Unaudited Financial Statements and Management's Discussion & Analysis

For the fiscal year ended May 31, 2017

BIOQUAL, INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Highlights

In fiscal year 2017, which ended on May 31, 2017, the Company realized net income of $3,963,128 compared to net income of $2,878,367 for fiscal year 2016, for reasons discussed in the results of operations section below.

During the first quarter of fiscal year 2017, the National Institute of Allergies and Infectious Diseases (NIAID) exercised two of the six possible options of the Task Order entitled "Cotton Rat Model for the Evaluation of RSV Vaccines and Therapeutics" under Part A of Indefinite Delivery/Indefinite Quantity (IDIQ) master contract number HHSN272201000006I, entitled "Animal Models of Infectious Diseases" (the "AMoID Master Contract"). The exercised options total $689,086, increasing the funding for the task order to $1,292,616. The current funding covers costs incurred through November 13, 2017. There are, however, no assurances that the NIAID will exercise options for additional work under the task order, or that Company will be awarded any other task orders under this master contract.

During fiscal year 2017, the NIAID awarded a new task order funded at $3,067,182 and provided $2,152,935 of incremental funding for an existing task order under the contract entitled "Housing and Maintenance of Non-Human Primates for NIAID-VRC." The new funding covers costs incurred through September 27, 2019. The five-year contract (which expires on September 27, 2019) has a maximum potential funding amount of $43,077,850 including all options. The contract's current total funding is $17,454,988. There are, however, no assurances that the Company will be awarded any other task orders under this contract.

On October 28, 2016, the NIAID exercised the third of the possible six options of the Task Order entitled "Model Refinement in Pig-Tailed Macaques: Assessments of Chlamydia tracomatis (CT) Infection with Clinical or Laboratory Strains of the Genital Serovars for Product Testing in the Model" under Part C of the AMoID Master Contract. The exercised options total $768,645, increasing the funding for the task order to $2,126,942. The Task Order expired on April 30, 2017. There are, however, no assurances that the Company will be awarded any other task orders under this contract.

On March 17, 2017, the NIAID notified the Company of the award of the Task Order entitled "Assessment of Neisseria Gonorrhea (GC) and Chlamydia tracomatis (CT)" under Part C of the AMoID Master Contract. The task order totals $1,781,563. The funding covers costs incurred through August 31, 2018. This task order is the 9th awarded to BIOQUAL under the AMoID Master Contract. There are, however, no assurances that the Company will be awarded any other task orders under the AMoID Master Contract.

Subsequent to the end of fiscal year 2017, the Company was awarded its 13th and 14th task orders under the NIAID contract entitled

"Simian Vaccine Evaluation Unit". The 13th task order, which is a 31-month task order, entitled "Immunogenicity of a Bivalent Clade B gp120 Protein Boost for the GeoVax DNA/MVA Vaccine, and Efficacy of the Vaccine Following a Mucosal SHIV Challenge" totals $1,048,510 including an option. The current funding under the base task order is $746,628 to cover costs incurred from August 1, 2017, through May 31, 2019. The 14th task order entitled "In Vivo SHIV or SIV Titration via Mucosal Route in Indian-origin Rhesus Macaques" totals $302,130 and is for two years, including all options. The current funding under the task order is $149,505 to cover costs incurred from September 1, 2017, through August 31, 2018. There are, however, no assurances that the NIAID will exercise options for additional work under the either task order, or that the Company will be awarded any other task orders under this contract.

Additionally, on July 14, 2017, BIOQUAL was awarded an Indefinite Delivery / Indefinite Quantity task order oriented type contract with the NIAID entitled "Pre-Clinical Models of Infectious Diseases." The Company was approved to bid on tasks under parts A and B of the seven-year Master Agreement. The two parts guarantee a minimum of $7,000 in revenues by year seven and a maximum limit of $80,000,000 over the entire term of the contract. The Company plans to present proposals for task orders requesting services relevant to its expertise. There are, however, no assurances that BIOQUAL will be awarded any task orders under this contract.

On April 19, 2017, Dr. John Landon retired as Chairman of the Board of Directors and as a member of the Board of Directors. Dr. Mark Lewis was appointed to succeed Dr. Landon as Chairman of the Board; Dr. Lewis continues to serve as the Company's President and Chief Executive Officer. Also on April 19, 2017, the Board of Directors elected David Landon, Ph.D., to fill the vacancy on the Board of Directors resulting from the retirement of Dr. John Landon.

Based on fiscal year 2016 earnings, the Board of Directors declared a cash dividend of $.45 per share for shareholders of record on October 5, 2016. The dividend was paid on October 26, 2016. This amount is $.10 per share greater than the prior cash dividend of $.35 per share paid on January 13, 2016.

Results of Operations

Results of Operations 2017 versus 2016

The $3,542,634 increase in revenues to $36,602,975 for fiscal year 2017, compared to $33,060,341 for fiscal year 2016, is primarily the result of 1) an increase of approximately $2,470,000 in commercial contract revenues, primarily reflecting an increase in contract activity with two pharmaceutical companies and a university, the latter including vaccine development and therapeutic treatments related to the Zika virus during fiscal year 2017 compared to fiscal year 2016, which did not include laboratory testing; and 2) an increase in government contract revenues of approximately $1,064,000, resulting from an increase of 79 animals being studied for the NIAID-VRC contract.

The $1,201,345 increase in contract operating expenses for fiscal year 2017 primarily reflects expenses incurred related to an increase in subcontractor costs on three existing government contracts and *in-vitro* laboratory labor and materials required for new commercial contracts or new studies for existing commercial clients. The increase also reflects increases in allocated employee group health care costs.

The $518,630 increase in general & administrative (G&A) expenses reflects increases in labor costs adding infrastructure to keep pace with the growth of the company. Additionally, the write down of the contingent consideration for fiscal year 2017 was $63,500 compared to $265,400 in fiscal year 2016. The write down was recorded as a reduction to G&A expenses.

The $1,822,659 increase in operating income primarily reflects the effect of an increase in revenues related to higher profit margin commercial contracts. The increase in operating income is partially offset by a $164,000 write off of prior fiscal year indirect rate variances and fee withholdings. Additionally, as previously disclosed, during the first nine months of the previous fiscal year, there was an unexpected delay in the renewal of a major government contract for which the Company was a subcontractor. The contract expired in May 2015, and although the Company reduced its resources while waiting for the renewal competition to commence, there were several fixed costs for the facility that housed the expired contract which adversely affected the overall gross profit margin produced in that facility during the prior year. Starting in the fourth quarter of the previous fiscal year and continuing through the current fiscal year, the revenues generated by the contracts in the affected facility have increased to adequately cover the fixed costs, thereby achieving the expected gross profit margin on those contracts during fiscal year 2017. The increase in operating income from the prior year was partially offset by the collection during the second quarter of fiscal year 2016 of a $100,000 guaranteed minimum payment related to the termination of Part B of IDIQ master contract number HHSN272201000006I and the revenue recognized on a one-time collection of $109,000 related to prior fiscal year indirect rate variances for an expired contract during the third quarter of fiscal year 2016, with no similar collections in the current year.

Liquidity and Capital Resources

During fiscal year 2017, the Company directed approximately $742,000 towards capital expenditures. These expenditures were necessary to provide additional equipment and nonhuman primate cages for research being performed in the Company's laboratories. The Company has been able to continue to fund all of these expenditures through the use of existing cash provided by profits and its line of credit.

During fiscal year 2018, the Company will begin the process of replacing and upgrading up to 500 nonhuman primate cages currently in use at one of its facilities. The replacement cages will be the same type used throughout the Company's other facilities. This process is expected to take approximately three years to complete and is estimated to cost approximately $3,000,000. The Company anticipates the total spend for replacing cages during fiscal year 2018 to be approximately $1,300,000. Additionally, during fiscal year 2018, the Company estimates the aggregate purchase price of equipment to upgrade older equipment, enhance its capabilities, add nonhuman primate and small animal caging, and to renovate animal housing space will total approximately $1,000,000.

Pursuant to the Asset Purchase Agreement (APA) with ABL (described in the Company's report for the period ending May 31, 2014), it was possible that the Company would be required to pay ABL contingent consideration up to a maximum of $4,000,000 in cash, based on calendar year 2014, 2015, and 2016 revenues generated by the acquired business. However, the acquired business revenues for the pro-rated first year (2014), second year (2015) and third year (2016) of operations did not meet the necessary level to require any payment of contingent consideration for the calendar years 2014, 2015 and 2016. The period subject to contingent payment obligations ended on December 31, 2016.

The Company is obligated, as lessee, under non-cancelable operating leases covering its facilities and certain equipment at various dates through 2026. Rent expense for the fiscal year 2017 was approximately $3,231,000. As of May 31, 2017, the total of the future minimum rental payments is approximately $23,059,220 through 2026.

Other than the items mentioned above, the Company does not anticipate other substantial capital or other expenditures during fiscal year 2018. However, if the Company is awarded new contracts that require additional equipment or animal enclosures during that period, the Company believes it will have sufficient capital resources to provide for the purchase of the equipment.

BIOQUAL has a $2,000,000 line of credit with M&T Bank available to help cover costs of its daily operations. The line of credit is due on demand and renewable annually. As of May 31, 2017, there was no balance due on the line of credit. The interest rate on funds drawn on the line of credit is the prime rate plus .25%, which as of May 31, 2017, was 4.25%. On May 31, 2017, the Company had a balance of cash and cash equivalents of $9,288,447. As part of the funding of the February 2014 acquisition of the ABL *in-vivo* animal model services-related business, the Company obtained a $1,500,000 note from M&T Bank. The term note is payable in 60 monthly payments of $28,087.40, with the final payment to be made on February 28, 2019. With the above line of credit and the cash resources expected to be available as a result of collection of accounts receivable, the Company believes it will have sufficient capital resources to provide for daily operations and its capital needs through the end of fiscal year 2018.

Other balance sheet items worth noting are: 1) the $1,046,706 decrease in accounts receivable reflects the collection of several past due invoices outstanding at May 31, 2016, as well as a faster than normal collection rate for other monthly invoices partially offset by an increase in unbilled accounts receivable reflecting amounts to be billed upon completion of contract milestones; 2) the $162,589 increase in accrued compensation and related costs primarily reflects a longer accrual period than the previous fiscal year end and an increase in bonus compensation accrued for fiscal year 2017, which was related to the increase in sales and operating income; 3) the $198,041 increase in prepaid expenses reflects deposits for the purchase of nonhuman primate caging and other facility equipment; 4) the $164,372 decrease in cash value of officers' life insurance policies primarily reflects the policy surrender and use of proceeds as repayment against premiums paid by the Company for the policy for Michael O'Flaherty, retired Chief Operating Officer; and 5) the $88,415 increase in deferred revenue primarily reflects advanced payments of certain milestones on two commercial contracts which have not been fully achieved. Refer to the Statements of Consolidated Cash Flows on Pages 7 and 8 for further detail related to the changes in cash and cash equivalents.

Forward Looking Information

Statements herein that are not descriptions of historical facts are forward-looking and subject to risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors including risks relating to the ability to continue to extend current government contracts and obtain new contracts; the Company's ability to obtain new commercial contracts; continued demand for the use of animal models in scientific research; the Company's ability to perform under its contracts in accordance with the requirements of the contracts; the actual costs incurred in performing the Company's contracts and its ability to manage its costs, including its capital expenditures; dependence on third parties; future capital needs; the ability to fund its capital needs through the use of its cash on hand and line of credit; and the future availability and cost of financing/capital sources to the Company.