

Biostar Pharmaceuticals, Inc.
Form 10-Q
November 20, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: September 30, 2017

Or

Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

Commission File Number: 001-34708

BIOSTAR PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation of origination)

20-8747899

(I.R.S. Employer Identification Number)

No. 588 Shiji Xi Avenue

Xianyang, Shaanxi Province

712046

People's Republic of China

(Address of principal executive offices) (Zip code)

011-86-29-33686638

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer 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

As of November 20, 2017, the Company had 2,637,188 shares issued and outstanding.

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	F-1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	3
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	10
Item 4. <u>Controls and Procedures</u>	10
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	11
Item 1A. <u>Risk Factors</u>	12
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	13
Item 3. <u>Defaults Upon Senior Securities</u>	13
Item 4. <u>Mine Safety Disclosures</u>	13
Item 5. <u>Other Information</u>	13
Item 6. <u>Exhibits</u>	13
Signatures	14

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

BIOSTAR PHARMACEUTICALS, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Contents

	Page(s)
Financial Statements	
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	F-2
<u>Condensed Consolidated Statements of Operations (unaudited)</u>	F-3
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	F-4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	F-5
F-1	

Table of Contents

BIOSTAR PHARMACEUTICALS, INC
 CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$364,973	\$173,290
Accounts receivable, net	-	6,741,454
Inventories	170,555	166,564
Deposits and other receivables	335,183	171,062
Value-added tax recoverable	51,526	41,462
Income tax recoverable	74,402	71,292
Total Current Assets	996,639	7,365,124
Non-current Assets		
Deposits	26,579,097	21,148,284
Deferred tax assets, net	2,625,001	2,515,272
Property and equipment, net	5,845,985	5,866,612
Intangible assets, net	5,380,544	5,607,146
Total Non-Current Assets	40,430,627	35,137,314
Total Assets	\$41,427,266	\$42,502,438
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	\$2,686,200	\$2,842,142
Short-term bank loans	2,427,098	2,325,643
Warrants liability	166,145	455,476
Total Current Liabilities	5,279,443	5,623,261
Commitment and contingencies		
Stockholders' Equity		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 2,637,188 shares issued and outstanding as of September 30, 2017 and December 31, 2016	2,637	2,637
Additional paid-in capital	31,382,467	31,382,467
Statutory reserve	7,354,413	7,354,413
Accumulated deficit	(4,994,713)	(2,540,991)
Accumulated other comprehensive income	2,403,019	680,651
Total Stockholders' Equity	36,147,823	36,879,177
Total Liabilities and Stockholders' Equity	\$41,427,266	\$42,502,438

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

F-2

Table of Contents

BIOSTAR PHARMACEUTICALS, INC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales, net	\$-	\$644,933	\$-	\$2,066,698
Cost of sales	-	336,870	-	1,114,777
Gross profit	-	308,063	-	951,921
Operating expenses:				
Selling expenses	14,668	290,924	300,352	904,037
General and administrative expenses	558,713	488,136	2,840,865	1,717,992
Provision for doubtful debt	-	1,491,002	-	7,820,713
Total operating expenses	573,381	2,270,062	3,141,217	10,442,742
Loss from operations	(573,381)	(1,961,999)	(3,141,217)	(9,490,821)
Other income (expense):				
Interest income	13	-	1,321	-
Interest expense	(47,209)	(105,401)	(138,831)	(143,716)
Fair value adjustment on warrants	12,925	2,151	289,331	46,499
Other income	482,466	501,578	535,674	501,578
Total other income, net	448,195	398,328	687,495	404,361
Loss before income taxes	(125,186)	(1,563,671)	(2,453,722)	(9,086,460)
Income tax expenses	-	-	-	-
Net loss	\$(125,186)	\$(1,563,671)	\$(2,453,722)	\$(9,086,460)
Foreign currency translation adjustment	786,669	(174,104)	1,722,368	(1,152,031)
Comprehensive loss	\$661,483	\$(1,737,775)	\$(731,354)	\$(10,238,491)
Net loss per share				
Basic	\$(0.05)	\$(0.71)	\$(0.93)	\$(4.11)
Diluted	\$(0.05)	\$(0.71)	\$(0.93)	\$(4.11)
Weighted average number of common shares outstanding				
Basic	2,637,188	2,210,913	2,637,188	2,210,913
Diluted	2,637,188	2,210,913	2,637,188	2,210,913

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

Table of Contents

BIOSTAR PHARMACEUTICALS, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss	\$(2,453,722)	\$(9,086,460)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	879,845	913,394
Provision for doubtful accounts	-	7,820,713
Fair value adjustment on warrants	(289,331)	(46,499)
Changes in operating assets and liabilities:		
Accounts receivable	6,879,240	1,605,000
Inventories	3,203	(214,017)
Deposits and other receivables	(153,182)	-
Accounts payable and accrued expenses	(272,433)	52,903
Value-added tax payable	(8,073)	(133,977)
Net cash provided by operating activities	4,585,547	911,057
CASH FLOWS USED IN INVESTING ACTIVITIES		
Deposit paid to intended acquisition	(4,408,070)	-
Net cash used in investing activities	(4,408,070)	-
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of short-term bank loans	-	(281,016)
Net cash used in financing activities	-	(281,016)
Effect of exchange rate changes on cash and cash equivalents	14,206	(9,580)
Net increase in cash and cash equivalents	191,683	620,461
Cash and cash equivalents, beginning balance	173,290	38,898
Cash and cash equivalents, ending balance	\$364,973	\$659,359
SUPPLEMENTAL DISCLOSURES:		
Interest received	\$1,321	\$-
Interest paid	\$-	\$(143,716)

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

Table of Contents

BIOSTAR PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – ORGANIZATION AND NATURE OF OPERATIONS

Biostar Pharmaceuticals, Inc. (“Biostar” or the “Company”) was incorporated in the State of Maryland on March 27, 2007. On June 15, 2007, Biostar formed Shaanxi Biostar Biotech Ltd. (“Shaanxi Biostar”). Shaanxi Biostar is a wholly owned subsidiary of Biostar and a limited liability company organized under the laws of the People’s Republic of China (the “PRC”).

On November 1, 2007, Shaanxi Biostar entered into a series of agreements including a Management Entrustment Agreement, a Shareholders’ Voting Proxy Agreement, an Exclusive Option Agreement and a Share Pledge Agreement (collectively the “Agreements”) with Shaanxi Aoxing Pharmaceutical Co., Ltd. (“Aoxing Pharmaceutical”) and its registered owners (the “Transaction”). Aoxing Pharmaceutical is a corporation formed under the laws of the PRC. According to these Agreements, Shaanxi Biostar acquired management control of Aoxing Pharmaceutical whereby Shaanxi Biostar is entitled to all of the net profits of Aoxing Pharmaceutical as a management fee and is obligated to fund Aoxing Pharmaceutical’s operations and pay all of the debts. In exchange for entering into the Agreements, on November 1, 2007, the Company issued 19,832,311 shares (representing 944,396 shares, after the one-for-three reverse split of the issued and outstanding common stock of the Company effective on April 3, 2012 and the one-for-seven reverse split of the issued and outstanding common stock of the Company effective on February 4, 2016) of its common stock to Aoxing Pharmaceutical’s registered owners, representing approximately 90% of the Company’s common stock outstanding immediately after the Transaction.

Following the change in registered owners of Aoxing Pharmaceutical on July 9, 2010, a set of new Agreements had been entered into with all the then existing registered owners of Aoxing Pharmaceutical on the same day.

The Agreements dated July 9, 2010 were merely replacements of the Agreements dated November 1, 2007 and therefore, there was no significant change in the contractual terms between the Agreements dated July 9, 2010 and November 1, 2007. The then existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on July 9, 2010. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on May 24, 2013, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 24, 2013.

The Agreements dated May 24, 2013 are merely replacements of the Agreements dated July 9, 2010 and therefore, there is no significant change in the contractual terms between the Agreements dated May 24, 2013, July 9, 2010 and November 1, 2007. The existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on May 23, 2013. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on October 29, 2014, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on October 29, 2014.

The Agreements dated October 29, 2014 are merely replacements of the Agreements dated May 24, 2013 and therefore, there is no significant change in the contractual terms between the Agreements dated October 29, 2014, May 24, 2013, July 9, 2010 and November 1, 2007. The existing registered owners of Aoxing Pharmaceutical,

Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on October 29, 2014. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on May 11, 2015, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 11, 2015.

The Agreements dated May 11, 2015 are merely replacements of the Agreements dated October 29, 2014 and therefore, there is no significant change in the contractual terms between the Agreements dated May 11, 2015, October 29, 2014, May 24, 2013, July 9, 2010 and November 1, 2007. The existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on May 11, 2015. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

F-5

Table of Contents

The Agreements provide Shaanxi Biostar with control over Aoxing Pharmaceutical as defined by Accounting Standards Codification (“ASC”) 810, Consolidation, which requires Shaanxi Biostar to consolidate the financial statements of Aoxing Pharmaceutical and ultimately consolidate with its parent company, Biostar (see Note 2 “Principles of Consolidation”).

In October 2011, Aoxing Pharmaceutical entered into and completed a Share Transfer Agreement (the “Weinan Share Transfer Agreement”) to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. (“Shaanxi Weinan”) from the holders of 100% of equity interests in Shaanxi Weinan. Therefore, Shaanxi Weinan became a wholly owned subsidiary of Aoxing Pharmaceutical. Shaanxi Weinan is engaged in manufacturing of drugs and health products.

In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the “Weinan Supplemental Agreement”) with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which re-registration has been completed in April 2013. The aggregate purchase price was approximately \$10.2 million, consisting of approximately \$8.8 million in cash and 228,938 shares (after the one-for-seven reverse split of the issued and outstanding common stock of the Company effective on February 4, 2016) of the Company’s common stock, valued at approximately \$1.4 million.

The Company, through its subsidiary and the Agreements with Aoxing Pharmaceutical, is engaged in the business of developing, manufacturing and marketing over-the-counter (“OTC”) and prescription pharmaceutical products in the PRC.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Liquidity and Going Concern

As of September 30, 2017, we had \$364,973 of cash and negative working capital of \$4,282,804. For the nine months ended September 30, 2017, we incurred a net loss of \$2,453,722 and net cash provided by operating activities of \$4,585,547. We generated cash flow from operations even though we incurred a net loss as (1) we collected outstanding receivables from our trade debtors; and (2) our net loss includes certain non-cash expenses that are added back to our cash flow from operations as shown on our condensed consolidated statements of cash flows.

We had experienced no sales volume of all Aoxing Pharmaceutical Products due to the temporarily suspension of production to conduct maintenance of its production lines to renew its GMP certificates from 2015. In addition, for the upgrade of the production facilities, the operation of Shaanxi Weinan was temporarily suspended since December 2016. There is no assurance that the production lines at Aoxing Pharmaceutical will resume and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the production levels as anticipated. Our inability to regain our production levels as anticipated may have material adverse effects on our business, operations and financial performance, and the Company may become insolvent. In addition, the Company already violated its financial covenants included in its short-term bank loans as discussed in Note 5 “Short-term Bank Loans”. Currently, the Company could still rely on the collection of outstanding debtors and potential fund raising to meet its obligations.

During 2015, as a result of outstanding personal debts of the Chief Executive Officer, Mr. Ronghua Wang, one of the Company's bank accounts was frozen, title of three residential properties of the Company had been transferred and resulted in a loss of approximately \$0.5 million (RMB 3.3 million), and certain buildings and land use rights were seized by the court but not transferred to the lender. The seized buildings and land use rights have been included in property and equipment and intangible assets respectively in the Company's Consolidated Balance Sheets at September 30, 2017 and December 31, 2016. In February 2016, the court attempted to force a sale of the Company's land use rights and buildings. As of September 30, 2016, Mr. Ronghua Wang had fully repaid the outstanding balance of the loan, thus the creditor petitioned the court to terminate the auction sale. Mr. Ronghua Wang has repaid approximately \$0.5 million (RMB 3.3 million) to the Company to make good the loss recognized in 2015. Such cash collection is included in "other income" for the nine months ended September 30, 2016 and for the year ended December 31, 2016. The Company has disclosed the above legal proceedings related to the Company to the best of its knowledge. Under the current PRC legal practice, there is also no assurance that there will be no other cases that would put the Company's properties at risk.

F-6

Table of Contents

Although the Company has net assets of US\$36,147,823 as of September 30, 2017, the factors discussed above raise substantial doubt as to our ability to continue as a going concern. Based on our current plans for the next twelve months from the issuance of the financial statements, that is through November 2018, we anticipate that the operation of Aoxing Pharmaceutical and Shaanxi Weinan will be resumed before the end of 2017 and the sales of their pharmaceutical products will be the primary organic source of funds for future operating activities. In addition, we expect that the acquisition and production of the new drug permit will be completed by the end of 2017, together with the launching of the new product “Easy Breathing”, it will bring additional revenue and generate profits in the coming future. Currently, the Company is able to collect outstanding accounts and other receivables to meet its debt obligations; we may also try to procure bank borrowing, if available, as well as capital raises through public or private offerings of its shares and warrants. There is no assurance that we will find such funding on acceptable terms, if at all. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our revenues and operations and the value of our common stock and common stock equivalents would be materially negatively impacted and we may cease our operations. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

We anticipate that the new topical health product called “Easy Breathing” will be launched for sale in 2018. The product was developed by the Company’s research and development team over the past 3 years. The product is designed to have effects of relieving stuffy nose, inhibiting nasal bacteria and viruses, and mitigating effects on the inflammation of nasal mucosa. It will be manufactured, distributed and sold in China. We expect to sell approximately 400,000 units within the next 2 years, which is expected to yield approximately \$7.2 million (RMB 50 million) and improve our cash flow position. In addition, the application of the renewal of Aoxing Pharmaceutical’s GMP certificate has been preliminarily approved and publicly announced by the local government in October 2017, subject to the final approval to be granted before the end of 2017.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company, its subsidiary and variable interest entity (“VIE”) for which the Company is the primary beneficiary. All inter-company accounts and transactions have been eliminated in those condensed consolidated financial statements. The Company has adopted ASC 810, Consolidation which requires a VIE to be consolidated by a company if that company has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and either (1) the obligation to absorb losses of the VIE or (2) the right to receive benefits from the VIE”.

In determining Aoxing Pharmaceutical is a VIE of Shaanxi Biostar, the Company considered the following indicators, among others:

Shaanxi Biostar has the full right to control and administer the financial affairs and daily operation of Aoxing Pharmaceutical and has the right to manage and control all assets of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical as a group have no right to make any decision about Aoxing Pharmaceutical’s activities without the consent of Shaanxi Biostar.

Shaanxi Biostar is assigned all voting rights of Aoxing Pharmaceutical and has the right to appoint all directors and senior management personnel of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical possess no substantive voting rights.

Shaanxi Biostar is committed to provide financial support if Aoxing Pharmaceutical requires additional funds to maintain its operations and to repay its debts.

Shaanxi Biostar is entitled to a management fee equal to Aoxing Pharmaceutical's net profits and is obligated to assume all operation risks and bear all losses of Aoxing Pharmaceutical. Therefore, Shaanxi Biostar is the primary beneficiary of Aoxing Pharmaceutical.

Additional capital provided to Aoxing Pharmaceutical by the Company was recorded as an interest-free loan to Aoxing Pharmaceutical. There was no written note to this loan, the loan was not interest bearing, and was eliminated during consolidation. Under the terms of the Agreements, the registered owners of Aoxing Pharmaceutical are required to transfer their ownership of Aoxing Pharmaceutical to the Company's subsidiary in the PRC when permitted by the PRC laws and regulations or to designees of the Company at any time when the Company considers it is necessary to acquire Aoxing Pharmaceutical. In addition, the registered owners of Aoxing Pharmaceutical have pledged their shares in Aoxing Pharmaceutical as collateral to secure these Agreements.

F-7

Table of Contents

Unaudited Interim Financial Information

These unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission that permit reduced disclosure for interim periods. Therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

The consolidated balance sheets and certain comparative information as of December 31, 2016 are derived from the audited consolidated financial statements and related notes for the year ended December 31, 2016 (“2016 Annual Financial Statements”), included in the Company’s 2016 Annual Report on Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2016 Annual Financial Statements.

Foreign Currency

The Company’s reporting currency is the U.S. dollar (“\$”). The Company’s operations in the PRC use the Chinese Yuan Renminbi (“RMB”) as its functional currency. The financial statements of the subsidiary and VIEs are translated into U.S. dollars in accordance with ASC 830, Foreign Currency Matters. According to the topic, all assets and liabilities were translated at the current exchange rate, stockholders’ equity are translated at the historical rates and income statement items are translated at the average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC 220, Comprehensive Income. Foreign exchange transaction gains and losses are reflected in the statement of operations. For the period ended September 30, 2017 and 2016, the Company recognized foreign translation under other comprehensive income of an income for \$1,722,368 and a loss for \$1,152,031, respectively.

Fair Value of Financial Instruments

ASC 825, Financial Instruments, requires that the Company discloses estimated fair values of financial instruments. The carrying amounts reported in the balance sheets for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

The Company applies the provisions of ASC 820-10, Fair Value Measurements and Disclosures. ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. For certain financial instruments, including cash and cash equivalents, loan receivables and short-term bank loans, the carrying amounts approximate fair value due to their relatively short maturities. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, Distinguishing Liabilities from Equity, and ASC 815, Derivatives and Hedging. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of

operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant are valued using the Binominal Model.

The Company uses Level 3 inputs for its valuation methodology for the fair value of warrant.

The binomial lattice relies on the following Level 3 inputs: (1) expected volatility of the Company's common stock; and (2) risk free rate which is based on daily treasury yield curve rates as published by U.S. Department of the Treasury. The expected volatility of the Company's common stock is estimated from the historical volatility of daily returns in the Company's common stock price.

F-8

Table of Contents

The following tables present the estimated fair value of the following financial assets and liabilities of the Company:

At September 30, 2017:

	Carrying amount			Estimated fair value
	Level 1	Level 2	Level 3	
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	\$-	\$364,973	\$ -	\$364,973

	Carrying amount			Estimated fair value
	Level 1	Level 2	Level 3	
Financial liabilities				
Carried at (amortized) cost:				
Short-term bank loans	\$-	\$ -	\$2,427,098	\$2,427,098
Carried at fair value:				
Warrants liability	-	-	166,145	166,145
	\$-	\$ -	\$2,593,243	\$2,593,243

At December 31, 2016:

	Carrying amount			Estimated fair value
	Level 1	Level 2	Level 3	
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	\$-	\$173,290	\$ -	\$173,290

	Carrying amount			Estimated fair value
	Level 1	Level 2	Level 3	
Financial liabilities				
Carried at (amortized) cost:				
Short-term bank loans	\$-	\$ -	\$2,325,643	\$2,325,643
Carried at fair value:				
Warrants liability	-	-	455,476	455,476
	\$-	\$ -	\$2,781,119	\$2,781,119

Warrants Liability	
Value at December 31, 2016	\$455,476
Fair value adjustment of warrants during the nine months end September 30, 2017	(289,331)
Value at September 30, 2017	\$166,145

At September 30, 2017, the fair value of the warrants liability, which are recognized as level 3 financial instruments, were calculated using the binomial model that included the following inputs: stock price of the underlying asset of \$1.53, an exercise price of \$5.55 expected volatility of 124.95%, risk free rate of 1.6% and will be expired after 2.55 years. The change in fair value was recognized on the Company's statement of operations during the period ended September 30, 2017.

F-9

Table of Contents

In accordance with ASC-820-10-50-2(g), the Company has performed a sensitivity analysis of the outstanding warrants of the Company which are classified as level 3 financial instruments. The Company recalculated the value of warrants by applying a +/- 5% changes to the input variables in the binomial model that vary overtime, namely, the volatility and the risk free rate. A 5.0% decrease in volatility would decrease the value of the warrants to \$13,400; a 5.0% increase in volatility would increase the value of the warrants to \$13,200. A 5.0% decrease or increase in the risk free rate would not have materially changed the value of the warrants; the value of the warrants is not strongly correlated with small changes in interest rates.

Use of Estimates

The preparation of the consolidated financial statements in conformity with the GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for certain items such as allowance for doubtful accounts, depreciation and amortization, impairment, inventory allowance, taxes and contingencies.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. As of September 30, 2017 and December 31, 2016, cash and cash equivalents were mainly denominated in RMB and were placed with banks in the PRC. These cash and cash equivalents may not be freely convertible into foreign currencies and the remittance of these funds out of the PRC may be subjected to exchange control restrictions imposed by the PRC government.

Accounts Receivable

The Company maintains allowance for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these allowances. Terms of sales vary. Allowances are recorded primarily on a specific identification basis.

As of September 30, 2017 and December 31, 2016, the allowance for doubtful debts was approximately \$1.5 million and \$3.2 million respectively. During the nine months ended September 30, 2017 and 2016, the Company collected cash of approximately US\$0.4 million and US\$nil from those debtors with full allowance previously made. Such cash collected is included in "other income" of the consolidated statements of operation and comprehensive income.

Inventories

Inventories are valued at the lower of weighted average cost or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to market value, if lower. Inventories consisted of the following:

	September 30, 2017 (unaudited)	December 31, 2016
Raw materials	\$ 170,555	\$ 164,985
Work in process	-	-

Finished goods	-	1,579
	\$ 170,555	\$ 166,564

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

Buildings	30 years
Building improvements	30 years
Machinery & equipment	5-10 years
Furniture & fixtures and vehicles	5-10 years

F-10

Table of Contents

Property and equipment consisted of the following:

	September 30, 2017 (unaudited)	December 31, 2016
Buildings	\$2,476,969	\$2,358,423
Building improvements	5,362,244	5,105,612
Machinery & equipment	1,154,076	1,098,843
Furniture & fixtures	51,698	49,224
Vehicle	108,564	103,368
Construction in progress	469,440	446,973
	\$9,622,991	\$9,162,443
Less: Accumulated depreciation	(3,777,006)	(3,295,831)
	\$5,845,985	\$5,866,612

As set out in Note 5, buildings with carrying value of approximately \$1.1 million as of September 30, 2017 and December 31, 2016 were pledged to a local bank in PRC as part of security for a short term bank loan facilities granted to the Company.

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from ten to fifty years. Management evaluates the recoverability of intangible assets periodically and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate impairment exists. The Company's land use rights will expire between 2053 and 2056. The Company's proprietary technologies include land use rights and drug approvals and permits. All of the Company's intangible assets are subject to amortization with estimated useful lives of:

Land use rights	50 years
Proprietary technologies	10 years

The components of finite-lived intangible assets are as follows:

	September 30, 2017 (unaudited)	December 31, 2016
Land use rights	\$2,948,286	\$2,863,154
Proprietary technologies	15,187,153	14,634,737
	18,135,439	17,497,891
Less: Accumulated amortization and impairment	(12,754,895)	(11,890,745)
	\$5,380,544	\$5,607,146

The estimated future amortization expenses related to intangible assets as of September 30, 2017 are as follows:

Years Ending December 31,	
2017	\$156,656
2018	626,622

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2019	626,622
2020	585,654
2021	544,685
Thereafter	2,840,305

As set out in Note 5, land use right with carrying value of approximately \$2.1 million as of September 30, 2017 and December 31, 2016 were pledged to a local bank in PRC as part of security for a short term bank loan facilities granted to the Company.

Share warrants

In accordance with ASC815, Derivatives and Hedging, share warrants with term of down-round provision are initially recognized at fair value at grant date as a derivative liability. At each reporting period date, the fair value of the share warrants will be re-measured and the fair value change will be reported as gain/loss in the Condensed Consolidated Statements of Operations and Comprehensive Income.

F-11

Table of Contents

Revenue Recognition

The Company's revenue recognition policies are in compliance with ASC 605, Revenue Recognition. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

The Company does not allow its customers to return products. The Company's customers can exchange products only if they are damaged in transportation.

Revenue reported is net of value added tax and sales discounts.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU No. 2014-09, "Revenue from Contracts with Customers", which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2019, and early adoption is permitted. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the "new revenue standards"). The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company currently expects to adopt the new revenue standards in its first quarter of 2018 utilizing the full retrospective transition method. The adoption of the new revenue standards has no impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Updates ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. ASU 2016-02 will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently reviewing the provisions of this ASU 2016-02 to determine if there will be any impact on the Company's consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326), which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 will be effective for the Company beginning in its first quarter of 2021 and early adoption is permitted. The adoption of ASU 2016-13 is not expected to have any material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The updated guidance aims to reduce diversity in presentation and classification of certain cash receipts and cash payments by addressing eight specific cash flow issues including (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of

the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies; (6) Distributions Received from Equity Method Investees; (7) Beneficial Interests in Securitization Transactions and (8) Separately Identifiable Cash Flows and Application of the Predominance Principle. Among the afore-mentioned eight addressed cash flow issues, the category of “Separately Identifiable Cash Flows and Application of the Predominance Principle” requires a reporting entity to classify cash receipts and payments that have aspects of more than one class of cash flows first by applying specific guidance in generally accepted accounting principles (GAAP) and, only in the absence of specific guidance, by determining each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, a reporting entity should classify such cash receipts and cash payments by referring to the predominant source or use of cash flows for the item. The updated guidance is effective from reporting periods beginning after December 15, 2018. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

F-12

Table of Contents

In October 2016, the FASB issued Accounting Standards Update ASU 2016-16, Income Taxes: Intra-Entity Transfer of Assets Other Than Inventory, which improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. ASU 2016-16 will be effective for fiscal years, and interim periods within those years, beginning the first quarter of 2018. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In November 2016, the FASB issued Accounting Standards Update ASU 2016-18, “Statement of Cash Flows - Restricted Cash”, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flow. ASU 2016-18 will be effective in the first quarter of fiscal 2018. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. The management of the Company considered that there is no impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In January 2017, the FASB issued Accounting Standards Update ASU 2017-04, “Intangibles - Goodwill and Other”, which eliminates step two from the annual goodwill impairment test. ASU 2017-04 will be effective in the first quarter of 2020, with early adoption permitted as of January 1, 2017, and is to be applied on a prospective basis. The adoption of the standard will not materially impact our consolidated financial statements unless step one of the annual goodwill impairment test fails. The management of the Company considered that there is no impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In February 2017, the FASB issued Accounting Standards Update ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)”, which clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In February 2017, the FASB issued Accounting Standards Update ASU 2017-06, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965)”, which improve the usefulness of the information reported to users of employee benefit plan financial statements and to provide clarity to preparers and auditors. The amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The management of the Company considered that there is no impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In March 2017, the FASB issued Accounting Standards Update ASU 2017-07, “Compensation - Retirement Benefits (Topic 715)” which improve the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In March 2017, the FASB issued Accounting Standards Update ASU Update 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)”, which relate to Premium Amortization on Purchased Callable Debt Securities.

The Board is issuing this Update to amend the amortization period for certain purchased callable debt securities held at a premium. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The management of the Company considered that there is no impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In May 2017, the FASB issued Accounting Standards Update ASU 2017-09, “Compensation—Stock Compensation (Topic 718)”, Scope of Modification Accounting. The Board is issuing this Update to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

F-13

Table of Contents

In May 2017, the FASB issued Accounting Standards Update ASU 2017-10, “Service Concession Arrangements (Topic 853)”, which determine the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force). For an entity that has not adopted Topic 606 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update generally are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)).” The management of the Company considered that there is no impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In July 2017, the FASB issued Accounting Standards Update 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II)”, which is the replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. The amendments in Part I of this Update that relate to the recognition, measurement, and earnings per share of certain freestanding equity-classified financial instruments that include down round features affect entities that present earnings per share in accordance with the guidance in Topic 260, Earnings Per Share. The amendments in Part II of this Update do not have an accounting effect. The amendments in Part I of the update are effective for fiscal year, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

As of September 30, 2017, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company’s financial statements.

Note 3 – DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	September 30, 2017	December 31, 2016
Current portion		
Deposit for research & development	\$80	\$80
Other receivables and prepaid expenses	335,103	170,982
	335,183	171,062
Non-current portion		
a) Deposit paid for intended acquisition a health product material supplier	\$12,097,077	\$11,591,407
b) Deposit paid for intended acquisition a health product manufacturer	9,617,552	4,895,749
c) Deposit paid for construction work	927,282	888,521
d) Deposit paid for intended acquisition of a mining company	2,704,937	2,591,867
e) Deposit paid for acquisition of intangible assets	1,232,249	1,180,740
Deposits	\$26,579,097	\$21,148,284

In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately \$12.3 million (RMB 82 million) in cash. The completion of the acquisition is subject to the
a. completion of a valuation report and certain conditions set out in the letter of intent being met. The deposit is fully refundable if certain conditions set out in the letter of intent are not met. The acquisition has yet to complete by September 30, 2017.

In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer
b. for an aggregate consideration of approximately \$9.6 million (RMB 64 million), the due diligence investigation and assets appraisal are finalizing and the acquisition has yet to complete by September 30, 2017.

The Company entered into a construction contract to carry out improvement work in production plant at
c. approximately \$0.9 million (RMB 6.2 million).

In November 2016, the Company agreed to pay approximately \$2.7 million (RMB 18 million) for a potential
d. acquisition of a mining company in the PRC which is principally engaged in the supply of raw materials to produce health products. The deposit is fully refundable and the acquisition has yet to complete by September 30, 2017.

In December 2016, the Company signed a purchase contract to acquire an existing drug permit from an
e. independent third party at a consideration approximately \$1.2 million (RMB 8.2 million). The deposit is fully refundable if certain conditions set out in the purchase contract are not met. The acquisition has yet to complete by September 30, 2017.

F-14

Table of ContentsNote 4 – LOAN RECEIVABLES

In November 2012, the Company advanced approximately \$8.6 million (RMB 60 million) to a third party as a commercial loan, interest bearing at 13% per annum. The principal and interest were originally to be repaid on December 31, 2013. In 2013, the term of loan was extended to June 30, 2014. In 2014, the term of loan was further extended to December 31, 2015.

No interest has been recognized for years ended December 31, 2016 and 2015 as the Company recognized full impairment loss on loan receivables since 2015 as the Company has determined the borrower is insolvent.

Note 5 – SHORT-TERM BANK LOANS

Short-term bank loans consisted of the followings:

Inception date	Details	Balance as at	
		September 30, 2017	December 31, 2016
May 26, 2014	RMB 20 million, one year term loan, annual interest rate at 7.80%. During the period ended September 30, 2017, the Company incurred interest of RMB 0.6 million. As of September 30, 2017, the Company had cumulatively repaid RMB 3.8 million and recorded accrued interest expenses of RMB 2.7 million.	\$2,427,098	\$2,325,643

The loan is secured by (i) personal guarantee executed by a major shareholder of the Company; (ii) pledge of the Company's buildings and land use right with carrying amount of approximately \$3.2 million as of September 30, 2017 (Note 2); and the guarantee executed by Shaanxi BioStar. As of September 30, 2017, the short-term bank loan was originally due on May 26, 2015 and now due on demand. The Company is in negotiations with the bank to extend the loans.

Note 6 – STOCKHOLDERS' EQUITY(a) Common stock

As of September 30, 2017 and December 31, 2016, the Company has 100,000,000 shares of common stock authorized, 2,637,188 shares issued and outstanding at par value of \$0.001 per share.

(b) Warrants

In connection with a public offering completed during the year ended December 31, 2014, the Company issued warrants to purchase an aggregate of 94,286 shares of common stock with a per share exercise price of \$22.61. Additionally, the Company issued warrants to the placement agents to purchase 14,142 shares of common stock in the aggregate on the same terms as the warrants sold in the offering. The warrants are exercisable immediately as of the date of issuance and expiring three years from the date of issuance. The exercise price of the underlying warrants has been adjusted to \$3.11 in respect of the public offering in October 2016 as mentioned in below paragraph.

In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount \$960,894, representing the full fair value of the

warrants was recognized in year 2014. As of September 30, 2017, the warrants were fully expired.

In connection with a public offering in October 2016, the Company issued warrants to purchase an aggregate of 212,500 shares of common stock with a per share exercise price of \$5.55. Additionally, the Company issued warrants to the placement agents to purchase 22,500 shares of common stock in the aggregate on the same terms as the warrants sold in the offering. The warrants are exercisable beginning six months and a day after the closing of this offering and expire three and a half years from the date of issuance.

In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount \$455,476, representing the full fair value of the warrants was recognized in year 2016. As of September 30, 2017, the carrying amount of the warrants was \$166,145, being its fair value.

For the periods ended September 30, 2017 and 2016, a fair value adjustment of \$289,331 and \$46,499 reduced the carrying value of warrants was made and recorded as a gain in the Consolidated Statements of Operations and Comprehensive Income.

F-15

Table of Contents

As of September 30, 2017 and December 31, 2016, the Company has 235,000 and 343,429 warrants outstanding, with weighted average exercise price of \$5.55 and \$4.78, respectively.

The following table summarizes the Company's outstanding warrants as of September 30, 2017 and December 31, 2016.

Expiry date	Exercise Price	Outstanding as at	
		September 30, 2017	December 31, 2016
	Nil		
	(2016:		
March 12, 2017 *	3.11)	-	108,429
April 14, 2020 *	5.55	235,000	235,000
		235,000	343,429

(c) Stock Options

The following tables summarize activities for the Company's options for the nine months ended September 30, 2017.

	Number of options	Weighted Average	
		Exercise Price (\$)	Remaining Life (years)
Balance, December 31, 2016	3,429	11.76	0.3
Expired	(3,429)	11.76	
Balance, September 30, 2017	-		
Vested and exercisable as at September 30, 2017	-	-	-

As of September 30, 2017, all options had expired.

Note 7 – INCOME TAXES

The Company was incorporated in the United States of America (“USA”) and has operations in one tax jurisdiction, i.e. the PRC. The Company generated substantially all of its net results from its operations in the PRC for the nine months ended September 30, 2017 and 2016, and has recorded income tax (benefits)/provision for the periods, as applicable.

Uncertain Tax Positions

Interest associated with unrecognized tax benefits are classified as income tax, and penalties are classified in selling, general and administrative expenses in the statements of operations. For the nine months ended September 30, 2017 and 2016, the Company had no unrecognized tax benefits and related interest and penalties expenses. Currently, the Company is not subject to examination by major tax jurisdictions.

Note 8 – STATUTORY RESERVES

The Company's subsidiaries and VIE in the PRC are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws and regulations applicable to China's foreign investment enterprises and

with China's Company Laws, an enterprise's income, after the payment of the PRC income taxes, must be allocated to the statutory surplus reserves. The proportion of allocation for reserves is 10 percent of the profit after tax to the surplus reserve fund, and the cumulative amount shall not exceed 50 percent of registered capital.

Use of the statutory reserve fund is restricted to set offs against losses, expansion of production and operation or increase in the registered capital of a company. Use of the statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of September 30, 2017 and December 31, 2016, the Company's VIE had allocated approximately \$7.4 million to these non-distributable reserve funds.

F-16

Table of ContentsNote 9 – LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share of common stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic loss per share:				
Numerator:				
Net loss used in computing basic loss per share	\$(125,186)	\$(1,563,671)	\$(2,453,722)	\$(9,086,460)
Denominator:				
Weighted average common shares outstanding	2,637,188	2,210,913	2,637,188	2,210,913
Basic loss per share	\$(0.05)	\$(0.71)	\$(0.93)	\$(4.10)
Diluted loss per share:				
Numerator:				
Net loss used in computing diluted loss per share	\$(125,186)	\$(1,563,671)	\$(2,453,722)	\$(9,086,460)
Denominator:				
Weighted average common shares outstanding	2,637,188	2,210,913	2,637,188	2,210,913
Diluted loss earnings per share	\$(0.05)	\$(0.71)	\$(0.93)	\$(4.10)

The computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The dilutive common stock equivalents are the stock warrant of 235,000 and 343,429 as at September 30, 2017 and December 31, 2016.

In accordance with ASC-260-10-50-I(c), for the periods end September 30, 2017 and 2016, the Company, using the treasury stock method, determined that both the outstanding options and warrants would have been anti-dilutive if included in the denominator of the Company's dilutive loss per share calculation. Holders of either securities would not have exercised the rights under these securities; accordingly, the options and warrants have been excluded from the loss per share calculation. Details of the attributes, such a strike price and time to maturity of the options and warrants are detailed in "Note 6 Stockholder's Equity".

Note 10 – OTHER COMPREHENSIVE INCOME

Balance of related after-tax components comprising accumulated other comprehensive income included in stockholders' equity as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
Accumulated other comprehensive income, beginning of period	\$680,651	\$3,434,348
Change in cumulative translation adjustment	1,722,368	(2,753,697)
Accumulated other comprehensive income, end of period	\$2,403,019	\$680,651

Table of ContentsNote 11 – COMMITMENTS

	Total capital payment commitment	September 30, 2017	December 31, 2016
a) Three agreements with certain research institutes to conduct clinical trials for two new and one existing drugs.	\$ 2.0	\$ 0.8	\$ 0.7
b) In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately \$12.3 million (RMB 82 million) in cash.	12.3	0.2	0.2
c) In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer for an aggregate consideration of approximately \$9.6 million (RMB 64 million), subject to the completion of a due diligence report and certain conditions set out in the letter of intent being met.	9.6	-	3.2
d) In November 2016, the Company entered into a construction contract to carry out improvement work in production plant.	1.0	0.1	0.1
Total capital payment commitment		\$ 1.1	\$ 4.2

Note 12 – SEGMENT INFORMATION

For the periods ended September 30, 2017 and 2016, all revenues of the Company represented the net sales of pharmaceutical products. No financial information by business segment is presented. Furthermore, as all revenues are derived from the PRC, no geographic information by geographical segment is presented. All tangible and intangible assets are located in the PRC.

Note 13 – RISKS CONCENTRATION

The following table illustrates the Company's risks concentration:

Sales risks concentration	Percentage of total sales during the Nine Months Ended September 30, 2017	2016
Customer		
A	- %	- %
B	- %	100 %
Total risks concentration	- %	100 %

Note 14– SUBSEQUENT EVENTS

On August 22, 2017, Biostar Pharmaceuticals, Inc. (the “Company”) received a notification letter from Nasdaq Listing Qualifications (“Nasdaq”) advising the Company that, since it had not filed its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, the Company was not in compliance with Nasdaq Listing Rule 5250(c)(1) for continued listing. The Company was required within 60 calendar days of the Nasdaq notification to submit a plan of compliance with the foregoing continued listing deficiency. The plan of compliance was submitted to Nasdaq on October 23, 2017 and was approved by Nasdaq staff on November 10, 2017. The Company is currently implementing the terms of the plan. If the Company is successful implementing the plan as approved by the Nasdaq staff, the staff may determine that the Company regained compliance with the continued listing deficiency. Otherwise, if the Company is not able to cure the deficiency, the Company’s common stock will be subject to delisting by Nasdaq. On November 15, 2017, the Company filed its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017 as planned.

Table of Contents

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

The following discussion should be read in conjunction with our financial statements and the notes thereto which appear elsewhere in this report. The results shown herein are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve uncertainties. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “predict,” “potential,” “continue,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could” these terms or other comparable terminology. All forward-looking statements included in this document are based on information available to the management on the date hereof. Actual results and the timing of events could differ materially from the forward-looking statements as a result of a number of factors. Readers should also carefully review factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission.

You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report as well as the audited financial statements, “Management’s Discussion and Analysis of Financial Condition and Results of Operation’s and Risk Factors” contained in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2016 and the Company’s subsequent public filings. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Overview

Biostar Pharmaceuticals, Inc. (“we”, the “Company” or “Biostar”) was incorporated on March 27, 2007 in the State of Maryland. Our business operation is conducted in China primarily through our variable interest entity (“VIE”), Shaanxi Aoxing Pharmaceutical Co., Ltd. (“Aoxing Pharmaceutical”), which we control through contractual arrangements between Aoxing Pharmaceutical and our wholly owned subsidiary, Shaanxi Biostar Biotech Ltd. (“Shaanxi Biostar”).

In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. (“Shaanxi Weinan”) from the holders of 100% of equity interests in Shaanxi Weinan. The aggregate purchase price is RMB 61 million (approximately \$9.55 million), in cash and payable in several tranches. Shaanxi Weinan owns drug approvals and permits for a portfolio of 86 drugs and one health product, all of which, were added to the Company’s drug portfolio following the completion of this acquisition. The Company completed this acquisition on October 25, 2011. In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the “Weinan Supplemental Agreement”) with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which registration has been completed in April 2013. The aggregate purchase price was approximately \$10.2 million, consisting of approximately \$8.8 million in cash and 1,602,564 shares of the Company’s common stock, valued at approximately \$1.4 million.

Since 2013, we improved our customer portfolio and provided subcontracting services to hospital which provides the prescription. For the years ended December 31, 2016 and 2015, the subcontracting services income from the hospital contributed \$0 and \$12.4 million, respectively, to our revenue. As discussed below, the Company had no sales on all Aoxing Pharmaceutical Products in the three and nine months ended September 30, 2017 and prior to those periods as Aoxing Pharmaceutical temporarily stopped production to conduct maintenance of its production lines in order to renew its GMP certificates.

Nasdaq Continued Listing Deficiency and Plan of Compliance

On August 22, 2017, we received a notification letter from Nasdaq Listing Qualifications (“Nasdaq”) advising the Company that, since it had not filed its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, the Company was not in compliance with Nasdaq Listing Rule 5250(c)(1) for continued listing. The Company was required within 60 calendar days of the Nasdaq notification to submit a plan of compliance with the foregoing continued listing deficiency. We submitted our plan of compliance on October 23, 2017. Upon review, the Nasdaq staff approved by Nasdaq staff on November 10, 2017 and extended the Company time until November 30, 2017 to regain its compliance with the continued listing deficiency. On November 15, 2017, the Company filed its Quarterly Report on Form 10-Q for the quarter ended on June 30, 2017 in furtherance of its plan of compliance. If the Company is successful implementing the plan as approved by the Nasdaq staff, the staff may determine that the Company regained compliance with the continued listing deficiency. Otherwise, if the Company is not able to cure the deficiency, the Company’s common stock will be subject to delisting by Nasdaq.

Table of Contents

Results of Operations

Net Sales

	Three Months Ended			% change
	September 30, 2017	2016		
Aoxing Pharmaceutical Products	%	%		
Xin Aoxing Capsule	\$- -%	\$-	-	% - %
Other Aoxing Pharmaceutical products	- -%	-	-	% - %
Subtotal	\$- -%	\$-	-	% - %
Shaanxi Weinan Products	- -%	644,933	100.0%	(100.0%)
Hospital products	- -%	-	-	% - %
Total gross sales	\$- -%	\$644,933	100.0%	(100.0%)
Sales discount	\$- -%	\$-	-	% - %
Total net sales	\$- -%	\$644,933	100.0%	(100.0%)
	Nine Months Ended			
	September 30, 2017	2016		% change
Aoxing Pharmaceutical Products	%	%		
Xin Aoxing Capsule	\$- -%	\$-	-	% - %
Other Aoxing Pharmaceutical products	- -%	-	-	% - %
Subtotal	\$- -%	\$-	-	% - %
Shaanxi Weinan Products	- -%	2,066,698	100.0%	(100.0%)
Hospital products	- -%	-	-	% - %
Total gross sales	\$- -%	\$2,066,698	100.0%	(100.0%)
Sales discount	\$- -%	\$-	-	% - %
Total net sales	\$- -%	\$2,066,698	100.0%	(100.0%)

For the three and nine months ended September 30, 2017, total net sales decreased by approximately \$0.6 million and \$2.1 million respectively or 100% compared to the same periods in 2016.

The Company had no sales on all Aoxing Pharmaceutical Products in the three and nine months ended September 30, 2017 as Aoxing Pharmaceutical temporarily stopped production to conduct maintenance of its production lines in order to renew its GMP certificates. The Company has passed GMP certification inspections and follow-up inspections and is expecting to receive the new GMP certification before the end of the year 2017 at which point it anticipates resuming its production and sales. If the Company is unable to renew its GMP certificates and resume production as intended, then its operations will be materially affected and the Company might become insolvent. In

addition, its revenues, operations and the value of our common stock and common stock equivalents would be materially negatively impacted; the Company may substantially curtail or cease its operations.

There were no sales of Shaanxi Weinan's products during the three and nine months ended September 30, 2017 due to replacing production equipment to comply with government's environmental protection requirement. We currently anticipate that the production of Shaanxi Weinan products will resume before the end of the year 2017. However, there is no assurance we will be able to resume such production as anticipated.

Table of Contents

Cost of sales

	Three Months Ended			% change
	September 30, 2017	2016		
Aoxing Pharmaceutical Products	%	%		
Xin Aoxing Capsule	\$- -%	\$- -	% -	%
Other Aoxing Pharmaceutical products	- -%	- -	% -	%
Subtotal	\$- -%	\$- -	% -	%
Shaanxi Weinan Products	- -%	336,870	100.0%	(100.0%)
Hospital products	- -%	- -	% -	%
Total cost of sales	\$- -%	\$336,870	100.0%	(100.0%)

	Nine Months Ended			% change
	September 30, 2017	2016		
Aoxing Pharmaceutical Products	%	%		
Xin Aoxing Capsule	\$- -%	\$- -	% -	%
Other Aoxing Pharmaceutical products	- -%	- -	% -	%
Subtotal	\$- -%	\$- -	% -	%
Shaanxi Weinan Products	- -%	1,114,777	100.0%	(100.0%)
Hospital products	- -%	- -	% -	%
Total cost of sales	\$- -%	\$1,114,777	100.0%	(100.0%)

For the three and nine months ended September 30, 2017, cost of sales decreased by approximately \$0.3 million and 1.1 million respectively or 100%, compared to the same periods in 2016, no costs of sales due to no production and no sales for the reasons mentioned above.

Gross Profit

	Three Months Ended September 30,			Product Gross Margin %
	2017	2016		
Aoxing Pharmaceutical Products	Product Gross Margin %	Product Gross Profit		
Xin Aoxing Capsule	\$- -%	\$- -	-	%
Other Aoxing Pharmaceutical products	- -%	- -	-	%
Sub-total	\$- -%	\$- -	-	%
Shaanxi Weinan Products	\$- -%	308,063	48.0	%

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Hospital products	-	-	%	-	-	%
Sales discount	\$-	-	%	\$-	-	%
Total gross profit	\$-	-	%	\$308,063	48.0	%

5

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	Operating	% of	Operating	% of	%
	expenses	net	expenses	net	change
		sales		sales	
Selling expenses	\$300,352	- %	\$904,037	43.7 %	(66.8 %)
General and administrative expenses	2,840,865	- %	1,717,992	83.1 %	65.4 %
Allowance for doubtful debts	-	- %	7,820,713	378.4 %	(100.0 %)
Total operating expenses	\$3,141,217	- %	\$10,442,742	505.2 %	(69.9 %)

Total operating expense decreased by approximately \$7.3 million or 69.9% for the nine months ended September 30, 2017, as compared to the same period in 2016.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall decrease was approximately \$0.6 million or 66.8%. The decrease in selling expenses was a result of the above mentioned lack of sales.

General and administrative expenses consist of personnel expenses, amortization and depreciation, professional fees and other general and administrative expenses. During the nine months ended September 30, 2017, general and administrative expenses increased approximately \$1.1 million or 65.4%. The increase in general and administrative expenses was mainly due to the increase in personnel expenses, as salary increment was offered to employees for retention during the operation suspension period.

Table of Contents

Provision for Income Taxes

For the three and nine months ended September 30, 2017 and 2016, we had no income tax expense nor income tax benefit. We are subject to the uniform corporate income tax rate of 25% in China. The calculation of effective tax rate includes the operating results of all our subsidiaries and the U.S. parent company.

Liquidity and Capital Resources

There is substantial doubt that the Company will continue as a going concern. As of September 30, 2017, we had cash and cash equivalents of approximately \$0.4 million and negative working capital of approximately \$4.3 million. We had no production or sales due to preparation of GMP certification renewals at our Aoxing facility and replacing production equipment to comply with government's environmental protection requirement at our Weinan facility, which led to significantly weak results in generating cash flows during the fiscal year. While our production levels of Shaanxi Weinan products helped to offset a substantial decrease in our sales volume in 2016, due to the temporarily suspension of production in both Aoxing and Weinan, no revenue has been generated in current quarter. We have been working with our financial lenders to extend the Company's outstanding loans, while trying to collect as much of the Company's accounts receivable as possible, while waiting to restore production volumes to regular levels. As of this filing, the Company's application of the renewal of Aoxing Pharmaceutical's GMP certificate has been preliminarily approved and publicly announced by the local government in October 2017, subject to the final approval to be granted before the end of 2017, at which point we anticipate resuming production and sales. However, we cannot provide any assurance that we will be able to successfully extend our outstanding loans, and the Aoxing production will resume as anticipated and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the anticipated production levels. If we are unable to renew our GMP certificates to allow production resumption as anticipated, our operations will be materially affected and we might become insolvent.

On an on-going basis, we take steps to identify and plan our needs for liquidity and capital resources, to fund our operations and day to day business operations. Our future capital expenditures will include, among others, expanding product lines, research and development capabilities, and making acquisitions as deemed appropriate.

Based on our current plans for the next 12 months, we anticipate that the sales of the Company's pharmaceutical products will be the primary organic source of funds for future operating activities. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, as we may deem appropriate, we may rely on more bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all.

Net cash provided by operating activities for the nine months ended September 30, 2017 was approximately \$4.6 million. This was primarily due to our net loss of approximately \$2.5 million, adjusted by non-cash related expenses including depreciation and amortization of approximately \$0.9 million and non-cash related positive fair value adjustment on warrants of \$0.3 million, then increased by favorable changes in working capital of approximately \$6.4 million. The favorable changes in working capital were mainly due to decrease in accounts receivable as result of collection efforts offset by decrease in accounts payable and accrued expenses.

Net cash used in investing activities for the nine months ended September 30, 2017 was approximately \$4.4 million which was used as deposit for intended acquisition.

Critical Accounting Policies

We believe the following critical accounting policies, among others, affect management's more significant judgments and estimates used in the preparation of the financial statements:

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and management's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. Management evaluates the collectability of the receivables at least quarterly. If the financial condition of a customer was to deteriorate further, resulting in an impairment of their ability to make payments, additional allowances may be required. Such differences could be material and could significantly impact cash flows from operating activities.

7

Table of Contents

The following are steps the Company takes in collecting accounts receivable:

Step 1: After the payment term has been exceeded, the Company stops taking orders from the delinquent customer and allows the responsible sales person three to six months to collect the accounts receivable. Most of the accounts receivable will be collected in this step because the sales person's compensation is tied to sales receipts. The Company typically offers 90 to 120 days credit terms to its customers.

Step 2: If the sales person's collection efforts are not successful, the Company hires a collection agent and allows the agent another three to six months to collect the accounts receivable.

Step 3: If the collection agent's efforts are not successful, the Company will commence legal action to collect the accounts receivable.

Our policies for writing off the accounts receivable are as follows:

1. If after taking legal action, it appears that an accounts receivable is not likely to become collectible, such accounts receivable will be written off if it is more than two years old.
2. If during the collection period, the customer provides bankruptcy or other insolvency documentation, the corresponding accounts receivable will be written off.
3. If we are no longer able to locate a particular customer in order for us to take any collection or legal actions, the accounts receivable for such customer will be written off if it is more than two years old.

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and market conditions. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Judgment is required to determine the estimated useful lives of assets, especially for computer equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact the financial position and results of operations.

Stock-Based Compensation

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model for share options and Binominal model for warrants and is recognized as expense over the requisite service period. The BSM model and Binominal model requires various highly judgmental assumptions including expected volatility and option life. Changes in these assumptions could materially impact the financial position and results of operations.

Valuation of Intangibles

From time to time, we acquire intangible assets that are beneficial to our product development processes. Management periodically evaluates the carrying value of intangibles, including the related amortization periods. In evaluating acquired intangible assets, management determines whether there has been impairment by comparing the anticipated undiscounted cash flows from the operation and eventual disposition of the product line with its carrying value. If the undiscounted cash flows are less than the carrying value, the amount of the impairment, if any, will be determined by comparing the carrying value of each intangible asset with its fair value. Fair value is generally based on either a discounted cash flows analysis or market analysis. Future operating income is based on various assumptions, including regulatory approvals, patents being granted, and the type and nature of competing products. If regulatory approvals or patents are not obtained or are substantially delayed, or other competing technologies are developed and obtain general market acceptance or market conditions otherwise change, our intangibles may have a substantially reduced value, which could be material.

Table of Contents

Research and Development

The remuneration of the Company's research and development staff, materials used in internal research and development activities, and payments made to third parties in connection with collaborative research and development arrangements, are all expensed as incurred. Where the Company makes a payment to a third party to acquire the right to use a product formula which has received regulatory approval, that payment is accounted for as the acquisition of a license or patent and is capitalized as an intangible asset and amortized over the shorter of the remaining license period or patent life.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carry-forwards. Management must make assumptions, judgments and estimates to determine the current provision for income taxes and the deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Management's judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, management's interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or management's interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in the financial statements. Management's assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual operating results and the underlying amount and category of income in future years could render management's current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from the estimates, thus materially impact the financial position and results of operations.

Foreign Currency

Our functional currency is the U.S. dollar, and our subsidiary and our VIE in China use their respective local currencies as their functional currencies, i.e. the RMB. An entity's functional currency is the currency of the primary economic environment in which the entity operates. Management must use judgment in determining an entity's functional currency, assessing economic factors including cash flow, sales price, sales market, expense, financing and inter-company transactions and arrangements. The impact from exchange rate changes related to transactions denominated in currencies other than the functional currency is recorded as a gain and loss in the statements of operations, while the impact from exchange rate changes related to translating a foreign entity's financial statements from the functional currency to its reporting currency, the U.S. dollar, is disclosed and accumulated in a separate component under the equity section of the balance sheets. Different judgments or assumptions resulting in a change of functional currency may materially impact our financial position and results of operations.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired

and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017:

	Payments due by period (\$ million)				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Research and development contracts	\$0.8	\$ 0.8	\$ -	-	-
Acquire a project for mining rights, mining assets and a mining company	0.2	0.2	-	-	-
Construction contract for improvement work	0.1	0.1	-	-	-
Total contractual obligations	\$1.1	\$ 1.1	\$ -	-	-

9

Table of Contents

Inflation

Management believes that inflation has not had a material effect on our results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, as defined in Regulation S-K Section 303(a)(4).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a “smaller reporting company” as defined by Regulations S-K and as such, are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”), under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”), have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Certifying Officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective such that the material information required to be filed with our SEC reports is recorded, processed, summarized, and reported within the required time periods specified in the SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Company is involved in legal matters arising in the ordinary course of business. Except as set forth in the updated disclosures below, there were no material changes to the legal proceedings previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2016 and the Company's subsequent public filings. The Company undertakes no obligation to update or revise the information set forth herein, whether as a result of new information, changed circumstances or future events or for any other reason.

On September 1, 2015, Shaanxi Aoxing Biostar Biotech Ltd. was informed by the People's Court of Shaanxi Province (the "Shaanxi Court") that its properties, consisting of three residential properties valued at \$0.5 million (RMB 3.3 million) had been transferred to Mr. Lianhe Wang, an individual (not affiliated with the Company) to settle an outstanding personal loan to Ronghua Wang, the Company's Chairman and CEO, in the amount of approximately RMB 5.7 million (USD\$0.8 million). It is the Company's understanding that because the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose), the Shaanxi Court deemed Shaanxi Biostar as a co-borrower under this loan arrangement. The foregoing debt was personal debt of Ronghua Wang and no assets of Shaanxi Aoxing Biostar Biotech Ltd. were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Ronghua Wang has not borrowed money from the Company; nor has the Company obtained any proceeds from, guaranteed or secured any of his loans. Subsequently, Shaanxi Biostar was informed by the Shaanxi Court that as a result of Ronghua Wang's inability to service the personal debt in question, Shaanxi Biostar's properties (3 properties totaling 504 sq. meters), valued at RMB 3.3 million (US\$0.5 million) had been transferred to Lianhe Wang to satisfy the outstanding debt. Shaanxi Biostar agreed to the foregoing arrangement to avoid further legal costs; Ronghua Wang agreed to compensate the Company for any loss arising from this legal matter, with such compensation to be paid no later than September 2016. The Company understands that with respect to the properties transferred to Wang Lianhe, Wang Lianhe is willing to return the properties to Shaanxi Biostar if Ronghua Wang satisfies and discharges his personal loan obligations. Ronghua Wang has repaid in full the \$0.5 million (RMB 3.3 million) to the Company as compensation for the loss of properties and there are no any material effects on the Company's day-to-day operations as a result of the foregoing events.

In May 2015, a bank account of Shaanxi Aoxing Pharmaceutical Company Limited was frozen as a result of actions by Bai Yun, an individual lender (not affiliated with the Company), in his attempt to collect the outstanding balance on the personal loan due to him from Ronghua Wang in the amount of RMB 2.67 million (USD\$0.44 million), which personal loan was in default. The foregoing debt was personal debt of Ronghua Wang dating to 2010, which Ronghua Wang obtained to acquire a real estate parcel; no assets of Shaanxi Aoxing Pharmaceutical Company Limited were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Also, the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose). As of June 2014, Wang Ronghua owed Bai Yun RMB 5.17 million (or US\$0.8 million representing principal and accrued interest on the original loan. Subsequently, Ronghua Wang commenced a lawsuit against the seller of the real estate in question and, in December 2014, secured a judgment in the amount of RMB 17 million against the seller to recover the purchase price. At approximately the same time, Bai Yun initiated a legal action against Ronghua Wang to collect on the outstanding debt. The parties to the dispute engage in settlement negotiations and on January 9, 2015, the court finalized the settlement arrangement between the parties. Ronghua Wang has been attempting to collect on his judgment against the seller, but so far he has not been successful, which, in turn, resulted in his inability to honor the

terms of his settlement arrangement with Bai Yun. In May 2015, Bai Yun sought to foreclose on the Company's land and bank account to satisfy the outstanding debt and in February 2016, the court attempted to force a sale of the Company's 2,674 sq. meter parcel which is currently idle, at an auction. In order to prevent such auction sale, Ronghua Wang paid RMB 2.5 million (US\$0.36 million) to Bai Yun in March 2016 which amount was applied to the outstanding debt; following this payment, Bai Yun petitioned the court to terminate the auction sale. The title of the buildings and land use rights subject of this legal matter are currently seized by the court, but have not been transferred to the lender. Ronghua Wang and the Bai Yun's representative(s) were currently negotiating the terms of settlement of the remaining balance of the loan; Mr. Wang had partially repaid the outstanding balance of the loan, which avoided the Company's land use rights and buildings being seized and auctioned with proceeds used to settle this debt. If he pays off the remaining balance of the loan to Bai Yun, it is the Company's understanding that the properties and land will be immediately released. While the Company's expectation is that this matter will be resolved by November 30, 2017, to the best of the Company's knowledge, the matter has not been resolved as of the date of this filing and the remaining balance owed to Bai Yun still outstanding.

Table of Contents

Item 1. Legal Proceedings. (Cont'd)

Following Nasdaq Listing Qualifications staff's comments on the Company's disclosures relating to the foregoing matters set forth in its Annual Report on Form 10-K for the period ended December 31, 2015, the Company provided a full set of responses and supplemental materials for the staff's review and consideration. There is also no assurance that Ronghua Wang will be able to repay his personal debts in full before his creditor(s) take any other further legal action. If the remaining balance is not repaid, the Company's property and assets in question will remain in Ronghua Wang's creditor(s)' possession until the debt is discharged. If and to the extent such properties are not returned to the Company or the Company does not obtain timely and adequate compensation for such transfers, the Company's business and operations may suffer adverse consequences. On October 10, 2016, the Nasdaq Listing Qualifications staff sent a follow up letter to the Company regarding the background and circumstances as well as involvement and actions by the Company's Board of Directors regarding the use of Company assets, and internal controls governing the use of Company stamps and chops related to the legal proceedings described above. The Company provided its responses to the follow-up letter to Nasdaq on October 28, 2016 with details surrounding the legal proceedings as well as the Board involvement, or lack thereof, to the loan agreements entered into by Mr. Ronghua Wang that have resulted in the seizure of certain of the Company assets. There is no assurance that the Nasdaq staff will not continue its inquiry resulting in an action that may have adverse effects on the Company's continued listing on the Nasdaq Stock Market.

Item 1A. Risk Factors.

Except as set forth below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2016.

We have limited sources of working capital and will need substantial additional financing

Working capital required to implement our business plan will most likely be provided by funds obtained through offerings of our equity, debt, debt-linked securities, and/or equity-linked securities, and revenues generated by us. No assurance can be given that we will have revenues sufficient to support and sustain our operations or that we would be able to obtain equity/debt financing in the current economic environment. If we do not have sufficient working capital and are unable to generate sufficient revenues or raise additional funds, we may delay the completion of or significantly reduce the scope of our current business plan; delay some of our development and clinical or marketing efforts; postpone the hiring of new personnel; or, under certain dire financial circumstances, substantially curtail or cease our operations. Our current levels of working capital and the need for additional financing raise substantial doubt as to our ability to continue as a going concern. We may need substantial additional capital to fund our operations. To date, we have relied almost exclusively on organically generated revenues financing transactions to fund losses from our operations. Our inability to obtain sufficient additional financing would have a material adverse effect on our ability to implement our business plan and, as a result, could require us to significantly curtail or potentially cease our operations. At September 30, 2017, we had cash and cash equivalents of approximately \$0.4 million, total current assets of approximately \$1.0 million and total current liabilities of approximately \$5.3 million. We will need to engage in capital-raising transactions in the near future. Such financing transactions may well cause substantial dilution to our shareholders and could involve the issuance of securities with rights senior to the outstanding shares. Our ability to complete additional financings is dependent on, among other things, the state of the capital markets at the time of any proposed offering, market reception of the Company and the likelihood of the success of its business model, of the offering terms, etc. There is no assurance that we will be able to obtain any such additional capital as we need to finance our efforts, through asset sales, equity or debt financing, or any combination thereof, on satisfactory terms or at all. Additionally, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and to support our operations. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our revenues and operations and the value of our common stock and common

stock equivalents would be materially negatively impacted and we may cease our operations.

There is substantial doubt as to our ability to continue as a going concern

We have suffered losses from operations and have insufficient liquidity to fund ongoing operations which raise substantial doubt about our ability to continue as a going concern. Accordingly, we will need to increase sales volume and obtain additional capital to continue as a going concern and to fund our operations. Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may not accomplish, we expect to finance future cash needs primarily through offerings of our debt or equity securities, or strategic collaborations. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope, or eliminate one or more of our programs, or substantially curtail or close our operations altogether.

Table of Contents

If we are unable to renew our GMP certificates and subsequently achieve anticipated production levels, our operations may be materially adversely affected.

The Company has experienced a substantial decrease in sales volume of all Aoxing Pharmaceutical Products in the years ended December 31, 2015 and 2016, respectively, and the nine months ended September 30, 2017. This decrease was due to Aoxing Pharmaceutical's temporarily suspension of production to conduct maintenance of its production lines to renew its GMP certificates which is currently anticipated to be renewed before the end of the year 2017 at which point we will resume production and sales. While our production levels of Shaanxi Weinan products helped to offset the substantial decrease in our sales volume in year ended December 31, 2016 and 2015, however, there is no assurance that the production lines at Aoxing will resume as anticipated and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the anticipated production levels. Our inability to regain anticipated production levels may have material adverse effects on our business, operations and financial performance, and may render the Company insolvent.

If we are unable to meet the Nasdaq Stock Market continued listing requirements, our securities may be subject to delisting.

On August 22, 2017, we received a notification letter from Nasdaq Listing Qualifications ("Nasdaq") advising the Company that, since it had not filed its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017, the Company was not in compliance with Nasdaq Listing Rule 5250(c)(1) for continued listing. The Company is required within 60 calendar days of the Nasdaq notification to submit a plan of compliance with the foregoing continued listing deficiency. The notification letter stated, in part, that if the Company's plan was approved by the Nasdaq staff, the Company could be eligible for a listing exception of up to 180 calendar days (or until February 12, 2018) to regain compliance. However, if the Nasdaq staff concluded that the Company was not able to cure the deficiency, the Company's common stock will be subject to delisting by Nasdaq. We submitted our plan of compliance on October 23, 2017. Upon review, the Nasdaq staff approved the Company's plan of compliance on November 10, 2017 and extended the Company time until November 30, 2017 to regain its compliance with the continued listing deficiency. On November 15, 2017, the Company filed its Quarterly Report on Form 10-Q for the quarter ended on June 30, 2017 in furtherance of its plan of compliance. If the Company is successful implementing the plan as approved by the Nasdaq staff, the staff may determine that the Company regained compliance with the continued listing deficiency. Otherwise, if the Company is not able to cure the deficiency, the Company's common stock will be subject to delisting by Nasdaq.

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

During the nine months ended September 30, 2017, neither the Company, nor any of its affiliated purchasers repurchased any of the Company's securities. The Company did not sell any unregistered securities during the same fiscal period.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema

101.CALXBRL Taxonomy Calculation Linkbase

101.LABXBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

101.DEF XBRL Taxonomy Extension Definition Document

13

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOSTAR PHARMACEUTICALS, INC.
(Registrant)

Date: November 20, 2017 By: /s/ Ronghua Wang
Ronghua Wang, Chief Executive Officer and President
(Principal Executive Officer)

Date: November 20, 2017 By: /s/ Xiaojuan Zhai
Xiaojuan Zhai, Chief Financial Officer
(Principal Financial and Accounting Officer)