**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 June 30, 2018**

Commission File No. **000-52542**

## Spotlight Innovation Inc.

(Name of small business issuer in its charter)

| **Nevada** | **98-0518266** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| (Do not check if smaller reporting company) | | Emerging growth company | ☐ |

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 August 22, 2018, the Company had 35,762,157 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)**

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 1,950 | $ 66,118 |
| Accounts receivable | 360 | - |
| Inventory | 189,820 | 192,726 |
| Prepaid expenses | 1,798 | 4,012 |
| Other assets | 6,000 | - |
| Total current assets | 199,928 | 262,856 |
| | | |
| Property, and equipment, net | 8,361 | 9,033 |
| In-process research and development | 6,977,347 | 6,977,347 |
| Total assets | $ 7,185,636 | $ 7,249,236 |
| **LIABILITIES AND EQUITY (DEFICIT)** | | |
| Current liabilities: | | |
| Accounts payable | $ 858,852 | $ 592,696 |
| Accounts payable and accrued liabilities – related parties | 383,026 | 337,091 |
| Accrued liabilities | 730,309 | 644,220 |
| Notes payable | 170,669 | 171,006 |
| Short-term debt – related parties | 1,291,235 | 948,073 |
| Stock payable | 4,080 | - |
| Total current liabilities | 3,438,171 | 2,693,086 |
| | | |
| Long-term liabilities: | | |
| Notes payable – related parties, net of debt discounts of $206,244 and $256,284, respectively | 1,293,756 | 1,243,716 |
| Convertible debentures, net of debt discounts of $876,778 and $687,556, respectively | 599,754 | 332,209 |
| Convertible debentures – related party, net of debt discounts of $412,928 and $245,407, respectively | 197,072 | 89,593 |
| Derivative liability | - | 13,508 |
| Royalty liabilities | 2,818,347 | 2,128,916 |
| Total long-term liabilities | 4,908,929 | 3,807,942 |
| Total liabilities | 8,344,040 | 6,501,028 |
| | | |
| Equity (deficit): | | |
| Series A convertible 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, 1,500,000 shares authorized 0 shares issued and outstanding | - | - |
| Common stock, $0.001 par value, 4,000,000,000 shares authorized, 35,762,157 and 34,290,934 shares issued and outstanding, respectively | 35,762 | 34,291 |
| Additional paid-in capital | 40,046,891 | 39,949,116 |
| Accumulated deficit | (43,373,268) | (41,539,533) |
| Total equity (deficit) attributable to Spotlight Innovation Inc. | (3,287,555) | (1,556,126) |
| Non-controlling interest | 2,129,151 | 2,304,334 |
| Total equity (deficit) | (1,158,404) | 748,208 |
| Total liabilities and equity (deficit) | $ 7,185,636 | $ 7,249,236 |

*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 June 30, 2018 | For the Three Months Ended June 30, 2017 | For the Six Months Ended June 30, 2018 | For the Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| REVENUE | $ 2,232 | $ - | $ 16,690 | $ - |
| COST OF SALES | 1,497 | 68,225 | 4,353 | 121,100 |
| GROSS PROFIT (LOSS) | 735 | (68,225) | 12,337 | (121,100) |
| OPERATING EXPENSES: | | | | |
| General and administrative expenses | 562,732 | 803,917 | 1,096,535 | 2,440,692 |
| Research and development expense | 183,044 | 392,140 | 442,198 | 567,306 |
| Depreciation expense | 862 | 1,281 | 1,915 | 2,561 |
| Total operating expenses | 746,638 | 1,197,338 | 1,540,648 | 3,010,559 |
| LOSS FROM OPERATIONS | (745,903) | (1,265,563) | (1,528,311) | (3,131,659) |
| OTHER INCOME (EXPENSE): | | | | |
| Unrealized loss on change in present value of royalty liabilities | (71,118) | (50,901) | (66,027) | (50,901) |
| Interest expense | (218,998) | (379,721) | (421,376) | (899,357) |
| Loss on derivative liability | - | - | - | (4,364) |
| Gain on extinguishment of debt and related derivative liability | - | 37,971 | - | 243,716 |
| Other income | - | 25,848 | - | 59,692 |
| Gain (loss) on foreign currency exchange | 10,482 | (12,238) | 6,796 | (13,959) |
| Total other income (expense) | (279,634) | (379,041) | (480,607) | (665,173) |
| Net loss | (1,025,537) | (1,644,604) | (2,008,918) | (3,796,832) |
| Net loss attributable to non-controlling interest holder | (76,968) | (96,875) | (175,183) | (192,734) |
| Net loss attributable to Spotlight Innovation Inc. shareholders | $ (948,569) | $ (1,547,729) | $ (1,833,735) | $ (3,604,098) |
| Loss per common share - basic and diluted | $ (0.03) | $ (0.05) | $ (0.05) | $ (0.12) |
| Weighted average number of common shares outstanding - basic and diluted | 34,441,796 | 32,479,100 | 34,394,943 | 30,615,991 |

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

**SPOTLIGHT INNOVATION INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(unaudited)**

| | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $(2,008,918) | $(3,796,832) |
| *Adjustments to reconcile net loss to cash used in operating activities:* | | |
| Share-based compensation | 61,483 | 1,027,723 |
| Depreciation and amortization | 1,915 | 2,561 |
| Loss on change of fair value of derivative liability | - | 4,364 |
| Amortization of debt discount | 307,753 | 727,694 |
| Interest expense on derivative liability that exceeds face value | - | 96,541 |
| Gain on extinguishment of debt and related derivative liability | - | (243,716) |
| (Gain) loss on foreign currency exchange | (6,796) | 13,959 |
| Unrealized loss on change in present value of royalty liabilities | 66,027 | 50,901 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (360) | |
| Inventory | 2,906 | - |
| Prepaid expenses | (3,786) | (27,445) |
| Accrued interest from notes receivable | - | (59,693) |
| Accounts payable | 265,408 | 200,837 |
| Accounts payable and accrued liabilities - related parties | 45,935 | 7,802 |
| Accrued liabilities | 86,089 | (96,161) |
| Net cash used in operating activities | (1,182,344) | (2,091,465) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for notes receivable | - | (36,771) |
| Cash paid for purchase of fixed assets | (1,245) | (774) |
| Net cash used in investing activities | (1,245) | (37,545) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of notes payable | (243,029) | (806,500) |
| Proceeds from convertible debenture | 469,800 | 1,515,000 |
| Proceeds from convertible note – related party | 300,000 | - |
| Proceeds from demand note – related party | 592,650 | 1,235,000 |
| Net cash provided by financing activities | 1,119,421 | 1,943,500 |
| | | |
| Decrease in cash during the period | (64,168) | (185,510) |
| Cash, beginning of the period | 66,118 | 313,333 |
| Cash, end of the period | $ 1,950 | $ 127,823 |
| | | |
| SUPPLEMENTAL CASH FLOWS INFORMATION | | |
| Income taxes paid | $ - | $ - |
| Interest paid | $ 25,000 | $ 41,053 |
| | | |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| Common shares issued for extinguishment of debt and related derivative liability | $ 25,000 | $ 495,816 |
| Extinguishment of related party debt and derivative liability as contributed capital | $ 13,508 | $ - |
| Debt discount for relative fair value of warrants attached to convertible debentures | $ 3,334 | $ 39,232 |
| Debt discount for relative fair value of royalty liabilities attached to convertible debentures | $ 623,405 | $ 991,386 |
| Stock payable issued for conversion of convertible debenture | $ - | $ 400,082 |
| Common shares issued for stock payable | $ - | $ 3,926,976 |
| Derivative liability related to convertible debentures | $ - | $ 288,676 |

*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. 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. In late summer/early fall of 2016, the Company changed its disease focus and has revised its product offerings including the addition of new indications and the elimination of previous programs.

As of June 30, 2018, the Company had four subsidiaries: Celtic Biotech Iowa, Inc. “Celtic Iowa”, Caretta Therapeutics, LLC (“Caretta”), SMA Therapeutics, LLC (“SMA”), and Zika Therapeutics, LLC (“Zika”).

As of June 30, 2018, the non-controlling interest ownership percentage for subsidiaries are as follows:

| Subsidiary | Percentage of Non-controlling Interest | Owner of Non-controlling Interest |
|---|---|---|
| Celtic Biotech Iowa, Inc. | 5% | Various |
| Caretta Therapeutics, LLC | 35% | K4 Enterprises |
| SMA Therapeutics, LLC | 20% | K4 Enterprises |
| Zika Therapeutics, LLC | 20% | K4 Enterprises |

K4 Enterprises, an entity partially owned and controlled by the President and Chief Executive Officer of the Company.

***Cancer***

On June 4, 2014, Celtic Biotech Iowa, Inc. 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 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.

***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, 2017 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 debt instruments, derivatives, the fair value of royalty liabilities 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 majority of the non-controlling interest is controlled by K4 Enterprises. 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.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a 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 $1,950 and $66,118 of cash equivalents at June 30, 2018 and December 31, 2017, respectively.

*Accounts Receivable.*

Accounts receivable typically consist of receivables derived from the sale of our non-opioid product Venodol. The Company has classified these as short-term assets in the consolidated balance sheet because the Company expects repayment or recovery within the next 12 months. The Company evaluates these accounts receivable for collectability considering the results of operations and, when necessary, records allowances for expected unrecoverable amounts.

*Allowance for Doubtful Accounts*

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized in general and administrative expense. As of June 30, 2018, no allowances have been recorded.

*Inventory*

Inventories are stated at the lower of cost or net realizable value, using an average cost method. Costs include 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 inventory to the new cost basis.

*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 June 30, 2018, 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 has maintained 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).

*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 have not been impaired nor has any amortization 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 six months ended June 30, 2018 and 2017, the Company recorded no in impairment to the Company’s long-lived assets.

*Deferred Financing Costs*

We have incurred debt origination costs in connection with the issuance of short-term convertible debt. These costs are accounted as an offset to reduce convertible debt as debt discount and amortized using the effective interest rate method over the term of the related convertible debt.

*Royalty Liabilities*

The royalty rights agreements entered into in connection with the issuances of our convertible promissory notes, issued under the Company's private placement discussed in Note 7, are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 "Debt" to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the convertible promissory notes issuance costs and interest payable to calculate the effective interest rate of the convertible promissory notes and will be accounted for as interest expense using the effective interest rate method over the term of the convertible promissory notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires us to make certain estimates and assumptions about future sales of Venodol products. These estimates of the magnitude and timing of Venodol sales are subject to significant variability due to the current status of development of Venodol products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change, which may result in future adjustments. The Company records unrealized gains and losses on the change in the present value of the royalty liabilities.

*Revenue Recognition*

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", supersedes the revenue recognition requirements and industry-specific guidance under Revenue Recognition (Topic 605). Topic 606 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Under the modified retrospective method, prior period financial positions and results will not be adjusted. The cumulative effect adjustment recognized in the opening balances included no significant changes as a result of this adoption. While the Company does not expect 2018 net earnings to be materially impacted by revenue recognition timing changes, Topic 606 requires certain changes to the presentation of revenues and related expenses beginning on January 1, 2018. Refer to Note 4 – Revenue from Contracts with Customers for additional information.

*Cost of Revenue*

The Company's cost of revenue consists of all costs associated with the production and shipping to our outside warehouse as well as all components costs. The cost to produce sample products that are given out for promotional purposes are also included in the cost of revenue.

*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.

*Loss per Common Share*

Basic 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 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 six months ended June 30, 2018 and 2017, the dilutive effect of the issuance of 230,940 and 454,000 warrants, and 74,973, and 948,079 common shares issuable for conversion of convertible debt, respectively, were excluded from the diluted earnings per share calculation because their effect would have been anti-dilutive.

*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 hierarchal 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 has evaluated subsequent events through the date when the consolidated financial statements were issued for disclosure consideration.

*Recent Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, Leases. This update will require the recognition of a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, for all leases with terms longer than 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The ASU also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently assessing the effect that the ASU will have on our financial position, results of operations, and disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

**NOTE 3. GOING CONCERN**

The Company is an early stage company and as such has not generated revenues from operations and there is no assurance of any future revenues. The accompanying consolidated 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 June 30, 2018, the Company had accumulated net losses of $43,373,268 and had a working capital deficit of $3,235,183. 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. REVENUE FROM CONTRACTS WITH CUSTOMERS**

*Change in Accounting Policy*

The Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Refer to Note 2 – Summary of Significant Accounting Policies for additional information.

*Disaggregation of Revenue from Contracts with Customers*.

The following table disaggregates revenue by significant product type for the three and six months ended June 30, 2018:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Venodol sales | $ 2,232 | $ 16,690 |
| Total revenue from customers | $ 2,232 | $ 16,690 |

There were no significant contract liabilities or transaction price allocations to any remaining performance obligations as of June 30, 2018.

**NOTE 5. INVENTORY**

Inventory consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Venom | $ 28,771 | $ 28,771 |
| Packaging | 19,439 | 19,577 |
| Bottles, Caps & Roll-Ons | 2,026 | 2,026 |
| Finished Goods | 139,584 | 142,352 |
| Total Inventory | $ 189,820 | $ 192,726 |

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

| Description | Useful lives (years) | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Computers | 5 | $ 10,864 | $ 9,620 |
| Software | 3 | 761 | 761 |
| Furniture | 5 | 1,974 | 1,974 |
| Equipment | 10 | 9,000 | 9,000 |
| Subtotal | | 22,599 | 21,355 |
| Less accumulated depreciation | | (14,238) | (12,322) |
| Property and equipment, net | | $ 8,361 | $ 9,033 |

**NOTE 7. NOTES PAYABLE**

The Company's short-term and long-term liabilities consists of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| *Notes payable* | | |
| Notes payable - various | $ 170,669 | $ 171,006 |
| Total notes payable | 170,669 | 171,006 |
| | | |
| *Short-term debt –related parties* | | |
| Demand notes – various related parties | 208,583 | 218,042 |
| Demand note – K4 Enterprises | 1,082,652 | 730,031 |
| Total short-term debt –related parties | 1,291,235 | 948,073 |
| | | |
| *Notes payable – related party* | | |
| Notes payable – Mike Kemery | 1,500,000 | 1,500,000 |
| | | |
| Beginning debt discount | 256,284 | - |
| Additions to debt discount | - | 300,000 |
| Accretion of interest expense | (50,040) | (43,716) |
| Ending debt discount | 206,244 | 256,284 |
| | | |
| Total notes payable – related party, net debt discount | 1,293,756 | 1,243,716 |
| | | |
| *Convertible debentures* | | |
| Convertible debentures – various | 1,476,532 | 1,007,482 |
| | | |
| Beginning debt discount | 675,273 | - |
| Additions to debt discount | 378,146 | 1,388,605 |
| Accretion of interest expense | (176,641) | (713,332) |
| Ending debt discount | 876,778 | 675,273 |
| | | |
| Total convertible debentures, net debt discount | 599,754 | 332,209 |
| | | |
| *Convertible debentures – related parties* | | |
| Convertible debentures – various related parties | 610,000 | 335,000 |
| | | |
| Beginning debt discount | 245,406 | - |
| Additions to debt discount | 248,593 | 356,522 |
| Accretion of interest expense | (81,071) | (111,116) |
| Ending debt discount | 412,928 | 245,406 |
| | | |
| Total convertible debentures – related party, net debt discount | $ 197,072 | $ 89,593 |

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.

Prior to April 18, 2017, the Company conducted a private offering for the sale of convertible notes up to an aggregate of $2,500,000. After April 18, 2017, the Company amended and expanded the private offering to allow for the issuance of up to $11,500,000. Under the amended and expanded offering, the Company conducted a private offering (the "Private Placement 2017"), which bear interest at the rate of 7.5% per annum.

During the six months ended June 30, 2018, the Company issued convertible notes related and third parties in the aggregate principal amount of $769,800 under the Private Placement 2017. During the six months ended June 30, 2018, the Company recorded $3,334 and $623,405 of debt discount related to the relative fair value of the warrants and royalty liability, respectively, associated with these convertible notes. As of June 30, 2018, a related party noteholder converted their $25,000 note into 74,973 shares of the Company's common stock, fair valued at $21,742. In connection with the conversion, the Company also recorded $13,508 extinguishment on related party debt and derivative liability as contributed capital.

The notes issued under the private placements are convertible into shares of common stock of the Company based upon the table below:

| Principal amount of debt | Number of convertible debentures | Holder Optional Conversion | Automatic Conversion Upon Maturity: Conversion price for automatic conversion | Automatic Conversion Upon Maturity: Floor Conversion Price |
|---|---|---|---|---|
| $400,000 | 1 * | $0.35 | $0.35 | None |
| $490,000 | 9 ** | 90% of closing bid price 20 consecutive days prior to conversion | 80% of 20 consecutive days prior to conversion | None |
| $475,000 | 3 | 90% of closing bid price 20 consecutive days prior to conversion | 90% of the closing bid price 20 consecutive days prior to conversion and the floor conversion price | See schedule below *** |
| $1,611,532 | 18 | 90% of the closing bid price 20 consecutive days prior to conversion | 90% of the closing bid price 20 consecutive days prior to conversion and the floor conversion price | $0.60 |

* This debt converted into shares of common stock during the year ended December 31, 2017.
** All notes have been converted into shares of common stock during the three months ended March 31, 2018.
*** The floor conversion price for the $475,000 of convertible debt is as follows:

| Conversion Date (by calendar quarter) | Floor Conversion Price |
|---|---|
| 2017 Q2 | $ 0.60 |
| 2017 Q3 | $ 0.70 |
| 2017 Q4 | $ 0.85 |
| 2018 Q1 | $ 1.00 |
| Each Subsequent Quarter | Increase $0.10 per Quarter |

The holders of the notes were issued a warrant entitling the holder the right to purchase shares of Company common stock, equal to 30% of the value of their original convertible note. The warrant has a three-year term with an exercise price of $1.30 per share. Under the amended and expanded subscription agreement, the Company issued warrants to purchase 626,185 shares of the Company's common stock with a relative fair value of $32,557.

For the six months ended June 30, 2018, the Company issued 230,940 warrants to purchase common stock of the Company with a relative fair value of $3,334 in connection with the private placement conducted during the period.

**NOTE 8. NOTE PAYABLE - RELATED PARTY**

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 (an entity partially owned and controlled by the President and Chief Executive Officer of the Company), in the principal amount of $1,500,000. The note carries an interest rate of 4.5% per annum and matures in three 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. The discount is being amortized over the life of the note and the unamortized balance at June 30, 2018 was $206,244, see Note 7.

**NOTE 9. ROYALTY LIABILITIES**

The holders of the certain convertible notes referenced in Note 7 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 ended December 31, 2017, 2018, 2019 and 2020.

On April 18, 2017, the Company revised the royalty agreement with the amendment and expansion of the subscription agreement from a maximum aggregate $2,500,000 to a maximum aggregate of $11,500,000. The term of the royalty for OTC Roll-On Venodol and OTC Oral Venodol begins on October 1, 2018 and ends on December 21, 2023. The royalty term of prescription strength Venodol shall be from October 1, 2018 and ending December 31, 2024. Notwithstanding the forgoing, the royalty shall terminate upon the achievement of the Maximum Royalty Amount as described in the table below:

| **Investment parameter** | **Per unit royalty per $100,000 Roll-on** | **Per unit royalty per $100,000 Oral** | **Per Unit royalty per $100,000 Prescription** | **Maximum Royalty Amount** |
|---|---|---|---|---|
| Less than $400,000 | $0.00304348 | $0.00304348 | $0.00347826 | 8 times the subscription amount |
| Greater than $400,000 | $0.00391304 | $0.00391304 | $0.00608696 | 12 times the subscription amount |

For 2018, the royalty changed for new subscribers such that the "Royalty Term" shall mean the period beginning 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** | | **(of investment amount)** |
| $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 | 9/30/2024 | 8.00 |
| $250,000 | $300,000 | 9/30/2024 | 9.00 |
| $300,000 | $350,000 | 9/30/2024 | 10.00 |
| $350,000 | $400,000 | 9/30/2024 | 11.00 |
| $400,000 | $500,000 | 9/30/2024 | 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 | 9/30/2025 | 13.50 |
| $1,200,000 | $1,400,000 | 9/30/2025 | 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 | 9/30/2026 | 14.50 |
| $2,000,000 | | 9/30/2026 | 15.00 |

For the six months ended June 30, 2018, the Company recorded $623,405 of debt discount related to the relative fair value of the royalty liabilities associated with the new convertible notes, see Note 7. For the six months ended June 30, 2018, the Company recorded an unrealized loss related to the change in present value of the royalty liabilities in the amount of $66,027.

**NOTE 10. LEASE**

As of June 30, 2018, the Company had one lease agreement. On December 15, 2016, the Company entered into a commercial sublease with K4 Enterprises 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 Enterprises is a related party. Monthly rent is $1,314, which will increase by 2% annually, plus a proportionate share of expenses, which will initially be $800 per month. Expenses in 2017 increased to $1,286 per month.

**NOTE 11. 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.

At June 30, 2018, the Company's deferred tax assets consisted primarily of net operating loss carry forwards. For the three months ended June 30, 2018 and 2017, the material reconciling items between the tax benefit computed at the statutory rate and the actual benefit recognized in the consolidated financial statements consisted of expenses related to share-based compensation and the change in the valuation allowance during the applicable period. At June 30, 2018 and

2017, the Company has recorded a 100% valuation allowance as management believes it is likely that any deferred tax assets will not be realized.

As of June 30, 2018, the Company has a net operating loss carry forward of approximately $36.5 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.

On December 22, 2017, new federal tax reform legislation was enacted in the United States (the “2017 Tax Act”), resulting in significant changes from previous tax law. The 2017 Tax Act reduces the federal corporate income tax rate to a flat rate of 21%, from a graduated rate structure with a top rate of 35%, effective January 1, 2018. The rate change, along with certain immaterial changes in tax basis resulting from the 2017 Tax Act, resulted in a reduction of the Company’s net deferred tax assets of approximately $4.7 million, and a corresponding reduction in the valuation allowance.

**NOTE 12. EQUITY**

The Company has authorized the issuance of 500,000 shares of Series A preferred stock, 500,000 shares of Series C preferred stock, 4,000,000 shares of preferred stock and 4,000,000,000 shares of common stock.

***Common Stock***

During the six months ended June 30, 2018, the Company issued 74,923 shares of the Company’s common stock for the conversion of a related party convertible note in the amount of $25,000.

The Company issued common stock for services during the six months ended June 30, 2018. The table below details the issuances:

| **Month** | **Shares Issued** | **Fair Value at Issue Date** |
|---|---|---|
| May 2018 | 106,250 | $ 4,771 |
| June 2018 | 1,290,000 | 52,632 |
| **Total** | 1,396,250 | $ 57,403 |

***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 June 30, 2018, 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.

**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.

On June 26, 2018, the Compensation Committee of the Board of Directors awarded 1,390,000 shares of common stock to certain officers, directors, employees and key vendors, under the Company’s 2016 Equity Incentive Plan. As of June 30, 2018, the Company had not yet issued 100,000 shares of these awards and recorded stock payable for $4,080.

During the six months ended June 30, 2018, the Company issued no options to purchase shares of common stock. A summary of the stock option activity for the six months ended June 30, 2018 is presented below.

| | Options | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding December 31, 2017 | 153,771 | $ 12.48 |
| Granted | - | - |
| Exercised | - | - |
| Expired/Forfeited | - | - |
| Outstanding June 30, 2018 | 153,771 | $ 12.48 |
| Exercisable June 30, 2018 | 153,771 | 12.48 |

***Warrants***

During the six months ended June 30, 2018, the Company issued warrants to purchase 230,940 shares of common stock. These warrants were issued in connection with the Company's private placement conducted during the six months ended June 30, 2018. These warrants have an exercise price equal to the closing price of the Company's common stock on the six-month anniversary of the issuance thereof. The relative fair value of the warrants based on the Black-Scholes model was $3,334.

During the six months ended June 30, 2018, 95,000 warrants expired with an average exercise price of $1.25.

During the six months ended June 30, 2018, 45,000 warrants were terminated with an average exercise price of $1.02

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 2.05% to 2.46%; ii) expected terms of 3.00 years; iii) expected volatility ranging from 139% to 147%; iv) zero expected dividends and v) stock price of $0.10 to $0.19.

A summary of the warrant activity for the six months ended June 30, 2018 is presented below:

| | Warrants | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2017 | 6,151,845 | $ 1.16 |
| Granted | 230,940 | 1.30 |
| Exercised | - | - |
| Expired/forfeited/terminated | (140,000) | 1.18 |
| Outstanding June 30, 2018 | 6,242,785 | $ 1.16 |
| Exercisable June 30, 2018 | 6,282,745 | $ 1.16 |

The weighted average remaining contractual term of the outstanding warrants and exercisable warrants as of June 30, 2018 is 1.13 years.

**NOTE 13. RELATED PARTY TRANSACTIONS**

On January 10, 2017, the Company entered into an employment agreement with Cristopher Grunewald pursuant to which he would continue to serve as the Company's Chief Executive Officer at a salary of $180,000 per annum. The agreement was to continue until the second anniversary thereof, unless terminated earlier pursuant to the agreement. Pursuant to such agreement Mr. Grunewald's employment may be terminated by either the Company or by Mr. Grunewald at any time and for any reason; provided that, unless otherwise provided in the agreement, either party shall be required to give the other party at least 30 days advance written notice of any termination of Mr. Grunewald's employment. In the event that Mr. Grunewald's employment is terminated without cause by the Company or by Mr. Grunewald for good reason (as these terms are defined in the agreement) or subject to the terms of the agreement as a result of a change in control (as defined in the agreement), Mr. Grunewald shall be entitled to monthly payments equal to 12 months' salary for the year in which the termination occurred as well as to receive payment for any accrued amounts (as defined in the agreement).

On May 22, 2017, Mr. Grunewald resigned as Chief Executive Officer of the Company. Pursuant to Mr. Grunewald's resignation, the Company issued Mr. Grunewald a warrant to purchase 500,000 shares of common stock of the Corporation with an exercise price of $1.25 per share for a term of three years. Mr. Grunewald also agreed to cancel 1,618,627 shares of common stock of the Company previously owned by Mr. Grunewald. Mr. Grunewald remains with the Company in an advisory capacity pursuant to a consulting agreement.

Short-term and long-term liabilities to related parties consists of the following:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| *Short-term debt –related parties* | | |
| Demand notes – various related parties | 208,583 | 218,042 |
| Demand note – K4 Enterprises | 1,082,652 | 730,031 |
| Total short-term debt –related parties | 1,291,235 | 948,073 |
| | | |
| *Notes payable – related party* | | |
| Notes payable – Mike Kemery | 1,500,000 | 1,500,000 |
| | | |
| Beginning debt discount | 256,284 | - |
| Additions to debt discount | - | 300,000 |
| Accretion of interest expense | (50,040) | (43,716) |
| Ending debt discount | 206,244 | 256,284 |
| | | |
| Total notes payable – related party, net debt discount | 1,293,756 | 1,243,716 |
| | | |
| *Convertible debentures – related parties* | | |
| Convertible debentures – various related parties | 610,000 | 335,000 |
| | | |
| Beginning debt discount | 245,406 | - |
| Additions to debt discount | 248,593 | 356,522 |
| Accretion of interest expense | (81,071) | (111,116) |
| Ending debt discount | 412,928 | 245,406 |
| | | |
| Total convertible debentures – related party, net debt discount | $ 197,072 | $ 89,593 |

On April 21, 2017, Dr. Beetler (Director) purchased a convertible note in the principal amount of $25,000 from the Company, in a private placement, and received a warrant to purchase 7,500 shares of the Company's common stock. These warrants have an exercise price equal to the closing price of the Company common stock of the six-month issuance thereof. The material terms of the note are:

- At any time prior to the maturity date, 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.

On June 7, 2017, Dr. Beetler purchased a convertible note in the principal amount of $250,000 from the Company, in a private placement, and received a warrant to purchase 82,500 shares of the Company's common stock. The warrants have an exercise price of $1.30 per share. The material terms of the note are:

- At any time prior to the maturity date, 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 and the floor conversion price as described in the table below.

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| Conversion Date (by calendar Quarter) | | Floor Conversion Price |
|---|---|---|
| 2017 Q2 | $ | 0.60 |
| 2017 Q3 | $ | 0.70 |
| 2017 Q4 | $ | 0.85 |
| 2018 Q1 | $ | 1.00 |
| Each Subsequent Quarter | | Increase $0.10 per Quarter |

- 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.

On September 25, 2017, Mr. Arthur (Director) purchased a convertible note in the principal amount of $35,000 from the Company, in a private placement, and received a warrant to purchase 10,500 shares of the Company's common stock. The warrants have an exercise price of $1.30 per share. The material terms of the note are:

- At any time prior to the maturity date, 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 and the floor conversion price is $0.60 per share.

- Interest accrues at 7.5% computed on a 365-day basis. Interest is payable upon conversion of the convertible note at the applicable conversion price.

In connection with the issuance of the note, Caretta Therapeutics, LLC (a subsidiary of the Company) entered into a royalty agreement with Mr. Arthur pursuant to which Mr. Arthur will receive a pro rata share of a royalty during the years ended 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.

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 (an entity partially owned and controlled by John Krohn, the President, COO, and CEO of the Company), in the principal amount of $1,500,000. The note carries an interest rate of 4.5% and mature in three 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 March 21, 2018, Ms. Greta Lang (a related party) purchased a convertible note in the principal amount of $275,000 from the Company, in a private placement, and received a warrant to purchase 82,500 shares of the Company's common stock. The material terms of the note are:

- At any time prior to the maturity date, the note is convertible into shares of common stock of the Company at a price per share equal to (i) 90% of the of the closing price of the common stock for 20 consecutive trading days immediately preceding such conversion (ii) Floor Conversion Price at $0.60 per share.

- 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 connection with the issuance of the note, Caretta Therapeutics, LLC (a subsidiary of the Company) entered into a royalty agreement with Ms. Lang pursuant to which Ms. Lang will receive a pro rata share of a royalty during the years ended 2018 through September 30, 2024 of the Company's subsidiary Caretta Therapeutics, LLC with a maximum royalty amount of 9 times the principal amount of the convertible note.

On April 2, 2018, Ms. Greta Lang (a related party) purchased a convertible note in the principal amount of $25,000 from the Company, in a private placement, and received a warrant to purchase 82,500 shares of the Company's common stock. The material terms of the note are:

- At any time prior to the maturity date, the note is convertible into shares of common stock of the Company at a price per share equal to (i) 90% of the of the closing price of the common stock for 20 consecutive trading days immediately preceding such conversion (ii) Floor Conversion Price at $0.60 per share.

- 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 connection with the issuance of the note, Caretta Therapeutics, LLC (a subsidiary of the Company) entered into a royalty agreement with Ms. Lang pursuant to which Ms. Lang will receive a pro rata share of a royalty during the years ended 2018 through September 30, 2024 of the Company's subsidiary Caretta Therapeutics, LLC with a maximum royalty amount of 9 times the principal amount of the convertible note.

As of June 30, 2018, the Company has a demand note with K4 Enterprises, an entity partially owned and controlled by the President and Chief Executive Officer of the Company, in the amount of $1,082,652. There are no formal payment terms, this loan is payable upon demand.

**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 June 30, 2018, the Company had four 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.

***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 six months ended June 30, 2018, the Company raised $769,800 in convertible debt proceeds. The Company anticipates securing additional financing in 2018. 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 consolidated 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.

*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.

*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 six months ended June 30, 2018, the Company has evaluated and recorded no impairment to the Company's intangible assets.

*Royalty Liabilities*

The royalty rights agreements entered into in connection with the issuances of our convertible promissory notes, issued under the Company's private placement discussed in Note 7, are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 "Debt" to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the convertible promissory notes issuance costs and interest payable to calculate the effective interest rate of the convertible promissory notes and will be accounted for as interest expense using the effective interest rate method over the term of the convertible promissory notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires us to make certain estimates and assumptions about future sales of Venodol products. These estimates of the magnitude and timing of Venodol sales are subject to significant variability due to the current status of development of Venodol products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change, which may result in future adjustments. The Company records unrealized gains and losses on the change in the present value of the royalty liabilities.

*Revenue Recognition*

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", supersedes the revenue recognition requirements and industry-specific guidance under Revenue Recognition (Topic 605). Topic 606 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Under the modified retrospective method, prior period financial positions and results will not be adjusted. The cumulative effect adjustment recognized in the opening balances included no significant changes as a result of this adoption. While the Company does not expect 2018 net earnings to be materially impacted by revenue recognition timing changes, Topic 606 requires certain changes to the presentation of revenues and related expenses beginning on January 1, 2018. Refer to Note 4 – Revenue from Contracts with Customers for additional information.

*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 hierarchal 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.

**Results of Operations**

**Financial Condition and Changes in Financial Condition**

**Overall Operating Results:**

*Comparison of the Three Months Ended June 30, 2018 with the Three Months Ended June 30, 2017*

***Revenue.*** For the three months ended June 30, 2018, revenues of $2,232 were generated by Caretta Therapeutics. There was no revenue for the three months ended June 30, 2017.

***Cost of Sales.*** For the three months ended June 30, 2018, cost of goods sold decreased to $1,497 from $68,225 for the three months ended June 30, 2017. The decrease was mainly due to reduction of cost of sales due to new product development and contractor costs in the three months ended June 30, 2017. The cost of sales for the three months ended June 30, 2017, were related to Venodol sample costs.

***General and Administrative Expenses*****.** Our selling, general and administrative expenses decreased to $562,732 for the three months ended June 30, 2018 from $803,917 for the three months ended June 30, 2017, representing a $241,185 decrease. The decrease was primarily related to a reduction of stock compensation expense of $32,249, a reduction in wages and compensation of $39,880, a reduction in advertising and marketing of $33,627, and a reduction in legal and professional fees of $79,833.

***Other Income (Expense).*** For the three months ended June 30, 2018, other expense was $279,634, compared to $379,041 for the three months ended June 30, 2017, a decrease of $99,407. The decrease in other expense was primarily due a reduction in interest expense of $160,723.

***Net Loss***. The Company's net loss was $1,025,537 and $1,644,604 for the three months ended June 30, 2018 and 2017, respectively. The decrease in net loss was mainly due to a reduction in interest expense of $ 160,723, reduced stock compensation expense of $32,240 and other operating reduction costs.

*Comparison of the Six Months Ended June 30, 2018 with the six Months Ended June 30, 2017*

***Revenue.*** For the six months ended June 30, 2018, revenues of $16,690 were generated by Caretta Therapeutics. There was no revenue for the six months ended June 30, 2017.

***Cost of Sales.*** For the six months ended June 30, 2018 cost of goods sold decreased to $4,353 from $121,100 for the six months ended June 30, 2017. The decrease was mainly due to reduction of cost of sales due to new product development and contractor costs in the six months ended June 30, 2017. The cost of sales for the six months ended June 30, 2017, were related to Venodol sample costs.

***General and Administrative Expenses*****.** Our selling, general and administrative expenses decreased to $1,096,535 for the six months ended June 30, 2018 from $2,440,692 for the six months ended June 30, 2017, representing a $1,344,157 decrease. The decrease was primarily related to a reduction of stock compensation expense of $966,240, a reduction in advertising and marketing of $142,887, a reduction in legal and professional fees of $165,362 and investor relations of $47,894.

***Other Income (Expense).*** For the six months ended June 30, 2018, other expense, net was $480,607, compared to $665,173 for the six months ended June 30, 2017, a decrease of $184,566. The decrease in other expense was primarily due a reduction in interest expense of $477,981, partially offset by a decrease in gain on extinguishment of debt and related derivative liability of $243,716.

***Net Loss***. The Company's net loss was $2,008,918 and $3,796,832 for the six months ended June 30, 2018 and 2017, respectively. The decrease in net loss was mainly due to a reduction in interest expense of $477,981, reduced stock compensation expense of $966,240 and other operating reduction costs.

**Liquidity and Capital Resources:**

We are an early stage company and have not generated any revenue to date. We have incurred recurring losses to date. Our consolidated 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 $1,949 in cash and cash equivalents as of June 30, 2018. The Company has negative working capital of $3,235,183, and total stockholders' deficit of $1,158,404 as of June 30, 2018. For the six months ended June 30, 2018, 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. The Company anticipates it will need approximately $4,000,000 for the next twelve months following the issuance of this filing 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 existing shareholders. We cannot provide any assurances 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 six months ended June 30, 2018, K4 Enterprises has provided short-term operating cash totaling $592,650 in the form of cash advances or direct payment of invoices for the Company.

***Operating Activities***

*Cash flow from operations* – Net cash used in operating activities was $1,182,344 for the six months ended June 30, 2018, compared to $2,091,465 for the six months ended June 30, 2017. Net cash used in operating activities for the six months ended June 30, 2018 was derived from our net loss, which included amortization of debt discount of $307,753 and unrealized loss on change in present value of our royalty liabilities of $66,027. Our net loss from operations for the six months ended June 30, 2018 included a gain on extinguishment of debt and related derivative liability of $0, compared to a gain of $243,716 for the six months ended June 30, 2017.

***Investing Activities***

*Cash flow from investing activities* – Our investing activities used cash of $1,245 for the purchase of property and equipment during the six months ended June 30, 2018. For the six months ended June 30, 2017, our investing activities used cash of $37,545, primarily as a result of cash paid for notes receivable of $36,771 and purchases of property and equipment of $774.

***Financing Activities***

*Cash flow from financing activities* – During the six months ended June 30, 2018, our financing activities provided cash of $1,119,421, primarily as a result of proceeds from convertible debentures of $469,800, proceeds from a related party demand note of $592,650 and proceeds from related party convertible debt of $300,000, offset partially by payments on debt of $243,029. Our financing activities provided cash of 1,943,500 during the six months ended June 30, 2017, primarily as a result of proceeds from convertible debentures of $1,515,000 and proceeds from a demand note of $1,235,000, offset partially by payments on debt of $806,500.

**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 six months ended June 30, 2018, there were no accounting standards and interpretations issued which are expected to have a material impact on the Company's consolidated financial position, results of 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 June 30, 2018. 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 June 30, 2018 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) lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our Board of Directors, resulting in ineffective oversight in the establishment and monitoring of required internal control and procedures; and

2) inadequate segregation of duties consistent with control objectives

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 June 30, 2018, 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, 2017.

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

**Item 3. Defaults Upon Senior Securities**

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

| Exhibit Number | Name of Exhibit |
|---|---|
| 31.1 | 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) |
| 31.2 | 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) |
| 32.1 | 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) |
| 101** | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 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: August 22, 2018

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

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

**EXHIBIT 31.1**

**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 June 30, 2018;

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: August 22, 2018

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

**EXHIBIT 31.2**

**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 June 30, 2018;

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: August 22, 2018

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

**EXHIBIT 32.1**

**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 June 30, 2018, 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: August 22, 2018

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.