HEDGEPATH PHARMACEUTICALS, INC.

FINANCIAL STATEMENTS

As of and for the Nine Month Period Ended September 30, 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

HEDGEPATH PHARMACEUTICALS, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Hedgepath Pharmaceuticals, Inc.
Tampa, Florida

We have audited the accompanying financial statements of Hedgepath Pharmaceuticals, Inc. (the "Company"), which comprise the balance sheet as of September 30, 2016, and the related statements of operations, stockholders' equity, and cash flows for the nine month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2016 and the results of its operations and its cash flows for the nine month period then ended in conformity with accounting principles generally accepted in the United States of America.

Restriction of Use

This report is intended solely for the information and use of management, the Board of Directors and the OTC Markets Group, Inc. with respect to the financial standards eligibility requirements as outlined in the OTCQX Application for U.S. Companies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekaert LLP

Tampa, Florida
November 11, 2016

HEDGEPATH PHARMACEUTICALS, INC.

BALANCE SHEET

SEPTEMBER 30, 2016

ASSETS		
Current Assets:		
Cash and cash equivalents	$	3,553,832
Prepaid expenses		58,904
Total Current Assets		3,612,736
Other long term assets		250,000
Total Assets	$	3,862,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$	441,489
Other liabilities		28,114
Total Current Liabilities		469,603
Total Liabilities		469,603
Commitments and contingencies		-
Stockholders' Equity:		
Series A Preferred Stock, $0.0001 par value; 500,000 shares authorized; no shares issued and outstanding		-
Undesignated Preferred Stock, $0.0001 par value; 9,500,000 shares authorized; no shares issued or outstanding		-
Common Stock, $0.0001 par value; 500,000,000 shares authorized ; 300,353,270 shares issued and outstanding		30,035
Additional paid-in capital		43,784,115
Accumulated deficit		(40,421,017)
Total Stockholders' Equity		3,393,133
Total Liabilities and Stockholders' Equity	$	3,862,736

See notes to the financial statements.

HEDGEPATH PHARMACEUTICALS, INC.

STATEMENT OF OPERATIONS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016

Revenues	$ -
Total Revenues	-
Expenses:	
Research and development	1,908,372
General and administrative	2,350,337
Total Expenses	4,258,709
Loss from operations	(4,258,709)
Interest income	10,230
Net loss	$ (4,248,479)

See notes to the financial statements.

HEDGEPATH PHARMACEUTICALS, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances, January 1, 2016	245,353,270	$ 24,535	$ 36,571,982	$ (36,172,538)	$ 423,979
Proceeds from sale of common stock and common stock warrants, net	27,115,000	2,712	2,662,188	-	2,664,900
Proceeds from sale of common stock and common stock warrants, related party, net	27,885,000	2,788	2,833,636	-	2,836,424
Stock based compensation	-	-	1,716,309	-	1,716,309
Net loss	-	-	-	(4,248,479)	(4,248,479)
Balances, September 30, 2016	300,353,270	$ 30,035	$ 43,784,115	$ (40,421,017)	$ 3,393,133

See notes to the financial statements.

HEDGEPATH PHARMACEUTICALS, INC.

STATEMENT OF CASH FLOWS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2016

Operating activities:		
Net loss	$	(4,248,479)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Stock-based compensation		1,716,309
Changes in assets and liabilities:		
Prepaid expense and other current assets		(24,490)
Accounts payable and other current liabilities		7,723
Net cash used in operating activities		(2,548,937)
Financing activities:		
Proceeds from sale of common stock and common stock warrants, net		2,664,900
Proceeds from sale of common stock and common stock warrants, related party, net		2,836,424
Net cash flows from financing activities		5,501,324
Net change in cash and cash equivalents		2,952,387
Cash and cash equivalents at beginning of period		601,445
Cash and cash equivalents at end of period	$	3,553,832

See notes to the financial statements.

Note 1—Corporate overview

Overview – The accompanying audited financial statements of HedgePath Pharmaceuticals, Inc., a Delaware corporation (the "Company", "HPPI", "we", "us" or similar terminology) have been prepared by the Company as a going concern, and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

As used herein, the term "Common Stock" means the Company's common stock, $0.0001 par value per share.

Nature of the Business – The Company is a clinical stage biopharmaceutical company that is seeking to discover, develop and commercialize innovative therapeutics for patients with certain cancers. The Company may also explore acquiring or licensing other innovative therapeutics addressing unmet needs and orphan indications beyond cancer. The Company's preliminary and current focus is on the development of therapies for skin, lung and prostate cancers in the United States of America ("U.S.") market, with the first indication targeting basal cell carcinoma in patients with Basal Cell Carcinoma Nevus Syndrome (also known as Gorlin Syndrome) for which the Company is presently conducting an open label Phase II(b) clinical trial.

The Company's proposed therapy is based upon the use of SUBA™-Itraconazole, which is a patented, oral formulation of the currently marketed anti-fungal drug Itraconazole to which the Company holds an exclusive U.S. license. The Company believes that the dosing of oral capsules of this formulation can affect the Hedgehog signaling pathway, a major regulator of many fundamental cellular processes, which, in turn, can impact the development and growth of cancers such as basal cell carcinoma. Itraconazole has been approved by the U.S. Food and Drug Administration (the "FDA") for, and has been extensively used to treat, fungal infections and has an extensive history of safe and effective use in humans. The Company has developed and licensed intellectual property and know-how related to the treatment of cancer patients using Itraconazole.

Relationship with Mayne Pharma Ventures Pty Ltd. – The Company has exclusive rights in the U.S. to develop and to commercialize SUBA-Itraconazole capsules for the treatment of human cancer via oral administration. SUBA-Itraconazole was developed and is licensed to the Company by the Company's manufacturing partner and significant shareholder Mayne Pharma Ventures Pty Ltd. and its affiliates ("Mayne Pharma") under a supply and license agreement, originally dated September 3, 2013 and most recently amended and restated on May 15, 2015 (the "SLA"). Mayne Pharma is an Australian specialty pharmaceutical company that develops and manufactures branded and generic products, which it distributes directly or through distribution partners and also provides contract development and manufacturing services. In addition to being the Company's licensor and supply partner, under the SLA and related agreements, Mayne Pharma holds a significant minority equity stake in the Company and holds important rights with respect to the Company, such as the right to appoint a member to the Company's Board of Directors (see also Note 9).

May 2016 Financing – On May 25, 2016, the Company conducted the final closing (the "Final Closing") of its previously announced "best efforts/no minimum" private placement offering to accredited investors (the "Offering") of the Company's units (each a "Unit") at a price of $0.10 per Unit, with each Unit consisting of: (i) one (1) share of Common Stock, and (ii) a five-year warrant to purchase one (1) share of Common Stock at an exercise price of $0.12 per share (each a "Warrant"). No actual Units were issued, and each investor received shares of Common Stock and Warrants only. During the course of the Offering, which began on March 30, 2016, the Company sold all 55,000,000 Units reserved for the Offering for aggregate gross proceeds of $5,500,000 including the units sold to Mayne Pharma as described below.

Note 1—Corporate overview (continued)

The Company granted to investors in the Offering certain registration rights requiring the Company, following the Final Closing, to file a registration statement with the SEC covering the resale by such investors and their assignees of the shares of Common Stock issued in the Offering and the shares of Common Stock underlying the Warrants issued in the Offering. The Company was required to use its commercially best efforts to cause such registration statement to be declared effective. The Company filed the registration statement with the SEC in June 2016, and it was declared effective on July 22, 2016.

In connection with the Final Closing, and pursuant to an existing right of Mayne Pharma to purchase its pro rata share, on a fully-diluted basis, of new securities issuances of the Company (the "Mayne Right of First Refusal"), the Company entered into a definitive Securities Purchase Agreement ("SPA") (in substantially the same form as the securities purchase agreement executed by other investors in the Offering) with Mayne Pharma, and in connection therewith issued an aggregate of 27,885,000 units to Mayne Pharma, consisting of an aggregate of 27,885,000 shares of Common Stock and a Warrant to purchase up to an aggregate of 27,885,000 shares of Common Stock, for aggregate gross proceeds to the Company of $2,788,500.

In connection with the Offering, the Company engaged certain FINRA-member agents to help it secure investors for the Offering (the "Finders Arrangements"). Such agents secured investors for an aggregate of $582,500 for the Offering and received commissions equal to an aggregate of $46,600 in cash and warrants (in substantially the form of the Warrants) to purchase 466,000 shares of Common Stock. Pursuant to the Mayne Right of First Refusal, the Company issued and sold to Mayne a warrant to purchase 479,236 shares of Common Stock for a purchase price of $47,924 (the "Mayne Finders Warrant"), which constituted Mayne's pro rata share, on a fully-diluted basis, of all warrants issued in connection with the Finders Arrangements, inclusive of the Mayne Finders Warrant. For ease of administration, the 479,236 shares of Common Stock underlying the Mayne Finders Warrant were added to the Mayne Offering Warrant, resulting in the issuance to Mayne of a single Warrant to purchase 28,364,236 shares of Common Stock.

Note 2—Liquidity and management's plans

At September 30, 2016, the Company had cash and cash equivalents of approximately $3.6 million. Based on the Company's current operational plan and budget, the Company expects that it has sufficient cash to manage its business into approximately the first quarter of 2018, although this estimation assumes the Company does not accelerate the development of the existing product candidate, acquire other drug development opportunities, or otherwise face unexpected events, costs or contingencies, any of which could affect the Company's cash requirements. Available resources may be consumed more rapidly than anticipated, potentially resulting in the need for additional funding. Additional funding from any source (including equity and debt financings) may be unavailable on favorable terms, if at all.

Not included in the foregoing estimate of the timing for the availability of existing Company cash reserves is the potential that the Company might be required to use cash to pay payroll tax upon the vesting of certain restricted stock units ("RSUs") in 2017 in the event the Company is unable to secure funding to cover the payroll tax liability and otherwise employ strategies aimed at satisfying such liability. Such payment could significantly reduce the Company's cash resources and possibly require the Company to raise new funding earlier than expected in order to fund planned operations as projected.

Note 3—Summary of significant accounting policies

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements of Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition" and most industry-specific guidance on revenue recognition throughout the ASC. The new standard is principles-based and provides a five step model to determine when and how revenue is recognized. The core principle of the new standard is that revenue should be recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also requires disclosure of qualitative and quantitative information surrounding the amount, nature, timing and uncertainty of revenues and cash flows arising from contracts with customers. The new standard, as updated in 2015, will be effective for the Company in the first quarter for the year ending December 31, 2018 and can be applied either retrospectively to all periods presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Company will evaluate the impact of adoption of the new standard on its financial statements upon commencement of revenue generating activities.

Management has considered all other recent accounting pronouncements issued, but not effective, and they do not believe that they will have a significant impact on the Company's financial statements.

Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition – The Company currently has no ongoing source of revenues. Miscellaneous income is recognized when earned by the Company.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times, the Company may maintain cash balances in excess of Federal Deposit Insurance Corporation insured amounts of $250,000 for substantially all accounts. As of September 30, 2016, the Company had approximately $3.2 million which exceeded these insured limits.

Note 3—Summary of significant accounting policies (continued)

Research and Development Expenses – Research and development costs are expensed in the period in which they are incurred and include the expenses paid to third parties who conduct research and development activities on behalf of the Company as well as purchased in-process research and development.

Stock-Based Compensation – The Company accounts for stock-based awards to employees and non-employees using Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 – Accounting for Share-Based Payments, which provides for the use of the fair value based method to determine compensation for all arrangements where shares of stock or equity instruments are issued for compensation. Fair values of restricted stock units issued are determined by the Company based predominantly on the trading price of the common stock on the date of grant. Fair value of each common stock option is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatility is based on historical volatility of a peer group's common stock and other factors estimated over the expected term of the options. The expected term of the options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free rate is based on the U.S. Treasury yield. In applying the Black-Scholes options pricing model for options issued in July 2016 (see Note 8), the assumptions were as follows: expected price volatility of 113.16%; risk-free interest rate of 1.14%; weighted average expected life in years of 6; and no dividend yield. The value of these awards is based upon their grant-date fair value. That cost is recognized over the period during which the employee is required to provide service in exchange for the award.

Income Taxes – Deferred tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that are expected to apply to the differences in the periods that they are expected to reverse. See Note 7 for details.

Note 4—Prepaid expenses

At September 30, 2016, prepaid expenses of $58,904 consisted primarily of approximately $57,000 in prepaid directors and officers.

Note 5—Other long-term assets

Other long-term assets at September 30, 2016 consists of a $250,000 deposit with our independent contract research organization. The deposit is fully refundable at the conclusion of our clinical trial which targets basal cell carcinoma in patients with Basal Cell Carcinoma Nevus Syndrome.

Note 6—Other liabilities

At September 30, 2016, other liabilities consisted primarily of accrued payroll of approximately $21,000 and accrued legal fees of $7,500.

Note 7—Income taxes

The difference between expected income tax benefits and income tax benefit recorded in the financial statements is explained below:

	Nine Month Period Ended September 30, 2016
Income taxes benefit computed at statutory rate	$ (1,444,483)
State income tax benefit, net	(127,454)
Other	21,242
Change in valuation allowance	1,550,695
Total	$ -

The significant components of deferred income tax assets and liabilities consist of the following:

Deferred Tax Assets (Liabilities)	September 30, 2016
In-process research and development	$ 996,154
Net operating loss carry forward	2,542,527
R&D credit	60,213
Share-based compensation	1,425,069
Accrued expenses	17,850
	5,041,813
Less valuation allowance	(5,041,813)
Total	$ -

In accordance with GAAP, it is required that a deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. At September 30, 2016, the Company recorded a 100% valuation allowance against its deferred tax assets as it has determined such amounts will not be realizable.

The Company has a federal net operating loss ("NOLs") of approximately $7.0 million as of September 30, 2016. Under Section 382 and 383 of the Internal Revenue Code, if an ownership change occurs with respect to a "loss corporation", as defined, there are annual limitations on the amount of the NOLs and other deductions which are available to the Company. The portion of the NOLs incurred prior to August 12, 2013 is subject to this limitation. As such, the use of these NOLs to offset taxable income is limited to approximately $35,000 per year and the Company has written off the deferred tax assets associated with the NOLs limited due to the ownership change that occurred on August 12, 2013. The Company's State NOLS are approximately $6.8 million as of September 30, 2016. The loss carryforwards begin to expire in 2018.

Note 8—Stockholders' equity

Employee Stock Plans – In June 2016, the vesting and payment date for certain RSUs originally scheduled to vest in September 2016 was extended until March 2017. These RSUs were revalued using the quoted market price of the Common Stock on the date the vesting was extended. The expense associated with the increase in value will be recognized over the extended vesting period including approximately $0.4 million in the quarter ended September 30, 2016.

On July 1, 2016, the three independent members of the Company's Board of Directors and the Company's Secretary and Chief Compliance Officer received a total grant of 650,000 RSUs and 650,000 common stock options. The RSUs issued had a grant date fair value totaling approximately $150,000 and vest over three years on the anniversary of the grant date. The common stock options have an exercise price of $0.24 per share and vest over three years on the anniversary of the grant. The common stock options issued during the nine month period ending September 30, 2016 mentioned above are the only outstanding stock options at September 30, 2016. The intrinsic value of the options at September 30, 2016 was $0.16 per option or $104,000 in aggregate with a weighted average remaining contractual life of 9.75 years. None of the options were vested as of September 30, 2016.

As of September 30, 2016, there were 26,541,738 RSUs and 650,000 Common Stock options granted to various members of the Board of Directors, management and other employees. The Company has recognized approximately $1.7 million in stock based compensation expenses for the nine months ended September 30, 2016. There was approximately $1.9 million in unamortized stock-based compensation relating to RSUs and stock options as of September 30, 2016, which is expected to be recognized over the next 33 months.

Going forward, incentive awards may be in the form of stock options, restricted stock, restricted stock units and performance and other awards. In the case of incentive stock options, the exercise price will not be less than 100% of the fair market value of shares covered at the time of the grant, or 110% for incentive stock options granted to persons who own more than 10% of the Company's voting stock. Options granted will generally vest over a three-year period from the date of grant and will be exercisable for ten years, except that the term may not exceed five years for incentive stock options granted to persons who own more than 10% of the Company's outstanding common stock.

Issuance of Common Stock – See Note 1 for discussion of Common Stock issued.

Warrants – See Note 1 for discussion of the issuance of common stock warrants. At September 30, 2016, 109,779,707 common stock warrants were outstanding with a weighted average exercise price of $0.10, a weighted average remaining contractual life of 3.95 years, and intrinsic value of approximately $32.9 million.

Note 9—Subsequent events

On November 2, 2016, Mayne Pharma purchased 38,833,000 shares of Common Stock of the Company through the exercise of warrants resulting in proceeds of approximately $3,000,000. As a result of the warrant exercise, Mayne Pharma owns 187,895,230 shares of the Company's Common Stock representing approximately 55.0% of the outstanding Common Stock.

The Company has evaluated subsequent events through November 11, 2016 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.