ISLA PHARMACEUTICALS, INC.

INDEX TO FINANCIAL STATEMENTS

HORNE
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Directors and Shareholders
Isla Pharmaceuticals, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Isla Pharmaceuticals, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, the related statements of operations, stockholders' equity and cash flows for the year ended December 31, 2018 and for the period from inception (March 8, 2017) to December 31, 2017, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year ended December 31, 2018 and for the period from inception (March 8, 2017) through December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses from operations since inception, which raises substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Horne LLP

Ridgeland, Mississippi
June 7, 2019

Isla Pharmaceuticals, Inc.
Balance Sheets

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	$ 858,139	$ 27,445
Prepaid expenses	300	7,000
Deferred offering costs	—	9,500
Total current assets	858,439	43,945
Total assets	$ 858,439	$ 43,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,732	$ 3,696
Total current liabilities	4,732	3,696
Total liabilities	4,732	3,696
Commitments and contingencies (See Note 7)		
Stockholders' equity:		
Series A Preferred stock; $0.0001 par value; 125,000 shares authorized; 125,000 shares and no shares issued and outstanding as of December 31, 2018 and 2017	12	—
Common stock; $0.0001 par value; 10,000,000 shares authorized; 1,935,938 shares and 1,704,688 shares issued and outstanding as of December 31, 2018 and 2017	194	170
Additional paid-in capital	1,264,565	129,922
Accumulated deficit	(411,064)	(89,843)
Total stockholders’ equity	853,707	40,249
Total liabilities and stockholders’ equity	$ 858,439	$ 43,945

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

Isla Pharmaceuticals, Inc.
Statements of Operations

	For the Year Ended December 31, 2018	For the Period from Inception to December 31, 2017
Costs and Expenses:		
General & administrative expense	$ 227,128	$ 50,087
Research & development expense	94,093	39,756
Total costs and expenses	321,221	89,843
Loss from operations	(321,221)	(89,843)
Net loss	$ (321,221)	$ (89,843)
Net loss per common share, basic and diluted	$ (0.18)	$ (0.13)
Weighted average common shares outstanding, basic and diluted	1,825,382	669,333

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

Isla Pharmaceuticals, Inc.
Statements of Stockholders' Equity

	Series A Preferred Stock		Common Stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount			
Balance at March 8, 2017 (Inception)	-	$ -	-	$ -	$ -	$ -	$ -
Issuance of Common Stock for cash	-	-	1,704,688	170	129,922	-	130,092
Net loss	-	-	-	-	-	(89,843)	(89,843)
Balance at December 31, 2017	-	-	1,704,688	170	129,922	(89,843)	40,249
Issuance of Serie A Preferred Stock for cash	125,000	12	-	-	902,167	-	902,179
Issuance of warrants in connection with Series A issuance	-	-	-	-	202,222	-	202,222
Vesting of restricted stock	-	-	231,250	24	(24)	-	-
Stock-based compensation	-	-	-	-	30,278	-	30,278
Net loss	-	-	-	-	-	(321,221)	(321,221)
Balance at December 31, 2018	125,000	$ 12	1,935,938	$ 194	$ 1,264,565	$ (411,064)	$ 853,707

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

Isla Pharmaceuticals, Inc.
Statements of Cash Flows

	For the Year Ended December 31, 2018	For the Period from Inception to December 31, 2018
Cash flows from operating activities:		
Net loss	$ (321,221)	$ (89,843)
Shared based compensation	30,278	—
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Changes in assets and liabilities:		
Prepaid expenses	6,700	(7,000)
Accounts payable and accrued expenses	1,036	3,696
Net cash flows used in operating activities	(283,207)	(93,147)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	130,092
Proceeds from issuance of Series A preferred stock, net of offering costs	1,113,901	(9,500)
Net cash flows provided by financing activities	1,113,901	120,592
Net increase in cash	830,694	27,445
Cash at beginning of period	27,445	—
Cash at end of period	$ 858,139	$ 27,445

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

1. Business

Isla Pharmaceuticals, Inc. (“Isla Pharmaceuticals”, the “Company”, “we”, “our” or “us”) is a pharmaceutical company focused on the rapid development of treatments for tropical infectious diseases, such as those caused by Dengue, Chikungunya and other viruses. Millions of people are afflicted each year by these viruses, for which no specific therapies exist. The Company was incorporated in Delaware on March 8, 2017 with the initial capitalization occurring on the same date.

Our corporate headquarters and all of our assets are located in San Juan, Puerto Rico.

2. Liquidity and Going Concern

Our financial statements have been presented on the basis that we are a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Since March 8, 2017, the date of our inception, we have experienced operating losses and negative operating cash flows, and have financed our recent working capital requirements through the issuance of equity securities. For the year ended December 31, 2018 and for the period from inception to December 31, 2017, we have reported net losses of $321,221 and $89,843 respectively. As of December 31, 2018 our working capital was $853,707, our accumulated deficit was $411,064, and we had negative cash flows from operations of $283,207.

Despite our current cash balance of $858,139, we will require substantial funds to execute on our operating plan and corporate objectives and to develop and grow our infrastructure and corporate organization. We do not expect to generate any revenue from the sale of products under development in the next year.

Our ability to meet our current and projected obligations depends on our ability to control expenses and will require that we seek additional capital through private and/or public financing sources. There can be no assurances that we will be able to raise additional capital to operate our business. Any such failure would have a material adverse impact on our liquidity and financial condition and could force us to curtail or discontinue operations entirely and could require us to file for protection under bankruptcy laws. These conditions raise substantial doubt as to our ability to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Use of Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain 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 expenses during the reporting period. We believe that judgement is involved in determining the valuation of certain accruals. We evaluate our estimates and assumptions as facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates and assumptions, and those differences could be material to the condensed financial statements.

Cash

Cash is deposited at one area bank and may exceed federally insured limits at times. We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Research and Development

The Company expenses research and development costs as incurred. Research and development costs include rent related to the laboratory space, lab supplies, consulting services and the costs associated with the filing and maintenance or our patent portfolio.

Loss Per Share

Basic loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per common share is based upon the weighted-average common shares outstanding during the period plus the dilutive effects of additional weighted-average common equivalent shares outstanding during the period. Common equivalent shares result from the assumed exercise of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. In addition, the numerator is adjusted for any changes in income (loss) that would result from the assumed conversion of potential shares. Potentially dilutive shares, which were excluded from the diluted loss per share calculations because the effect would be antidilutive, or the option or warrant exercise prices were greater than or equal to the average market price of the common shares, were 856,500 for the year ended December 31, 2018, including 500,000 common equivalents from the Series A Preferred Stock, 250,000 from the related warrants and 106,500 from stock options. There were no such dilutive shares excluded from the diluted loss per share calculation for the period from inception (March 8, 2017) to December 31, 2017.

Income Taxes

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, effective as of January 1, 2018; limitation of the tax deduction for interest expense; limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, in each case, for losses arising in taxable years beginning after December 31, 2017 (though any such tax losses may be carried forward indefinitely). There has been no impact on the accompanying financial statements related to the TCJA.

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts 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 the temporary differences are expected to be recovered or settled. We evaluate the realizability of our deferred tax assets and establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized. As of December 31, 2018, we have net operating loss carry forwards of approximately $411,064. The Company has provided a full valuation allowance as of December 31, 2018 and 2017.

We account for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. We evaluate this tax position on a quarterly basis. We also accrue for potential interest and penalties, if applicable, related to unrecognized tax benefits in income tax expense.

Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the estimated fair value of the award and is recognized as an expense over the requisite service period. The valuation of employee stock options is an inherently subjective process, since market values are generally not available for long-term, non-transferable employee stock options.
Share based compensation for stock and stock-based awards issued to non-employees in which services are performed in exchange for the Company's common stock or other equity instruments is accounted for using the fair value method prescribed by FASB ASC 505-50, *Equity-Based Payment to Non-Employees,* and is recorded on the basis of the fair value of the service received or the fair value of the equity instruments issued, whichever is more readily measurable at the date of issuance.

Accordingly, the Black-Scholes option pricing model is utilized to derive an estimated fair value. The Black-Scholes pricing model requires the consideration of the following six variables for purposes of estimating fair value:

- the stock option exercise price;
- the expected term of the option;
- the grant date price of our common stock, which is issuable upon exercise of the option;
- the expected volatility of our common stock;
- the expected dividends on our common stock (we do not anticipate paying dividends in the foreseeable future); and
- the risk free interest rate for the expected option term.

<u>Expected Dividends.</u> We have never declared or paid any cash dividends on any of our capital stock and do not expect to do so in the foreseeable future. Accordingly, we use an expected dividend yield of zero to calculate the grant-date fair value of a stock option.

<u>Expected Volatility.</u> The expected volatility is a measure of the amount by which our stock price is expected to fluctuate during the expected term of options granted. Due to limited trading activity in our common stock, we determine our expected volatility solely based upon the historical volatility of four publicly traded companies in a biotechnology index.

<u>Risk-Free Interest Rate.</u> The risk-free interest rate is the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equal to the option's expected term on the grant date.

<u>Expected Term.</u> For option grants subsequent to the adoption of the fair value recognition provisions of the accounting standards, the expected life of stock options granted is based on the actual vesting date and the end of the contractual term.

<u>Stock Option Exercise Price and Grant Date Price of Common Stock.</u> The estimated fair value of the common stock on date of grant.

In accordance with the guidance for stock-based compensation, the Company will account for forfeitures as they occur.
Fair Value of Financial Instruments

We follow Accounting Standards Codification 820-10 ("ASC 820-10"), *"Fair Value Measurements and Disclosures,"* for fair value measurements. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The hierarchy established under ASC 820-10 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date.

Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the data market participants would use in pricing the asset or liability. Level 3 includes investments that are supported by little or no market activity.

As of December 31, 2018, we had no assets or liabilities required to be carried at fair value. The carrying amounts of our cash, accounts payable and accrued expenses approximate their fair values due to their short-term maturities as of December 31, 2018.

Recent Accounting Pronouncements

We have evaluated all issued but not yet effective accounting pronouncements and determined that, other than the following, they are either immaterial or not relevant to us.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company will be required to adopt ASU 2014-09 as of January 1, 2019, fiscal year 2019. The Company is currently evaluating the impact of ASU 2014-09 on the Company's financial condition, results of operations and cash flows.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) “ASU 2016 - 02 Leases” intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment and manufacturing equipment. The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance lease or an operating lease. However, unlike current U.S. GAAP - which requires only capital leases to be recognized on the balance sheet - the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee - also known as lessor accounting - will remain largely unchanged from current U.S. GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. It is not anticipated that this updated guidance will have a material impact on our results of operations, cash flows or financial condition.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), Improvements to Non-employee Share-Based Payment Accounting, which aligned certain aspects of share-based payments accounting between employees and nonemployees. Specifically, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the goods have been delivered or the services have been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. Additionally, an entity considers the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions. ASU 2018-07 is effective for the Company beginning January 1, 2019. The Company is still evaluating the impact of the adoption of this standard.

4. License Rights

On May 30, 2017, we acquired an exclusive worldwide license (excluding Israel, Russia and Canada) from 60P Australia Pty. Ltd (“60P”), for intellectual property covering the use of our lead compound Isla 101, for the treatment of Dengue and other viruses.

We will be required to make payments to 60P upon the achievement of certain development and marketing milestones and will also be required to pay royalties upon the sales of the product. No liability for the milestone payments has been recorded at December 31, 2018 and 2017. We will continue to review the milestones and will accrue for them when the probability of achievement rises to the appropriate level.

5. Stockholders’ Equity

Our authorized capital stock consists of 10,000,000 shares of common stock, par value $0.0001 per share and 2,000,000 shares of blank check preferred stock, par value $0.0001. We are authorized to issue up to 125,000 shares of Series A Preferred Stock, stated value $9.00 per share and up to 50,000 shares of Series B Preferred Stock, stated value $9.00 per share. As of December 31, 2018, there were 1,935,938 shares of common stock outstanding and 125,000 shares of Series A Preferred Stock outstanding.

Preferred Stock

Our board of directors, without further stockholder approval, may issue preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Our board of directors may authorize the issuance of preferred stock, which ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation. In addition, our board of directors can fix limitations and restrictions, if any, upon the payment of dividends on our common stock to be effective while any shares of preferred stock are outstanding.

Series A Preferred Stock

The holders of shares of Series A Preferred Stock shall be entitled to receive dividends, out of any assets legally available, in preference to any declaration or payment of any dividend on Common Stock of the Corporation. Dividends shall be paid only if, as and when declared, by the Board of Directors of the Corporation (the “Board of Directors”); provided, however, that upon a Liquidation Event or at redemption, the holders of the Series A Preferred shall receive all accrued but unpaid dividends which have been declared by the Board of Directors. Dividends declared on the Series A Preferred Stock may be payable in cash; provided, however, that no cash dividends on the Common Stock may be declared unless all prior dividends paid to the Series A Preferred Stock holders are in cash.

The holders of shares of Series A Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which the shares of Series A Preferred Stock held by such holder could be converted as of the record date and shall also be entitled to a liquidation preference equal to $9.00 per share prior to any distributions to holders of Common Stock.

Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share into Common Stock. The number of shares of Common Stock to which a holder of Series A Preferred Stock shall be entitled upon conversion shall be determined by dividing the Liquidation Preference of $9.00 by the Conversion Price of $2.25 per share.

Each share of Series A Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Rate for such share (i) immediately prior to the closing of a firm commitment underwritten initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended (the “Securities Act”) or analogous statute and/or regulations in jurisdiction of offering, covering the public offer and sale of $5,000,000 or more of the Corporation’s Common Stock in the aggregate or (ii) upon the vote of holders holding at least 2/3 of the then outstanding shares of Series A Preferred Stock.

Common Stock

Each holder of common stock is entitled to one vote for each share owned on all matters voted upon by stockholders. In the event we liquidate, dissolve or wind-up our operations, the holders of the common stock are entitled to share equally and ratably in our assets, if any, remaining after the payment of all our debts and liabilities and the liquidation preference of any shares of preferred stock that may then be outstanding. The common stock has no preemptive rights, no cumulative voting rights, and no redemption, sinking fund, or conversion provisions.

Holders of common stock are entitled to receive dividends, if and when declared by the board of directors, out of funds legally available for such purpose, subject to the dividend and liquidation rights of any preferred stock that may then be outstanding.

On March 8, 2017, we issued 310,000 shares of restricted common stock to Mr. David Foster, our President and a member of our Board of Directors. The shares were purchased for par value of $.0001 each for total consideration of $31. Such shares are subject to a Restricted Stock Purchase Agreement, whereby 77,500 shares are unrestricted upon issuance and the remaining 232,500 shares will vest and become unrestricted in equal installments over 36 months. As of December 31, 2018 and 2017, 213,125 and 135,625 shares, respectively, were unrestricted and included in the common stock outstanding.

On March 8, 2017, we issued 615,000 shares of restricted common stock to Mr. William Garner, a member of our Board of Directors. The shares were purchased for par value of $.0001 each for total consideration of $61.50. Such shares are subject to a Restricted Stock Purchase Agreement, whereby 153,750 shares are unrestricted upon issuance and the remaining 461,250 shares will vest and become unrestricted in equal installments over 36 months. As of December 31, 2018 and 2017, 422,813 and 269,063 shares respectively, were unrestricted and included in the common stock outstanding.

On April 27, 2017, we issued 150,000 shares of common stock to Mr. Garner. The shares were purchased for $0.10 each for total consideration of $15,000.

On April 27, 2017, we issued 150,000 shares of common stock to Mr. Albert Hansen, a member of our Board of Directors. The shares were purchased for $0.10 each for total consideration of $15,000.

On November 30, 2017, we issued 500,000 shares of common stock to Mr. Garner. The shares were purchased for $0.10 each for total consideration of $50,000.

On November 30, 2017, we issued 500,000 shares of common stock to Mr. Hansen. The shares were purchased for $0.10 each for total consideration of $50,000.

On July 31, 2017, we entered into a convertible loan agreement (the “Garner Loan”) with Mr. Garner. The Garner Loan was paid in two tranches of $25,000. The loan was to mature on December 31, 2017 and bore interest at the rate of 5% per annum. Mr. Garner converted the note into 500,000 shares of common stock on November 30, 2017 and forgave the nominal interest accrued through that date.

On July 31, 2017, we entered into a convertible loan agreement (the “Hansen Loan”) with Mr. Hansen. The Hansen Loan was paid in two tranches of $25,000. The loan was to mature on December 31, 2017 and bore interest at the rate of 5% per annum. Mr. Hansen converted the note into 500,000 shares of common stock on November 30, 2017 and forgave the nominal interest accrued through that date.

Series A Preferred Stock Offering

In March 2018, we completed the private placement of 125,000 units with each unit consisting of one share of our $0.0001 par value Series A Preferred stock and two five-year warrants to purchase the Company’s common stock with an exercise price of $4.50 per share to accredited investors, at a price of $9.00 per unit resulting in aggregate gross proceeds of $1,125,000. The offering was conducted pursuant to an exemption from registration under Regulation D of the Securities Act of 1933, as amended (the “Securities Act”). There is no stated dividend rate or dividends declared and accrued at December 31, 2018 and 2017. We incurred expenses related to this placement of $20,600 for net proceeds of $1,104,400. Of the expenses incurred in connection with the offering, we paid $9,500 in 2017 and have recorded that amount as deferred offering costs on the accompanying balance sheet at December 31, 2017.

Warrants

In connection with the Series A Preferred Stock Offering in March of 2018, we issued 250,000 fully-vested five-year warrants to purchase shares of our common stock with an exercise price of $4.50. We determined that the warrants had an initial fair value of $202,222 which we recorded as an increase to additional paid-in capital. The Company estimated the fair value of this warrant using the Black-Scholes option-pricing model, based on the following assumptions: the recent cash offering price of $2.25 as the estimated fair value of the underlying common stock at the valuation measurement date; no dividend yield for all of the years; expected volatility of 68.0%; risk-free interest rate of 2.47% and an expected life of 4.0 years.

As of December 31, 2018 250,000 warrants were fully vested and outstanding all with an exercise price of $4.50 There were no warrants vested or outstanding at December 31, 2017.

6. Share-Based Compensation

The Company has one share-based compensation plan, the 2018 Equity Incentive Plan (the "2018 Plan").

The 2018 Plan provides for the granting of incentive stock options, non-qualified stock options, stock appreciation rights, and restricted stock and other stock awards. Options granted and shares underlying stock awards issued under the 2018 Plan vest over periods determined by the compensation committee of the board of directors.

Non-qualified stock options were granted under the 2018 Plan through December 31, 2018. All non-qualified stock options were issued to non-employees. The options are exercisable for a period not to exceed five years and vesting for the options range from being 22% to 31% immediately vested with the remainder vesting over a three year period.

As of December 31, 2018, a total of 150,000 shares were authorized for grants under the 2018 Plan, of which 43,500 were available for future grant. As of December 31, 2018, a total of 106,500 stock options were outstanding under the 2018 Plan. As of January 1, 2019, the authorized options under the 2018 Plan increased by 96,796 pursuant to the evergreen provision contained in the 2018 Plan.

The following table summarizes the Company's stock plan activity under the 2018 Plan from January 1, 2018 through December 31, 2018:

	Available for Grant	Outstanding Options	Exercise Price
Balance at January 1, 2018	-	-	$ -
Options authorized under the 2018 plan	150,000	-	-
Options granted	(106,500)	106,500	2.25
Options forfeited	-	-	-
Balance at December 31, 2018	43,500	106,500	$ 2.25

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 505, *Equity*, using a fair-value approach. The compensation expense recorded was based on the fair value of the equity instruments being issued. The Company has not paid and does not anticipate paying cash dividends; therefore the expected dividend rate is assumed to be 0%. Stock price volatility is based on the volatility of four publicly traded companies in a biotechnology index. The expected life is the length of time options are expected to be outstanding before being exercised. The Company estimates expected life using the "simplified method" as allowed under the provision of the Securities and Exchange Commission's Staff Accounting Bulletin No. 107, *Share-Based Payment*. The simplified method uses an average of the option vesting period and the option's original contractual term. The Company uses the implied yield of U. S. Treasury instruments with terms consistent with the expected life of options as the risk-free interest rate. In accordance with FASB ASC 718 the company recognizes forfeitures as they occur.

The fair value of stock options granted to non-employee consultants was estimated using a Black-Scholes option-pricing model and the following weighted-average assumptions:

	2018
Estimated dividend yield	–
Expected stock price volatility	68.00%
Expected life of option (in years)	4.00
Risk-free interest rate	2.86%

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 505, *Equity*, using a fair-value approach. The equity instruments, consisting of stock options granted to consultants, are valued using the Black-Scholes valuation model. Measurement of share-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the vesting period.

The weighted average grant-date fair value of options granted during the year ended December 31, 2018 was $1.25. There were no stock options exercised during the year ended December 31, 2018.

The following summarizes certain information about fully vested stock options and stock options expected to vest as of December 31, 2018:

	Number of Options	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding	106,500	4.92	$2.25	$ -
Exercisable	24,223	4.92	$2.25	$ -

The Company recognized stock option compensation expense for non-employee consultants as follows:

	Year Ended December 31, 2018
Research and development	$ 16,667
General and administration	13,611
Total stock-based compensation to non-employee consultants	$ 30,278

As of December 31, 2018, there was $102,846 of total unrecognized compensation cost for non-vested share-based stock option compensation arrangements which is expected to be recognized over a weighted average period of 3.0 years.

7. Subsequent Events

We have evaluated for consideration of recognition or disclosure, subsequent events through June 7, 2019, which is the date the financial statements were available to be issued.