accounting method.

The significant accounting policies and bases of presentation for our consolidated financial statements are described in Note 2 "Summary of Significant Accounting Policies." The preparation of our financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

We believe the following accounting policies and estimates to be critical:

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those regarding the valuation of the assets acquired and liabilities assumed in the acquisition of Memcine and share-based compensation.

Principles of Consolidation

The consolidated financial statements include the Company's accounts, including those of the Company's subsidiaries. Accordingly, the Company has consolidated CBL, Celtic Iowa, CDT (Suspended), Caretta, ZT, and SMA. All significant intercompany accounts and transactions have been eliminated.

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Non-Controlling Interest

The Company is required to report its non-controlling interest in all subsidiaries as a separate component of shareholders' equity. The Company is also required to present the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interest and to the shareholders of the Company separately in its consolidated statements of operations. Losses applicable to the non-controlling interest are allocated to the non-controlling interest even when those losses are in excess of the non-controlling interest's investment basis.

In the fourth quarter of 2016 the Company discontinued its operations with Memcine Pharmaceuticals. As part of the discontinuation, the Company sold it 100% of its rights including the non-controlling interest in Memcine.

Investment in SOLX

The Company has a net 7% interest in SOLX, a private company that develops innovative surgical technologies to treat refractory glaucoma and preserve vision. The Company charged 100% of the SOLX investment to loss due to impairment of the Note Receivable. See Note 7 in the financial statements above for details.

In-Process Research and Development

In-process research and development ("IPR&D") represents the estimated fair value assigned to research and development projects acquired in a purchased business combination that have not been completed at the date of acquisition and which have no alternative future use. IPR&D assets acquired in a business combination are capitalized as indefinite-lived intangible assets. These assets remain indefinite-lived until the completion or abandonment of the associated research and development efforts. During the periods prior to completion or abandonment, those acquired indefinite-lived assets are not amortized but are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. During periods after completion, those acquired indefinite-lived assets are amortized based on their useful life. The fair value of the assets acquired was \$6,977,347. These assets are still subject to research and development completion and accordingly, no amortization has been recorded.

Impairment of Long-Lived Assets and Intangibles

The Company performs impairment tests on its long-lived assets when circumstances indicate that their carrying amounts may not be recoverable. If required, recoverability is tested by comparing the estimated future undiscounted cash flows of the asset or asset group to its carrying value. If the carrying value is not recoverable, the asset or asset group is written down to fair value. For the nine months ended September 30, 2017, the Company has evaluated and recorded no impairment to the Company's intangible assets. The Company recorded an impairment to the Company's long-lived assets. On September 20, 2017, the FDA denied approval of the application for the SOLX glaucoma treatment. With this development, the Company has determined that the Note Receivable asset is fully impaired.

Stock-Based Compensation

The Company measures the cost of employee services received in exchange for stock and stock options based on the grant date fair value of the awards. The Company determines the fair value of stock option grants using the Black-Scholes option pricing model. The Company determines the fair value of shares of non-vested stock (also commonly referred to as restricted stock) based on the last quoted price of our stock on the date of the share grant. The fair value determined represents the cost for the award and is recognized over the vesting period during which an employee is required to provide service in exchange for the award. As share-based compensation expense is recognized based on awards ultimately expected to vest, the Company reduces the expense for estimated forfeitures based on historical forfeiture rates, if historical forfeiture rates are available. Previously recognized compensation costs may be adjusted to reflect the actual forfeiture rate for the entire award at the end of the vesting period. Excess tax benefits, if any, are recognized as an addition to paid-in capital.

Fair Value of Financial Instruments

The Company follows FASB ASC 820, *Fair Value Measurement* ("ASC 820"), which clarifies fair value as an exit price, establishes a hierarchical disclosure framework for measuring fair value, and requires extended disclosures about fair value measurements. The provisions of ASC 820 apply to all financial assets and liabilities measured at fair value.

As defined in ASC 820, fair value, clarified as an exit price, represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

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As a basis for considering these assumptions, ASC 820 defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 –Quoted prices in active markets for identical assets or liabilities.

Level 2 –Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 –Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's IPR&D assets were valued on a discounted cash flow model using the income approach. The inputs to the model were within Level 3 of the fair value hierarchy.

Results of Operations

Financial Condition and Changes in Financial Condition

Overall Operating Results:

Comparison of the Three Months Ended September 30, 2017 with the Three Months Ended September 30, 2016

Revenue. For the three months ended September 30, 2017 and 2016, we had \$910 and \$-0- in revenue. The revenue is attributed to internet sales of the Caretta's Venodol topical pain relief product.

Cost of Goods Sold. For the three months ended September 30, 2017 and 2016, the Company had \$1,943 in cost of goods sold, compared to \$-0- for the same period last year. The cost of sales attributed to the sales of Venodol were \$142. The 2017 costs are related to subcontractor costs and certain suppliers.

General and Administrative Expenses. Our selling, general and administrative expenses decreased to \$736,275 for the three months ended September 30, 2017 from \$1,579,947 for the three months ended September 30, 2016, representing a \$843,672 decrease. The decrease was mainly due to a decrease in share based compensation and marketing expense.

Other Income (Expense). For the three months ended September 30, 2017, other expense, net was \$1,188,852, compared to other expense of \$336,708 for the three months ended September 30, 2016, an increase of \$852,144. The change was primarily due to the impairment loss recorded as described in Note 7 of the financial statements.

Net Loss. The Company's net loss was \$1,926,160 and \$1,962,408 for the three months ended September 30, 2017 and 2016, respectively. The decrease in net loss was mainly due to the descriptions noted above.

Comparison of the Nine Months Ended September 30, 2017 with the Nine Months Ended September 30, 2016

Revenue. For the nine months ended September 30, 2017 and 2016, we had. \$910 and \$-0- in revenue. The revenue is attributed to internet sales of the Caretta's Venodol topical pain relief product.

Cost of Goods Sold. For the nine months ended September 30, 2017 and 2016, the Company had \$123,043 cost of goods sold, compared to \$0 for the same period last year. The 2017 costs are related to subcontractor costs and certain supplies. The cost of sales attributed to the sales of Venodol were \$142.

General and Administrative Expenses. Our selling, general and administrative expenses decreased to \$3,746,834 for the nine months ended September 30, 2017 from \$3,805,829 for the nine months ended September 30, 2016, representing a \$58,995 decrease. The decrease was mainly due to a decrease in marketing expense.

Other Income (Expense). For the nine months ended September 30, 2017, other expense, net was \$1,854,025, compared to \$607,305 for the nine months ended September 30, 2016, an increase of \$1,246,720. The increase in other expense was primarily due to an increase in interest expense related to amortization of debt discount and the impairment loss on the note (SOLX) receivable as described in Note 7 of the financial statements above.

Net Loss. The Company's net loss was \$5,722,992 and \$4,569,311 for the nine months ended September 30, 2017 and 2016, respectively. The increase in net loss was mainly due to an increase interest expense related amortization of debt discount resulting from extinguishment of debt and related derivative liability, offset by a gain on the extinguishment and the impairment loss on the note receivable as described in Note 7 above.

Liquidity and Capital Resources:

We are an early stage company and have not generated any material revenue to date. We have incurred recurring losses to date. Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

The Company had \$150,644 in cash and cash equivalents as of September 30, 2017. The Company has negative working capital of \$2,300,734, and total stockholders' equity of \$1,103,513 as of September 30, 2017. For the nine months ended September 30, 2017, the Company has experienced recurring losses from operations and may not have enough cash and working capital to fund its operations beyond the very near term, which raises substantial doubt about our ability to continue as a going concern. Management has made a similar note in the financial statements. The Company anticipates it will need approximately \$4,000,000 for the next twelve months to fund operations. We may be required to seek additional capital by selling debt or equity securities, selling assets, or otherwise be required to bring cash flows in balance when we approach a condition of cash insufficiency. The sale of additional equity or debt securities, if accomplished, may result in dilution to our then shareholders. We provide no assurance that financing will be available in amounts or on terms acceptable to us, or at all.

The Company has been receiving funding from K4 Enterprises, LLC ("K4 Enterprises") beginning in May 2016 to meet short-term operational needs while the Company attempts to attract new outside funding. For the nine months ended September 30, 2017, K4 Enterprises has provided short-term operating cash totaling \$447,000 in the form of cash advances or direct payment of invoices for the Company for which payment is due on demand.

Operating Activities

Cash flow from operations – continuing operations. Net cash used in operating activities from continuing operations was \$2,911,483 for the nine months ended September 30, 2017, compared to \$2,159,934 for the nine months ended September 30, 2016. Net cash used in operating activities for the nine months ended September 30, 2017 was derived from our net loss, which included stock-based compensation of \$1,042,588, amortization of debt discount of \$780,370, interest expense on derivative liability that exceeds face value of \$96,541, and impairment loss of \$1,116,075 on a note receivable. Our net loss from continuing operations for the nine months ended September 30, 2017 included a gain on extinguishment of debt and related derivative liability of \$243,716 and an unrealized loss on change in present value of royalty liability in the amount of \$21,319.

Cash flow from operations – discontinued operations. Net cash used in operating activities from discontinued operations was \$-0- for the nine months ended September 30, 2017, compared to net cash used in discontinued operations of \$32,327 for the nine months ended September 30, 2016.

Investing Activities

Cash flow from investing activities – continuing operations. Our investing activities from continuing operations used cash of \$57,156 during the nine months ended September 30, 2017, primarily as a result of cash paid for notes receivables of \$56,382 and purchase of property and equipment of \$774. For the nine ended September 30, 2016, our investing activities used cash of \$5,643, for the purchase of property and equipment.

Cash flow from investing activities – discontinued operations. Our investing activities from discontinued operations used cash of \$-0- for the nine months ended September 30, 2017. Our investing activities from discontinued operations provided cash of \$482 during the nine months ended September 30, 2016.

Financing Activities

Cash flow from financing activities – continuing operations. During the nine months ended September 30, 2017, our financing activities from continuing operations provided cash of \$2,805,950, primarily as a result of proceeds from convertible debentures of \$1,957,000, proceeds from a demand note of \$1,402,000, proceeds from related party loans of \$1,537,500, offset primarily by payments on debt and line-of-credit in the aggregate amount of \$2,090,550. Our financing activities provided cash of \$2,186,767 during the nine months ended September 30, 2016, primarily as a result of proceeds from convertible debentures of \$1,195,000, proceeds from demand note of \$870,000, proceeds from line-of-credit of \$115,000, proceeds from sale of common shares and warrants of \$105,140, off set by payments of on debt of \$98,373.

Cash flow from financing activities – discontinued operations. During the nine months ended September 30, 2017 and 2016, we had no financing activities from discontinued operations.

Off Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Recent Accounting Pronouncements

During the nine months ended September 30, 2017, there were no accounting standards and interpretations issued which are expected to have a material impact on the Company's financial position, operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have performed an evaluation under the supervision and with the participation of our management, including our President and Chief Operating Officer (COO), Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures, (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2017. Based on that evaluation, our management, including our President and COO, CEO and CFO, concluded that our disclosure controls and procedures were not effective as of March 31, 2017 to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer, as appropriate to allow timely decisions regarding required disclosure due to the material weaknesses described below.

Based on our evaluation under the framework described above, our management concluded that we had "material weaknesses" (as such term is defined below) in our control environment and financial reporting process consisting of the following as of the Evaluation Date:

- 1) inadequate segregation of duties consistent with control objectives; and
- 2) lack of accounting personnel staffing with adequate experience and training.

A "material weakness" is defined under SEC rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2017, there were no changes in our internal control over financial reporting identified in connection with management's evaluation of the effectiveness of our internal control over the financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Neither the Company nor its property is a party to any pending legal proceeding.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2017, the Company issued convertible notes in the aggregate principal amount of \$442,000. During the nine months ended September 30, 2017, the Company issued convertible notes in the aggregate principal amount of \$1,057,000. The foregoing notes were issued pursuant to Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder. The material terms of the notes are as follows:

- At any time prior to the maturity date, the Convertible Note is convertible into shares of common stock of the Company at a price per share equal to the higher of (i) 90% of the closing bid price of the common stock during the 20 consecutive trading days immediately preceding such conversion, and (ii) \$0.60.
- The notes have a term of 24 months. In the event the note has not been converted at the maturity date, the convertible note will automatically convert into shares of common stock of the Company at a per share price equal to 90% of the closing bid price of the common stock of the Company during the 20 consecutive trading days immediately preceding the maturity date.
- Interest will accrue at 7.5% computed on a 365-day basis. Interest is payable upon conversion of the convertible note at the applicable conversion price.

The Company also provided for the issuance of warrants to purchase that number of shares of common stock of the Company equal to thirty percent of the amount invested in the convertible notes. The warrants have a term of three years, and an exercise price of \$1.30 per share of common stock. During the three months ended September 30, 2017 the Company issued warrants to purchase 132,600 shares of common stock.

In connection with the issuance of the convertible notes Caretta Therapeutics, Inc. entered into a Royalty Agreement with the investors thereof, whereby the investors will receive an aggregate share in a royalty during years two, three and four of Caretta Therapeutics, Inc. Investors will receive a percentage of a royalty pool from the sale of certain Venodol products equal to the total Convertible Notes purchased by such Investor divided by the maximum raise amount of \$11,500,000. The per unit royalty rate ranges from \$0.60 to \$0.80. Royalties will begin accruing quarterly starting October 1, 2018, and shall terminate as early as December 31, 2023 and as late as September 30, 2026 based on the amount invested. The maximum royalty payable will be between 4x and 15x the initial investment based on the amount invested.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Name of Exhibit
<u>10.1</u>	<u>Spotlight Innovation Subscription Agreement.</u>
<u>10.2</u>	<u>Spotlight Innovation Convertible Note.</u>
<u>10.3</u>	<u>Spotlight Innovation Warrant to Purchase Shares of Common Stock.</u>
<u>10.4</u>	<u>Caretta Therapeutics, LLC Royalty Agreement.</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002. (1)</u>
101**	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 are formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. (2)

(1) Filed herewith.

(2) Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and Sections 11 or 12 of the Securities Act of 1933, as amended, and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of Spotlight Innovation Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

SPOTLIGHT INNOVATION INC.

Dated: November 20, 2017

By: /s/ John M. Krohn
John M. Krohn
President/Chief Operating Officer,
Director

By: /s/ John William Pim
John William Pim
Chief Financial Officer

THIS SUBSCRIPTION AGREEMENT IS EXECUTED IN RELIANCE UPON THE EXEMPTION PROVIDED BY SECTION 4(2) AND REGULATION D, RULE 506 FOR TRANSACTIONS NOT INVOLVING A PUBLIC OFFERING UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS OFFERING IS BEING MADE TO ACCREDITED INVESTORS PURSUANT TO REGULATION D PROMULGATED UNDER THE SECURITIES ACT. NONE OF THE SECURITIES TO WHICH THIS SUBSCRIPTION RELATES HAVE BEEN REGISTERED UNDER THE SECURITIES ACT, OR ANY U.S. STATE SECURITIES LAWS, AND, UNLESS SO REGISTERED, NONE MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION D OR UNDER THE SECURITIES ACT, PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN EACH CASE ONLY IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES MAY NOT BE CONDUCTED UNLESS IN ACCORDANCE WITH THE SECURITIES ACT.

SPOTLIGHT INNOVATION INC.
SUBSCRIPTION AGREEMENT
(Revised Offering May 1, 2017)

SUBSCRIPTION AGREEMENT ("**Subscription Agreement**") made as of *Date* between Spotlight Innovation Inc., a Nevada corporation located at 11147 Aurora Ave., Building 3 Urbandale, Iowa 50322 (the "**Company**"), and the undersigned (the "**Subscriber**").

WHEREAS, prior to May 1, 2017, the Company offered for sale certain Convertible Notes with an aggregate principal of up to \$2,500,000, of which the Company sold \$ _____ of such Convertible Notes as of May 1, 2017; and

WHEREAS, the Company desires to amend and expand such private offering (the "**Offering**") to allow for the issuance of up to \$11,500,000 ("**Maximum Offering Amount**") principal amount of the Company's convertible promissory notes (the "Promissory Note", and a Royalty Agreement and Warrant, both as defined below, and included in the definition of Promissory Note), on the amended terms set forth herein; and

WHEREAS, the terms of the previously issued Convertible Notes shall not change and shall apply against the Maximum Offering Amount, and the amended terms herein shall apply to any additional Convertible Notes issued on or after May 1, 2017. Each Subscriber shall receive: (i) a Promissory Note in the principal amount of such investment (in the form of the Promissory Note annexed hereto as Annex A), (ii) warrants to purchase that number of shares of Common Stock of the Company (the "**Warrant**" in the form annexed hereto as Annex B) equal to thirty percent of the amount invested based on the exercise price of the Warrants, and (iii) share in a royalty, pro rata based on investment in the amended Offering, equal to an aggregate per unit royalty for each Venodol product sold by the Company's subsidiary Caretta Therapeutics, Inc., as more fully set forth in the Royalty Agreement annexed hereto as Annex C. The Offering is being made exclusively to accredited investors pursuant to an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended (the "**Securities Act**") and Rule 506 promulgated thereunder; and

WHEREAS, prior subscribers to this Offering prior to the amendment shall be entitled to retain their existing agreements, but shall be offered the opportunity to convert their existing royalty agreement into the amended royalty agreement attached hereto.

WHEREAS, the Subscriber desires to purchase that dollar amount set forth on such signature page hereof on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual representations and covenants hereinafter set forth, the parties hereto do hereby agree as follows:

1. SUBSCRIPTION; COVENANTS OF THE COMPANY

1.1 Subscription. Subject to the terms and conditions hereinafter set forth, the Subscriber hereby irrevocably subscribes for and agrees to purchase from the Company, and the Company agrees to sell to the Subscriber, such principal amount of Promissory Note as is set forth on the signature page hereof. The purchase price is payable by wire transfer to the Company in accordance with the wire instructions set forth on Exhibit C attached hereto.

1.2 Offering Period. The Promissory Notes will be offered for sale until the earlier of (i) the date upon which subscriptions for the Maximum Offering Amount has been accepted, (ii) September 30, 2017, or (iii) the date upon which the Company elects to terminate the Offering (the "**Termination Date**"). The Offering is being conducted on a "best-efforts" basis.

1.3 Closing. The Company may hold an initial closing ("**Initial Closing**") at any time after the receipt of accepted subscriptions from qualified investors prior to the Termination Date. After the Initial Closing, subsequent closings may take place at any time prior to the Termination Date as determined by the Company, with respect to subscriptions accepted prior to the Termination Date (each such closing, together with the Initial Closing, being referred to as a "**Closing**"). The last Closing of the Offering, occurring on or prior to the Termination Date, shall be referred to as the "**Final Closing**". Any subscription documents or funds received after the Final Closing will be returned, without interest or deduction. In the event that the any Closing does not occur prior to the Termination Date, all amounts paid by the Subscriber shall be returned to the Subscriber, without interest or deduction.

2. REPRESENTATIONS AND WARRANTIES OF THE SUBSCRIBER

The Subscriber represents and warrants to the Company, with the intent that the Company will rely thereon, that:

2.1 Accredited Investor. The Subscriber is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Securities Act, it is able to bear the economic risk of any investment in the Securities and the information furnished in the accompanying investor questionnaire, which is attached hereto as Exhibit B, is accurate and complete in all material respects.

2.2 Reliance on Exemptions. The Subscriber acknowledges that the Offering has not been reviewed by the Securities and Exchange Commission (the “**Commission**”) or any state agency because it is intended to be an offering exempt from the registration requirements of the Securities Act and state securities laws. The Subscriber understands that the Company is relying in part upon the truth and accuracy of, and the Subscriber’s compliance with the representations, warranties, agreements, acknowledgments and understandings of the Subscriber set forth herein in order to determine the availability of such exemptions and the eligibility of the Subscriber to acquire the Promissory Notes.

2.3 Investment Purpose. The Subscriber is purchasing the Promissory Note as principal for its own account. The Subscriber is purchasing the Promissory Notes for investment purposes only and not with an intent or view towards further sale or distribution (as such term is used in Section 2(11) of the Securities Act) thereof, and has not pre-arranged any sale with any other purchaser and has no plans to enter into any such agreement or arrangement.

2.4 Risk of Investment. The Subscriber recognizes that the purchase of the Promissory Note involves an extremely high degree of risk in that: (a) an investment in the Company is highly speculative and only investors who can afford the loss of their entire investment should consider investing in the Company and the Promissory Note; (b) transferability of the Promissory Note and underlying shares of Common Stock are limited; and (c) the Company may require substantial additional funds in the short term to operate its business and subsequent equity financings will dilute the ownership and voting interests of Subscriber.

2.5 No Registration. The Promissory Note and underlying shares of Common Stock have not been registered under the Securities Act or any state securities laws and may not be transferred, sold, assigned, hypothecated or otherwise disposed of unless registered under the Securities Act and applicable state securities laws or unless an exemption from such registration is available (including, without limitation, under Rule 144 of the Securities Act, as such rule may be amended, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect (“**Rule 144**”). The Subscriber represents and warrants and hereby agrees that all offers and sales of the Common Stock underlying the Promissory Notes shall be made only pursuant to such registration or to such exemption from registration.

2.6 Prior Investment Experience. The Subscriber is sufficiently experienced in financial and business matters to be capable of evaluating the merits and risks of its investments, and to make an informed decision relating thereto, and to protect its own interests in connection with the purchase of the Promissory Note.

2.7 Information. The Subscriber acknowledges careful review of this Subscription Agreement, including all other exhibits thereto (collectively, the “**Offering Documents**”) as well as the Company’s filings with the Commission (including but not limited to risk factors contained therein), as required pursuant to the Securities and Exchange Act of 1934, as amended (the “**Exchange Act**”) which are available on the Internet at www.sec.gov, all of which the undersigned acknowledges have been provided to the undersigned. The undersigned has been given the opportunity to ask questions of, and receive answers from, the Company concerning the terms and conditions of the Company, this Offering and the Offering Documents, and to obtain such additional information, to the extent the Company possesses such information, or can acquire it without unreasonable effort or expense, necessary to verify the accuracy of same as the undersigned reasonably desires in order to evaluate the investment. The undersigned understands the Offering Documents, and the undersigned has had the opportunity to discuss any questions regarding any of the Offering Documents with its counsel or other advisor. Notwithstanding the foregoing, the only information upon which the undersigned has relied is that set forth in the Offering Documents. The undersigned has received no representations or warranties from the Company, its employees, agents or attorneys in making this investment decision other than as set forth in the Offering Documents. The undersigned does not desire to receive any further information.

2.8 Investment Decision. In making the decision to invest in the Promissory Notes the Subscriber has relied solely upon the information provided by the Company in the Offering Documents. To the extent necessary, the Subscriber has retained, at its own expense, and relied upon appropriate professional advice regarding the investment, tax and legal merits and consequences of this Subscription Agreement and the purchase of the Promissory Notes hereunder. The Subscriber disclaims reliance on any statements made or information provided by any person or in the course of Subscriber's consideration of an investment in the Promissory Notes other than the Offering Documents.

2.9 No Representations. The Subscriber hereby represents that, except as expressly set forth in the Offering Documents, no representations or warranties have been made to the Subscriber by the Company or any agent, employee or affiliate of the Company, and in entering into this transaction the Subscriber is not relying on any information other than that contained in the Offering Documents and the results of independent investigation by the Subscriber.

2.10 Tax Consequences. The Subscriber acknowledges that the Offering may involve tax consequences and that the contents of the Offering Documents do not contain tax advice or information. The Subscriber acknowledges that it must retain its own professional advisors to evaluate the tax and other consequences of an investment in the Promissory Notes.

2.11 No Recommendation or Endorsement. The Subscriber understands that no federal, state or other regulatory authority has passed on or made any recommendation or endorsement of the Promissory Notes. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Subscription Agreement. Any representation to the contrary is a criminal offense.

2.12 No General Solicitation. The Subscriber represents that the Subscriber was not induced to invest by any form of general solicitation or general advertising including, but not limited to, the following: (a) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over the news or radio; and (b) any seminar or meeting whose attendees were invited by any general solicitation or advertising.

2.13 The Subscriber. The Subscriber (i) if a natural person, represents that the Subscriber has reached the age of 21 and has full power and authority to execute and deliver this Subscription Agreement and all other related agreements or certificates and to carry out the provisions hereof and thereof; (ii) if a corporation, partnership, or limited liability company or partnership, or association, joint stock company, trust, unincorporated organization or other entity, represents that such entity was not formed for the specific purpose of acquiring the Promissory Notes, such entity is duly organized, validly existing and in good standing under the laws of the state of its organization, the consummation of the transactions contemplated hereby is authorized by, and will not result in a violation of state law or its charter or other organizational documents, such entity has full power and authority to execute and deliver this Subscription and all other related agreements or certificates and to carry out the provisions hereof and thereof and to purchase and hold the Promissory Notes, the execution and delivery of this Subscription has been duly authorized by all necessary action, this Subscription Agreement has been duly executed and delivered on behalf of such entity and is a legal, valid and binding obligation of such entity; or (iii) if executing this Subscription Agreement in a representative or fiduciary capacity, represents that it has full power and authority to execute and deliver this Subscription in such capacity and on behalf of the subscribing individual, ward, partnership, trust, estate, corporation, or limited liability company or partnership, or other entity for whom the Subscriber is executing this Subscription Agreement, and such individual, partnership, ward, trust, estate, corporation, or limited liability company or partnership, or other entity has full right and power to perform pursuant to this Subscription and make an investment in the Company, and represents that this Subscription constitutes a legal, valid and binding obligation of such entity. The execution and delivery of this Subscription Agreement will not violate or be in conflict with any order, judgment, injunction, agreement or controlling document to which the Subscriber is a party or by which it is bound;

2.14 Legends. The Subscriber consents to the placement of a legend on any certificate or other document evidencing the Promissory Notes, that such securities have not been registered under the Securities Act or any state securities or "blue sky" laws and setting forth or referring to the restrictions on transferability and sale thereof contained in this Subscription Agreement. The Subscriber is aware that the Company will make a notation in its appropriate records with respect to the restrictions on the transferability of such. The legend to be placed on each certificate shall be in form substantially similar to the following:

THESE SECURITIES HAVE BEEN ISSUED PURSUANT TO THE EXEMPTION FROM THE REGISTRATION PROVISIONS UNDER THE SECURITIES ACT OF 1933, AS AMENDED PROVIDED BY RULE 506 OF REGULATION D UNDER SUCH ACT AND/OR SECTION 4(2) OF SUCH ACT. THESE SECURITIES CANNOT BE TRANSFERRED, OFFERED, OR SOLD UNLESS THE SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the Subscriber upon which it is stamped, if (a) such shares are being sold pursuant to a registration statement under the Securities Act, or (b) such Subscriber delivers to the Company an opinion of counsel, in a reasonably acceptable form, to the Company that a disposition such is being made pursuant to an exemption from such registration.

2.15 Address. The Subscriber hereby represents that the address of the Subscriber furnished by the Subscriber at the end of this Subscription Agreement is the undersigned's principal residence if the Subscriber is an individual or its principal business address if it is a corporation or other entity.

2.16 Survival. The representations and warranties of the Subscriber contained herein will be true at the date of execution of this Subscription Agreement by the Subscriber and as of the Closing Date in all material respects as though such representations and warranties were made as of such times and shall survive the Closing Date and the delivery of the Promissory Note. The Subscriber agrees that it will notify and supply corrective information to the Company immediately upon the occurrence of any change therein occurring prior to the Company's issuance of the Promissory Note.

2.17 Reports. The Subscriber has been furnished with or has had access at the EDGAR Website of the Securities Exchange Commission to the Company's filings available at the EDGAR Website (hereinafter referred to collectively as the "**Reports**"), and has reviewed all of the Reports. In addition, the Subscriber has received in writing from the Company such other information concerning its operations, financial condition, and other matters, as the Subscriber has requested, and considered all factors the Subscriber deems material in deciding on the advisability of investing in the Promissory Notes. The Subscriber agrees to maintain confidentiality on all information he/she/it has received from the Company concerning the business of the Company and not take any action(s) based on such information.

3. REPRESENTATIONS BY THE COMPANY

The Company represents and warrants to the Subscriber, except as set forth in the disclosure schedules attached hereto:

3.1 Organization. The Company is duly organized and validly existing in good standing under the laws of the jurisdiction of its organization. The Company has full power and authority to own, operate and occupy its properties and to conduct its business as presently conducted, and is registered or qualified to do business and in good standing in each jurisdiction in which the nature of the business conducted by it or the location of the properties owned or leased by it requires such qualification and where the failure to be so qualified would have a material adverse effect upon the Company's financial condition (a "**Material Adverse Effect**"), and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification.

3.2 Due Authorization and Valid Issuance. The Company has all requisite power and authority to execute, deliver and perform its obligations under the Offering Documents, and when executed and delivered by the Company will constitute legal, valid and binding agreements of the Company enforceable against the Company in accordance with their terms, except as rights to indemnity and contribution may be limited by state or federal securities laws or the public policy underlying such laws, and except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' and contracting parties' rights generally, and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.3 Noncontravention. The execution and delivery of the Offering Documents, the issuance and sale of the Promissory Notes under the Offering Documents, the fulfillment of the terms of the Offering Documents, and the consummation of the transactions contemplated thereby will not (i) conflict with or constitute a violation of, or default (with the passage of time or otherwise) under (1) any material bond, debenture, note or other evidence of indebtedness, lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company is a party or by which it or any of its properties are bound, (2) the charter, bylaws or other organizational documents of the Company or any subsidiary or (3) any law, administrative regulation, ordinance or order of any court or governmental agency, arbitration panel or authority applicable to the Company or its properties, except for any such conflicts, violations or defaults that are not reasonably likely to have a Material Adverse Effect, or (ii) result in the creation or imposition of any lien, encumbrance, claim, security interest or restriction whatsoever upon any of the material properties or assets of the Company or an acceleration of indebtedness pursuant to any obligation, agreement or condition contained in any material bond, debenture, note or any other evidence of indebtedness, indenture, mortgage, deed of trust or any other agreement or instrument to which the Company is a party or by which it is bound or to which any of the material property or assets of the Company is subject. No consent, approval, authorization or other order of, or registration, qualification or filing with, any regulatory body, administrative agency, or other governmental body in the United States or any other person is required for the execution and delivery of the Offering Documents and the valid issuance and sale of the Promissory Notes to be sold pursuant to the Offering Documents, other than such as have been made or obtained, and except for any post-closing securities filings or notifications required to be made under federal or state securities laws.

3.4 No Violation. The Company is not (a) in violation of its charter, bylaws or other organizational document; or (b) in material violation of any law.

4. USE OF PROCEEDS

The proceeds of the Offering will be employed by the Company substantially for general working capital.

5. MISCELLANEOUS

5.1 Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Subscription Agreement must be in writing and will be deemed to have been delivered: (a) upon receipt, when delivered personally, (b) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (c) one (1) business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

To the Company:

Spotlight Innovation Inc.
11147 Aurora Avenue, Building 3
Urbandale, Iowa, 50322
Attention: President
Telephone: (515) 274-9087

If to the Subscriber, to its address and facsimile number set forth at the end of this Subscription Agreement, or to such other address and/or facsimile number and/or to the attention of such other person as specified by written notice given to the Company five (5) business days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

5.2 Entire Agreement; Amendment; Waiver. This Subscription Agreement supersedes all other prior oral or written agreements between the Subscriber, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Subscription Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Subscriber makes any representation, warranty, covenant or undertaking with respect to such matters.

5.3 Severability. If any provision of this Subscription Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Subscription Agreement in that jurisdiction or the validity or enforceability of any provision of this Subscription Agreement in any other jurisdiction.

5.4 Governing Law; Jurisdiction; Waiver of Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Subscription Agreement shall be governed by the internal laws of the State of Iowa, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Iowa or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Iowa. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in Polk County, Iowa for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Subscription Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in connection with or arising out of this Subscription Agreement or any transaction contemplated hereby.

5.5 Headings. The headings of this Subscription Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Subscription Agreement.

5.6 Successors and Assigns. This Subscription Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. The Subscriber shall not assign its rights hereunder without the consent of the Company, which consent shall not be unreasonably withheld.

5.7 No Third Party Beneficiaries. This Subscription Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

5.8 Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

5.9 Legal Effect. The Subscriber acknowledges that: (a) it has read this Agreement and the exhibits hereto; and (b) it understands the terms and consequences of this Agreement and is fully aware of its legal and binding effect.

5.10 No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

5.11 Independent Legal Advice. The parties hereto acknowledge that they have each received independent legal advice with respect to the terms of this Agreement and the transactions contemplated herein or have knowingly and willingly elected not to do so

5.12 Counterparts. This Agreement may be executed in two or more counterparts each of which shall be deemed an original, but all of which shall together constitute one and the same instrument. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

[Signature page follows]

**SPOTLIGHT INNOVATION INC.
OMNIBUS SIGNATURE PAGE
(Revised May 1, 2017)**

Subscriber hereby elects to subscribe under the Subscription Agreement for *Amount* principal amount of Promissory Note for a purchase price of *Amount*.

If the Subscriber is an INDIVIDUAL, and if purchased as JOINT TENANTS, as TENANTS IN COMMON, or as COMMON PROPERTY:

Print
Print Name

SSN
Social Security Number

Signature of Subscriber

Date
Date

Address
Address

If the Subscriber is a PARTNERSHIP, CORPORATION, LIMITED LIABILITY

COMPANY or TRUST:

Name of Partnership,
Corporation, Limited
Liability Company or Trust

Federal Taxpayer
Identification Number

By: _____
Name:
Title:

State of Organization

Address

Date

This Subscription Agreement is agreed to and accepted as of *Date*.

Spotlight Innovation Inc.

By: _____
Name: John M. Krohn
Title: President

EXHIBIT B
ACCREDITED INVESTOR QUESTIONNAIRE

The undersigned Subscriber is an “accredited investor” as that term is defined in Regulation D promulgated under the Securities Act and amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act by virtue of being (initial all applicable responses):

_____ A small business investment company licensed by the U.S. Small Business Administration under the *Small Business Investment Company Act of 1958*,

_____ A business development company as defined in the *Investment Company Act of 1940*,

_____ A national or state-chartered commercial bank, whether acting in an individual or fiduciary capacity,

_____ An insurance company as defined in Section 2(13) of the Securities Act,

_____ An investment company registered under the *Investment Company Act of 1940*,

_____ An employee benefit plan within the meaning of Title I of the *Employee Retirement Income Security Act of 1974*, where the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, insurance company, or registered investment advisor, or an employee benefit plan which has total assets in excess of \$5,000,000,

_____ A private business development company as defined in Section 202(a)(22) of the *Investment Advisors Act of 1940*,

_____ An organization described in Section 501(c)(3) of the *Internal Revenue Code*, a corporation or a partnership with total assets in excess of \$5,000,000,

_____ A natural person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase exceeds \$1,000,000. For purposes of this Exhibit, “net worth” means the excess of total assets at fair market value over total liabilities. For purposes of calculating net worth under this section, (i) the primary residence shall not be included as an asset, (ii) to the extent that the indebtedness that is secured by the primary residence is in excess of the fair market value of the primary residence, the excess amount shall be included as a liability, and (iii) if the amount of outstanding indebtedness that is secured by the primary residence exceeds the amount outstanding 60 days prior to the execution of this questionnaire, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability.

_____ Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Section 506(b)(2)(ii) of Regulation D,

_____ A natural person who had an individual income in excess of \$200,000 in each of the two most recent calendar years, and has a reasonable expectation of reaching the same income level in the current calendar year. For purposes of this Exhibit A-1, “income” means annual adjusted gross income, as reported for federal income tax purposes, plus (i) the amount of any tax-exempt interest income received; (ii) the amount of losses claimed as a limited partner in a limited partnership; (iii) any deduction claimed for depletion; (iv) amounts contributed to an IRA or Keogh retirement plan; (v) alimony paid; and (vi) any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income pursuant to the provisions of Section 1202 of the Internal Revenue Code of 1986, as amended.

_____ A corporation, partnership, trust or other legal entity (as opposed to a natural person) and all of such entity's equity owners fall into one or more of the categories enumerated above. (Note: additional documentation may be requested).

**ANNEX A
PROMISSORY NOTE**

[Attached]

THIS NOTE AND THE SHARES OF COMMON STOCK WHICH MAY BE PURCHASED PURSUANT TO THE CONVERSION OF THIS NOTE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). SUCH SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSFER IS IN ACCORDANCE WITH RULE 144 OR A SIMILAR RULE AS THEN IN EFFECT UNDER THE SECURITIES ACT OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE ACT. THIS NOTE IS ISSUED IN A SERIES OF NOTES UP TO AN AGGREGATE PRINCIPAL AMOUNT OF \$11,500,000.

SPOTLIGHT INNOVATION INC.

CONVERTIBLE NOTE

Issuance Date: *Date*

Amount

FOR VALUE RECEIVED, Spotlight Innovation Inc., a Nevada corporation (the “Company”), hereby promises to pay to the order of *Print* (the “Holder”) the principal sum of *AmountText* (US *Amount*) in lawful money of the United States of America, together with interest thereon at the rate of seven and one half percent (7.5% percent) per annum. Interest will begin to accrue on the Issuance Date of this Convertible Note (the “Note”). Interest shall be computed on the basis of a 365-day year for the actual number of days elapsed and shall compound annually.

1. Interest Payments. Interest payments will be made by the Company in shares of Common Stock of the Company upon conversion of this instrument as set forth in Section 2 below.

2. Conversion. The principal amount and accrued interest of this Note is convertible into fully paid and nonassessable shares of Common Stock of the Company as set forth below:

(a) Optional Conversion. The Holder shall have the right from time to time, and at any time during the period beginning on the Issuance Date and ending on the day immediately prior to the Maturity Date (as defined below) to convert all or any part of the outstanding and unpaid principal amount and interest of this Note into fully paid and nonassessable shares of Common Stock at a price per share equal to the higher of (i) Ninety Percent (90%) of the closing bid price of the Common Stock during the 20 consecutive trading days immediately preceding such conversion and (ii) the Floor Conversion Price (defined below). If the Holder elects such Optional Conversion the Holder shall send the Company the completed conversion notice annexed hereto. Provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Company subject to a limitation on conversion or exercise analogous to the limitations contained herein), and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of this Agreement, the “**Floor Conversion Price**” shall mean \$0.60 per share.

(b) Automatic Conversion Upon Maturity Date. In the event this Note remains outstanding on the Maturity Date, then the outstanding principal amount and interest due on this Note on the Maturity Date shall automatically convert into shares of common stock of the Company, without any further action by the Holder at the Maturity Date (as defined in Section 4 below), at a price per share equal to the higher of (i) Ninety Percent (90%) of the closing bid price of the Common Stock during the 20 consecutive trading days immediately preceding the Maturity Date and (ii) the Floor Conversion Price.

(c) Fractional Shares. The Company shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Company shall round such fraction of a share of Common Stock up to the nearest whole share. The Company shall pay any and all transfer, stamp, and similar taxes that may be due with respect to the issuance and delivery of Common Stock upon any Conversion.

(d) Adjustment of Conversion Price upon Subdivision or Combination of Common Stock. If the Company, at any time while this Note is outstanding, shall (i) pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock into a larger number of shares, (iii) combine (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of shares of the Common Stock any shares of capital stock of the Company, then the applicable conversion price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event, and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, or shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(e) Mechanics of Conversion. Subject to Section 2(a) and (b) herein, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issuance Date and ending on the day immediately prior to the Maturity Date (as defined below), in the case of an Optional Conversion pursuant to Section 2(a) above, by (A) submitting to the Company a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 6:00 p.m., Iowa time), and (B) subject to Section 2(f), surrendering this Note at the principal office of the Company. On the Maturity Date, in the event this Note, or any portion thereof, remains outstanding this Note shall automatically be deemed converted (and cancelled) as set forth in Section 2(b) above, which the Holder hereby consents. The Holder further agrees that in the even this Note remains outstanding on the Maturity Date he/she/it will send the original Note to the Company for cancellation via overnight courier marked for overnight delivery, within three business days after the Maturity Date.

(f) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Company unless the entire unpaid principal amount of this Note is so converted. The Holder and the Company shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of this Note upon each such conversion.

(g) Delivery of Common Stock Upon Conversion. Upon receipt by the Company from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section, the Company shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon such conversion within five (5) business days after such receipt (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof.

(h) Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be the responsibility of the Holder to provide, and shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) (“Rule 144”) or (iv) such shares are transferred to an “affiliate” (as defined in Rule 144) of the Company who agrees to sell or otherwise transfer the shares only in accordance with this Section and who is an Accredited Investor. Until such time as the shares of Common Stock issuable upon conversion of this Note have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for shares of Common Stock issuable upon conversion of this Note that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.”

The legend set forth above shall be removed and the Company shall issue to the Holder a new certificate therefore free of any transfer legend if (i) the Company or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be accepted by the Company so that the sale or transfer is effected or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold.

3. Events of Default. Each of the following shall constitute an “Event of Default.”

(a) Failure to make any required payment after ten (10) days of receipt of notice by Holder that such payment was not made; or

(b) Upon any Voluntary Bankruptcy or Insolvency Proceedings, which is defined as any of the following actions by the Company: (i) applying for, or consent to the appointment of, a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property; (ii) making a general assignment for the benefit of its creditors; (iii) dissolution or liquidation; (iv) commencing a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it; or (v) taking any material action to effect any of the foregoing.

(c) Upon any Involuntary Bankruptcy or Insolvency Proceedings, which is defined as proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency, or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within sixty (60) days of commencement.

Upon the occurrence of any Event of Default, the Holder may, at its option, declare in writing to the Company all principal and interest due hereunder to be due and payable immediately and, upon any such declaration, the same shall become and be immediately due and payable. Upon the occurrence of any Event of Default, the Holder may, in addition to declaring all amounts due hereunder to be immediately due and payable, pursue any available remedy, whether at law or in equity.

4. Maturity Date. The “Maturity Date” shall be the two-year anniversary of the Issuance Date.

5. Notices.

(a) Any notices, consents, waivers or other communications required or permitted to be given under the terms hereof must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) business day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company, to: Spotlight Innovation Inc.
 11147 Aurora Avenue, Building 3
 Urbandale, Iowa 50322
 Attention: President
 Telephone: (515) 274-9087

If to the Holder, at such address as set forth on the signature page attached hereto.

6. Choice of law. This Note shall be exclusively governed by and construed in accordance with the laws of the State of Iowa without regard to the principles of conflict of laws. The parties further agree that any action between them shall exclusively be heard in Polk County, Iowa.

7. Waiver of Presentment, Demand and Dishonor. No delay on the part of the Holder in exercising any power or right hereunder shall operate as a waiver of any such power or right; nor shall any single or partial exercise of any power or right preclude any other or further exercise of such power or right, or the exercise of any other power or right, and no waiver whatsoever shall be valid unless in writing, signed by the Holder, and then only to the extent expressly set forth herein. No remedy is exclusive of any other remedy and all remedies shall be cumulative to the maximum extent permitted by applicable law. Except as otherwise set forth herein, the Company hereby waives presentment, demand for repayment, diligence, notice of dishonor and all other notices or demands in connection with the delivery acceptance, performance, default or endorsement of this Note.

8. Severability. If any provision of this Note is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable, in any respect under applicable law, such provision will be enforced to the maximum extent possible given the intent of the parties hereto, and the balance of this Note shall remain in effect.

9. Transaction Costs. Each party shall be responsible for all costs and expenses it incurs in connection with the preparation of this Note.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by a duly authorized officer as of the date set forth above.

COMPANY:
SPOTLIGHT INNOVATION INC.

By: _____
Name: John M. Krohn
Title: President

IN WITNESS WHEREOF, the undersigned Holder hereby agrees to the terms set forth in this Note.

By: _____
Name: *Print*
Address: *Address*

EXHIBIT I
CONVERSION NOTICE

The undersigned hereby irrevocably elects to convert the Note originally dated *Date* into shares of Common Stock of Spotlight Innovation Inc., according to the conditions stated therein, as of the Conversion Date written below as follows:

Conversion Date: _____

Principal Amount (\$) \$ _____

Interest (\$) \$ _____

Total Amount converted: \$ _____

Conversion Price: \$ _____

**Number of shares of Common
Stock to be issued:** _____

Please issue the shares of Common Stock in the following name and to the following address:

Name: *Print* _____

Address: _____

Authorized Signature: By: _____

Name: *Print*

Date: _____

**ANNEX B
WARRANT**

[Attached]

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

**WARRANT TO PURCHASE
SHARES OF COMMON STOCK
OF**

**Spotlight Innovation Inc.
Expires: *WarExpDate***

Date of Issuance: *Date*

Number of Shares: *Warrants*

FOR VALUE RECEIVED, the undersigned, Spotlight Innovation Inc., a Nevada corporation (together with its successors and assigns, the “**Issuer**”), hereby certifies that *Print* (“**Holder**” located at *Address*) is entitled to subscribe for and purchase, during the Term (as hereinafter defined), up to *WarPrint* (*Warrants*) shares (subject to adjustment as hereinafter provided) of the duly authorized, validly issued, fully paid and non-assessable Common Stock of the Issuer, par value \$0.001 per share (the “**Common Stock**”), at an exercise price per share equal to the Exercise Price then in effect, subject, however, to the provisions and upon the terms and conditions hereinafter set forth. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in Section 6 hereof.

1. Term. The term of this Warrant shall commence on *Date* and shall expire at 5:00 p.m., Central Time, on *WarExpDate* (such period being the “**Term**”).

2. Method of Exercise; Payment; Issuance of New Warrant; Transfer and Exchange.

(a) Time of Exercise. The purchase rights represented by this Warrant may be exercised in whole or in part during the Term beginning on the date of issuance hereof.

(b) Method of Exercise. The Holder hereof may exercise this Warrant, in whole or in part, by the surrender of this Warrant (with the exercise form attached hereto duly executed) at the principal office of the Issuer, and by the payment to the Issuer of an amount of consideration therefor equal to the Exercise Price in effect on the date of such exercise multiplied by the number of shares of Warrant Stock with respect to which this Warrant is then being exercised, payable at such Holder’s election by certified or official bank check or by wire transfer to an account designated by the Issuer.

(c) Issuance of Stock Certificates. In the event of any exercise of this Warrant in accordance with and subject to the terms and conditions hereof, certificates for the shares of Warrant Stock so purchased shall be dated the date of such exercise and delivered to the Holder hereof within a reasonable time, not exceeding three (3) business days after such exercise (the “**Delivery Date**”). The Holder shall deliver this original Warrant, or an indemnification undertaking with respect to such Warrant in the case of its loss, theft or destruction, at such time that this Warrant is fully exercised. With respect to partial exercises of this Warrant, the Issuer shall keep written records for the Holder of the number of shares of Warrant Stock exercised as of each date of exercise.

(d) Transferability of Warrant. Subject to Section 2(f) hereof, this Warrant may be transferred by a Holder, in whole or in part. If transferred pursuant to this paragraph, this Warrant may be transferred on the books of the Issuer by the Holder hereof in person or by duly authorized attorney, upon surrender of this Warrant at the principal office of the Issuer, properly endorsed (by the Holder executing an assignment in the form attached hereto) and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. This Warrant is exchangeable at the principal office of the Issuer for Warrants to purchase the same aggregate number of shares of Warrant Stock, each new Warrant to represent the right to purchase such number of shares of Warrant Stock as the Holder hereof shall designate at the time of such exchange. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant except as to the number of shares of Warrant Stock issuable pursuant thereto.

(e) Continuing Rights of Holder. The Issuer will, at the time of or at any time after each exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing the extent, if any, of its continuing obligation to afford to such Holder all rights to which such Holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided that if any such Holder shall fail to make any such request, the failure shall not affect the continuing obligation of the Issuer to afford such rights to such Holder.

(f) Compliance with Securities Laws.

(i) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant and the shares of Warrant Stock to be issued upon exercise hereof are being acquired solely for the Holder’s own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Warrant Stock to be issued upon exercise hereof except pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

(ii) Except as provided in paragraph (iii) below, this Warrant and all certificates representing shares of Warrant Stock issued upon exercise hereof shall be stamped or imprinted with legends in substantially the following form:

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

(iii) The Issuer agrees to reissue this Warrant or certificates representing any of the Warrant Stock, without the legend set forth above if at such time, prior to making any transfer of any such securities, the Holder shall give written notice to the Issuer describing the manner and terms of such transfer. Such proposed transfer will not be effected until: (a) either (i) the Issuer has received an opinion of counsel reasonably satisfactory to the Issuer, to the effect that the registration of such securities under the Securities Act is not required in connection with such proposed transfer, (ii) the Issuer has received other evidence reasonably satisfactory to the Issuer that such registration and qualification under the Securities Act and state securities laws are not required, or (iii) the Holder provides the Issuer with reasonable assurances that such security can be sold pursuant to Rule 144 under the Securities Act; and (b) either (i) the Issuer has received an opinion of counsel reasonably satisfactory to the Issuer, to the effect that registration or qualification under the securities or "blue sky" laws of any state is not required in connection with such proposed disposition, or (ii) compliance with applicable state securities or "blue sky" laws has been effected or a valid exemption exists with respect thereto. The Issuer will respond to any such notice from a holder within three (3) business days. In the case of any proposed transfer under this Section 2(f), the Issuer will use reasonable efforts to comply with any such applicable state securities or "blue sky" laws, but shall in no event be required, (x) to qualify to do business in any state where it is not then qualified, (y) to take any action that would subject it to tax or to the general service of process in any state where it is not then subject, or (z) to comply with state securities or "blue sky" laws of any state for which registration by coordination is unavailable to the Issuer. The restrictions on transfer contained in this Section 2(f) shall be in addition to, and not by way of limitation of, any other restrictions on transfer contained in any other section of this Warrant.

(g) Accredited Investor Status. In no event may the Holder exercise this Warrant in whole or in part unless the Holder is an "accredited investor" as defined in Regulation D under the Securities Act, at the time of exercise.

3. Stock Fully Paid; Reservation and Listing of Shares; Covenants.

(a) Stock Fully Paid. The Issuer represents, warrants, covenants and agrees that all shares of Warrant Stock which may be issued upon the exercise of this Warrant or otherwise hereunder will, when issued in accordance with the terms of this Warrant, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges created by or through the Issuer. The Issuer further covenants and agrees that during the period within which this Warrant may be exercised, the Issuer will at all times have authorized and reserved for the purpose of the issuance upon exercise of this Warrant a number of authorized but unissued shares of Common Stock equal to at least one hundred percent (100%) of the number of shares of Common Stock issuable upon exercise of this Warrant without regard to any limitations on exercise.

(b) Reservation. If any shares of Common Stock required to be reserved for issuance upon exercise of this Warrant or as otherwise provided hereunder require registration or qualification with any Governmental Authority under any federal or state law before such shares may be so issued, the Issuer will in good faith use its best efforts as expeditiously as possible at its expense to cause such shares to be duly registered or qualified.

(c) Loss, Theft, Destruction of Warrants. Upon receipt of evidence satisfactory to the Issuer of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same number of shares of Common Stock.

(d) Payment of Taxes. The Issuer will pay any documentary stamp taxes attributable to the initial issuance of the Warrant Stock issuable upon exercise of this Warrant; provided, however, that the holder shall be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates representing Warrant Stock in a name other than that of the Holder in respect to which such shares are issued.

4. Adjustment of Exercise Price and Number of Shares Issuable Upon Exercise. The Exercise Price and the number of shares of Warrant Stock that may be purchased upon exercise of this Warrant shall be subject to adjustment from time to time as set forth in this Section 4. Upon each adjustment of the Exercise Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of shares of Common Stock obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Exercise Price resulting from such adjustment.

(a) Adjustment Due to Dividends, Stock Splits, Etc. If, at any time on or after the Original Issuance Date, the number of outstanding shares of Common Stock is increased by a (i) dividend payable in any kind of shares of capital stock of the Corporation, (ii) stock split, (iii) combination, (iv) reclassification or (v) other similar event, the Exercise Price shall be proportionately reduced by multiplication by a fraction of which the numerator shall be the number of outstanding shares of Common Stock immediately before such event and of which the denominator shall be the number of outstanding shares of Common Stock immediately after such event, or if the number of outstanding shares of Common Stock is decreased by a reverse stock split, combination or reclassification of shares, or other similar event, the Exercise Price shall be proportionately increased by multiplication by a fraction of which the numerator shall be the number of outstanding shares of Common Stock immediately before such event and of which the denominator shall be the number of outstanding shares of Common Stock immediately after such event. In such event, the Issuer shall notify the Corporation's Transfer Agent of such change on or before the effective date thereof.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time after the Original Issuance Date, there shall be (i) any reclassification or change of the outstanding shares of Common Stock, (ii) any consolidation or merger of the Corporation with any other entity (other than a merger in which the Corporation is the surviving or continuing entity and its capital stock is unchanged), (iii) any sale or transfer of all or substantially all of the assets of the Corporation, (iv) any share exchange or tender offer pursuant to which all of the outstanding shares of Common Stock are effectively converted into other securities or property; or (v) any distribution of the Corporation's assets to holders of the Common Stock as a liquidation or partial liquidation dividend or by way of return of capital (each of (i) - (v) above being a "**Corporate Change**"), then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Corporate Change if it had been, immediately prior to such Corporate Change, the holder of the number of shares of Warrant Stock then issuable upon exercise in full of this Warrant, and in any such case, appropriate provisions (in form and substance reasonably satisfactory to the Holder) shall be made with respect to the rights and interests of the Holder to the end that the economic value of the Warrant Stock is in no way diminished by such Corporate Change and that the provisions hereof including, without limitation, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is not the Issuer, an immediate adjustment of the Exercise Price so that the Exercise Price immediately after the Corporate Change reflects the same relative value as compared to the value of the surviving entity's common stock that existed immediately prior to such Corporate Change and the value of the Common Stock immediately prior to such Corporate Change. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Corporate Change, then the Holder shall be given the same choice as to the consideration it receives upon any exercise of this Warrant following such Corporate Change.

(c) Other Adjustments. If the Issuer takes any action affecting the Common Stock after the date hereof that would be covered by this Section 4, but for the manner in which such action is taken or structured, and such action would in any way diminish the value of the Warrant or Warrant Stock, then the Exercise Price shall be adjusted in such manner as the Board shall in good faith determine to be equitable under the circumstances.

5. Fractional Shares. No fractional shares of Warrant Stock will be issued in connection with any exercise hereof, but in lieu of such fractional shares, the Issuer shall round the number of shares to be issued upon exercise up to the nearest whole number of shares.

6. Definitions. For the purposes of this Warrant, the following terms have the following meanings:

“**Board**” shall mean the Board of Directors of the Issuer.

“**Capital Stock**” means and includes any and all shares, interests, participations or other equivalents of or interests in (however designated) corporate stock, including, without limitation, shares of preferred or preference stock.

“**Common Stock**” means the Common Stock, \$0.001 par value per share, of the Issuer and any other Capital Stock into which such stock may hereafter be changed.

“**Exercise Price**” shall mean \$1.30 per share of Common Stock, as such price may be adjusted from time to time pursuant to the adjustments specified in this Warrant, including Section 4 hereto.

“**Governmental Authority**” means any governmental, regulatory or self-regulatory entity, department, body, official, authority, commission, board, agency or instrumentality, whether federal, state or local, and whether domestic or foreign.

“**Holders**” mean the Persons who shall from time to time own any Warrant. The term “Holder” means one of the Holders.

“**Issuer**” means Spotlight Innovation Inc., a Nevada corporation, and its successors.

“**Original Issue Date**” means *Date*.

“**Person**” means an individual, corporation, limited liability company, partnership, joint stock company, trust, unincorporated organization, joint venture, Governmental Authority or other entity of whatever nature.

“**Securities Act**” means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

“**Term**” has the meaning specified in Section 1 hereof.

“**Warrants**” means the Warrants issued pursuant to this Warrant, without limitation, and any other warrants of like tenor issued in substitution or exchange for any thereof pursuant to the provisions of Section 2(c), 2(d) or 2(e) hereof or of any of such other Warrants.

“**Warrant Share Number**” means at any time the aggregate number of shares of Warrant Stock which may at such time be purchased upon exercise of this Warrant, after giving effect to all prior adjustments and increases to such number made or required to be made under the terms hereof.

“**Warrant Stock**” means Common Stock issuable upon exercise of any Warrant or Warrants or otherwise issuable pursuant to any Warrant or Warrants.

7. Amendment and Waiver. Any term, covenant, agreement or condition in this Warrant may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), by a written instrument or written instruments executed by the Issuer and the Holder; provided, however, that no such amendment or waiver shall reduce the Warrant Share Number, increase the Exercise Price, shorten the period during which this Warrant may be exercised or modify any provision of this Section 7 without the consent of the Holder of this Warrant. No consideration shall be offered or paid to any person to amend or consent to a waiver or modification of any provision of this Warrant unless the same consideration is also offered to all holders of the Warrants.

8. Governing Law; Jurisdiction; Waiver of Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by the internal laws of the State of Iowa, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Iowa or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Iowa. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in Polk County, Iowa for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in connection with or arising out of this Warrant or any transaction contemplated hereby.

9. Notice. Any notices, consents, waivers or other communications required or permitted to be given hereunder must be in writing and will be deemed to have been delivered: (a) upon receipt, when delivered personally, (b) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (c) one (1) business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

To the Issuer:

Spotlight Innovation Inc.
11147 Aurora Avenue, Building 3
Urbandale, Iowa 50322
Attention: President
Telephone: (515) 274-9087

If to the Holder, to its address and facsimile number set forth at the first paragraph of this Warrant, or to such other address and/or facsimile number and/or to the attention of such other person as specified by written notice given to the Issuer five (5) business days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

10. Remedies. The Issuer stipulates that the remedies at law of the Holder of this Warrant in the event of any default or threatened default by the Issuer in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that, to the fullest extent permitted by law, such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

11. Successors and Assigns. This Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and assigns of the Issuer, the Holder hereof and (to the extent provided herein) the Holders of Warrant Stock issued pursuant hereto, and shall be enforceable by any such Holder or Holder of Warrant Stock.

12. Modification and Severability. If, in any action before any court or agency legally empowered to enforce any provision contained herein, any provision hereof is found to be unenforceable, then such provision shall be deemed modified to the extent necessary to make it enforceable by such court or agency. If any such provision is not enforceable as set forth in the preceding sentence, the unenforceability of such provision shall not affect the other provisions of this Warrant, but this Warrant shall be construed as if such unenforceable provision had never been contained herein.

13. Headings. The headings of the Sections of this Warrant are for convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Issuer has executed this Warrant as of the day and year first above written.

Spotlight Innovation Inc.

By: _____
Name: John M. Krohn
Title: President

APPENDIX A

WARRANT EXERCISE FORM

Spotlight Innovation Inc.

The undersigned *Print*, pursuant to the provisions of the within Warrant, hereby elects to purchase *Warrants* shares of Common Stock, par value \$0.001 per share, of Spotlight Innovation Inc. covered by the within Warrant.

Dated: _____ Signature _____

Address _____ *Address*

Number of shares of Common Stock beneficially owned or deemed beneficially owned by the Holder on the date of Exercise: _____

The undersigned is an "accredited investor" as defined in Regulation D under the Securities Act of 1933, as amended.

The Holder shall pay the sum of \$ _____ by certified or official bank check (or via wire transfer) to the Issuer in accordance with the terms of the Warrant.

ASSIGNMENT

FOR VALUE RECEIVED, *Print* hereby sells, assigns and transfers unto _____ the within Warrant and all rights evidenced thereby and does irrevocably constitute and appoint _____, attorney, to transfer the said Warrant on the books of the within named corporation.

Dated: _____

Signature

Address

PARTIAL ASSIGNMENT

FOR VALUE RECEIVED, *Print* hereby sells, assigns and transfers unto _____ the right to purchase _____ shares of Warrant Stock evidenced by the within Warrant together with all rights therein, and does irrevocably constitute and appoint _____, attorney, to transfer that part of the said Warrant on the books of the within named corporation.

Dated: _____

Signature

Address

FOR USE BY THE ISSUER ONLY:

This Warrant No. W-___ canceled (or transferred or exchanged) this ___ day of _____, _____, shares of Common Stock issued therefor in the name of _____, Warrant No. W-___ issued for ___ shares of Common Stock in the name of _____.

**ANNEX C
ROYALTY AGREEMENT**

[Attached]

ROYALTY AGREEMENT
(Revised May 1, 2017)

This Royalty Agreement (this "**Agreement**") is entered into effective as of *Date* (the "**Effective Date**") by and between Caretta Therapeutics, LLC (the "**Company**"), and *Print* (the "**Subscriber**").

WHEREAS, pursuant to that certain Subscription Agreement (Revised Offering May 1, 2017) dated as of the date hereof for the purchase of certain convertible notes (the "**Convertible Notes**"), it is contemplated that the Company will pay Subscriber a royalty based on sales of the Company's prospective Venodol product as set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. Royalty. During Subscriber's Royalty Term, the Company will pay the Subscriber a royalty calculated in the manner set forth on Schedule A to this Agreement, subject to the Maximum Royalty Amount as set forth on Schedule A (the "**Royalty**"), and payable as set forth in Section 3.

2. Term. The "**Royalty Term**" for Subscriber shall mean the period beginning on October 1, 2018, and ending on the date set forth on the table on Schedule B. Notwithstanding the foregoing, the Royalty Term shall terminate upon the payment to Subscriber of the Maximum Royalty Amount.

3. Payment Terms and Report. The Company will pay the foregoing Royalty payments to the Subscriber within thirty (30) days after the end of each calendar quarter. The Company will provide the Subscriber with a quarterly report that details the calculation of Royalty payments.

4. Miscellaneous.

4.1 Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (a) upon receipt, when delivered personally, (b) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (c) one (1) business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

To the Company:

Caretta Therapeutics, LLC
11147 Aurora Avenue, Building 3
Urbandale, Iowa 50322
Attention: President
Telephone: (515) 274-9087

If to the Subscriber, to its address and facsimile number set forth at the end of this Agreement, or to such other address and/or facsimile number and/or to the attention of such other person as specified by written notice given to the Company five (5) business days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

4.2 Entire Agreement; Amendment; Waiver. This Agreement supersedes all other prior oral or written agreements between the Subscriber, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Subscriber makes any representation, warranty, covenant or undertaking with respect to such matters.

4.3 Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

4.4 Governing Law; Jurisdiction; Waiver of Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of Iowa, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Iowa or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Iowa. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in Polk County, Iowa for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in connection with or arising out of this Agreement or any transaction contemplated hereby.

4.5 Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

4.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. The Subscriber shall not assign its rights hereunder without the consent of the Company, which consent shall not be unreasonably withheld.

4.7 No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

4.8 Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

4.9 Legal Effect. The Subscriber acknowledges that: (a) it has read this Agreement and the exhibits hereto; and (b) it understands the terms and consequences of this Agreement and is fully aware of its legal and binding effect.

4.10 No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

4.11 Independent Legal Advice. The parties hereto acknowledge that they have each received independent legal advice with respect to the terms of this Agreement and the transactions contemplated herein or have knowingly and willingly elected not to do so

4.12 Counterparts. This Agreement may be executed in two or more counterparts each of which shall be deemed an original, but all of which shall together constitute one and the same instrument. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

[Signatures on following page]

WHEREAS, the parties have entered into this Royalty Agreement as of the date hereof.

CARETTA THERAPEUTICS, LLC

By: _____
Name: John M. Krohn
Title: President

SUBSCRIBER

By: _____
Name: *Print*
Address: *Address*

SCHEDULE A

Subscriber: *Print*

Your Royalty Information

Your Investment Amount	Your Royalty Term	Maximum Royalty Amount (\$)
Amount	October 1, 2018 to *RoyTerm*	*MaxRoyalty*

Subscriber's Royalty for a particular Royalty Period shall be calculated as follows: (a) the Royalty Pool accrued for the applicable Royalty Period, multiplied by (b) Subscriber's Royalty Percentage for the applicable Royalty Period.

For purposes of this Agreement, the following definitions shall apply:

"Affiliated Investment Amount" shall mean the aggregate Investment Amounts of (i) Subscriber and Subscriber's spouse, (ii) their parents, children, and grandchildren, (iii) entities where the individuals described in subsections (i) and (ii) hold a majority of the outstanding equity interests and voting interests, (iv) revocable trusts formed by the individuals described in subsections (i) and (ii), (v) irrevocable trusts where substantially all of the beneficiaries are individuals described in subsections (i) and (ii), and (vi) retirement accounts for the benefit of individuals described in subsections (i) and (ii).

"Investment Amount" shall mean the total principal amount of Convertible Notes purchased from the Company.

"Maximum Royalty Amount" means the Investment Amount multiplied by Max Royalty Multiple set forth on the table below. The Max Royalty Multiple shall be determined by using the Affiliated Investment Amount.

"OTC Roll-On Venodol" shall mean any venom-based analgesic produced by the Company that is available for sale over-the-counter and is distributed in roll-on packaging, regardless of the size of the packaging.

"OTC Oral Venodol" shall mean any venom-based analgesic produced by the Company that is available for sale over-the-counter and is distributed and packaged for oral ingestion, regardless of the size of the packaging.

"Prescription Strength Venodol" shall mean any venom-based analgesic produced by the Company that is available for sale only with a prescription from a licensed physician, regardless of the method of use and size of packaging.

"Royalty Percentage" shall mean, for each Royalty Period, (i) Subscriber's Investment Amount divided by (ii) the aggregate Investment Amounts of all subscribers that have entered into a Royalty Agreement and whose Royalty Terms include the applicable Royalty Period.

“**Royalty Period**” shall mean a calendar quarter during the Royalty Term.

“**Royalty Pool**” shall mean the aggregate of (i) \$0.60 for each unit of OTC Roll-On Venodol sold, (ii) \$0.60 for each unit of OTC Oral Venodol sold, and (iii) \$0.80 for each unit of Prescription Strength Venodol sold during the relevant Royalty Period. The number of units sold during the relevant period shall mean the number of individual products sold by the Company during such period, less any returns received during such period. For purposes of clarity, multi-pack products shall count as multiple units based on the number of included units of product (i.e. a bulk package of 6 OTC Roll-On Venodol bottles shall constitute 6 units).

“**Royalty Term**” shall mean the period beginning on October 1, 2018 and ending on the date set forth on the following table for the Subscriber’s Affiliated Investment Amount.

Affiliated Investment Amount		Royalty Term End Date	Max Royalty Multiple
At least	But less than		
\$25,000	\$50,000	12/31/2023	4.00
\$50,000	\$100,000	12/31/2023	5.00
\$100,000	\$150,000	12/31/2023	6.00
\$150,000	\$200,000	12/31/2023	7.00
\$200,000	\$250,000	9/31/2024	8.00
\$250,000	\$300,000	9/31/2024	9.00
\$300,000	\$350,000	9/31/2024	10.00
\$350,000	\$400,000	9/31/2024	11.00
\$400,000	\$500,000	9/31/2024	12.00
\$500,000	\$600,000	3/31/2025	12.25
\$600,000	\$700,000	3/31/2025	12.50
\$700,000	\$800,000	3/31/2025	12.75
\$800,000	\$900,000	3/31/2025	13.00
\$900,000	\$1,000,000	3/31/2025	13.25
\$1,000,000	\$1,200,000	9/31/2025	13.50
\$1,200,000	\$1,400,000	9/31/2025	13.75
\$1,400,000	\$1,600,000	3/31/2026	14.00
\$1,600,000	\$1,800,000	3/31/2026	14.25
\$1,800,000	\$2,000,000	9/31/2026	14.50
\$2,000,000		9/31/2026	15.00

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, John M. Krohn, certify that:

1. I have reviewed this Form 10-Q for Spotlight Innovation Inc. for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on the most recent evaluation of internal control over financial reporting, to the registrant's other certifying officer and registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Spotlight Innovation Inc.

Date: November 20, 2017

By: /s/ John M. Krohn
Name: John M. Krohn
Title: President, Chief Operating Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, John William Pim, certify that:

1. I have reviewed this Form 10-Q for Spotlight Innovation Inc. for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's other certifying officer and registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Spotlight Innovation Inc.

Date: November 20, 2017

By: /s/ John William Pim

Name: John William Pim

Title: Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Chief Executive Officer and Chief Financial Officer of Spotlight Innovation Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge, the Quarterly Report on Form 10-Q of Spotlight Innovation Inc. for quarter ended September 30, 2017, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Spotlight Innovation Inc.

Date: November 20, 2017

By: /s/ John M. Krohn
John M. Krohn
President, Chief Operating Officer
(Principal Executive Officer)

By: /s/ John William Pim
John William Pim
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Spotlight Innovation Inc. and will be retained by Spotlight Innovation Inc. and furnished to the Securities and Exchange Commission or its staff upon request.