

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2020

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: 000-21990

MATEON THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

13-3679168

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

29397 Agoura Road Suite 107
Agoura Hills, CA
(Address of principal executive offices)

91301
(Zip Code)

(650) 635-7000

(Registrant's telephone number, including area code)

N/A

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
None	MATN	N/A

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of June 24, 2020, there were 88,601,912 shares of the registrant's common stock outstanding.

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2020

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EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K filed by Mateon Therapeutics, Inc. (the “*Company*”) with the Securities and Exchange Commission (the “*SEC*”) on May 4, 2020, the filing of the *Company*’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (this “*Quarterly Report*”) was delayed due to circumstances related to the novel coronavirus (“*COVID-19*”). The *COVID-19* pandemic has caused disruptions in the *Company*’s business and operations, including due to recent quarantines, shelter-in-place orders, travel bans, illnesses and other limitations, which have required the *Company*’s employees to work remotely and disrupted normal interactions with accounting personnel, legal advisors and other parties involved in the preparation of this Quarterly Report. This prevented the *Company* from completing the tasks necessary to file this Quarterly Report by its May 11, 2020 due date. The *Company* relied on the *SEC*’s Orders under Section 36 of the Securities and Exchange Act of 1934, as amended, dated March 4, 2020 and March 25, 2020 (Release Nos. 34-88318 and 34-88465), to delay the filing of this Quarterly Report.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
ASSETS		
Current assets:		
Cash	\$ 183,437	\$ 81,964
Accounts receivable	19,748	149,748
Prepaid & other current assets	70,967	41,288
Total current assets	274,152	273,000
Development equipment, net of depreciation of \$73,823 and \$64,404	38,135	47,554
Intangibles, net of accumulated amortization of \$98,449 and \$85,608	911,731	924,572
In process research and development, net of accumulated amortization of \$68,860 & \$0	1,308,340	1,377,200
Goodwill	21,062,455	21,062,455
Other long term assets	1,800	-
Total assets	\$ 23,596,613	\$ 23,684,781
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,202,571	\$ 2,054,983
Accounts payable to related party	763,026	601,682
Contingent Consideration	2,625,000	2,625,000
Derivative liability on Notes	1,778,272	540,517
Convertible debt, related party, net of costs	16,019	16,474
Convertible debt, net of costs	1,099,289	944,450
Total current liabilities	8,484,177	6,783,106
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Convertible Preferred stock, \$0.01 par value, 15,000,000 shares authorized; 278,188 and 278,188 shares issued and outstanding	2,782	2,782
Common stock, \$.01 par value; 150,000,000 shares authorized; 88,032,112 and 84,069,967 issued and outstanding, respectively	880,321	840,700
Additional paid-in capital	31,014,633	28,185,599
Accumulated deficit	(16,785,300)	(12,127,406)
Total stockholders' equity	15,112,436	16,901,675
Total liabilities and stockholders' equity	\$ 23,596,613	\$ 23,684,781

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

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

	For the Three Months Ended March 31,	
	2020	2019
Service Revenue	\$ 340,855	\$ -
Operating expenses:		
Research and development	311,999	404,848
General and administrative	2,677,503	571,215
Total operating expenses	2,989,502	976,063
Loss from operations	(2,648,647)	(976,063)
Other expense:		
Interest income	10	-
Interest expense	(1,148,361)	-
Change in fair value of derivative on debt	(736,298)	-
Loss on debt conversion	(124,598)	-
Total other expense	(2,009,247)	-
Net Loss	\$ (4,657,894)	\$ (976,063)
Basic and diluted net loss per share attributable to common stock	\$ (0.05)	\$ (0.14)
Basic and diluted weighted average common stock outstanding	84,917,073	6,925,528

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

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance at January 1, 2020	278,188	\$ 2,782	84,069,967	\$ 840,700	\$ 28,185,599	\$ (12,127,406)	\$ 16,901,675
Stock-based compensation	-	-	-	-	2,147,591	-	2,147,591
Common shares issued upon partial conversion of debt	-	-	3,962,145	39,621	681,443	-	721,064
Net loss	-	-	-	-	-	(4,657,894)	(4,657,894)
Balance at March 31, 2020	<u>278,188</u>	<u>\$ 2,782</u>	<u>88,032,112</u>	<u>\$ 880,321</u>	<u>\$ 31,014,633</u>	<u>\$ (16,785,300)</u>	<u>\$ 15,112,436</u>

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

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(Unaudited)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Stockholders'</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Equity</u>
					<u>Capital</u>		
Balance at January 1, 2019	-	\$ -	6,843,802	\$ 68,438	\$ 7,886,598	\$ (5,490,277)	\$ 2,464,759
Common shares issued for cash	-	-	20,750	208	82,792	-	83,000
Common shares issued for services	-	-	91,844	918	417,218	-	418,136
Common shares issued for settlement of accounts payable to related party	-	-	80,772	808	237,282	-	238,090
Stock-based compensation	-	-	-	-	268,259	-	268,259
Net loss	-	-	-	-	-	(976,063)	(976,063)
Balance at March 31, 2019	<u>-</u>	<u>\$ -</u>	<u>7,037,168</u>	<u>\$ 70,372</u>	<u>\$ 8,892,149</u>	<u>\$ (6,466,340)</u>	<u>\$ 2,496,181</u>

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

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

	For the Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (4,657,894)	\$ (976,063)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of debt discount and deferred finance costs	1,148,305	-
Amortization of intangible assets	81,701	12,841
Stock-based compensation	2,147,591	268,259
Depreciation on development equipment	9,329	-
Issuance of common shares for settlement of accounts payable to related party	-	238,090
Issuance of common stock in lieu of cash for services	-	418,136
Change in fair value of derivative	736,297	-
Loss on debt conversion	124,598	-
Changes in operating assets and liabilities:		
Prepaid expenses & other current assets	100,321	33,140
Accounts payable and accrued expenses	179,881	(112,398)
Accounts payable to related party	161,344	-
Net cash provided by (used in) operating activities	<u>31,473</u>	<u>(117,995)</u>
Cash flows from financing activities:		
Proceeds from sales of common stock	-	83,000
Net proceeds from convertible notes payable, related party	70,000	32,000
Net cash provided by financing activities	<u>70,000</u>	<u>115,000</u>
Net increase (decrease) in cash	101,473	(2,995)
Cash - beginning of period	81,964	3,478
Cash - end of period	<u>\$ 183,437</u>	<u>\$ 483</u>
Supplemental cash flow information:		
Non cash investing and financing activities:		
Common shares issued upon partial conversion of debt	\$ 721,064	\$ -

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

MATEON THERAPEUTICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Mateon Therapeutics, Inc. (f/k/a OXiGENE, Inc.) (the “Parent”, “Mateon”), was formed in the State of New York in 1988, was reincorporated in the State of Delaware in 1992, and changed its name to Mateon Therapeutics, Inc. in 2016. Mateon conducts business activities through both the Parent and its wholly-owned subsidiary Oncotelic, Inc. (“Oncotelic”), a Delaware corporation (collectively, the “Company”). Mateon is evaluating the further development of its product candidates OXi4503 as a treatment for acute myeloid leukemia and myelodysplastic syndromes and CA4P in combination with a checkpoint inhibitor for the treatment of advanced metastatic melanoma.

On April 17, 2019, Mateon entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Oncotelic, a clinical-stage biopharmaceutical company developing investigational drugs for the treatment of orphan oncology indications and the Company’s wholly-owned subsidiary Oncotelic Acquisition Corporation (the “Merger Sub”). Upon the terms of and subject to the satisfaction of the conditions described in the Merger Agreement, the Merger Sub was merged with and into Oncotelic (the “Merger”), with Oncotelic surviving the Merger as a wholly-owned subsidiary of the Company.

On April 22, 2019, Mateon completed the Merger and Oncotelic became a wholly-owned subsidiary of Mateon. Upon the completion of the Merger each share of Oncotelic Common Stock outstanding immediately prior to the Merger (excluding any shares of Oncotelic held by stockholders exercising dissenters’ appraisal rights) was converted pursuant to the Merger Agreement using the following ratios of (i) 3.97335267 shares of Mateon Common Stock, par value \$0.01 per share (the “Common Stock”), and (ii) 0.01877292 shares of the Company’s newly designated Series A Convertible Preferred Stock (the “Series A Preferred”). Following the closing of the Merger, the former Oncotelic security holders own approximately 85% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock issuable upon conversion of the Series A Preferred), and the Company’s stockholders prior to the Merger own approximately 15% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock Issuable upon conversion of the Series A Preferred).

The Merger was treated as a recapitalization and reverse acquisition for financial accounting purposes. Oncotelic is considered the acquirer for accounting purposes, and the registrant’s historical financial statements before the Merger have been replaced with the historical financial statements of Oncotelic prior to the Merger in the financial statements and filings with the Securities and Exchange Commission.

The Company is a cancer immunotherapy company dedicated to the development of first in class self-immunization protocol (SIP™) candidates for difficult to treat cancers. The Company’s proprietary SIP™ candidates offer advantages over other immunotherapies because they do not require extraction of the tumor or isolation of the antigens, and they have the potential for broad-spectrum applicability for multiple cancer types. The Company’s proprietary product candidates have shown promising clinical activity in phase 2 trials for the treatment of gliomas and pancreatic cancers. The Company aims to translate its unique insights, which span more than three decades of original work using RNA therapeutics, into the deployment of antisense as a RNA therapeutic for diseases which are caused by TGF-beta overexpression, starting with cancer and expanding to Duchenne Muscular Dystrophy (DMD) and others. Oncotelic’s lead product candidate, OT-101, is being developed as a broad-spectrum anti-cancer drug that can also be used in combination with other standard cancer therapies to establish an effective multi-modality treatment strategy for difficult-to-treat cancers. Together, the Company plans to initiate phase 3 clinical trials for OT-101 in both high-grade glioma and pancreatic cancer; and any other indications that may evolve.

The Company is also planning to develop OT-101 for the various epidemics and pandemics, similar to the current corona virus (“COVID-19”) pandemic.

On August 17, 2019, the Company entered into an Agreement and Plan of Merger (the “*PointR Merger Agreement*”) with PointR Data, Inc. (“*PointR*”). Upon the terms of, and subject to the satisfaction of the conditions described in the PointR Merger Agreement, PointR would be merged with and into a newly formed subsidiary of the Company (the “*PointR Merger Sub*”), with PointR surviving the merger as a wholly-owned subsidiary of the Company. The merger is intended to create a publicly-traded artificial intelligence (“*AI*”) driven immuno-oncology company with a robust pipeline of first in class TGF- β immunotherapies for late stage cancers such as gliomas, pancreatic cancer and melanoma.

On November 1, 2019, the Company entered into Amendment No. 1 (the “*Amendment*”) to the PointR Merger Agreement with PointR. The Amendment revised certain terms of the PointR Merger Agreement to provide that holders of PointR Common Stock would receive shares of the Company’s Series A Preferred in lieu of the Company’s Common Stock in connection with the merger. The Amendment revised the terms of the milestones for earn-out payment as well.

On November 4, 2019, pursuant to the terms of the PointR Merger Agreement the Company completed the merger with PointR. On the effectiveness of the merger, the outstanding Common Stock of PointR immediately prior to the merger, including the conversion of a \$200,000 note with accrued interest, excluding any shares of PointR held by stockholders exercising dissenters’ appraisal rights, was converted solely into the right to receive approximately 84,475 shares of the Company’s Series A Preferred.

Immediately following the closing of the Merger, the former PointR security holders own approximately 23.29% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock issuable upon the conversion of the Company’s Series A Preferred), and the Company’s stockholders prior to the Merger own approximately 76.71% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock issuable upon conversion of the Company’s Series A Preferred).

Please review Note 12 – Subsequent events for more information on updates since March 31, 2020.

Principles of Consolidation

The consolidated financial statements include the accounts of Mateon and its wholly owned subsidiaries, Oncotelic and PointR. Intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission including Form 10-Q and Regulation S-X. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly state the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“*US GAAP*”) have been omitted pursuant to such rules and regulations.

Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred net losses of approximately \$16.8 million since inception, had negative working capital of \$8.2 million at March 31, 2020, of which approximately \$1.3 million is attributable to assumed negative working capital of Mateon and \$2.6 million contingent liability of issuance of common shares of Mateon to PointR shareholders upon achievement of certain milestones in accordance with the merger agreement with PointR, and has mostly had negative cash flows from operations through the three months ended March 31, 2020. These conditions raise substantial doubt about the Company’s ability to continue as a going concern for a period of one year from the date of this filing. Management expects to incur additional losses in the foreseeable future and recognizes the need to raise capital to remain viable. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

The Company's long-term plans include continued development of its current pipeline of products to generate sufficient revenues, through either technology transfer or product sales, to cover its anticipated expenses. Until the Company is able to generate sufficient revenues from its current pipeline, the Company plans on funding its operations through the sale of equity and/or the issuance of debt, combined with or without warrants or other equity instruments.

In April 2019, the Company entered into a Securities Purchase Agreement with two institutional investors for a commitment to purchase convertible debentures in the aggregate principal amount of up to \$400,000.

Further, in April 2019, the Company entered into a Securities Purchase Agreement with our CEO and an investor (the "Bridge Investor") for a commitment to purchase convertible debentures in the aggregate amount of up to \$400,000.

In April 2019, the Company issued two convertible notes in the principal amount of \$200,000 each, both including an original issue discount ("OID") of \$20,000 and deferred financing costs of \$5,000 each, receiving net proceeds of \$350,000, which were used by the Company for working capital and general corporate purposes. (See Note 6).

In April 2019, the Company issued a convertible debenture totaling \$35,556 to the Bridge Investor, including OID of \$3,556, receiving net proceeds of \$32,000, which were used by the Company for working capital and general corporate purposes. (See Note 6)

Also In April 2019, the Company issued a convertible note totaling \$164,444, including OID of \$16,444, to our Chief Executive Officer, receiving net proceeds of \$148,000, which were used by the Company for working capital and general corporate purposes. (See Note 6)

In June 2019, the Company received the second tranche under the first Securities Purchase Agreement above. The second tranche totaled \$200,000, including \$20,000 OID and \$1,000 of deferred financing costs, receiving net proceeds of \$179,000, which is planned to be used by the Company for working capital and general corporate purposes. (See Note 6)

In July 2019, the Company entered into a convertible note purchase agreement with PointR, a privately held, developer of high-performance cluster computer and AI applications, for \$200,000. The convertible note bore an interest rate of 8% per annum due on 15th of each month and is payable, at the option of the holder, either in cash or in shares of the Company's Common Stock. The convertible note had a maturity date of January 1, 2020.

In August 2019, the Company closed the second tranche of financing with our Bridge Investor, issuing an additional \$200,000 face amount convertible debenture, including OID of \$20,000 and \$5,000 deferred financing costs, receiving net proceeds of \$175,000. Following the drawdown of the second tranche from the Bridge Investor, up to \$400,000 in face value of Debentures remains available under the Securities Purchase Agreement.

In December 2019, the Company closed a financing raising an additional \$500,000 for gross proceeds of \$1.0 million ("Fall 2019 Debt Financing"). The transactions complete the previously announced offering, under which the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") with certain accredited investors for the sale of convertible promissory notes (the "Notes"). The Company completed the initial closing under the Note Purchase Agreement on November 23, 2019, issuing a \$250,000 principal amount Note to each of Dr. Vuong Trieu, the Company's Chief Executive Officer, and Stephen Boesch, in exchange for gross proceeds of \$500,000. In connection with the second and final closing the Company issued Notes to additional investors including \$250,000 to Dr. Sanjay Jha, the former CEO of Motorola and COO/President of Qualcomm. The Company also offset certain payables due to Dr. Vuong Trieu, the Company's Chief Executive Officer, Chulho Park, the Company's Chief Technology Officer, and Amit Shah, the Company's Chief Financial Officer and converted that into the debt under the Fall 2019 Debt Financing. \$35,000 due to Dr. Vuong Trieu, \$27,000 due to Chulho Park and \$20,000 due to Amit Shah which was due as accounts payable was exchanged into convertible debt. The Company also issued notes of \$168,000 to two unaffiliated accredited investors.

During the three months ended March 31, 2020, the Company's CEO provided funding of \$70,000 to the Company.

Although no assurances can be given as to the Company's ability to deliver on its revenue plans, or that unforeseen expenses may arise, management believes that the potential equity and debt financing or other potential financing will provide the necessary funding for the Company to continue as a going concern. Also, management cannot guarantee any potential debt or equity financing will be available on favorable terms or at all. As such, management does not believe they have sufficient cash for 12 months from the date of this report. If adequate funds are not available on acceptable terms, or at all, the Company will need to curtail operations, or cease operations completely.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity-based transactions and disclosure of contingent liabilities at the date of the financial statements and revenues and expense during the reporting period. Actual results could materially differ from those estimates.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the financial statements. Significant estimates include the valuation of goodwill and intangible assets for impairment, deferred tax asset and valuation allowance, and fair value of financial instruments.

Cash

As of March 31, 2020, and December 31, 2019, the Company held all its cash in banks. The Company considers investments in highly liquid instruments with a maturity of three months or less to be cash equivalents. The Company did not have any cash equivalents as of March 31, 2020 and December 31, 2019.

Investment in Equity Securities

Prior to the Merger, Oncotelic received Series E Preferred Shares of Adhera Therapeutics, Inc. ("*Adhera*") in consideration for the issuance of Oncotelic's Common Stock under various Securities Purchase Agreements. The Company records its investments in equity securities initially at cost in accordance with Accounting Standards Codification ("*ASC*") 321, Investments –Equity Securities ("*ASC 321*"). The Company subsequently marks the investments to market at each reporting period and, in accordance with Accounting Standard Update ("*ASU*") 2016-01, Financial Instruments – (Overall), records the unrealized gains or losses in the Consolidated Statement of Operations. During the fourth quarter of the year ended December 31, 2019, the Company evaluated the fair value of the investment based on a recent filing by Adhera, in which Adhera describes their current financial condition including the potential to file for bankruptcy, the Company believes that the long term investment in Adhera is impaired and therefore, determined to write off the entire investment.

Fair Value of Financial Instruments

The carrying value of cash, accounts payable and accrued expense approximate their fair values based on the short-term maturity of these instruments. As defined in ASC 820, "Fair Value Measurements and Disclosures," fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). This fair value measurement framework applies at both initial and subsequent measurement.

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.
- Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

The Company did not have any Level 1 or Level 2 assets and liabilities at March 31, 2020. The derivative liabilities associated with its 2019 bridge financing Convertible Notes (see Note 6), consisted of conversion feature derivatives at March 31, 2020, are Level 3 fair value measurements.

The table below sets forth a summary of the changes in the fair value of the Company’s derivative liabilities classified as Level 3 as of March 31, 2020:

	Conversion Feature	
Balance at December 31, 2019	\$	540,517
New derivative liability		870,268
Reclassification to additional paid in capital from conversion of debt to common stock		(368,811)
Change in fair value		736,298
Balance at March 31, 2020	\$	<u>1,778,272</u>

As of March 31, 2020, and December 31, 2019, the Company estimated the fair value of the conversion feature derivatives embedded in the convertible debentures based on assumptions used in the Black-Scholes valuation model. The key valuation assumptions used consists, in part, of the price of the Company’s Common Stock, a risk free interest rate based on the yield of a Treasury note and expected volatility of the Company’s Common Stock all as of the measurement dates. The Company used the following assumptions to estimate fair value of the derivatives as of March 31, 2020:

	March 31, 2020 Key Assumptions for fair value of conversions	
Risk free interest		0.23% to 2.26%
Market price of share	\$	0.17
Life of instrument in years		2.06 - 2.35
Volatility		150.65%
Dividend yield		0%

When the Company changes its valuation inputs for measuring financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those liabilities to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the periods ended March 31, 2020 and March 31, 2019, there were no transfers of financial assets or financial liabilities between the hierarchy levels.

Below is the fair value measurements for the investments in equity securities that the Company held as of March 31, 2019:

As of March 31, 2019	Carrying Value	Fair Value Measurement Using			Total
		Level 1	Level 2	Level 3	
Investments in Equity Securities					
Adhera Therapeutics – Convertible Series E Preferred Shares	\$ -	\$ -	\$ -	\$ 1,769,300	\$ 1,769,300
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,769,300</u>	<u>\$ 1,769,300</u>

Through September 30, 2019, the Company had opined that since the Adhera Convertible Series E Preferred shares contained “full-ratchet” anti-dilution provisions, if Adhera were to issue any new common shares or derivative securities convertible into shares of their common stock at a price that is lower than the conversion price for the Convertible Series E Preferred Stock (other than certain limited exempt issuances) then the conversion price for the Convertible Series E Preferred Stock would have automatically adjusted to the lower conversion price, as defined in the agreement with Adhera. The Adhera Convertible Series E Preferred shares are not publicly traded and there are no freely observable inputs from objective sources.

During the fourth quarter of the year ended December 31, 2019, the Company evaluated the fair value of the investment based on a recent filing by Adhera, in which Adhera describes their current financial condition including the potential to file for bankruptcy, the Company believed that the long term investment in Adhera is impaired and therefore, determined to write off the entire investment.

The change in the value of the investment, under level 3 of the Fair Value Measurement, is shown as under:

	Year Ended December 31, 2019
Opening Balance	\$ 1,769,300
Value introduced	-
Write off value of investment	(1,769,300)
Closing balance	<u>\$ -</u>

Net Loss Per Share

Basic net loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share includes the effect of Common Stock equivalents (notes convertible into Common Stock, stock options and warrants) when, under either the treasury or if-converted method, such inclusion in the computation would be dilutive. The following number of shares have been excluded from diluted loss since such inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2020	2019
Convertible notes	12,084,300	-
Stock options	6,135,284	-
Warrants	15,237,500	-
Potentially dilutive securities	33,457,084	-

Stock-Based Compensation

The Company applies the provisions of ASC 718, Compensation—Stock Compensation (“ASC 718”), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees, including employee stock options, in the statements of operations.

For stock options issued to employees and members of the Board of Directors (the “Board”) for their services, the Company estimates the grant date fair value of each option using the Black-Scholes option pricing model. The use of the Black-Scholes option pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the Common Stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the Common Stock. For awards subject to service-based vesting conditions, including those with a graded vesting schedule, the Company recognizes stock-based compensation expense equal to the grant date fair value of stock options on a straight-line basis over the requisite service period, which is generally the vesting term. Forfeitures are recorded as they are incurred as opposed to being estimated at the time of grant and revised.

Pursuant to ASU 2018-07 Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, the Company accounts for stock options issued to non-employees for their services in accordance with ASC 718. The Company uses valuation methods and assumptions to value the stock options that are in line with the process for valuing employee stock options noted above.

For warrants issued in connection with fund raising activities, the Company estimates the grant date fair value of each warrant using the Black-Scholes pricing model. The use of the Black-Scholes option pricing model requires management to make assumptions with respect to the expected term of the warrant, the expected volatility of the Common Stock consistent with the expected life of the warrant, risk-free interest rates and expected dividend yields of the Common Stock. If the warrants are issued upon termination or cancellation of prior issued warrants, then the Company estimates the grant date fair value of the new warrants using the Black-Scholes pricing model and evaluates whether the new warrants are deemed as equity instruments or liability instruments. If the warrants are deemed to be equity instruments, the Company records stock compensation expense and an addition to additional paid in capital. If however, the warrants are deemed to be liability instruments, then the fair value is treated as a deemed dividend and credited to additional paid in capital.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then these assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. For the three months ended March 31, 2020 and year ended December 31, 2019, there were no impairment losses recognized for long-lived assets.

Intangible Assets

The Company records its intangible assets at cost in accordance with ASC 350, Intangibles – Goodwill and Other. The Company reviews the intangible assets for impairment on an annual basis or if events or changes in circumstances indicate it is more likely than not that they are impaired. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. If the review indicates the impairment, an impairment loss would be recorded for the difference of the value recorded and the new value. For the three months ended March 31, 2020 and 2019, there were no impairment losses recognized for intangible assets.

Goodwill

Goodwill represents the excess of the purchase price of acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is tested for impairment at least once annually, at the reporting unit level or more frequently if events or changes in circumstances indicate that the asset might be impaired. The goodwill impairment test is applied by performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is considered not more likely than not that the fair value of the reporting unit is less than the carrying amount, further testing of goodwill for impairment would not be required. Otherwise, goodwill impairment is tested using a two-step approach.

The first step involves comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. The second step involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded. For the three months ended March 31, 2020 and 2019, there were no impairment losses recognized for Goodwill.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815 “Derivatives and Hedging”.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of Conventional Convertible Debt Instrument.”

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with ASC 470-20 “Debt – Debt with Conversion and Other Options.” Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying Common Stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Original issue discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying Common Stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 “Derivatives and Hedging – Contracts in Entity’s Own Equity” provides that, among other things, generally, if an event is not within the entity’s control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Revenue Recognition

The Company recognizes revenue in accordance with ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

Under ASU 2014-9, the Company recognizes revenue when its customers obtain control of the promised good or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. The Company applies the following five-step: (i) identify the contract(s) with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

At contract inception, once the contract is determined to be within the scope of ASU 2014-09, the Company identifies the performance obligation(s) in the contract by assessing whether the goods or services promised within each contract are distinct. The Company then recognizes revenue for the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company anticipates generating revenues from rendering services to other third party customers for the development of certain drug products and/or in connection with certain out-licensing agreements. In the case of services rendered for development of the drugs, revenue is recognized upon the achievement of the performance obligations or over time on a straight-line basis over the extended service period. In the case of out-licensing contracts, the Company records revenues either upon achievement of certain pre-defined milestones, when there is no obligation of the Company achieve any performance obligations in connection with the said pre-defined milestones, or upon achievement of the performance obligations if the milestones require the Company to provide the performance obligations.

The Company occasionally collects advance payments from customers toward commitments to provide services or performance obligations, in which case the advance payment is recorded as a liability until the obligations are fulfilled and revenue is recognized.

Research Service Agreement between Golden Mountain Partners LLC (GMP) and Mateon Therapeutics Inc./Oncotelic Inc. (“Mateon Entities”).

Oncotelic and GMP entered into a research and services agreement (the “Agreement”) on February 3, 2020 memorializing their collaborative efforts to develop and test COVID-19 antisense therapeutics. On March 18, 2020, the Company reported the positive anti-viral activity results of OT-101 in an in vitro antiviral testing performed by an independent laboratory to GMP. On March 23, 2020, the Company, Oncotelic and GMP entered into a supplement to the Agreement (the “Supplement”) to confirm the inclusion of OT-101 within the scope of the Agreement, pending positive confirmatory testing against COVID-19. In consideration for the financial support provided by GMP for the research, pursuant to the terms of the Agreement (as amended by the Supplement) GMP was entitled to obtain certain exclusive rights to the use of the Product in the COVID Field on a global basis, and an economic interest in the use of the Product in the COVID Field including 50/50 profit sharing. GMP paid the Company fees of \$0.3 million during the three months ended March 31, 2020 and \$0.9 million during the three months ended June 30, 2020 for the services rendered under the agreement and supplemental agreements. The Company also recorded approximately \$40 thousand for reimbursement of actual costs incurred.

Research & Development Costs

In accordance with ASC 730-10-25 “Research and Development”, research and development costs are charged to expense as and when incurred.

Prior Period Reclassifications

Certain amounts in prior periods may have been reclassified to conform with current period presentation.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance requires only a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting period unit’s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 had no material impact on the Company’s consolidated financial statements and related disclosures.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 became effective on January 1, 2018. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted ASU 2015-14 during the three months ended March 31, 2020 as till then, no revenue was earned by the Company.

All other newly issued but not yet effective accounting pronouncements have been deemed to be not applicable or immaterial to the Company.

NOTE 3 - ACQUISITIONS

Merger Agreement with Oncotelic, Inc.

Effective April 22, 2019, the Company completed the Merger pursuant to the Merger Agreement. Pursuant to the terms of the Merger Agreement, Oncotelic, Inc. merged with and into Merger Sub. Oncotelic, Inc. was the surviving corporation and, as a result of the Merger, became a wholly owned subsidiary of Mateon.

On the effectiveness of the Merger it is reflected that:

- For all bookkeeping and accounting purposes, the closing of the Merger (the “Closing”) was to be deemed to have occurred at 10:00 am local time on April 22, 2019;
- For the purposes of calculating the number of shares of the Company’s Common Stock, \$0.01 par value per share, to be issued in exchange for common equity units of Oncotelic, Inc. in connection with the Merger, the conversion ratio was to be 3.97335267 for Common Stock and 0.01877292 of newly designated Series A Preferred;

- 41,419,934 shares of Mateon Common Stock were issued and outstanding as of the date of the Merger;
- Oncotelic’s outstanding 10,318,746 shares of Common Stock, consisting of 7,866,335 outstanding shares of Common Stock, 3,102,411 converted options and 150,000 converted warrants, that were exchanged for an aggregate of (a) 41,000,033 shares of the Company’s Common Stock and (b) 193,713 shares of the Company’s newly designated Series A Preferred, par value \$0.01 per share each of which are initially convertible into 1,000 shares of Common Stock upon (i) optional conversion by the holder at any time, or (ii) mandatory conversion upon the availability of a sufficient number of authorized but unissued Common Stock. Included in the shares issued to the former stockholders of Oncotelic are approximately 2.1 million shares of Common Stock and approximately 10,000 shares of the Series A Preferred which are to be issued subject to the holders’ waiver of dissenter’s rights; and
- Holders of the Company’s Common Stock at the close of business on the date prior to the effectiveness of the Merger were issued a Contingent Value Right (“CVR”).

Each CVR provides its holder the right to receive 75% of the net proceeds received from the full or partial sale, license, transfer or other disposition of the intellectual property rights and related assets of the Company’s product candidates OXi4503 and CA4P, in their form and for their contemplated uses at the time of Closing, that occurs under a definitive agreement executed prior to the fourth anniversary of the Merger (after the initial \$500,000 of such net proceeds, which will be retained by the Company). The CVRs are not transferable, do not entitle the holder to any equity interest in the Company and do not have any voting or dividend rights.

Immediately following the Merger, Mateon had 82,419,967 shares of Common Stock issued and outstanding and 193,713 shares of Series A Preferred which when converted at a 1:1,000 ratio will result in an additional 193,712,995 shares of Common Stock. The pre-Merger stockholders of Mateon retained an aggregate of 41,419,934 shares of Common Stock of Mateon, representing approximately 15% ownership of the post-Merger company. Therefore, upon consummation of the Merger, there was a change in control of Mateon, with the former owners of Oncotelic effectively acquiring control of Mateon. The Merger has been treated as a recapitalization and reverse acquisition for financial accounting purposes. As such, Oncotelic is considered the acquirer for financial accounting purposes, and the registrant’s historical financial statements of the Company before the Merger has been replaced with the historical financial statements of Oncotelic before the Merger in the financial statements and filings with the Securities and Exchange Commission.

The Company obtained a 3rd party valuation on the fair value of the assets acquired and liabilities assumed for use in the purchase price allocation, as well as the value the consideration exchanged in the Merger. It was determined that the market price of the Company’s Common Stock was a readily determinable measurement for calculating the fair value of the consideration and the Merger date stock price of \$.09 was used to value the equity interest exchanged.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed as of the transaction date:

Cash	\$ 182,883
Prepaid expense	56,175
Accounts payable and other current liabilities assumed	<u>(1,391,302)</u>
Net liability acquired	<u>(1,152,244)</u>
Goodwill (a.)	<u>4,879,999</u>
Total purchase price (b.)	<u>\$ 3,727,755</u>

a. The primary items that generate goodwill include the value of the synergies between the acquired company and Oncotelic, Inc. and the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

Goodwill is the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets. In accordance with applicable accounting standards, goodwill is not amortized but instead is tested for impairment at least annually or more frequently if certain indicators are present. Goodwill and intangibles is not deductible for tax purposes. The Company has considered the valuation as a preliminary allocation of assets and liabilities and may adjust such estimates in the future, if deemed material.

b. The total purchase price of \$3,727,755 represents the consideration transferred from Mateon in the Merger and was calculated based on the number of shares of Common Stock outstanding at the date of the Merger.

Merger with PointR

On August 17, 2019, the Company entered into the PointR Merger Agreement with PointR. Upon the terms of, and subject to the satisfaction of the conditions described in, the PointR Merger Agreement, PointR would be merged with and into the PointR Merger Sub, with PointR surviving the merger as a wholly-owned subsidiary of the Company. The merger is intended to create a publicly-traded AI driven immuno-oncology company with a robust pipeline of first in class TGF- β immunotherapies for late stage cancers such as gliomas, pancreatic cancer and melanoma.

On November 1, 2019, the Company entered into the Amendment to the PointR Merger Agreement with PointR. The Amendment revised certain terms of the PointR Merger Agreement to provide that holders of PointR Common Stock would receive shares of the Company's Series A Preferred in lieu of the Company's Common Stock in connection with the merger. The Amendment revised the terms of the milestones for earn-out payment as well.

On November 4, 2019, pursuant to the terms of the PointR Merger Agreement the Company completed the merger with PointR. On the effectiveness of the merger, the outstanding Common Stock of PointR immediately prior to the merger, including the conversion of a \$200,000 note with accrued interest, excluding any shares of PointR held by stockholders exercising dissenters' appraisal rights, was converted solely into the right to receive approximately 84,475 shares of the Company's Series A Preferred.

Immediately following the closing of the Merger, the former PointR security holders own approximately 23.29% of the Company's issued and outstanding Common Stock (including any shares of Common Stock issuable upon the conversion of the Company's Series A Preferred), and the Company's stockholders prior to the Merger own approximately 76.71% of the Company's issued and outstanding Common Stock (including any shares of Common Stock issuable upon conversion of the Company's Series A Preferred).

The Company obtained a preliminary 3rd party valuation on the fair value of the assets acquired and liabilities assumed for use in the purchase price allocation, as well as the value the consideration exchanged in the Merger. It was determined that the market price of the Company's Common Stock was a readily determinable measurement for calculating the fair value of the consideration and the Merger date stock price of \$.18 was used to value the equity interest exchanged.

The purchase price of approximately \$17.8 million, includes \$15.2 million represents the consideration transferred from Mateon at the time of the merger transaction and \$2.6 million of contingent consideration issuable upon PointR achieving certain milestones. Mateon issued 84,475 shares of preferred stock of the Company, related to the \$15 million of consideration and including \$0.2 million of short term debt repaid by Mateon inclusive of accrued interest thereon, and convertible at a rate of 1,000 shares of Common Stock per preferred stock, and was calculated based on the purchase prices divided by the price of the Common Stock of Mateon and does not include the \$2.6 million of contingent consideration.

The number of shares of Common Stock equivalents Mateon issued to PointR stockholders, for purposes of this Quarterly Report on Form 10-Q, is calculated pursuant to the terms of the Merger Agreement based on Mateon Common Stock outstanding as of November 4, 2019, as follows:

$\$15,205,473$ divided by $\$0.18 = 84,474,854$ shares of Common Stock
 $84,474,854$ shares of Common Stock divided by $1000 = 84,475$ shares of preferred stock
Combined ownership of Common Stock equivalents = $360,638,491$ shares
PointR's ownership of combined Common Stock equivalents = 23.29%

The application of the acquisition method of accounting is dependent upon certain valuations and other studies, which was completed in February 2020. The purchase price allocation was adopted and the final amounts allocated to assets acquired and liabilities assumed.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed as of the transaction date:

Assets and Liabilities Acquired:	
Cash	\$ 6,403
Fixed Assets	56,792
Other assets assumed (excluding cash and fixed assets)	260,905
In-process research and development	1,377,200
Liabilities assumed	(17,964)
Net assets acquired	<u>1,683,336</u>
Goodwill (a)	16,182,456
Purchase price (b)	<u>\$ 17,865,792</u>

a. The primary items that generate goodwill include the value of the synergies between the acquired company and PointR and the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

Goodwill is the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets. In accordance with applicable accounting standards, goodwill is not amortized but instead is tested for impairment at least annually or more frequently if certain indicators are present. Goodwill and intangibles is not deductible for tax purposes.

b. The total purchase price of \$17,865,792 represents the consideration transferred from Mateon in the Merger and was calculated based on the number of shares of Common Stock plus the preferred shares outstanding but convertible into Common Stock outstanding at the date of the Merger and includes \$2,625,000 of contingent consideration of shares issuable to PointR shareholders upon achievement of certain milestones.

NOTE 4 - INTANGIBLE ASSETS AND GOODWILL

Mateon completed a Merger with Oncotelic (Note 3), which gave rise to Goodwill of \$4,879,999. Further, we added goodwill of \$16,182,456 upon the completion of the Merger with PointR (Note 3). In general, the goodwill is tested on an annual impairment date of December 31. However, since both mergers were completed in 2019 and both assets are currently being developed for various cancer and COVID-19 therapies, we do not believe there are any factors or indications that the goodwill is impaired.

Assignment and Assumption Agreement with Autotelic, Inc.

In April 2018, Oncotelic entered into an Assignment and Assumption Agreement (the “*Assignment Agreement*”) with Autotelic Inc., an affiliate company, and Autotelic LLC, an affiliate company, pursuant to which Oncotelic acquired the rights to all intellectual property (“*IP*”) related to a patented product. As consideration for the Assignment Agreement, Oncotelic issued 204,798 shares of its Common Stock for a value of \$819,191. The Assignment Agreement also provides that Oncotelic shall be responsible for all costs related to the IP, including development and maintenance, going forward. All previous pass through charges related to this asset from Autotelic Inc. to Autotelic, LLC and then to Oncotelic will be null and void. As a result, Oncotelic wrote-off approximately \$458,000 in previously billed charges related to the Oncotelic IP, which was recorded in general and administrative expense. Dr. Trieu, a related party, is a control person in Autotelic LLC and Autotelic Inc.

Intangible Asset Summary

The following table summarizes the balances as of March 31, 2020 and December 31, 2019, of the intangible assets acquired, their useful life, and annual amortization:

	March 31, 2020	Remaining Estimated Useful Life (Years)
Intangible asset – Intellectual Property	\$ 819,191	18.54
Intangible asset – Capitalization of license cost	190,989	18.54
	<u>1,010,180</u>	
Less Accumulated Amortization	(98,449)	
Total	<u>\$ 911,731</u>	

	December 31, 2019	Remaining Estimated Useful Life (Years)
Intangible asset – Intellectual Property	\$ 819,191	18.68
Intangible asset – Capitalization of license cost	190,989	18.68
	<u>1,010,180</u>	
Less Accumulated Amortization	(85,608)	
Total	<u>\$ 924,572</u>	

Amortization of identifiable intangible assets for the three months ended March 31, 2020 and 2019 was \$12,841 and \$12,841, respectively.

The future yearly amortization expense over the next five years and thereafter are as follows:

For the years ended December 31,	
2020	\$ 38,524
2021	51,365
2022	51,365
2023	51,365
2024	51,365
Thereafter	667,747
	<u>\$ 911,731</u>

In-Process Research & Development (IPR&D) Summary

The following table summarizes the balances as of March 31, 2020 of the IPR&D assets acquired during the three months ended December 31, 2019. The Company will evaluate, on an annual basis, for any impairment and record an impairment if identified. No similar balances were present in 2019:

	March 31, 2020	Remaining Estimated Useful Life (Years)
Intangible asset – Intellectual Property	\$ 1,377,200	4.75
	1,377,200	
Less Accumulated Amortization	(68,860)	
Total	<u>\$ 1,308,340</u>	

Amortization of identifiable intangible assets for the three months ended March 31, 2020 and 2019 was \$68,860 and \$0, respectively.

The future yearly amortization expense over the next five years and thereafter are as follows:

For the years ended December 31,	
2020	\$ 206,580
2021	275,440
2022	275,440
2023	275,440
2024	275,440
	<u>\$ 1,308,340</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expense consists of the following amounts:

	December 31, 2020	December 31, 2019
Accounts payable	\$ 1,740,053	\$ 1,793,033
Accrued expense	462,518	261,950
	<u>\$ 2,202,571</u>	<u>\$ 2,054,983</u>
	December 31, 2020	December 31, 2019
Accounts payable – related party	<u>\$ 763,026</u>	<u>\$ 601,682</u>

NOTE 6 – CONVERTIBLE DEBENTURES AND NOTES

As of March 31, 2020, convertible debentures and notes, net of debt discount, consist of the following amounts:

	<u>March 31, 2020</u>
10% Convertible note payable, due April 23, 2022 – Peak One	\$ 11,254
10% Convertible note payable, due June 12, 2022 – Peak One	(30,542)
10% Convertible note payable, due April 23, 2022 - TFK	14,984
10% Convertible note payable, due April 23, 2022 – Related Party	16,019
10% Convertible note payable, due April 23, 2022 – Bridge Investor	3,468
10% Convertible note payable, due August 6, 2022 – Bridge Investor	158,200
	<u>\$ 173,383</u>

The gross principal balances on the convertible debentures listed above totaled \$1,000,000 and included an initial debt discounts totaling \$800,140, resulting from the recording of the original issue discount, the related financing costs, the beneficial conversion feature for the intrinsic value of the non-bifurcated conversion option and the restricted shares issued contemporaneously with the convertible notes.

Total amortization expense related to these debt discounts was \$359,971 and \$0 for the three months ended March 31, 2020 and 2019, respectively. In addition, during the three months ended March 31, 2020, we recorded additional and accelerated amortization of debt discounts, which was created from the bifurcation of the conversion option related the host hybrid instruments, of \$163,855 upon the partial conversion of debt by Peak One and TFK to shares of the Company's common stock. The total unamortized debt discount at March 31, 2020, was approximately \$573,000.

All the above notes issued to Peak One, TFK, our CEO and the bridge investors reached the 180 days prior to the end of the three months ended March 31, 2020. As such, all the note holders had the ability to convert that debt into equity at the variable conversion price of 65% of the Company's lowest traded price after the first 180 days or at the lower of the Fixed Price or 55% of the Company's traded stock price under certain circumstances. This gave rise to a derivative feature within the debt instrument. As of December 31, 2019, we had a derivative liability of approximately \$541,000. The Company recorded additional derivative liability of approximately \$870,000 during the three months ended March 31, 2020 since the conversion option attached to certain notes became convertible into a variable number of shares of our common stock. The Company also extinguished approximately \$369,000 of derivative liability following the conversion of certain notes to the Company's common stock in the three months ended March 31, 2020. Following the recognition as derivative liability of the embedded conversion options, the Company fully amortized the remaining unamortized beneficial conversion feature for approximately \$232,000, recorded an initial \$258,070 from the initial recognition of the debt discount following the bifurcation of the embedded conversion option. As of March 31, 2020, the Company had a derivative liability of approximately \$1,778,000 and a change in fair value of approximately \$736,000.

Bridge Financing

Peak One Financing

On April 17, 2019, the Company entered into a Securities Purchase Agreement (the "*Purchase Agreement*") with Peak One Opportunity Fund, L.P. (the "*Buyer*", "*Peak One*"), for a commitment to purchase convertible notes in the aggregate amount of \$400,000, pursuant to which, for an aggregate purchase price of \$400,000, the Buyer purchased (a) Tranche #1 in the form of a Convertible Promissory Note in the principal amount of \$200,000 (the "*Convertible Note*") and (b) 350,000 restricted shares of the Company's Common Stock (the "*Shares*") (the "*Purchase and Sale Transaction*"). The Company used the net proceeds from the Purchase and Sale Transaction for working capital and general corporate purposes.

The Convertible Note has a principal balance of \$200,000, including a 10% OID of \$20,000 and \$5,000 in debt issuance costs, receiving net proceeds of \$175,000, with a maturity date of April 23, 2022. Upon the occurrence of certain events of default, the Buyer, amongst other remedies, has the right to charge a penalty in a range of 18% to 40% dependent on the specific default event. Amounts due under the Convertible Note may also be converted into shares (the “*Tranche #1 Conversion Shares*”) of the Company’s Common Stock at any time, at the option of the holder, at (i) a conversion price, during the first 180 days, of \$0.10 per share (the “*Fixed Price*”), and then (2) at the lower of the Fixed Price or 65% of the Company’s lowest traded price after the first 180 days or at the lower of the Fixed Price or 55% of the Company’s traded stock price under certain circumstances. The Company has agreed to at all times, reserve and keep available out of its authorized Common Stock a number of shares equal to at least two times the full number of the Tranche #1 Conversion Shares. The Company may redeem the Convertible Note at rates of 110% to 140% over the principal balance dependent on certain events and redeem the value with accrued interest thereon, if any.

The issuance of the Convertible Note resulted in a discount from the beneficial conversion feature totaling \$84,570, including \$52,285 related to the beneficial conversion feature and a discount from the issuance of restricted stock of 350,000 shares for \$32,285. Total amortization of these OID and debt issuance cost discounts totaled \$25,193 for the year ended December 31, 2019. Total unamortized discount on this note was \$84,377 as of December 31, 2019.

On June 12, 2019, the Company entered into an amendment of the Purchase Agreement (“*Amendment #1*”) in connection with the draw-down of the second tranche, and to provide for additional borrowing capacity under that agreement. Amendment #1 increased the borrowing amount up to \$600,000, adding the ability to borrow an additional \$200,000 in a third tranche.

On June 12, 2019, the Buyer purchased Convertible Note Tranche #2 (“*Tranche #2*”) totaling \$200,000, including a 10% OID of \$20,000 and a \$1,000 debt issuance cost, receiving net proceeds of \$179,000 against the April 17, 2019, Purchase Agreement with Peak One, with a maturity date of June 12, 2022. Amounts due under Tranche #2 are convertible at the same terms as Tranche #1 above.

The issuance of Tranche #2 resulted in a discount from the beneficial conversion feature totaling \$180,000, including \$132,091 related to the conversion feature and a discount from the issuance of restricted stock of 350,000 shares for \$47,909. Total amortization of these OID and debt issuance cost discounts totaled \$37,046 for the year ended December 31, 2019. Total unamortized discount on this note was \$163,954 as of December 31, 2019.

On November 5, 2019, the Company and Peak One amended the Convertible Note under Tranche #1 to extend the date of conversion of the Convertible Note into Common Stock of the Company at 65% of the traded price of the Company’s Common Stock until January 8, 2020. This amendment put a temporary hold on Peak One to convert the debt under Tranche 1. This restriction did not apply if Peak One opted to convert the Convertible Note at \$0.10. The Company compensated Peak One 300,000 shares of the Company’s Common Stock for delaying the conversion until January 18, 2020. Such shares were issued to Peak One on November 14, 2019. Non-cash compensation expense of \$60,000 was recorded for such issuance.

Peak One converted \$150,000 of their total debt into 2,012,145 shares of Mateon during the three months ended March 31, 2020.

TFK Financing

On April 23, 2019, the Company, entered into a Convertible Note (the “*TFK Note*”) with TFK Investments, LLC (“*TFK*”). The TFK Note has a principal balance of \$200,000, including a 10% OID of \$20,000 and \$5,000 in debt issuance costs, receiving net proceeds of \$175,000, with a maturity date of April 23, 2022. Upon the occurrence of certain events of default, the Buyer, amongst other remedies, has the right to charge a penalty in a range of 18% to 40% dependent on the specific default event. Amounts due under the Convertible Note may also be converted into shares (the “*TFK Conversion Shares*”) of the Company’s Common Stock at any time, at (i) a conversion price, during the first 180 days, of \$0.10 per share (the “*Fixed Price*”), and then (2) at the lower of the Fixed Price or 65% of the Company’s lowest traded price after the first 180 days or at the lower of the Fixed Price or 55% of the Company’s traded stock price under certain circumstances. The Company has agreed to at all times reserve and keep available out of its authorized Common Stock a number of shares equal to at least two times the full number of the TFK Conversion Shares. The Company may redeem the Convertible Note at rates of 110% to 140% rates over the principal balance dependent on certain events and redeem the value with accrued interest thereon, if any.

The issuance of the TFK Note resulted in a discount from the beneficial conversion feature totaling \$84,570, including \$52,285 related to the beneficial conversion feature and a discount from the issuance of restricted stock of 350,000 shares for \$32,285. Total amortization of these OID and debt issuance cost discounts totaled \$25,193 for the year ended December 31, 2019. Total unamortized discount on this note was \$84,377 as of December 31, 2019.

On November 5, 2019, the Company and TFK amended the TFK Convertible Note to extend the date of conversion of the Convertible Note into Common Stock of the Company at 65% of the traded price of the Company's Common Stock until January 8, 2020. This restriction did not apply if TFK wished to convert the Convertible Note at \$0.10 per share. The Company compensated TFK 300,000 shares of the Company's Common Stock for delaying the conversion until January 8, 2020. Such shares were issued to TFK on November 14, 2019. Non-cash compensation expense of \$60,000 was recorded for such issuance.

TFK converted \$133,430 of their total debt into 1,950,000 shares of Mateon during the three months ended March 31, 2020.

Notes with Officer and Bridge Investor

On April 17, 2019, the Company entered into a Securities Purchase Agreement (the "*Bridge SPA*") with our CEO and the Bridge Investor with a commitment to purchase convertible notes in the aggregate of \$400,000.

On April 23, 2019, the Company entered into a convertible note with our Chief Executive Officer, Vuong Trieu, Ph. D. (the "*Trieu Note*"). The Trieu Note has a principal balance of \$164,444, including a 10% OID of \$16,444, resulting in net proceeds of \$148,000, with a maturity date of April 23, 2022. Upon the occurrence of certain events of default, the Buyer, amongst other remedies, has the right to charge a penalty in a range of 18% to 40% dependent on the specific default event. Amounts due under the Convertible Note may also be converted into shares (the "*Trieu Conversion Shares*") of the Company's Common Stock at any time, at the option of the holder, at a conversion price of \$0.10 per share (the "*Fixed Price*"), at the lower of the Fixed Price or 65% of the Company's lowest traded price after the 180th day or at the lower of the Fixed Price or 55% of the Company's traded stock price under certain circumstances. The Company has agreed to at all times reserve and keep available out of its authorized Common Stock a number of shares equal to at least two times the full number of Conversion Shares. The Company may redeem the Convertible Note at rates of 110% to 140% rates over the principal balance dependent on certain events and redeem the value with accrued interest thereon, if any.

The issuance of the Trieu Note resulted in a discount from the beneficial conversion feature totaling \$131,555 related to the conversion feature. Total amortization of the 10% OID discount totaled \$34,029 for the year ended December 31, 2019. Total unamortized discount on this note was \$113,970 as of December 31, 2019.

On April 23, 2019, pursuant to the Bridge SPA the Company entered into Convertible Note Tranche #1 ("*Tranche #1*") with the Bridge Investor. Tranche #1 has a principal balance of \$35,556, an OID of \$3,556, resulting in net proceeds of \$32,000, with a maturity date of April 23, 2022. Upon the occurrence of certain events of default, the Buyer, among other remedies, has the right to charge a penalty in a range of 18% to 40% dependent on the specific default event. Amounts due under Tranche #1 may also be converted into shares (the "*Bridge SPA Conversion Shares*") of the Company's Common Stock at any time, at (i) a conversion price, during the first 180 days, of \$0.10 per share (the "*Fixed Price*"), and then (2) at the lower of the Fixed Price or 65% of the Company's lowest traded price after the first 180 days or at the lower of the Fixed Price or 55% of the Company's traded stock price under certain circumstances. The Company may redeem the Convertible Note at rates of 110% to 140% rates over the principal balance dependent on certain events and redeem the value with accrued interest thereon, if any.

The issuance of the note resulted in a discount from the beneficial conversion feature totaling \$28,445. Total amortization of the OID and discount totaled \$7,358 for the year ended December 31, 2019. Total unamortized discount on this note was \$24,643 as of December 31, 2019.

On August 6, 2019, pursuant to the Bridge SPA the Company entered into Convertible Note Tranche #2 (“Tranche #2”) with the Bridge Investor. Tranche #2 has a principal balance of \$200,000, an OID of \$20,000 and debt issuance costs of \$5,000, resulting in net proceeds of \$175,000, with a maturity date of August 6, 2022. Upon the occurrence of certain events of default, the Buyer, among other remedies, has the right to charge a penalty in a range of 18% to 40% dependent on the specific default event. Amounts due under Tranche #1 may also be converted into Bridge Conversion Shares of the Company’s Common Stock at any time, at the option of the holder, at a conversion price equal to the Fixed Price, at the lower of the Fixed Price or 65% of the Company’s lowest traded price after the 180th day or at the lower of the Fixed Price or 55% of the Company’s traded stock price under certain circumstances. The Company may redeem the Convertible Note at rates of 110% to 140% rates over the principal balance dependent on certain events and redeem the value with accrued interest thereon, if any.

The issuance of the note resulted in a discount from the beneficial conversion feature totaling \$175,000. Total amortization of the OID and discount totaled \$26,825 for the year ended December 31, 2019. Total unamortized discount on this note was \$173,175 as of December 31, 2019.

All the above notes issued to Peak One, TFK, our CEO and the bridge investors reached the 180 days prior to the end of the three months ended March 31, 2020. As such, all the note holders had the ability to convert that debt into equity at the variable conversion price of 65% % of the Company’s lowest traded price after the first 180 days or at the lower of the Fixed Price or 55% of the Company’s traded stock price under certain circumstances. This gave rise to a derivative feature within the debt instrument. As of December 31, 2020, we had a derivative liability of \$541,000. The Company evaluated the impact of the derivative for the debt converted during the three months ended March 31, 2020 and recorded a derivative liability of \$1,778,272. This also required the company to fully amortize the beneficial conversion feature of \$258,071, record a debt discount of \$287,829 and a change in fair value of \$736,297 to appropriately record the transactions.

During the three months ended March 31, 2020, the Company’s CEO provided additional funding of \$70,000 to the Company.

Convertible Note with PointR Data, Inc.

On July 22, 2019, the Company entered into a Note Purchase Agreement with PointR. Pursuant to the Note Purchase Agreement, the Company issued a Convertible Promissory Note to PointR. in the principal amount of \$200,000. The Convertible Promissory Note bore interest at a rate of 8% per annum. Interest payments were due monthly on the 15th day of each calendar month (or the next business day thereafter), and were payable, at the option of the holder, either in cash or in shares of the Company’s Common Stock, valued at the closing price of the Common Stock on the principal market on which the Common Stock is either traded or quoted at such time. The Convertible Promissory Note was due and payable on demand by the holder (a) at any time after January 1, 2020 or (b) upon the occurrence of an Event of Default (as defined in the Convertible Note and the Note Purchase Agreement). All amounts outstanding under the Convertible Promissory Note would be automatically be converted into the Company’s securities issued in next equity financing raising gross proceeds of \$10 million or more (a “Qualified Financing”) at the price per share paid by investors in the Qualified Financing. As the conversion feature is contingent upon a future event, the conversion feature will be evaluated under ASC 470-20 and ASC 815 when and if the Qualified Financing occurred.

On November 4, 2019, the Convertible Note, with accrued interest of \$4,603 thereon, was converted into Company’s Series A Preferred and is a part of the total consideration of 84,475 Series A Preferred issued to the PointR shareholders. Since the conversion occurred prior to the Qualified Financing, the Company did not have to evaluate the conversion feature under ASC 470-20 and ASC 815.

Fall 2019 Debt Financing

As of March 31, 2020, the amounts outstanding, net of discounts and inclusive of accrued interest thereon, on the Fall 2019 Debt Financing consisted of:

	<u>March 31, 2020</u>
5% Convertible note payable – Stephen Boesch	209,676
5% Convertible note payable – Vuong Trieu	209,504
5% Convertible note payable – Sanjay Jha (Through his family trust)	209,025
5% Convertible note payable – CEO, CTO & CFO	79,940
5% Convertible note payable – Bridge Investors	163,780
	<u>\$ 871,925</u>

On December 11, 2019, the Company closed its Fall 2019 Debt Financing raising an additional \$500,000 for gross proceeds of \$1.0 million. The Company entered into Note Purchase Agreements (the “*Note Purchase Agreements*”) with certain accredited investors for the sale of convertible promissory notes (the “*Fall 2019 Notes*”). The Company completed the initial closing under the Note Purchase Agreements on November 23, 2019, issuing a \$250,000 principal amount Fall 2019 Note to each of Dr. Vuong Trieu, the Company’s Chief Executive Officer, and Stephen Boesch, in exchange for gross proceeds of \$500,000. In connection with the second and final closing the Company issued the Fall 2019 Notes to additional investors including \$250,000 to Dr. Sanjay Jha, through his family trust, the former CEO of Motorola and COO/President of Qualcomm. The Company also offset certain amounts due to Dr. Vuong Trieu, the Company’s Chief Executive Officer, Chulho Park, the Company’s Chief Technology Officer, and Amit Shah, the Company’s Chief Financial Officer and converted such amounts due into the Fall 2019 Notes. \$35,000 due to Dr. Vuong Trieu, \$27,000 due to Chulho Park and \$20,000 due to Amit Shah was converted into debt. The Company also issued the Fall 2019 Notes of \$168,000 to two unaffiliated accredited investors.

All the Fall 2019 Notes provide for interest at the rate of 5% per annum and are unsecured. All amounts outstanding under the Fall 2019 Notes become due and payable upon the approval of the holders of a majority of the principal amount of outstanding Fall 2019 Notes (the “*Majority Holders*”) on or after (a) November 23, 2020 or (b) the occurrence of an event of default (either, the “*Maturity Date*”). The Company may prepay the Fall 2019 Notes at any time. Events of default under the Fall 2019 Notes include failure to make payments under the Fall 2019 Notes within thirty (30) days of the date due, failure to observe of the Note Purchase Agreement or Fall 2019 Notes which is not cured within thirty (30) days of notice of the breach, bankruptcy, or a change in control of the Company (as defined in the Note Purchase Agreement).

The Majority Holders have the right, at any time not more than five (5) days following the Maturity Date, to elect to convert all, and not less than all, of the outstanding accrued and unpaid interest and principal on the Fall 2019 Notes. The Fall 2019 Notes may be converted, at the election of the Majority Holders, either (a) into shares of the Company’s Common Stock at a conversion price of \$0.18 per share, or (b) into shares of EdgePoint’s, the Company’s to be newly formed subsidiary for AI/Blockchain in pharmaceutical manufacturing, Common Stock at a conversion price of \$5.00 (based on a \$5.0 million pre-money valuation) of EdgePoint and one million shares outstanding.

The issuance of the Fall 2019 notes resulted in a discount from the beneficial conversion feature totaling \$222,222 related to the conversion feature. Total amortization of the discount totaled \$55,556 and \$0 for the three months ended March 31, 2020 and 2019, respectively. Total unamortized discount on this note was \$144,444 as of March 31, 2020.

Further, the Company recorded interest expense of \$12,500 on these Fall 2019 Notes for the three months ended March 31, 2020. The total amount outstanding under the Fall 2019 Notes, including accrued interest thereon, as of March 31, 2020 was \$1,016,369 and at December 31, 2019 was \$1,003,870.

During the three months ended March 31, 2020, the Company’s CEO provided additional funding of \$70,000 to the Company.

NOTE 7 - RELATED PARTY TRANSACTIONS

Master Service Agreement with Autotelic Inc.

In October 2015, Oncotelic entered into a Master Service Agreement (the “*MSA*”) with Autotelic Inc., a related party that is partly-owned by the Company’s CEO Vuong Trieu, Ph.D. Dr. Trieu, a related party, is a control person in Autotelic Inc. Autotelic Inc. currently owns less than 10% of the Company. The MSA stated that Autotelic Inc. will provide business functions and services to the Company and allowed Autotelic Inc. to charge the Company for these expenses paid on its behalf. The MSA includes personnel costs allocated based on amount of time incurred and other services such as consultant fees, clinical studies, conferences and other operating expenses incurred on behalf of the Company. The MSA requires a 90-day written termination notice in the event either party requires to terminate such services.

Expenses related to the MSA were \$232,806 for the three months ended March 31, 2020 as compared to \$339,294 for the same period of 2019

In January 2019, Oncotelic issued a total of 80,772 shares of Common Stock with a fair value of \$4.00 per share to Autotelic, Inc. in lieu of cash for the settlement of outstanding accounts payable.

License Fee with Autotelic

In December 2015, Oncotelic paid Autotelic Inc. \$395,150 for the right to license the use of Trabedersen (OT-101) for 5 years. On April 13, 2018, Oncotelic purchased the license for OT-101 from Autotelic Inc. for \$819,191, which was recorded as an intangible asset. In addition, the remaining prepaid expense of \$191,191 was converted into an intangible to be amortized at the same rate as the license. As such, Oncotelic recorded a charge of \$12,841 for both the three months ended March 31, 2020 and 2019, respectively, as amortization of the intangibles acquired. Oncotelic had approximately \$911,731 and \$924,572 of unamortized intangibles as of March 31, 2020 and December 31, 2019, respectively. On December 31, 2018, Oncotelic issued Autotelic Inc. 204,798 shares of the Company's Common Stock as consideration for the license.

Note Payable – Related Party

On April 23, 2019, the Company issued a convertible note to our Chief Executive Officer totaling \$164,444, including OID of \$16,444, receiving net proceeds of \$148,000, which was used by the Company for working capital and general corporate purposes (See Note 6). In addition, the Company issued a \$250,000 principal amount Fall 2019 Note to the Chief Executive Officer also offset certain amounts due to the Company's Chief Executive Officer in the amount of \$35,000 due to and was converted into debt. During the three months ended March 31, 2020, the Company's CEO provided additional funding of \$70,000 to the Company.

Artius Consulting Agreement

On March 9, 2020, the Company and Artius Bioconsulting, LLC ("Artius"), for which Mr. King is the Managing Member, entered into an amendment to the Consulting Agreement dated December 1, 2018, under which Artius agreed to serve as a consultant to the Company for services related to the Company's business from time to time, effective December 1, 2019 (the "Effective Date") (the "Artius Agreement"). In connection with the Artius Agreement, Mr. King also agreed to assist the Company with strategic advisory services with respect to transactional and operational contracts, budgetary input, among other matters in connection with the formation of a new business unit to develop AI and Blockchain Driven Vision Systems ("EdgePoint AI"), for which Mr. King is Chief Executive Officer.

Under the terms of the Artius Agreement, the Company agreed to grant to Artius, subject to approval by the Company's Board of Directors and pursuant to the Company's 2017 Equity Incentive Plan, 148,837 restricted shares of the Company's common stock, par value \$.01 per share ("Common Stock"), in addition to a 30% pre-financing ownership stake in EdgePoint AI. The Artius Agreement contemplates that Mr. King will generally provide his services at a rate of \$237 per hour, not to exceed 44 hours per month and payable monthly, and to reimburse Mr. King for reasonable and necessary expenses incurred by him or Artius in connection with providing services to the Company.

Either the Company or Artius may terminate the Artius Agreement at any time, for any reason following the Effective Date. The Artius Agreement will automatically renew one year from the Effective Date, unless the Parties agree to terminate the Artius Agreement at that time.

No expense was recorded during the three months ended March 31, 2020 related to this Agreement

Maida Consulting Agreement

Effective May 5, 2020, the Company and Dr. Maida entered into an independent consulting agreement, commencing April 1, 2020 (the “Maida Agreement”), under which Dr. Maida will assist the Company in providing medical expertise and advice from time to time in the design, conduct and oversight of the Company’s existing and future clinical trials.

Pursuant to the terms of the Maida Agreement, the Company will grant to Dr. Maida 400,000 restricted shares of the Company’s Common Stock corresponding to \$80,000 at the stock value of \$0.20 per share, to vest on May 5, 2021. The Company will also pay Dr. Maida \$15,000 per month for a minimum of 20 hours per week, in addition to reimbursement of reasonable and necessary expenses incurred by Dr. Maida in connection with his services to the Company.

Either the Company or Dr. Maida may terminate the Maida Agreement, for any reason, upon 30 days advance written notice.

No expense was recorded during the three months ended March 31, 2020 related to this Agreement

NOTE 8 - STOCKHOLDERS’ EQUITY

The following transactions affected the Company’s Stockholders’ Equity:

Equity Transactions During the Period Prior to the Merger

Issuance of Common Stock

In January 2019, Oncotelic issued 11,250 shares of Common Stock with a fair value of \$4.00 per share to an employee in lieu of cash for compensation.

In January 2019, Oncotelic issued a total of 80,772 shares of Common Stock with a fair value of \$4.00 per share to Autotelic, Inc. in lieu of cash for the settlement of outstanding accounts payable and services received during the three months ended March 31, 2019.

In January 2019, Oncotelic issued a total of 20,750 shares of Common Stock with a fair value of \$4.00 per share to two separate investors for \$83,000 in cash.

In March 2019, Oncotelic issued 80,594 shares of Common Stock with a fair value of \$4.00 per share to various employees in lieu of cash for accrued compensation.

In April 2019, Oncotelic issued a total of 150,000 shares of common stock to two investors as a result of the conversion of warrants for \$120 in cash.

Equity Transactions During the Period Since the Merger

Issuance of Preferred Stock

In April 2019, pursuant to the Merger the Company issued 193,713 shares of Series A Preferred in exchange for 77,154 shares of Oncotelic Common Stock. Further, in November 2019 the Company issued 84,475 shares of Series A Preferred to PointR in exchange of 11,135,935 shares of PointR Common Stock upon the consummation of the PointR merger (See Note 3)

Issuance of Common Stock during the three months ended March 31, 2020

In February 2020, the Company issued 500,000 shares of its common stock to Peak One in connection with the part conversion of one of their convertible notes payable. (See Note 6).

In March 2020, the Company issued 750,000 shares of its Common Stock to TFK in connection with the part conversion of their convertible notes payable. (See Note 6).

In March 2020, the Company issued 500,000 shares of its Common Stock to Peak One in connection with the part conversion of one of their convertible notes payable. (See Note 6)

In March 2020, the Company issued 1,012,145 shares of its Common Stock to TFK in connection with the part conversion of their convertible notes payable. (See Note 6).

In February 2020, the Company issued 1,200,000 shares of its Common Stock to Peak One in connection with the part conversion of one of their convertible notes payable. (See Note 6)

Issuance of Common Stock in 2019

In April, 2019, pursuant to the Merger the Company issued 41,000,033 shares of Common Stock in exchange for 10,318,746 shares of Oncotelic Common Stock. (See Note 3)

On April 23, 2019, the Company issued 700,000 restricted shares of its Common Stock with a fair value of \$0.11 per share to two noteholders in connection with convertible notes payable. (See Note 6)

On June 12, 2019, the Company issued 350,000 restricted shares of its Common Stock with a fair value of \$0.18 per share in connection with a convertible note payable. (See Note 6)

On November 18, 2019, the Company issued 300,000 restricted shares of its Common Stock to Peak One with a fair value of \$0.20 to extend the date of conversion of the Convertible Note into Common Stock of the Company at 65% of the traded price of the Company's Common Stock until January 18, 2020. This restriction did not apply if Peak One wished to convert the Convertible Note at \$0.10. The Company recorded a cost of \$60,000 in lieu of such issuance.

On November 18, 2019, the Company issued 300,000 restricted shares of its Common Stock to TFK with a fair value of \$0.20 to extend the date of conversion of the Convertible Note into Common Stock of the Company at 65% of the traded price of the Company's Common Stock until January 8, 2020. This restriction did not apply if TFK wished to convert the Convertible Note at \$0.10 per share. The Company recorded a cost of \$60,000 in lieu of such issuance.

NOTE 9 – STOCK-BASED COMPENSATION

Options

Pursuant to the Merger, the Company's Common Stock and corresponding outstanding options survived. The below information details the Company's associated option activity pre and post merger.

As of March 31, 2020, options to purchase Common Stock were outstanding under three stock option plans – the 2017 Equity Incentive Plan (the “2017 Plan”), the 2015 Equity Incentive Plan (the “2015 Plan”) and the 2005 Stock Plan (the “2005 Plan”). Under the 2017 Plan, up to 2,000,000 shares of the Company's Common Stock may be issued pursuant to awards granted in the form of nonqualified stock options, restricted and unrestricted stock awards, and other stock-based awards. Under the 2015 and 2005 Plans, taken together, up to 7,250,000 shares of the Company's Common Stock may be issued pursuant to awards granted in the form of incentive stock options, nonqualified stock options, restricted and unrestricted stock awards, and other stock-based awards. Employees, consultants, and directors are eligible for awards granted under the 2017 and 2015 Plans. Since the adoption of the 2015 Plan, no further awards may be granted under the 2005 Plan, although options previously granted remain outstanding in accordance with their terms.

Compensation based stock option activity for qualified and unqualified stock options are summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2019	6,145,044	\$ 0.75
Expired or canceled	(9,760)	2.79
Outstanding at March 31, 2020	<u>6,135,284</u>	<u>\$ 0.75</u>

The following table summarizes information about options to purchase shares of the Company's Common Stock outstanding and exercisable at March 31, 2020:

Exercise prices	Outstanding Options	Weighted- Average Remaining Life In Years	Weighted- Average Exercise Price	Number Exercisable
\$ 0.22	2,524,513	8.23	\$ 0.22	2,524,513
0.38	1,162,500	6.79	0.38	1,162,500
0.51	242,966	7.20	0.51	242,966
0.58	271,224	6.58	0.58	271,224
0.73	1,025,000	5.98	0.73	1,025,000
1.37	150,000	5.31	1.37	150,000
1.43	525,000	5.16	1.43	525,000
2.60	5,280	4.26	2.60	5,280
2.95	150,000	4.13	2.95	150,000
11.88	2,359	1.76	11.88	2,359
15.00	75,000	5.16	15.00	75,000
19.80	1,442	1.59	19.80	1,442
	<u>6,135,284</u>	<u>6.88</u>	<u>\$ 0.74</u>	<u>6,135,284</u>

The compensation expense attributed to the issuance of the options is recognized as they are vested.

The employee stock option plan stock options are generally exercisable for ten years from the grant date and vest over various terms from the grant date to three years.

The aggregate intrinsic value totaled \$0 and was based on the Company's closing stock price of \$0.17 as of March 31, 2020, which would have been received by the option holders had all option holders exercised their options as of that date.

As of March 31, 2020, there was no future compensation cost as all stock options vested prior to December 31, 2019 and the compensation was fully expensed prior to the Merger and no new options have been granted since then.

In April 2019 and in conjunction with the close of the Merger, the Company recorded approximately \$341,000 in compensation cost as a result of the acceleration of the vesting schedule of approximately 328,000 Oncotelic options. Pursuant to the Merger these options were converted into Common and Series A Preferred Shares in the Company.

In August 2019, the Company entered into Employment Agreements and incentive compensation arrangements with each of its executive officers, including Dr. Vuong Trieu, the Chief Executive Officer; Dr. Fatih Uckun, the Chief Medical Officer; Dr. Chulho Park, its Chief Technology Officer; and Mr. Amit Shah, the Chief Financial Officer. Details of the agreements and the incentive compensation is described in detail in Note 11 – Commitments & Contingencies under "Employment Agreements". The incentive stock options or the restricted stock awards granted to the Company's executive officers have not been granted as of the date of this filing.

Warrants

Pursuant to the Merger, the Company's Common Stock and corresponding outstanding warrants survived. The below information represents the Company's associated warrant activity pre-merger and post-merger.

In February 2020, the Company offered to cancel to all the prior warrants of the warrant holders from the 2018 debt financing and offered to reissue new warrants to such warrant holders. Out of all the warrant holders, holders of 13,750,000 warrants opted to participate in the reissuance. The issuance of warrants to purchase shares of the Company's Common Stock including those attributed to debt issuances as of March 31, 2020 and December 31, 2019 are summarized as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2019	19,515,787	\$ 0.60
Issued during three months ended March 31, 2020	13,750,000	0.20
Expired or cancelled	(18,028,287)	0.63
Outstanding at March 31, 2020	<u>15,237,500</u>	<u>\$ 0.20</u>

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2018	24,380,893	\$ 1.05
Expired or cancelled	(4,865,106)	2.82
Outstanding at December 31, 2019	<u>19,515,787</u>	<u>\$ 0.60</u>

The following table summarizes information about warrants outstanding and exercisable at March 31, 2020:

Outstanding and exercisable				
Exercise Price	Number Outstanding	Weighted-Average Remaining Life in Years	Weighted-Average Exercise Price	Number Exercisable
\$ 0.20	1,487,500	3	\$ 0.20	1,487,500
0.20	<u>13,750,000</u>	<u>3</u>	<u>0.20</u>	<u>13,750,000</u>
	<u>15,237,500</u>	<u>3</u>	<u>\$ 0.20</u>	<u>15,237,500</u>

The expense attributed to the issuances of the warrants was recognized as they vested/earned. These warrants are exercisable for three to five years from the grant date. All the warrants are currently exercisable. There were no warrants issued during the year ended December 31, 2019. 13,750,000 warrants were issued during the three months ended March 31, 2020 and we recorded stock-based compensation of \$2.1 million as the fair value of the warrants using a Black Scholes valuation model using the following input values.

Expected Term	3 years
Expected volatility	140.5%
Risk-free interest rates	1.40%
Dividend yields	0.00%

NOTE 10 – INCOME TAXES

The Company had net deferred tax assets of approximately \$65.7 million and \$65 million as of March 31, 2020 and December 31, 2019, respectively, which primarily relate to net operating loss carryforwards. The increase during the three months ended March 31, 2020 relates to the operations of the Company.

We record a valuation allowance in the full amount of our net deferred tax assets since realization of such tax benefits has been determined by our management to be less likely than not.

We have identified our federal and California state tax returns as “major” tax jurisdictions. Currently, the periods our income tax returns are subject to examination for these jurisdictions are 2015 through 2018, till such time we file the 2019 tax return. We believe our income tax filing positions and deductions will be sustained on audit, and we do not anticipate any adjustments that would result in a material change to our financial position. Therefore, no liabilities for uncertain income tax positions have been recorded.

At March 31, 2020, we had available net operating loss carry forwards for federal income tax reporting purposes of approximately \$250.4 million, including net operating losses of \$2.4 million recorded for the three months ended March 31, 2020. At December 31, 2019, we had available net operating loss carry-forwards for federal income tax reporting purposes of approximately \$248 million which are available to offset future taxable income. Portions of these carry-forwards will expire through 2038 if not otherwise utilized. We have not performed a formal analysis, but we believe our ability to use such net operating losses and tax credit carry-forwards is subject to annual limitations due to change of control provisions under Sections 382 and 383 of the Internal Revenue Code, which significantly impacts our ability to realize these deferred tax assets.

As of the date of this filing, the Company has not filed its 2019 federal and state corporate income tax returns. The Company expects to file these documents as soon as practicable.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Leases

Currently, the Company is leasing the office located at 29397 Agoura Road, Suite 107, Agoura Hills, CA 91301 on a month-to-month basis until such time a new office is identified.

Legal Claims

From time to time, the Company may become involved in legal proceedings arising in the ordinary course of business. The Company is not presently a party to any legal proceedings that it currently believes, if determined adversely to the Company, would individually or taken together have a material adverse effect on the Company’s business, operating results, financial condition or cash flows.

Employment Agreements

On August 23, 2019, the Company entered into Employment Agreements and incentive compensation arrangements with each of its executive officers, including Dr. Vuong Trieu, the Chief Executive Officer; Dr. Fatih Uckun, the Chief Medical Officer; Dr. Chulho Park, the Chief Technology Officer; and Mr. Amit Shah, the Chief Financial Officer. On November 18, 2019, upon review of said employment agreement with Dr. Uckun, it was observed that the agreement submitted for Dr. Uckun was the incorrect document.

The Employment Agreements provide for annual base salaries for each year of the term, subject to review and adjustment by the Company’s Board or the Compensation Committee of the Board (the “*Compensation Committee*”) from time to time. Each Employment Agreement provides that the executive shall be eligible for an annual discretionary cash bonus expressed as a percentage the executive’s base salary, subject to their achievement of performance targets and goals established by the Board or the Compensation Committee.

The Employment Agreements provide for equity awards to each executive under the terms of the Company's stock option plans. Each Employment Agreement provides that the executive will receive a restricted stock grant of the Company's Common Stock. The Company will compensate Messrs. Trieu, Uckun, Park and Shah for the taxes actually incurred on grant of the restricted shares. The restricted stock will vest fully on the one-year anniversary of employment. As of December 31, 2019, the restricted shares have yet to be issued. The Employment Agreements also provide for grants of incentive stock options to purchase shares of the Company's Common Stock under the Stock Plan. Such options shall vest and become exercisable after one year of employment. As of December 31, 2019, the Company these options have yet to be granted. Thereafter, each Employment Agreement contemplates that the executive will be eligible to receive a comparable annual grant of restricted shares or stock options as approved by the Board or Compensation Committee and which shall contain the customary terms and provisions of such grants generally to key executives under the Stock Plan.

The initial restricted stock grants and stock option grants have been set for the executives as follows:

Executive	Title	Restricted Stock (Shares)	Stock Options (Shares)
Vuong Trieu	Chief Executive Officer	209,302	313,953
Fatih Uckun	Chief Medical Officer	186,047	279,070
Chulho Park	Chief Technology Officer	162,791	244,186
Amit Shah	Chief Financial Officer	148,837	223,256

The incentive stock options or the restricted stock awards granted to the Company's executive officers have not been issued as of the date of this filing.

PointR Merger Consideration

The total purchase price of \$17,831,427 represented the consideration transferred from Mateon in the Merger and was calculated based on the number of shares of Common Stock plus the preferred shares outstanding but convertible into Common Stock outstanding at the date of the Merger and includes \$2,625,000 of contingent consideration of shares issuable to PointR shareholders upon achievement of certain milestones.

NOTE 12 – SUBSEQUENT EVENTS

COVID-19 Efforts

Research Service Agreement between Golden Mountain Partners LLC (GMP) and Mateon Therapeutics Inc./Oncotelic Inc. (“Mateon Entities”).

On March 23, 2020, Mateon, Oncotelic, Inc., and GMP entered into a supplement to the Agreement (the “*Supplement*”) to confirm the inclusion of OT-101 within the scope of the Agreement, pending positive confirmatory testing against COVID-19. In consideration for the financial support provided by GMP for the research, pursuant to the terms of the Agreement (as amended by the Supplement) GMP is entitled to obtain certain exclusive rights to the use of the Product in the COVID Field on a global basis, and an economic interest in the use of the Product in the COVID Field including 50/50 profit sharing. GMP paid the Company fees of \$0.9 million for the services rendered under the supplemental agreements, during the three months ended June 30, 2020.

In April 2020, Mateon also filed the IND with the FDA to permit Mateon to commence clinical trials to evaluate if OT-101 is effective to treat COVID-19. The proposed randomized, double-blind, placebo-controlled Phase 2 study is intended to evaluate the safety and efficacy of OT-101 in adult patients hospitalized with positive SARS-CoV-2 and pneumonia in the US.

Payment Protection Program

On April 21, 2020, the Company, entered into a Paycheck Protection Program Promissory Note (the “*PPP Note*”) with respect to a loan in the amount of \$250,000 (the “*PPP Loan*”) from Silicon Valley Bank (the “*Lender*”). The PPP Loan was obtained pursuant to the Paycheck Protection Program (the “*PPP*”) of the Coronavirus Aid, Relief, and Economic Security Act (the “*CARES Act*”) administered by the U.S. Small Business Administration (“*SBA*”). The PPP Loan matures on April 21, 2022 and bears interest at a rate of 1.00% per annum. The PPP Loan is payable in 17 equal monthly payments commencing November 21, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties.

All or a portion of the PPP Loan may be forgiven by the SBA and the Lender upon application by the Company not later than December 31, 2020 upon documentation of expenditures in accordance with the SBA requirements.

Agreement with Autotelic BIO

Oncotelic had entered into a license agreement in February 2018 (the “*ATB Agreement*”) with Autotelic BIO (“*ATB*”), a non-affiliated Korean Company. The *ATB Agreement* licensed the use of OT-101, in combination with Interleukin-2, and to grant to *ATB*, an exclusive license under the Oncotelic technology to develop, make, have made, use, sell, offer for sale, import and export the Product in the field, in the territory, on the terms and subject to the conditions. The territory defined under the agreement would mean the entire world, excluding USA and Canada, for the combination product only. The agreement requires *ATB* to be responsible for the development of the combination product. Oncotelic was responsible to provide to *ATB* the technical know-how and other pertinent information on the development of OT-101. *ATB* is due to pay to Oncotelic non-refundable milestone payments in consideration for the rights and licenses granted to *ATB* hereunder, *ATB* within sixty (60) days from the successful completion of the *in vivo* efficacy studies \$ 500,000. This payment was made upon the successful completion of the in-vivo study in June 2020. In addition, *ATB* will pay Oncotelic \$500,000 from Oncotelic’s completion of the technology know how and 2.3(c) Oncotelic’s technical assistance and regulatory consultation to *ATB*, its Sublicensee or CMO, in the preparation of CGMP audit or certification by the FDA, with a mutual goal to obtain marketing approval of the Product in Territory-M with the drug product supplied by *ATB*; \$ 1,000,000 from receiving marketing approval of the Product in any of the following countries: Japan, China, Brazil, Mexico, Russia and Korea; and \$ 2,000,000 from receiving marketing approval of the Product in any of the following countries: Germany, France, Spain, Italy and UK.

Maida Consulting Agreement

Effective May 5, 2020, the Company and Dr. Maida entered into an independent consulting agreement, commencing April 1, 2020 (the “*Maida Agreement*”), under which Dr. Maida will assist the Company in providing medical expertise and advice from time to time in the design, conduct and oversight of the Company’s existing and future clinical trials.

Pursuant to the terms of the *Maida Agreement*, the Company will grant to Dr. Maida 400,000 restricted shares of the Company’s Common Stock corresponding to \$80,000 at the stock value of \$0.20 per share, to vest on May 5, 2021. The Company will also pay Dr. Maida \$15,000 per month for a minimum of 20 hours per week, in addition to reimbursement of reasonable and necessary expenses incurred by Dr. Maida in connection with his services to the Company.

Either the Company or Dr. Maida may terminate the *Maida Agreement*, for any reason, upon 30 days advance written notice.

Conversion of debt and issuance of Common Stock

In June 2020, the Company issued 569,800 shares of its common stock to Peak One in connection with the conversion of \$50,000 of one of their convertible notes payable. After such conversion and as of the date of this report, the balance due on their notes is \$200,000.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the “*Quarterly Report*” or “*Report*”) includes a number of forward-looking statements that reflect management’s current views with respect to future events and financial performance. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other comparable terminology. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team, as well as the assumptions on which such statements are based.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or performance. These statements are only predictions and involve known and unknown risks, uncertainties and other factors. Some of these risks are included in the section entitled “Risk Factors” set forth in this Quarterly Report and in other reports that we file with the SEC. The occurrence of any of these risks, or others of which we are currently unaware, may cause our company’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, by way of example and without limitation:

- our ability to successfully commercialize our products and services on a large enough scale to generate profitable operations;
- our ability to maintain and develop relationships with customers and suppliers;
- our ability to successfully integrate acquired businesses or new products, or to realize anticipated synergies in connection with acquisitions of businesses or products;
- expectations concerning our ability to raise additional funding and to continue as a going concern;
- our ability to successfully implement our business plan; and
- our ability to avoid, or to adequately address any intellectual property claims brought by third parties; and
- the anticipated impact of any changes in industry regulation.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC, including our Form 8-K/A filed with the SEC on July 8, 2019, which includes the audited financial statements for our subsidiary, Oncotelic, as of and for the years ended December 31, 2018 and 2017. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions.

Corporate History

Mateon Therapeutics, Inc. (f/k/a OXiGENE, Inc.), was formed in the State of New York in 1988, was reincorporated in the State of Delaware in 1992 and changed its name to Mateon Therapeutics, Inc. in 2016. The Company conducts business activities through both the Company and its wholly-owned subsidiary Oncotelic. The Company is currently evaluating the further development of its product candidates OXi4503 as a treatment for acute myeloid leukemia and myelodysplastic syndromes and CA4P in combination with a checkpoint inhibitor for the treatment of advanced metastatic melanoma.

In April 2019, the Company entered into a merger agreement with Oncotelic a clinical-stage biopharmaceutical company focused on the treatment of cancer using TGF- β RNA), and Oncotelic Acquisition Corporation (the “*Merger Sub*”, a newly formed wholly-owned subsidiary of the Company). The Company and Oncotelic entered into the merger agreement in order to create a publicly-traded company with a pipeline of immunotherapies that target several cancer markets which currently lack adequate treatment options. Following the satisfaction of closing conditions contained in the merger agreement, the Merger Sub was merged with and into Oncotelic, with Oncotelic surviving the merger as a wholly-owned subsidiary of the Company (the “*Merger*”). In connection with the Merger, the Company issued approximately 41,000,033 million shares of Common Stock and 193,713 shares of newly designated Series A Convertible Preferred Stock, par value \$0.01 per share (the “*Series A Preferred*”) to the former stockholders of Oncotelic in exchange for all of the previously outstanding shares of Oncotelic Common Stock.

Each share of Series A Preferred is convertible into 1,000 shares of Common Stock and is eligible to vote on stockholder matters on an as-converted basis. The Series A Preferred is convertible on a (i) optional conversion by the holder at any time or (ii) mandatory conversion upon the availability of a sufficient number of authorized shares of Common Stock. As a result of the Merger, the former Oncotelic security holders immediately before the Merger owned approximately 85% of the issued and outstanding Common Stock, including shares of Common Stock that are issuable upon conversion of the Series A Preferred, and the stockholders of the Company immediately before the merger owned the remaining 15% immediately following the Merger.

Holders of the Company's Common Stock at the close of business on the date prior to the effectiveness of the Merger were issued a Contingent Value Right ("CVR"), which provides them with the right to receive 75% of the net proceeds received from the full or partial sale, license, transfer or other disposition of the intellectual property rights and related assets of the Company's product candidates OXi4503 and CA4P, in their current form and for their currently contemplated uses, that occurs under a definitive agreement executed prior to the fourth anniversary of the merger (after the initial \$500,000 of such net proceeds, which will be retained by the Company). The Company's stock transfer agent acts as the rights agent for the CVR holders. The CVRs are not transferrable, do not entitle their holders to any equity interest in the Company and do not have any voting or dividend rights.

Company Overview

We are a clinical stage biopharmaceutical company developing drugs for the treatment of cancer. Our goal is to advance our drug candidates into late stage pivotal clinical trials and either sell marketing rights to a larger pharmaceutical company or seek FDA approval ourselves.

Oncotelic's lead product candidate, OT-101, is being developed as a broad-spectrum anti-cancer drug that can also be used in combination with other standard cancer therapies to establish an effective multi-modality treatment strategy for difficult-to-treat cancers. Together, we plan to initiate phase 3 clinical trials for OT-101 in both high-grade glioma and pancreatic cancer. During phase 2 clinical trials in pancreatic cancer, melanoma, and colorectal cancers (Study P001) and in high-grade gliomas (Study G004), meaningful clinical benefits were observed and OT-101 exhibited a favorable safety profile. These clinical benefits included long-term survival and meaningful tumor reduction. Both partial and complete responses have been observed in the G004 Phase 2 clinical trial of OT-101 as a single agent in patients with aggressive brain tumors.

Oncotelic's self-immunization protocol (SIPTM) is based on novel and proprietary sequential treatment of cancers with OT-101 (an antisense against TGF- β 2) and chemotherapies. This sequential treatment strategy is aimed at achieving effective self-immunization against a patients' own cancer, resulting in robust therapeutic immune response and consequently better control of the cancer and improved survival. Prolonged states of being cancer-free have been observed in some patients with the most aggressive forms of cancer, raising a renewed hope for a potential cure. The use of OT-101 lifts the suppression of the patient's immune cells around the cancer tissue, providing the foundation for an effective initial priming, which is critical for a successful immune response. The subsequent chemotherapy results in the release of neoantigens that result in a robust boost of the immune response. We believe that a rational combination of the Oncotelic SIPTM platform with immune-modulatory drugs like interleukin 2 (IL-2) and/or immune checkpoint inhibitors has the potential to help achieve sustained and robust immune responses in patients with the most difficult-to-treat forms of cancer.

Oncotelic is also working on developing OT-101 as a possible drug candidate that can be deployed in various epidemic and pandemic diseases, such as Severe Acute Respiratory Syndrome ("SARS") and specifically for the current COVID-19. As of the date of this report, the Company has filed an IND with the FDA to permit the Company to conduct clinical trials to prove the efficacy of OT-101 against COVID-19.

The Company also completed a merger with PointR in November of 2019. PointR develops and deploys high performance cluster computers and AI technologies as a supercomputing grid that can be layered in and interconnected to create an all-point mesh to harvest operational data within manufacturing plant, hospitals, clinics, phase I units. These grids provide real-time, localized decision-making harvesting complex data from structured and unstructured sources. The deployment of this supercomputing grid enables data capture and insight extraction in real time in blocks which are chained into blockchain ledger records serving as immutable transactions for stakeholders such as regulatory agencies, caretakers, insurers, payers, and manufacturers. The PointR grid can integrate and fuse data from any type of sensors or collection devices. For example, the Vision platform is a network of activity detection cameras functionalized with AI algorithms to monitor, evaluate, and archive real time visual data as a series of metadata entries in a Blockchain ledger.

In the pharmaceutical industry PointR's AI combined with Blockchain will be used in the entire life cycle of a drug: discovery, clinical trials and manufacturing. Leveraging its deep partnership with IBM, the PointR team will combine its own AI Vision technology with industry standard Blockchain to transform drug manufacturing and real-world evidence monitoring for clinical trials. The combined system has the potential to automatically record individual key steps in cGMP manufacturing operations including the flow of people, raw materials and operations in trusted perpetual blockchain ledgers that are indisputable. This has the potential to create much more efficient GMP manufacturing operations while simultaneously improving reliability and data security.

For the past year we have been operating under significant capital constraints, which has curtailed our ability to achieve meaningful progress in either of the Company's two clinical programs – one of which is developing OXi4503 as a treatment for acute myeloid leukemia and myelodysplastic syndromes and the other of which is developing CA4P in combination with a checkpoint inhibitor for the treatment of advanced metastatic melanoma. We believe that the merger of Oncotelic and the Company creates a combined company that has potential to generate shareholder value through a promising pipeline of next generation immunotherapies targeting several significant cancer markets where there is a lack of therapeutic options and lack of an effective immunotherapy protocol.

Merger Agreement with PointR Data, Inc.

In August 2019, the Company entered into an Agreement and Plan of Merger (the "*PointR Merger Agreement*") with PointR Data, Inc., a Delaware corporation ("*PointR*"), a privately-held, developer of high-performance cluster computer and AI applications. The PointR Merger Agreement provided, that subject to the satisfaction of certain conditions, PointR would be merged with and into a newly formed subsidiary of the Company (the "*PointR Merger*"), with PointR surviving the Merger as a wholly-owned subsidiary of the Company.

At the effective time of the PointR Merger, holders of PointR Common Stock prior to the PointR Merger were entitled to receive an aggregate of \$15,000,000 payable in shares of the Company's Common Stock, calculated at a price of \$0.18 per share. The Merger Agreement also provides for two additional tranches of merger consideration based on PointR's achievement of a development milestone and a revenue milestone. The development milestone is triggered on the completion of an AI tool or platform that will analyze data and can be used to identify patients that will benefit from a particular targeted drug. The revenue milestone is triggered on securing a licensing contract from a third-party customer that will generate a minimum of \$100 million in license fees over the life-time of the contract, of which at least \$10 million shall have been received. Each additional tranche of merger consideration is for an aggregate value of \$7,500,000 and payable in additional shares the Company's Common Stock, based on the market price at the time of payment, subject to a minimum value of \$0.18 per share. The Merger is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes.

In November 2019, the Company entered into Amendment No. 1 to Agreement and Plan of Merger (the “Amendment”) with PointR. The Amendment revised the terms of the PointR Merger Agreement to provide that holders of PointR Common Stock will receive shares of the Company’s Series A Preferred in lieu of the Company’s Common Stock in connection with the Merger. The Amendment also revised the milestones for the earn-out payment under the Merger Agreement. The development milestone is triggered on either (a) the completion of an AI tool or platform that will analyze data and can be used to identify patients that will benefit from a particular targeted drug, or (b) the execution of a statement of work with a third party customer to provide use of an AI platform which is designed to create efficiencies in the pharmaceutical manufacturing process and the Company provides follow on work for a period of 30 to 60 additional days. The revenue milestone is triggered on (a) securing a licensing contract from a third party customer that will generate a minimum of \$100 million in license fees over the life-time of the contract, of which at least \$10 million shall have been received, (b) any joint venture partially owned by the Company or PointR which uses the AI platform for strategic purposes, closes a liquidity event (including any initial public offering, reverse merger with a publicly traded company or acquisition), or (c) the AI platform materially facilitates the discovery of a drug that receives FDA marketing approval. Each additional tranche of merger consideration is for an aggregate value of \$7,500,000 and payable in additional shares of the Company’s Common Stock, based on the market price at the time of payment, subject to a minimum value of \$0.18 per share. Also, in accordance with the terms of the PointR Merger Agreement the Company completed the PointR Merger. On the effectiveness of the PointR Merger, the shares of PointR Common Stock outstanding immediately prior to the Merger and \$200,000 Convertible Promissory Note, with accrued interest thereon was converted solely into the right to receive 84,475 shares of the Company’s Series A Preferred. Immediately following the closing of the Merger, the former PointR security holders own approximately 23.29% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock issuable upon conversion of the Series A Preferred), and the Company’s stockholders prior to the Merger own approximately 76.71% of the Company’s issued and outstanding Common Stock (including any shares of Common Stock issuable upon conversion of the Series A Preferred).

The PointR Merger is intended to create a publicly traded AI driven immuno-oncology company with a robust pipeline of first in class TGF- β immunotherapies for late stage cancers such as gliomas, pancreatic cancer and melanoma.

Research Service Agreement between Golden Mountain Partners LLC (GMP) and Mateon Therapeutics Inc./Oncotelic Inc. (“Mateon Entities”).

When COVID-19 emerged in China, the Company and GMP contemplated a collaboration to develop drug candidates for COVID-19. Oncotelic and GMP entered into a research and services agreement (the “Agreement”) on February 3, 2020 memorializing their collaborative efforts to develop and test COVID-19 antisense therapeutics. On March 18, 2020, the Company reported the anti-viral activity of OT-101 – its lead drug candidate currently in phase 3 testing in pancreatic cancer and glioblastoma. In an in vitro antiviral testing performed by an independent laboratory, OT-101 has a 50% effective concentration (EC50) of 7.6 $\mu\text{g}/\text{mL}$ and is not toxic at the highest dose of 1000 $\mu\text{g}/\text{mL}$ giving a safety index (SI) value of >130, which is considered highly active. On March 23, 2020, the Company, Oncotelic and GMP entered into a supplement to the Agreement (the “Supplement”) to confirm the inclusion of OT-101 within the scope of the Agreement, pending positive confirmatory testing against COVID-19. In consideration for the financial support provided by GMP for the research, pursuant to the terms of the Agreement (as amended by the Supplement) GMP is entitled to obtain certain exclusive rights to the use of the Product in the COVID Field on a global basis, and an economic interest in the use of the Product in the COVID Field including 50/50 profit sharing. As described in the Supplement, the Mateon Entities intend to license or assign intellectual property rights, including the 2020 Patent Application and any other intellectual property rights owned or controlled by the Mateon Entities relating to the Product, OXi4503 and CA4P, to a joint venture company to be established jointly between Oncotelic and GMP (or its designee), as well as providing management services and other expertise to the joint venture company; GMP intends that it (or its designee, as the case may be) shall provide funding to the joint venture company to support its development and commercial activities in the joint venture company’s territories; in each case, on terms to be agreed by the parties; and GMP shall be entitled to use its governmental relations and local expertise in Greater China to assist with coordinating the research, development and commercialization of (i) the Products in the COVID Field, (ii) the Products in the OT101 Oncology Field, (iii) OXi4503; and (iv) CA4P, in each case in Greater China.

The joint venture company is intended to be owned 50% by Oncotelic and 50% by GMP (or its designee), and its principal activities shall be to research, develop, bring to market and commercialize: (i) the Products in the COVID Field on a global basis, (ii) the Products in the OT101 Oncology Field in the Licensed Territory, (iii) OXi4503 in the Licensed Territory; and (iv) CA4P in the Licensed Territory. Upon completion of due diligence by one another and subject to GMP’s satisfactory due diligence review, the parties intend to enter into written definitive agreements for the Joint Venture Transaction within the Exclusivity Period of 90 days. On April 6, 2020, the Company announced that it had delivered the requisite testing results to GMP confirming the applicability and potential use of OT-101 for the treatment of COVID-19. OT-101 exhibited potent activity against both COVID-19 and SARS with a robust safety index of >500. Also, the Company has submitted a Pre-Investigational New Drug application package to the Food and Drug Administration. GMP paid the Company fees of \$0.3 million during the three months ended March 31, 2020 and \$0.9 million during the three months ended June 30, 2020 for the services rendered under the agreement. The Company also recorded approximately \$40 thousand for reimbursement of actual costs incurred. The Company has received the total fees from GMP as of the date of this report.

Results of Operations

The merger was treated as a “reverse merger” for accounting purposes. In accordance with the reporting requirements, the Company will be reporting historical financial data of Oncotelic for all periods prior to the date of the merger, and for the combined company for all periods after the date of the merger. Accordingly, the following management discussion and analysis should be read together with the audited financial statements included in our Annual Report on Form 10-K filed with the SEC on May 14, 2020.

Comparison of the Three Months Ended March 31, 2020 to the Three Months Ended March 31, 2019

A comparison of the Company’s operating results for the three months ended March 31, 2020 and 2019, respectively, is as follows.

	2020	2019	Variance
Revenue	\$ 340,855	\$ -	\$ 340,855
Operating expense:			
Research and development	311,999	404,848	(92,849)
General and administrative	2,677,503	571,215	2,106,288
Total operating expense	2,989,502	976,063	2,103,439
Loss from operations	(2,648,347)	(976,063)	(2,195,948)
Loss on conversion of debt	(124,598)	-	(124,598)
Change in the value of derivatives on debt	(736,298)	-	(736,298)
Interest expense, net	(1,148,351)	-	(1,148,351)
Net loss	\$ (4,657,894)	\$ (976,063)	\$ (3,681,831)

Three months ended March 31, 2020 and 2019:

We recorded a net loss of approximately \$4.7 million for the three months ended March 31, 2020, compared to a net loss of approximately \$1.0 million for the three months ended March 31, 2019. The increased loss of approximately \$3.7 million for the three months ended March 31, 2020 as compared to the same period of 2019 was due to recording revenue of approximately \$0.3 million during the three months ended March 31, 2020; approximately \$2.1 million of higher expenses related to the Mateon operational expenses, \$1.1 million related to interest expense, including acceleration of amortization of debt issuance costs related to the debt raised by the company in the second and third quarters of 2019, upon conversion of debt into liability, \$0.7 million due to increase in value of derivatives in connection with the same debt and loss of \$0.1 million on conversion of part of the same debt during the three months ended March 31, 2020. The financial information presented does not include any expenses for the Mateon or PointR operations for the period ended March 31, 2019 and hence are not comparable.

Revenue

We recorded services revenue of \$0.3 million during the three months ended March 31, 2020 as compared to no revenues during the same period ended March 31, 2019. The services revenue was recorded from services provided to GMP during the period ended March 31, 2020 in connection with the development of OT-101 for COVID-19 and included reimbursement of costs incurred of approximately \$41,000.

Research and Development Expenses

Research and development (“R&D”) expenses decreased by approximately \$0.1 million for the three months ended March 31, 2020 compared to the same period in 2019. The lower R&D cost was primarily due to lower personnel overhead costs of \$0.2 million, offset by higher amortization of intangibles of \$0.1 million. The financial information presented does not include any R&D activity for Mateon or PointR for the period ended March 31, 2019 and as such the results for the Company are not directly comparative from period to period.

The decrease of approximately \$0.2 million in Oncotelic’s R&D activities is primarily due to higher personnel costs of approximately \$0.4 million paid to a related party in 2019 to conduct the R&D activities as compared to lower in-house personnel costs in connection with the lead product candidate OT-101.

As a result of our mergers with Oncotelic and PointR, we expect to increase research and development activities, including the initiation of new clinical trials including those for COVID-19, and therefore believe that research and development expenses will increase for the remainder of 2020 compared to research and development expenses in 2019, subject to our continuing ability to secure sufficient funding to continue planned operations.

General and Administrative Expenses

General and administrative (“G&A”) expenses increased by approximately \$2.1 million for the three months ended March 31, 2020 compared to the three months ended March 31, 2019, primarily due to an increase of approximately \$1.9 million in stock compensation expense incurred in connection with issuance of new warrants, increase in personnel costs of approximately \$0.1 million and \$0.1 million due to increase in legal and professional expenses.

As a result of our mergers with Oncotelic and PointR, we expect G&A expenses to increase for the remainder of 2020 in order to support our anticipated additional business development, fundraising, investor relations and administrative activities, subject to our continuing ability to secure sufficient funding to continue planned operations.

Loss on Conversion of Debt

During the three months ended March 31, 2020, we recorded a loss on conversion of debt by Peak One and TFK of \$0.1 million related to the difference in fair value to the price at which the debt was converted. No similar loss was recorded during the same period in 2019.

Change in Value of Derivatives

During the three months ended March 31, 2020, we recorded \$0.7 million upon a change in value upon conversion of the debt to liabilities as a derivative as well as new debt converting to liabilities on the convertible notes issued to Peak One, TFK, our CEO and a bridge investor. No similar charge was recorded during the same period in 2019.

Interest Expense, Net

During the three months ended March 31, 2020, we recorded \$1.1 million of interest expense on the convertible notes issued to Peak One, TFK, our CEO and a bridge investor, as well as the Fall 2019 Notes. This included normal amortization of debt discounts, recording of initial fair value of conversion of the notes from Peak One, TFK and the bridge investor and the acceleration of amortization of debt discounts upon conversion of the Peak One and TFK Notes. No similar charges were recorded during the same period in 2019.

Liquidity, Financial Condition and Capital Resources (\$s in ‘000’s)

	March 31, 2020	December 31, 2019
	(Unaudited)	
Cash	\$ 183	\$ 82
Working capital	(8,210)	(6,510)
Stockholders’ Equity	15,112	16,902

The Company has experienced net losses every year since inception and as of March 31, 2020 had an accumulated deficit of approximately \$16.8 million. As of March 31, 2020, the Company had approximately \$183,000 in cash and current liabilities of approximately \$8.5 million, of which approximately \$1.3 million are net assumed liabilities of Mateon as part of the merger. While the Company expects to generate revenue from services and or licensing milestones in the near future, the Company expects to incur significant additional operating losses over the next several years, primarily as a result of the Company's plans to continue clinical trials for its investigational drugs, including for COVID-19. The Company's limited capital resources, history of recurring losses and uncertainties as to whether the Company's operations will become profitable raise substantial doubt about its ability to continue as a going concern. The financial statements contained in this report do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

The principal source of the Company's working capital deficit to date has been the sale of equity securities. The Company will need to raise additional capital in order to fund its operations and continue development of product candidates. The Company is evaluating the options to further the development of Oncotelic's lead product candidate, OT-101 in addition to evaluating the development pathway of its product candidates; OXi4503 and/or CA4P. Since April 2019, the Company has raised \$1,959,000, net of cash discounts of \$111,000, through the sale of convertible debentures and notes.

The Company anticipates raising substantial additional capital through the sale of equity securities and/or debt, but no other financing arrangements are in place at this time.

If the Company is unable to access additional funds when needed, it may not be able to continue the development of these investigational drugs and the Company could be required to delay, scale back or eliminate some or all of its development programs and operations. Any additional equity financing, if available, would be dilutive to the current stockholders and may not be available on favorable terms. Additional debt financing, if available, may involve restrictive covenants and could also be dilutive. The Company's ability to access capital is not assured and, if access is not achieved on a timely basis, would materially harm the Company's financial condition, the value of its Common Stock and its business prospects.

Cash Flows

	Three Month Ended March 31,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 31,473	\$ (117,995)
Net cash provided by financing activities	70,000	115,000
Increase (decrease) in cash	<u>\$ 101,473</u>	<u>\$ (2,995)</u>

Operating Activities

Net cash generated from operating activities was \$31,473 for the three months ended March 31, 2020. This was due to the net loss of approximately \$4.7 million, which was partially offset by non-cash charges of approximately \$4.2 million, non-cash loss on conversion of debt of approximately \$0.1 million and changes in operating assets and liabilities of \$0.4 million.

Net cash used in operating activities was \$0.1 million for the three months ended March 31, 2019, due to the net loss of \$1.0 million offset by non-cash charges of \$0.9 million and changes in operating assets and liabilities of \$0.1 million.

Financing Activities

For the three months ended March 31, 2020, net cash provided by financing activities was \$70,000, from receipt of cash from the Company's CEO.

For the three months ended March 31, 2019, net cash provided by financing activities was \$115,000 from the sale of Oncotelic Common Stock and short term debt.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenues or operating results during the periods presented.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies and significant judgments and estimates from our Financial Results incorporated with our Annual Report on form 10-K filed with the SEC on May 14, 2020.

New and Recently Adopted Accounting Pronouncements

Any new and recently adopted accounting pronouncements are more fully described in Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our CEO and our CFO each concluded that our disclosure controls and procedures are not effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to our management, including our CEO and our CFO, as appropriate to allow timely decisions regarding required disclosure.

Material Weaknesses in Internal Control over Financial Reporting

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2020 based on the framework established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Registrant’s internal control over financial reporting as of March 31, 2020 was not effective as a result of certain material weaknesses.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which are observed in many small companies with a small number of accounting and financial reporting staff:

- Lack of formal policies and procedures;
- Lack of a functioning audit committee and independent directors on the Company’s board of directors to oversee financial reporting responsibilities;
- Inadequate or lack of segregation of duties;
- Lack of dedicated resources and experienced personnel to design and implement internal control procedures to support financial reporting objectives;
- Lack of qualified accounting personnel to prepare and report financial information in accordance with GAAP; and
- Lack of risk assessment procedures on internal controls to detect financial reporting risks on a timely manner.

Management’s Plan to Remediate the Material Weaknesses

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions planned include:

- Continue to search for, evaluate and recruit qualified independent outside directors;
- Once independent directors are on Board, to set up a formal Audit Committee (and other Committees) of the Board;
- Hire qualified accounting personnel to prepare and report financial information in accordance with GAAP;
- Identify gaps in our skills base and the expertise of our staff required to meet the financial reporting requirements of a public company; and
- Continue to develop policies and procedures on internal control over financial reporting and monitor the effectiveness of operations on existing controls and procedures.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2020, we continued to execute upon our planned remediation actions which are all intended to strengthen our overall control environment. During the fiscal year ended December 31, 2019, and as a result of the merger with our wholly-owned subsidiary Oncotelic, Inc. we have consolidated all accounting functions to the Company headquarters and all record keeping has been migrated into the same accounting software. We have hired a third party firm to assist us in the evaluation of our financial reporting capabilities as well as advise on complex accounting matters, including revenue recognition under ASC 606, goodwill impairment, fair value measurements etc.

We are committed to maintaining a strong internal control environment and believe that these remediation efforts will represent significant improvements in our control environment. Our management will continue to monitor and evaluate the relevance of our risk-based approach and the effectiveness of our internal controls and procedures over financial reporting on an ongoing basis and is committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

In addition to the risk factors described below, for information about the risks and uncertainties related to our business, please see the risk factors described in our annual report on Form 10-K for the year ended December 31, 2019. The risks described below and in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The risks arising with respect to the historic Oncotelic business and operations may be different from what we anticipate, which could lead to significant, unexpected costs and liabilities and could materially and adversely affect our business going forward.

It is possible that we may not have fully anticipated the extent of the risks associated with the recent merger completed with Oncotelic. After the Merger, Oncotelic's historic business was combined with Mateon and prior to the merger Oncotelic had a significant operating history. As a consequence, we may be subject to claims, demands for payment, regulatory issues, costs and liabilities that were not and are not currently expected or anticipated. The risks involved with taking over a business with a significant operating history and the costs and liabilities associated with these risks may be greater than we anticipate. We may not be able to contain or control the costs or liabilities associated with Oncotelic's historic business, which could materially and adversely affect our business, liquidity, capital resources or results of operation.

Our historical results of operation may not fully reflect the underlying performance of our business and period-to-period comparisons of our operating results may not be meaningful.

For accounting purposes, the merger between Mateon and Oncotelic merger is treated as a "reverse merger" under U.S. GAAP and Oncotelic is considered the accounting acquirer. Oncotelic's historical results of operations will replace the Mateon's historical results of operations for all periods prior to the merger and, for all periods following the merger, the Company's financial statements will reflect the results of operations of the combined Company. Accordingly, the financial statements for the Company included in this Quarterly Report for periods prior to the merger are not the same as the Company's prior reported filings with the SEC, which were derived from the operations of Mateon. As a result, period-to-period comparisons of our operating results may not be meaningful. The results of any one quarter should not be relied upon as an indication of future performance.

Our business may suffer from the severity or longevity of the COVID-19 Global Outbreak.

The COVID-19 is currently impacting countries, communities, supply chains and markets, as well as the global financial markets. To date, COVID-19 has not had a material impact on the Company, other than as set forth above. However, the Company cannot predict whether COVID-19 will have a material impact on our financial condition and results of operations due to understaffing, disruptions in government spending, among other factors. In addition, at this time we cannot predict the impact of COVID-19 on our ability to obtain financing necessary for the Company to fund its working capital requirements. In most respects, it is too early in the COVID-19 pandemic to be able to quantify or qualify the longer-term ramifications on our business, our customers and/or our potential investors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2020, we issued 2,012,145 shares of our Common Stock to Peak One for \$150,000 upon the partial conversion of their debt of \$400,000. After the conversion, the remaining debt owed to Peak One, as of March 31, 2020 is \$250,000.

Also, during the three months ended March 31, 2020, we issued 1,950,000 shares of our Common Stock to TFK for \$133,430 upon the partial conversion of their debt of \$200,000. After the conversion, the remaining debt owed to TFK, as of March 31, 2020 is \$66,570.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

In reviewing the agreements included as exhibits to this Quarterly Report, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The following exhibits are included as part of this Quarterly Report:

Exhibit Number	Description	Incorporated by Reference			
		Form	Filing Date	Exhibit Number	Filed Herewith
2.1	Agreement and Plan of Merger, dated as of April 17, 2019, by and among the Company, Oncotelic and Oncotelic Acquisition Corporation.	8-K	4/18/2019	2.1	
2.2	Agreement and Plan of Merger, dated as of April 17, 2019, by and among the Company, Oncotelic and Oncotelic Acquisition Corporation.	8-K	4/25/2019	2.1	
2.3	Agreement and Plan of Merger, dated as of August 17, 2019, by and among the Company, PointR and Paris Acquisition Corporation.	8-K	8/21/2019	2.1	
2.4	Agreement and Plan of Merger, dated as of August 17, 2019, by and among the Company, PointR Data, Inc. and Paris Acquisition Corp.	8-K	11/12/2019	2.1	
2.5	Amendment No. 1 to Agreement and Plan of Merger, dated as of November 1, 2019, by and among the Company, PointR Data, Inc. and Paris Acquisition Corp.	8-K	11/12/2019	2.2	
3.1	Amended and Restated By-Laws of the Registrant.	8-K	6/17/2016	3.2	
3.2	Restated Certificate of Incorporation of the Registrant, as amended by Certificates of Amendment dated June 22, 1995, November 15, 1996, July 14, 2005, June 2, 2009, February 8, 2010, August 5, 2010, February 22, 2011, May 29, 2012, December 27, 2012, July 17, 2013, June 16, 2016 and June 20, 2018.	10-Q	8/14/2018	3.1	
3.3	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of the Company.	8-K	4/25/2019	3.1	
3.4	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of the Company.	8-K	11/12/2019	3.1	
4.1	Form of Series A/B Common Stock Purchase Warrant.	8-K	4/11/2013	4.1	
4.2	Form of Common Stock Purchase Warrant.	8-K	9/20/2013	4.1	
4.3	Form of Common Stock Purchase Warrant.	S-1/A	1/31/2014	4.9	
4.4	Form of Placement Agent Purchase Warrant.	S-1/A	1/31/2014	4.8	
4.5	Form of Common Stock Purchase Warrant.	8-K	2/14/2014	4.1	
4.6	Form of Placement Agent Purchase Warrant.	8-K	2/14/2014	4.2	

4.7	Form of Common Stock Purchase Warrant.	8-K	5/23/2014	4.1
4.8	Form of Common Stock Purchase Warrant.	8-K	3/20/2015	4.1
4.9	Specimen Common Stock Certificate. *	10-Q	8/2/2016	4.1
4.10	Form of Series A Warrant to purchase Common Stock.	8-K	4/16/2018	4.1
4.11	Form of Series B Warrant to purchase Common Stock	8-K	4/16/2018	4.2
4.12	Form of Placement Agent Purchase Warrant.	S-1	6/13/2018	4.12
4.13	Form of Debenture, issued by the Company to PeakOne.	8-K	4/18/2019	4.1
4.14	Form of Debenture, issued by the Company to the Bridge Investors.	8-K	4/18/2019	4.2
4.15	Form of Debenture, issued by the Company to Peak One Opportunity Fund, L.P. and TFK Investments, LLC Ex. 4.1 Form of Debenture, issued by the Company to the Bridge Investors.	8-K	4/25/2019	4.2
4.16	Form of Debenture, issued by the Company to Peak One Opportunity Fund, L.P. and TFK Investments, LLC.	8-K	6/20/2019	4.1
4.17	Convertible Promissory Note between Mateon Therapeutics, Inc. and PointR Data Inc. dated July 22, 2019.	8-K	7/24/2019	4.1
4.18	Form of Note Purchase Agreement, dated as of November 23, 2019, by and among the Company and the investors identified therein.	8-K	11/25/2019	4.1
10.1	Technology Development Agreement, dated as of May 27, 1997, between the Registrant and the Arizona Board of Regents, acting for and on behalf of Arizona State University.	10-K	4/15/1998	10.9
10.2	Research Collaboration and License Agreement, dated as of December 15, 1999, between OXiGENE Europe AB and Bristol-Myers Squibb Company. *	8-K	12/28/1999	99.1
10.3	Amendment and Confirmation of License Agreement No. 206-01.LIC, dated as of June 10, 2002, between the Registrant and the Arizona Board of Regents, acting for and on behalf of Arizona State University.	10-Q	8/14/2002	10.29
10.4	Termination Agreement by and between OXiGENE Europe AB and Bristol-Myers Squibb Company dated as of February 15, 2002.	10-Q	8/14/2002	10.14
10.5	License Agreement No. 206-01.LIC by and between the Arizona Board of Regents, acting on behalf of and for Arizona State University, and OXiGENE Europe AB, dated August 2, 1999.	10-K/A	8/12/2003	10.27
10.6	Research and License Agreement between the Registrant and Baylor University, dated June 1, 1999.	10-K/A	8/12/2003	10.28
10.7	Agreement to Amend Research and License Agreement between the Registrant and Baylor University, dated April 23, 2002.	10-K/A	8/12/2003	10.29

10.8	Addendum to Research and License Agreement between the Registrant and Baylor University, dated April 14, 2003.	10-K/A	8/12/2003	10.30
10.9	Form of Incentive Stock Option Agreement under Mateon's 2005 Stock Plan. +	10-K	3/14/2006	10.29
10.10	Form of Non-Qualified Stock Option Agreement under Mateon's 2005 Stock Plan. +	10-K	3/14/2006	10.30
10.11	Form of Restricted Stock Agreement under Mateon's 2005 Stock Plan. +	10-K	3/14/2006	10.31
10.12	Lease between Broadway 701 Gateway Fee LLC, a Delaware Limited Liability Company, as Landlord, and the Registrant, as Tenant, dated October 10, 2008.	10-K	3/30/2009	10.59
10.13	Form of Indemnification Agreement. +	10-Q	8/13/2012	10.2
10.14	Third Amendment to Lease, dated as of April 1, 2013, by and between the Registrant and DWF III Gateway, LLC, a Delaware limited liability company.	10-Q	5/9/2013	10.1
10.15	Fourth Amendment to Lease, dated April 28, 2014, by and between the Registrant and DWF III Gateway, LLC.	10-Q	5/8/2014	10.1
10.16	Employment Agreement by and between the Registrant and William D. Schwieterman, dated as of May 12, 2015. +	10-Q	8/6/2015	10.1
10.17	Employment Agreement by and between the Registrant and Matthew M. Loar, dated as of July 20, 2015. +	10-Q	8/6/2015	10.2
10.18	Form of Option Agreement under Mateon's 2015 Equity Incentive Plan. +	10-Q	8/6/2015	10.6
10.19	Amendment No. 1 to Employment Agreement by and between William D. Schwieterman, dated as of July 31, 2015. +	10-Q	8/6/2015	10.7
10.20	Second Amended and Restated Employment Agreement by and between the Registrant and David J. Chaplin, effective as of January 1, 2017. +	8-K	10/28/2016	10.1
10.21	Mateon Therapeutics, Inc. Amended and Restated Non-Employee Director Compensation Policy, effective October 25, 2016. +	8-K	10/28/2016	10.2
10.22	Mateon Therapeutics, Inc. 2017 Equity Incentive Plan. +	8-K	1/13/2017	10.1
10.23	Form of Option Agreement under Mateon's 2017 Equity Incentive Plan. +	8-K	1/13/2017	10.2
10.24	Mateon Therapeutics, Inc. 2005 Stock Plan (as amended and restated on January 12, 2017). +	8-K	1/13/2017	10.3
10.25	Amendment No. 2 to Employment Agreement by and between the Registrant and William D. Schwieterman, dated as of October 2, 2017. +	10-Q	11/14/2017	10.1
10.26	Amendment No. 1 to Employment Agreement by and between the Registrant and Matthew M. Loar, dated as of October 2, 2017. +	10-Q	11/14/2017	10.2
10.27	Amendment No. 1 to Second Amended and Restated Employment Agreement by and between the Registrant and David J. Chaplin, dated as of October 2, 2017. +	10-Q	11/14/2017	10.3

10.28	Mateon Therapeutics, Inc. 2015 Equity Incentive Plan (as amended and restated on May 7, 2018).	Definitive Proxy Statement on Schedule 14A	05/07/2018	Appendix A
10.29	Form of Subscription Agreement for private placement transaction entered into on April 12, 2018.	8-K	4/16/2018	10.1
10.30	Form of Registration Rights Agreement for private placement transaction entered into on April 12, 2018.	8-K	4/16/2018	10.2
10.31	Engagement Letter, dated February 7, 2018, by and between the Registrant and Divine Capital Markets LLC.	8-K	4/16/2018	10.3
10.32	Separation and Release Agreement, dated April 17, 2019 by and between the Company and William D. Schwieterman, M.D.	8-K	4/18/2019	10.1
10.33	Form of Securities Purchase Agreement, dated as of April 17, 2019, by and among the Company and Peak One	8-K	4/18/2019	10.2
10.34	Form of Securities Purchase Agreement, dated as of April 17, 2019, by and among the Company and the Bridge Investors.	8-K	4/18/2019	10.3
10.35	Contingent Value Rights Agreement, dated April 17, 2019, by and among the Company, Oncotelic and American Stock Transfer and Trust Company LLC	8-K	4/25/2019	10.1
10.36	Form of Securities Purchase Agreement, dated as of April 17, 2019, by and among the Company and Peak One Opportunity Fund, L.P. and TFK Investments, LLC.	8-K	4/25/2019	10.2
10.37	Form of Securities Purchase Agreement, dated as of April 17, 2019, by and among the Company and the Bridge Investors	8-K	4/25/2019	10.3
10.38	Form of Securities Purchase Agreement, dated as of April 17, 2019, by and among the Company and Peak One Opportunity Fund, L.P. and TFK Investments, LLC.	8-K	6/20/2019	10.1
10.39	Amendment to Securities Purchase Agreement dated as of June 12, 2019 by and between the Company and Peak One Opportunity Fund, L.P.	8-K	6/20/2019	10.2
10.40	Separation Agreement dated as of July 1, 2019 by and between the Company and Matthew M. Loar Ex.	8-K	7/5/2019	10.1
10.41	Note Purchase Agreement between Mateon Therapeutics, Inc. and PointR Data Inc. dated July 22, 2019.	8-K	7/24/2019	10.1
10.42	Employment Agreement dated August 23, 2019 between the Company and Dr. Vuong Trieu.	8-K	8/29/2019	10.1

10.43	Employment Agreement dated August 23, 2019 between the Company and Dr. Fatih Uckun.	8-K/A	11/25/2019	10.2	
10.44	Employment Agreement dated August 23, 2019 between the Company and Dr. Chulho Park.	8-K	8/29/2019	10.3	
10.45	Employment Agreement dated August 23, 2019 between the Company and Mr. Amit Shah.	8-K	8/29/2019	10.4	
10.46	Investigational Product Supply and Use Authorization Agreement for OT-101 U.S. Expanded Access (IPSUA) dated September 5, 2019, between WideTrial and Oncotelic.	8-K	9/10/2019	10.1	
10.47	Agreement for Delivery and Licensed Use of Data Generated from OT-101 U.S. Expanded Access (Data License 1) dated September 5, 2019 between WideTrial and Oncotelic.	8-K	9/10/2019	10.2	
10.48	Agreement for Delivery and Licensed Use of WideTrial Bonus Dataset (Data License 2 Agreement) dated September 5, 2019 between WideTrial and Oncotelic.	8-K	9/10/2019	10.3	
10.49	Form of Convertible Promissory Note, issued by the Company under the Note Purchase Agreement dated as of November 23, 2019.	8-K	11/25/2019	10.1	
10.50	Research and Services Agreement.	8-K	3/23/2020	10.1	
10.51	Supplement Research and Services Agreement.	8-K	3/23/2020	10.2	
10.52	Paycheck Protection Program Promissory Note dated April 21, 2020 between Mateon Therapeutics, Inc. and Silicon Valley Bank.	8-K	4/27/2020	10.1	
10.53	Form of Series A Warrant to purchase Common Stock.				X
10.54	Agreement between Oncotelic Inc, Autotelic Inc. and Autotelic BIO.	8-K	6/16/2020	10.1	

10.55	Consulting Agreement by Between the Company and Artius, dated March 9, 2020	8-K/A	6/22/2020	10.1	
10.55	Consulting Agreement by Between the Company and Dr. Maida, dated May 5, 2020	8-K/A	6/22/2020	10.2	
14.1	Corporate Code of Conduct and Ethics.	10-K	3/30/2015	14.1	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a).				x
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a).				x
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				x
101.1	Interactive Data Files for the fiscal years ended December 31, 2018 and December 31, 2017				x
101.INS	XBRL Instance Document				x
101.SCH	XBRL Taxonomy Extension Schema				x
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				x
101.DEF	XBRL Taxonomy Extension Definition Linkbase				x
101.LAB	XBRL Taxonomy Extension Label Linkbase				x
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				x

* Confidential treatment has been granted for portions of this Exhibit. Redacted portions filed separately with the Securities and Exchange Commission.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATEON THERAPEUTICS, INC.

By: /s/ Vuong Trieu

Vuong Trieu, Ph.D.

Chief Executive Officer and Director (Principal Executive Officer)

Date: June 29, 2020

By: /s/ Amit Shah

Amit Shah

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: June 29, 2020

Warrant – No.: [●]

THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “ACT”), AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT.

MATEON THERAPEUTICS, INC.

COMMON STOCK PURCHASE WARRANT

February 14, 2020

THIS COMMON STOCK PURCHASE WARRANT (this “Warrant”) of Mateon Therapeutics, Inc., a corporation duly organized and validly existing under the laws of Delaware (the “Company”), is issued to the Holder (as defined below) by the Company in accordance with the terms of the Warrant Purchase Agreement between the Company and the Holder dated as of February __, 2020 pursuant to which Warrant the Holder ha the right to purchase shares of the Company’s Common Stock, \$0.01 par value per share (the “Common Stock”) as set forth herein.

FOR VALUE RECEIVED, the Company hereby certifies that the registered holder hereof, [●], with an address at [●], and the Holder’s successors and assigns (the “Holder”), is entitled to purchase from the Company [●] duly authorized, validly issued, fully paid and nonassessable shares of Common Stock, at a purchase price equal to \$0.20 per share, as may be adjusted pursuant to the anti-dilution provisions set forth herein (the “Warrant Price”). The Holder is registered on the records of the Company regarding registration and transfer of the Warrant (the “Warrant Register”) and is the owner and Holder thereof for all purposes, except as described in Section 13 hereof.

1. Warrant Exercise. This Warrant shall become exercisable immediately after the date hereof.
2. Expiration of Warrant. This Warrant shall expire on the date that is three years after the date hereof (the “Expiration Date”).
3. Exercise of Warrant. This Warrant shall be exercisable pursuant to the terms of Section 1 and this Section 3 hereof.

3.1 Manner of Exercise. This Warrant may only be exercised by the Holder hereof, in accordance with the terms and conditions hereof, in whole or in part with respect to any portion of this Warrant, into shares of Common Stock (the “Warrant Shares”), during normal business hours on any day other than a Saturday or a Sunday or a day on which commercial banking institutions in New York, New York are authorized by law to be closed (a “Business Day”) on or prior to the Expiration Date with respect to such portion of this Warrant, by surrender of this Warrant to the Company at its office maintained pursuant to Section 12.2(a) hereof, accompanied by an exercise notice (the “Exercise Notice”) in substantially the form attached to this Warrant as Exhibit A (or a reasonable facsimile thereof) duly executed by the Holder, together with the payment of the Warrant Price.

Anything to the contrary notwithstanding, in no event shall the Holder be entitled to exercise any portion of this Warrant in excess of that portion of this Warrant upon exercise of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and the Holder's affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unexercised portion of the Warrant or the unexercised or unconverted portion of any other of the Company's securities subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the exercise of the portion of this Warrant with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.99% of the outstanding shares of Common Stock (the "Ownership Limitation"). Beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Regulations 13D - G thereunder; *provided, further*, that the limitations on exercise may be waived by the Holder upon, at the election of the Holder, not less than 61 days' prior notice to the Company, and the provisions of the exercise limitation shall continue to apply until such 61st day (or such later date, as determined by the Holder, as may be specified in such notice of waiver).

3.2 When Exercise Effective. Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the Business Day on which this Warrant shall have been surrendered to the Company as provided in Section 3.1 hereof, and, at such time, the corporation, association, partnership, organization, business, individual, government or political subdivision thereof or a governmental agency (a "Person" or the "Persons") in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon exercise as provided in Section 3.3 hereof shall be deemed to have become the holder or holders of record thereof.

3.3 Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the Company's transfer agent (the "Transfer Agent") to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission ("DWAC") system if the Company is then a participant in such system and there is an effective Registration Statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the Holder, and otherwise by physical delivery to the address specified by the Holder in the Exercise Notice by the date that is three Business Days after the latest of (A) the delivery to the Company of the Exercise Notice, (B) surrender of this Warrant and (C) payment of the aggregate Exercise Price as set forth above (such date, the "Warrant Share Delivery Date"). If the Company fails for any reason to deliver to the Holder certificates evidencing the Warrant Shares via the DWAC system or a certificate, or certificates, subject to an Exercise Notice by the Warrant Share Delivery Date, the Company shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of Warrant Shares subject to such exercise (based on the closing price of the Common Stock on the date of the applicable Exercise Notice), \$10 per Business Day (increasing to \$20 per Business Day on the fifth Business Day after such liquidated damages begin to accrue) for each Business Day after such Warrant Share Delivery Date until such certificates are delivered or the Holder rescinds such exercise.

3.4 Rescission Rights. If the Company fails to cause the Transfer Agent to transmit the Warrant Shares to the Holder via the DWAC system or a certificate or certificates representing the Warrant Shares pursuant to Section 3.3 by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

3.5 Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit the Warrant Shares to the Holder via the DWAC system or a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date as provided in Section 3.3 above, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares that the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of \$10,000, under clause (A) of the immediately preceding sentence, the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, reasonable evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

3.6 Partial Exercise. In case exercise is in part only, a new Warrant of like tenor, dated the date hereof and calling in the aggregate on the face thereof for the number of Warrant Shares equal to the number of Warrant Shares called for on the face of this Warrant minus the number of Warrant Shares designated by the Holder upon exercise as provided in Section 3.1 hereof (without giving effect to any adjustment thereof).

3.7 Company to Reaffirm Obligations. The Company will, at the time of each exercise of this Warrant and upon the written request of the Holder hereof, acknowledge in writing its continuing obligation to afford to the Holder all rights (including without limitation any rights to registration of the Warrant Shares issued upon exercise) to which the Holder shall continue to be entitled after exercise in accordance with the terms of this Warrant; *provided, however*, that if the Holder shall fail to make a request, the failure shall not affect the continuing obligation of the Company to afford the rights to such Holder.

4. Warrant Adjustments.

The Warrant Price and the number of shares purchasable upon exercise of this Warrant shall be subject to adjustment with respect to events after the date hereof as follows:

(a) Adjustment for Change in Capital Stock. Except as provided in Subsection 4(c) below, if the Company shall (i) declare a dividend on its outstanding Common Stock in shares of its capital stock, (ii) subdivide its outstanding Common Stock, or (iii) issue any shares of its capital stock by reclassification of its Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then in each such case the Warrant Price in effect immediately prior to such action shall be adjusted so that if this Warrant is thereafter exercised, the Holder may receive the number and kind of shares which it would have owned immediately following such action if it had exercised this Warrant immediately prior to such action. Such adjustment shall be made successively whenever such an event shall occur. The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision or reclassification. If after an adjustment the Holder upon exercise of this Warrant may receive shares of two or more classes of capital stock of the Company, the Company's Board of Directors, in good faith, shall determine the allocation of the adjusted Warrant Price between the classes of capital stock. After such allocation, the Warrant Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 4.

(b) Number of Shares. Upon each adjustment of the Warrant Price as a result of the calculations made in Subsection 4(a) above, this Warrant shall thereafter evidence the right to purchase, at the adjusted Warrant Price, that number of shares (calculated to the nearest one-hundredth) obtained by dividing (i) the product obtained by multiplying the number of shares issuable upon exercise of this Warrant prior to adjustment of the number of shares by Warrant Price in effect prior to adjustment of the Warrant Price by (ii) the Warrant Price in effect after such adjustment of the Warrant Price.

(c) Transactions Not Requiring Adjustments. No adjustment need be made for a transaction referred to in Subsection 4(a) if the Holder is permitted to participate in the transaction on a basis no less favorable than any other party and at a level which would preserve the Holder's percentage equity participation in the Common Stock upon exercise of this Warrant.

(d) Action to Permit Valid Issuance of Common Stock. Before taking any action which would cause an adjustment reducing the Warrant Price below the then par value, if any, of the shares of Common Stock issuable upon exercise of this Warrant, the Company will take all corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue shares of such Common Stock at such adjusted Warrant Price.

(e) Minimum Adjustment. No adjustment in the Warrant Price shall be required if such adjustment is less than \$0.05; *provided, however*, that any adjustments, which by reason of this Subsection 4 (e) are not required to be made, shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 4 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. Anything to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Warrant Price, in addition to those required by this Subsection 4(e), as it in its discretion shall determine to be advisable in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or distribution of securities convertible into or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

(f) Referral of Adjustment. In any case in which this Section 4 shall require that an adjustment in the Warrant Price be made effective as of a record date for a specified event (the "Exercise Event"), if this Warrant shall have been exercised after such record date, the Company may elect to defer until the occurrence of the Exercise Event issuing to the Holder the shares, if any, issuable upon the Exercise Event over and above the shares, if any, issuable upon such exercise on the basis of the Warrant Price in effect prior to such adjustment; *provided, however*, that the Company shall deliver to the Holder a due bill or other appropriate instrument evidencing the Holder' right to receive such additional shares upon the occurrence of the Exercise Event.

(g) Number of Shares. Upon each adjustment of the Warrant Price as a result of the calculations made in Subsection 4(a), this Warrant shall thereafter evidence the right to purchase, at the adjusted Warrant Price, that number of shares (calculated to the nearest thousandth) obtained by dividing (i) the product obtained by multiplying the number of shares purchasable upon exercise of this Warrant prior to adjustment of the number of shares by the Warrant Price in effect prior to adjustment of the Warrant Price by (ii) the Warrant Price in effect after such adjustment of the Warrant Price.

(h) Notice of Adjustments. Whenever the Warrant Price is adjusted, the Company shall promptly mail to the Holder a notice of the adjustment together with a certificate from the Company's Chief Financial Officer or Treasurer briefly stating (i) the facts requiring the adjustment, (ii) the adjusted Warrant Price and the manner of computing it, and (iii) the date on which such adjustment becomes effective. The certificate shall be prima facie evidence that the adjustment is correct, absent manifest error.

(i) Reorganization of Company. If the Company is a party to a merger, consolidation or a transaction in which (i) the Company transfers or leases substantially all of its assets; (ii) the Company reclassifies or changes its outstanding Common Stock; or (iii) the Common Stock is exchanged for securities, cash or other assets, the Person who is the transferee or lessee of such assets or is obligated to deliver such securities, cash or other assets shall assume the terms of this Warrant. If the issuer of securities deliverable upon exercise of this Warrant is an affiliate of the surviving, transferee or lessee corporation, that issuer shall join in such assumption. The assumption agreement shall provide that the Holder may exercise this Warrant into the kind and amount of securities, cash or other assets which it would have owned immediately after the consolidation, merger, transfer, lease or exchange if it had exercised this Warrant immediately before the effective date of the transaction. The assumption agreement shall provide for adjustments that shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 4. The successor company shall mail to the Holder a notice briefly describing the assumption agreement. If this Subsection 4(i) applies, Subsection 4(a) above does not apply. Notwithstanding the forgoing, in the event of a reorganization of the Company, the Company shall have the right to purchase this Warrant equal to the difference between the exercise price, as adjusted, if any, and the equivalent value of share of Common Stock determined in the Reorganization by the Company's Board of Directors.

(j) Dissolution, Liquidation. In the event of the dissolution or total liquidation of the Company, then after the effective date thereof, this Warrant and all rights thereunder shall expire.

(k) Notices. If (i) the Company takes any action that would require an adjustment in the Warrant Price pursuant to this Section 4; or (ii) there is a liquidation or dissolution of the Company, the Company shall mail to the Holder a notice stating the proposed record date for a distribution or effective date of a reclassification, consolidation, merger, transfer, lease, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

5. Fractional Shares. If the number of Warrant Shares purchasable upon the exercise of this Warrant is adjusted pursuant to Section 4 hereof, the Company shall nevertheless not be required to issue fractions of shares upon exercise of this Warrant or otherwise, or to distribute certificates that evidence fractional shares. Instead the Company will issue cash in the amount equal to the fractional share times the Current Market Price calculated to the nearest penny.

6. Right to Registration. The Holder has the right to require the Company to register the Warrant Shares under the Act in accordance with the terms of an agreement (the "Registration Rights Agreement") dated as of the date hereof between the Company and the Holders. The date on which the first Registration Statement filed pursuant to the Registration Rights Agreement is declared effective by the Commission is herein referred to as the "Effective Date."

7. No Dilution or Impairment.

7.1 Actions to Permit Issuance of Warrant Shares. The Company will not, by amendment of its certificate of incorporation or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of the Warrants, but will at all times in good faith assist in the carrying out of all of the terms and in the taking of all actions necessary or appropriate in order to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (a) will not permit the par value of any shares of Common Stock receivable upon the exercise of the Warrants to exceed the amount payable therefor upon exercise, (b) will take all actions necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock on the exercise of the Warrants, and (c) will not take any action which results in any adjustment of the Warrant Price if the total number of shares of Common Stock issuable after the action upon the exercise of the Warrant would exceed the total number of shares of Common Stock then authorized by the Company's certificate of incorporation and available for the purpose of issuance upon exercise.

7.2 Acknowledgement of Company's Obligations. The Company acknowledges that its obligation to issue shares of Common Stock issuable upon exercise of the Warrants is binding upon it and enforceable regardless of the dilution that such issuance may have on the ownership interests of other stockholders.

8. Chief Financial Officer's Report as to Adjustments. In the case of any adjustment or re-adjustment in the shares of Common Stock issuable upon the exercise of the Warrants, the Company at its expense will promptly compute the adjustment or re-adjustment in accordance with the terms of the Warrants and cause its Chief Financial Officer or Treasurer to certify the computation (other than any computation of the fair value of property as determined in good faith by the Board of Directors of the Company) and prepare a report setting forth the adjustment or re-adjustment and showing in reasonable detail the method of calculation thereof and the facts upon which the adjustment or re-adjustment is based, including a statement of (a) the number of shares of Common Stock outstanding or deemed to be outstanding and (b) the Warrant Price in effect immediately prior to the deemed issuance or sale and as adjusted and re-adjusted (if required by Section 4 hereof) on account thereof. The Company will forthwith mail a copy of each report to the Holder and will, upon the written request at any time of the Holder, furnish to the Holder a like report setting forth the Warrant Price at the time in effect and showing in reasonable detail how it was calculated. The Company will also keep copies of all reports at its office maintained pursuant to Section 12.2(a) hereof and will cause them to be available for inspection at the office during normal business hours upon reasonable notice by the Holder or any prospective purchaser of the Warrants designated by the Holder.

9. Reservation of Shares. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, free from all taxes, liens and charges with respect to the issue thereof and not be subject to preemptive rights or other similar rights of stockholders of the Company, solely for the purpose of effecting the exercise of the Warrants, such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise thereof, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of the Warrants, in addition to such other remedies as shall be available to the Holder, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase the number of authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including without limitation, using its best efforts to obtain the requisite stockholder approval necessary to increase the number of authorized shares of the Company's Common Stock. All shares of Common Stock issuable upon exercise of the Warrants shall be duly authorized and, when issued upon exercise, shall be validly issued and, in the case of shares, fully paid and nonassessable and free from all preemptive or similar rights, taxes, liens and charges with respect to the issue thereof, and that upon issuance such shares shall be listed on each securities exchange, if any, on which the other shares of outstanding Common Stock of the Company are then listed.

10. Listing. The Company shall at all times comply in all respects with the Company's reporting, filing and other obligations under the by-laws or rules of each national securities exchange or inter-dealer quotation system, if any, upon which shares of Common Stock are then listed and shall list the shares issuable upon the exercise of the Warrants on such national securities exchange or inter-dealer quotation system, if any, it being understood that the Company's Common Stock is currently traded on the OTCQX and the Company has no current plans to list its securities on any other exchange.

11. Investment Representations: Restrictions on Transfer.

11.1 Investment Representations. The Holder acknowledge that the Warrants and the Warrant Shares have not been and, except as otherwise provided herein, will not be registered under the Act or qualified under applicable state securities laws and that the transferability thereof is restricted by the registration provisions of the Act as well as such state laws. The Holder represents that it is acquiring this Warrant and will acquire the Warrant Shares for its own account, for investment purposes only and not with a view to resale or other distribution thereof, nor with the intention of selling, transferring or otherwise disposing of all or any part of such securities for any particular event or circumstance, except selling, transferring or disposing of them upon full compliance with all applicable provisions of the Act, the Exchange Act, the Rules and Regulations promulgated by the Commission thereunder, and any applicable state securities laws. The Holder further understands and agrees that (i) neither the Warrants nor the Warrant Shares may be sold or otherwise transferred unless they are subsequently registered under the Act and qualified under any applicable state securities laws or, in the opinion of counsel reasonably satisfactory to the Company, an exemption from such registration and qualification is available; (ii) any routine sales of the Company's securities made in reliance upon Rule 144 promulgated by the Commission under the Act, can be effected only pursuant to the terms and conditions of that Rule, including applicable holding periods and timely filing requirements with the Commission for the Company; and (iii) except as otherwise set forth herein, the Company is under no obligation to register the Warrants or the Warrant Shares on its behalf or to assist it in complying with any exemption from registration under the Act. The Holder agrees that each certificate representing any Warrant Shares for which the Warrants may be exercised will bear on its face a legend in substantially the following form:

These securities have not been registered under the Securities Act of 1933 or qualified under any state securities laws. They may not be sold, hypothecated or otherwise transferred in the absence of an effective registration statement under that Act or qualification under applicable state securities laws without an opinion counsel reasonably acceptable to the Company that such registration and qualification are not required.

11.2 Notice of Proposed Transfer; Opinion of Counsel. Prior to any transfer of any securities that are not registered under an effective registration statement under the Act ("Restricted Securities"), the Holder will give written notice to the Company of the Holder's intention to effect a transfer and to comply in all other respects with this Section 11.2. Each notice (a) shall describe the manner and circumstances of the proposed transfer, and (b) shall designate counsel for the Holder giving the notice (who may be in-house counsel for the Holder). The Holder giving notice will submit a copy thereof to the counsel designated in the notice. The following provisions shall then apply:

(i) If in the opinion of counsel for the Holder reasonably satisfactory to the Company the proposed transfer (*i.e.* private sale of Restricted Securities) may be effected without registration of Restricted Securities under the Act (which opinion shall state the bases for the legal conclusions reached therein), the Holder shall thereupon be entitled to transfer the Restricted Securities in accordance with the terms of the notice delivered by the Holder to the Company. Each certificate representing the Restricted Securities issued upon or in connection with any transfer shall bear the restrictive legends required by Section 11.1 hereof.

(ii) If the opinion called for in (i) above is not delivered, the Holder shall not be entitled to transfer the Restricted Securities until either (x) receipt by the Company of a further notice from such Holder pursuant to the foregoing provisions of this Section 11.2 and fulfillment of the provisions of clause (i) above, or (y) such Restricted Securities have been effectively registered under the Act.

11.3 Termination of Restrictions. The restrictions imposed by this Section 11 upon the transferability of Restricted Securities shall cease and terminate as to any particular Restricted Securities: (a) which Restricted Securities shall have been effectively registered under the Act, or (b) when, in the opinions of both counsel for the holder thereof and counsel for the Company, which opinion shall not be unreasonably withheld, such restrictions are no longer required in order to insure compliance with the Act or Section 11 hereof. Whenever such restrictions shall cease and terminate as to any Restricted Securities, the holder thereof shall be entitled to receive from the Company, without expense (other than applicable transfer taxes, if any), new securities of like tenor not bearing the applicable legends required by Section 11.1 hereof.

12. Ownership, Transfer and Substitution of Warrant.

12.1 Ownership of Warrant. The Company may treat the Holder, in whose name this Warrant is registered to in the Warrant Register maintained pursuant to Subsection 12.2(b) hereof, as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, except that, if and when any Warrant is properly assigned by a notice in substantially the form attached to this Warrant as Exhibit B (or a reasonable facsimile thereof) duly executed by the holder thereof in blank, the Company shall treat the bearer thereof as the owner of such Warrant for all purposes, notwithstanding any notice to the contrary. Subject to Section 11 hereof, this Warrant, if properly assigned, may be exercised by a new holder without a new Warrant first having been issued.

12.2 Office; Transfer and Exchange of Warrant.

(a) The Company will maintain an office (which may be an agency maintained at a bank) at 29397 Agoura Road, Suite 107, Agoura Hills, California 91301 (until the Company notifies the Holder of any change of location of the office) where notices, presentations and demands in respect of the may be made upon it.

(b) The Company shall cause to be kept at its office maintained pursuant to Subsection 12.2(a) hereof a Warrant Register for the registration and transfer of the Warrants. The names and addresses of holders of the Warrants, the transfers thereof and the names and addresses of transferees of the Warrants shall be registered in such Warrant Register. The Person in whose name any Warrant shall be so registered shall be deemed and treated as the owner and holder thereof for all purposes of such Warrant, and the Company shall not be affected by any notice or knowledge to the contrary.

(c) Upon the surrender of a Warrant, properly endorsed, for registration of transfer or for exchange at the office of the Company maintained pursuant to Subsection 12.2(a) hereof, the Company at its expense will (subject to compliance with Section 11 hereof, if applicable) execute and deliver to or upon the order of the Holder thereof a new Warrant of like tenor, in the name of such holder or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face thereof for the number of shares of Common Stock called for on the face of the Warrant so surrendered.

12.3 Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of a Warrant and, in the case of any such loss, theft or destruction of a Warrant, upon delivery of indemnity reasonably satisfactory to the Company in form and amount or, in the case of any mutilation, upon surrender of a Warrant for cancellation at the office of the Company maintained pursuant to Subsection 12.2(a) hereof, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor and dated the date hereof.

13. No Rights or Liabilities as Stockholder. Except as may otherwise be provided herein, no Holder shall be entitled to vote or receive dividends or be deemed the holder of any shares of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until such Holder's Warrant shall have been exercised and the shares of Common Stock purchasable upon the exercise hereof shall have become deliverable, as provided herein. The Holder will not be entitled to share in the assets of the Company in the event of liquidation, dissolution or the winding up of the Company.

14. Notices. Any notice or other communication in connection with this Warrant shall be deemed to be given if in writing addressed as hereinafter provided and actually delivered at such address: (a) if to any Holder, at the registered address of such holder as set forth in the Warrant Register kept at the office of the Company maintained pursuant to Subsection 12.2(a) hereof, or (b) if to the Company, to the attention of its Chief Financial Officer at its office maintained pursuant to Subsection 12.2(a) hereof; *provided, however*, that the exercise of any Warrant shall be effective in the manner provided in Section 3 hereof.

15. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the issuance of shares of Common Stock underlying this Warrant upon exercise of this Warrant; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificate for shares of Common Stock underlying this Warrant in a name other than that of the Holder. The Holder is responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving shares of Common Stock underlying this Warrant upon exercise hereof.

16. Warrant Agent. The Company shall serve as warrant agent under for the Warrants. Upon 30 days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or stockholders services business shall be successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

17. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the laws of the State of California applicable to contracts made and to be performed entirely within such State. Any action, suit or proceeding in connection with this Warrant maybe brought in a federal or state court of record located in the County of Los Angeles in the State of California, and the Holder and the Company each agrees to submit to the personal jurisdiction of such court and waives any objection which either may have, based on improper venue or *forum non conveniens*, to the conduct of any proceeding in any such court and waives personal service of any and all process upon it, and consents that all such service of process be made by mail or messenger directed to it at the address referred to in Section 14 above and that service so made shall be deemed to be completed upon the earlier of actual receipt or five days after the same shall have been posted to its address. The section headings in this Warrant are for purposes of convenience only and shall not constitute a part hereof. The use herein of the masculine pronouns or similar terms shall be deemed to include the feminine and neuter genders as well and vice versa and the use of the singular pronouns shall be deemed to include the plural as well and vice versa.

(signature page to follow)

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be duly executed as of the date first above written.

MATEON THERAPEUTICS, INC.

By: _____
Name: Vuong Trieu
Title: President and Chief Executive Officer

Agreed and Accepted:

Name: _____

EXHIBIT A

EXERCISE NOTICE

To Be Executed by the Holder
In Order to Exercise Warrants

TO: Mateon Therapeutics, Inc.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

in lawful money of the United States; or

(3) Please issue a certificate or certificates representing the Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

Dated: _____

Address

Taxpayer Identification Number

Signature

EXHIBIT B

[FORM OF ASSIGNMENT]

To be executed by the registered holder if such holder desires to transfer the Warrant Certificate.

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Warrant Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____

Signature _____
(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

(Insert Social Security or Other Identifying Number of Holder)

Signature Guaranteed

MATEON THERAPEUTICS, INC.
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Vuong Trieu, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mateon Therapeutics, Inc. for the period ended March 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Vuong Trieu
Vuong Trieu, Ph.D.
Chief Executive Officer (Principal Executive Officer)

Date: June 29, 2020

MATEON THERAPEUTICS, INC.
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Amit Shah, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mateon Therapeutics, Inc. for the period ended March 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Amit Shah
Amit Shah
Chief Financial Officer (Principal Financial and Accounting Officer)

Date: June 29, 2020

MATEON THERAPEUTICS, INC.
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Mateon Therapeutics, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

By: /s/ Vuong Trieu
Vuong Trieu, Ph.D.
Chief Executive Officer (Principal Executive Officer)

Date: June 29, 2020

MATEON THERAPEUTICS, INC.
CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Mateon Therapeutics, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

By: /s/ Amit Shah

Amit Shah

Chief Financial Officer (Principal Financial and Accounting Officer)

Date: June 29, 2020
