Management's Discussion & Analysis

For the fiscal year ended May 31, 2018

BIOQUAL, INC.

Prepared by:

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounting Standards

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* which requires all deferred income tax assets and liabilities to be classified as noncurrent on the balance sheet. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company has adopted this requirement retrospectively in the current period. The Company reclassified $112,400 of current deferred income tax assets and $36,200 of long term deferred income tax liabilities ($76,200, net) to other assets as of May 31, 2017.

Items of Note

In fiscal year 2018, which ended on May 31, 2018, the Company realized net income of $3,662,070 compared to net income of $3,963,128 for fiscal year 2017, for reasons discussed in the results of operations section below.

During the first quarter of fiscal year 2018, the Company was awarded its 13th and 14th task orders under the National Institute of Allergy and Infectious Diseases (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 either task order, or that the Company will be awarded any other task orders under this contract.

During the fiscal year, the NIAID provided $4,910,898 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 $22,365,886. There are, however, no assurances that the Company will be awarded any other task orders under this contract. Additionally, the contract includes options totaling $7,134,129 related to Biosafety Level 2 research utilizing ferrets and Biosafety Level 3 research utilizing both ferrets and nonhuman primates that are not likely to be exercised during the term of the contract.

Subsequent to the end of fiscal year 2018, the NIAID notified the Company of the awards of Task Order "Immunogenicity Testing of A Salmonella Paratyphi A Vaccine in Mice" under Part A and Task Order "Refinement of a Pig-Tail Macaque Model of Gonococcal Infection" under Part B of the Pre-Clinical Models of Infectious Diseases (PCMID) Master Contract. The Part A task order totals $125,064 and is funded to cover costs incurred through December 9, 2019. The Part B task order totals $1,705,236 and is funded to cover costs incurred through November 23, 2019. The two task orders are the first two to be awarded to BIOQUAL under the PCMID Master Contract. There are, however, no assurances that the Company will be awarded any other task orders under the PCMID Master Contract.

In April 2018, the Company subscribed to the OTC Disclosure and News Service and now discloses quarterly and annual financial and other corporate information to the OTC Pink Marketplace. The information disclosure meets the OTC requirements necessary to reclassify BIOQUAL's listing from the "No Information" category to the "Current Information" category. Although the Company will continue its historic practice of disclosing its financial results on its website, the information reported to the OTC will provide additional information required by the OTC. The annual subscription cost for this service is $5,000.

On April 18, 2018, the Company held its Annual Meeting of Shareholders (the "Annual Meeting"). Set forth below are the proposals voted upon at the Annual Meeting and the final voting results.

As of the close of business on February 27, 2018, the record date for the Annual Meeting, 894,416 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), were outstanding and entitled to vote. 720,981 shares of Common Stock were voted in person or by proxy at the Annual Meeting, representing 80.6% percent of the shares entitled to be voted.

Proposal 1 – Election of Directors. The Company's shareholders elected each of the directors listed below to serve on the Board until the Company's next Annual Meeting of shareholders or until their successors have been duly elected or appointed, as set forth below.

Director	**For**	**Withheld**
J. Thomas August	577,583	143,398
Charles C. Francisco	577,583	143,398
Charles F. Gauvin	577,583	143,398
Mark G. Lewis	577,599	143,382
Michael P. O'Flaherty	577,683	143,348
David B. Landon	577,599	143,382

Proposal 2 – Ratification of Independent Auditors. The Company's shareholders ratified the Company's selection of Aronson LLC to serve as the Company independent auditors for the fiscal year ending May 31, 2018.

For	**Against**	**Abstain**
573,683	142,332	4,966

Proposal 3 – Approval of Reduction in Authorized Shares. The Company's shareholders approved an amendment to the Company's Certificate of Incorporation to reduce the number of authorized shares of capital stock.

For	Against	Abstain
569,835	149,658	1,488

Reduction in Authorized Shares

After receiving approval from the Company's shareholders on April 18, 2018, the Company amended its Certificate of Incorporation to reduce the number of authorized shares of Common Stock from 25,000,000 to 5,000,000 shares by filing an amendment with the State of Delaware's Secretary of State on April 25, 2018.

Subsequent to the end of fiscal year 2018, on July 25, 2018, the Company's Board of Directors (the "Board") voted to appoint Dr. Vivek Shinde Patil as an additional member of the Board, effective immediately. This appointment followed the Board's decision to increase the number of directors who serve on the Board from six directors to seven directors. The Board intends to nominate Dr. Patil for election as a director of the Company at the Company's next annual meeting of shareholders.

Based on fiscal year 2017 earnings, the Board of Directors declared a cash dividend of $.60 per share for shareholders of record on September 20, 2017. The dividend was paid on October 11, 2017. This amount is $.15 per share greater than the prior cash dividend of $.45 per share paid on October 26, 2016.

Results of Operations

Results of Operations 2018 versus 2017

The $718,010 decrease in revenues to $35,884,965, for fiscal year 2018, compared to $36,602,975 for fiscal year 2017, is primarily the result of the completion of the NIAID Task Order entitled "Cotton Rat Model for the Evaluation of RSV Vaccines and Therapeutics" and smaller federal purchase orders during the fourth quarter of fiscal year 2017 with no replacement task order or purchase orders in fiscal year 2018 and decreases in contract activity in government (approximately $100,000) and commercial (approximately $500,000) contracts related to Zika virus research compared to the previous fiscal year.

The $460,438 increase in contract operating expenses for fiscal year, 2018, primarily reflects increases in indirect labor, facility, maintenance and depreciation expenses of approximately $1,000,000. The decrease was partially offset by decreases to nonhuman primate purchases, subcontractor costs and laboratory testing services of approximately $600,000.

The $92,667 increase in G&A expenses primarily reflects the charge for the reduction in cash surrender value of officer's life insurance policies and accounting expenses related to the conversion to a new accounting system compared to no similar expenses being incurred during fiscal year 2017.

The $1,271,117 decrease in operating income primarily reflects the decrease in revenues in commercial contracts, mostly related to Zika virus research, which typically generate a higher gross margin, and the effect of the increase in the indirect costs listed above compared to the previous fiscal year.

Liquidity and Capital Resources

During fiscal year 2018, the Company directed approximately $2,072,000 towards capital expenditures. These expenditures were necessary to provide additional equipment and nonhuman primate (NHP) and rodent cages for research being performed in the Company's laboratories. The amount paid toward capital expenditures reflects the beginning of the NHP cage replacement program (described in the Company's report for the period ending May 31, 2017), initiated during the first quarter of fiscal year 2018. The Company has been able to continue to fund all of these expenditures through the use of available cash provided by profits.

During fiscal year 2019, the Company estimates the aggregate purchase price of equipment to upgrade older equipment, enhance its capabilities, add NHP and small animal caging, and to continue renovating animal housing space will total approximately $2,000,000.

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 2018 was approximately $3,308,000. As of May 31, 2018, the total of the future minimum rental payments is approximately $19,841,000 through 2026.

The Company is currently engaged in a search for additional space to provide for potential growth in both *in-vivo* research using small animal models and *in-vitro* research not involving animal models. If the Company leases additional space, that will cause an increase in future minimum rental payments. The Company is also analyzing the potential need for additional equipment and small animal caging that would be required to conduct its work in the additional space. The initial estimated cost of such additional equipment and small animal caging is $750,000. If the Company is successful in increasing its capacity for small animal model *in-vivo* services by moving into the new space, there will be space made available in existing facilities for growth of NHP model *in-vivo* services. The current estimated cost to purchase additional NHP caging in existing facilities to utilize space vacated by existing small animal *in-vivo* services is approximately $600,000.

Other than the items mentioned above, the Company does not anticipate substantial capital and other expenditures during fiscal year 2019. 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, 2018, 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, 2018, was 5.00%. On May 31, 2018, the Company had a balance of cash and cash equivalents of $10,160,610. As part of the funding of the February 2014 acquisition of the Advanced Biosciences Laboratories, Inc. *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 ($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.

The following provides additional information on select balance sheet items: 1) the $988,994 increase in accounts receivable reflects a slower than normal collection rate for monthly invoices (87% of outstanding balance has been collected as of 8/21/18) and an increase in unbilled accounts receivable reflecting contract milestones in certain contracts providing for payments that had not been billed as of May 31, 2018; 2) the $287,053 decrease in accrued compensation and related liabilities primarily reflects the payment of the final payroll and payroll taxes of the fiscal year on May 31, 2018 compared to the fiscal year 2017 final payroll related expenses being accrued and payable on May 31, 2017; 3) the $562,629 increase in accounts payable reflects higher balances due to subcontractors ($316,000) and nonhuman primate purchases ($257,000) compared to similar balances due on May 31, 2017; and 4) the $155,821 increase in deferred revenue reflects advanced payments of certain milestones on several 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 government or 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.