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

FORM 10-Q

(Mark One)
☒ Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended: **March 31, 2017**

Or

☐ Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the transition period from ______________ to _______________

Commission File Number: **001-34708**

BIOSTAR PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-8747899**
(State or other jurisdiction of incorporation of origination)	(I.R.S. Employer Identification Number)
No. 588 Shiji Xi Avenue **Xianyang, Shaanxi Province** **People's Republic of China**	**712046**
(Address of principal executive offices)	(Zip code)

011-86-29-33686638
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth company ☐	

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

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

As of May 15, 2017, the Company had 2,662,652 shares issued and outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

BIOSTAR PHARMACEUTICALS, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Contents

BIOSTAR PHARMACEUTICALS, INC
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 483,858	$ 173,290
Accounts receivable, net	5,555,998	6,741,454
Inventories	164,696	166,564
Deposits and other receivables	17,197	171,062
Value-added tax recoverable	48,139	41,462
Income tax recoverable	72,669	71,292
Total Current Assets	6,342,557	7,365,124
Non-current Assets		
Deposits	21,312,776	21,148,284
Deferred tax assets, net	2,534,837	2,515,272
Property and equipment, net	5,817,166	5,866,612
Intangible assets, net	5,485,240	5,607,146
Total Non-Current Assets	35,150,019	35,137,314
Total Assets	$ 41,492,576	$ 42,502,438
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	$ 2,528,402	$ 2,842,142
Short-term bank loans	2,343,732	2,325,643
Warrants liability	438,510	455,476
Total Current Liabilities	5,310,644	5,623,261
Commitment and contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 2,637,188 shares issued and outstanding as of March 31, 2017 and December 31, 2016	2,637	2,637
Additional paid-in capital	31,382,467	31,382,467
Statutory reserve	7,354,413	7,354,413
Accumulated deficit	(3,555,141)	(2,540,991)
Accumulated other comprehensive income	997,556	680,651
Total Stockholders' Equity	36,181,932	36,879,177
Total Liabilities and Stockholders' Equity	$ 41,492,576	$ 42,502,438

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

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Sales, net	$ -	$ 801,627
Cost of sales	-	456,657
Gross profit	-	344,970
Operating expenses:		
Selling expenses	273,476	323,066
General and administrative expenses	766,325	690,422
Total operating expenses	1,039,801	1,013,488
Loss from operations	(1,039,801)	(668,518)
Other income (expense)		
Interest income	1,304	-
Interest expense	(45,717)	(38,239)
Fair value adjustment on warrants	16,966	28,191
Recovery of provision for doubtful accounts	53,499	-
Other expense	(401)	-
Total other income (expense), net	25,651	(10,048)
Loss before income taxes	(1,014,150)	(678,566)
Provision for income tax (recovery)	-	(58,225)
Net Loss	$ (1,014,150)	$ (620,341)
Foreign currency translation adjustment	316,905	309,255
Comprehensive loss	$ (697,245)	$ (311,086)
Loss per share		
Basic	$ (0.38)	$ (0.28)
Diluted	$ (0.38)	$ (0.28)
Weighted average number of common shares outstanding		
Basic	2,637,188	2,210,913
Diluted	2,637,188	2,210,913

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

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

	Three Months Ended March 31,	
	2017	**2016**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss	$ (1,014,150)	$ (620,341)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	297,828	316,877
Fair value adjustment on warrants	(16,966)	(28,191)
Changes in operating assets and liabilities:		
Accounts receivable	1,238,270	1,190,484
Inventories	3,164	(56,422)
Deposits and other receivables	155,242	-
Accounts payable and accrued expenses	(335,902)	(329,503)
Value-added tax payable	(6,357)	(71,857)
Income tax recoverable	-	(58,225)
Net cash provided by (used in) operating activities	321,129	342,822
CASH FLOWS USED IN INVESTING ACTIVITIES	-	-
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of short-term bank loans	-	(282,725)
Net cash used in financing activities	-	(282,725)
Effect of exchange rate changes on cash and cash equivalents	(10,561)	(7,513)
Net increase (decrease) in cash and cash equivalents	310,568	52,584
Cash and cash equivalents, beginning balance	173,290	38,898
Cash and cash equivalents, ending balance	$ 483,858	$ 91,482
SUPPLEMENTAL DISCLOSURES:		
Interest received	$ 1,304	$ -
Interest paid	$ -	$ -

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

BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Liquidity and Going Concern

As of March 31, 2017, we had $483,858 of cash and working capital of $1,031,913. For the three months ended March 31, 2017, we incurred a net loss of $1,014,150 and net cash provided by operating activities of $321,129. We generated cash flow from operations even though we incurred a net loss as (1) we collected outstanding receivables from our trade debtors; and (2) our net loss includes certain non-cash expenses that are added back to our cash flow from operations as shown on our condensed consolidated statements of cash flows.

We had experienced no sales volume of all Aoxing Pharmaceutical Products due to the temporarily suspension of production to conduct maintenance of its production lines to renew its GMP certificates from 2015. In addition, for the upgrade of the production facilities, the operation of Shaanxi Weinan was temporarily suspended since December 2016. There is no assurance that the production lines at Aoxing Pharmaceutical will resume and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the production levels as anticipated. Our inability to regain our production levels as anticipated may have material adverse effects on our business, operations and financial performance, and the Company may become insolvent. In addition, the Company already violated its financial covenants included in its short-term bank loans as discussed in Note 5 "Short-term Bank Loans". However, if such events occurred, the Company could still rely on the collection of outstanding debtors and potential fund raising to meet its obligations.
During 2015, as a result of outstanding personal debts of the Chief Executive Officer, Mr. Ronghua Wang, one of the Company's bank accounts was frozen, title of three residential properties of the Company had been transferred and resulted in a loss of approximately $0.5 million (RMB 3.3 million), and certain buildings and land use rights were seized by the court but not transferred to the lender. The seized buildings and land use rights have been included in property and equipment and intangible assets respectively in the Company's Consolidated Balance Sheets at March 31, 2017 and December 31, 2016. In February 2016, the court attempted to force a sale of the Company's land use rights and buildings. As of December 31, 2016, Mr. Ronghua Wang had fully repaid the outstanding balance of the loan, thus the creditor petitioned the court to terminate the auction sale. Mr. Ronghua Wang has repaid approximately $0.5 million (RMB 3.3 million) to the Company to make good the loss recognized in 2015. Such cash collection is included in "other income" for year ended December 31, 2016. The Company has disclosed the above legal proceedings related to the Company to the best of its knowledge. Under the current PRC legal practice, there is also no assurance that there will be no other cases that would put the Company's properties at risk.

Although the Company has net current assets and net assets of US$1,031,913 and US$36,181,932 respectively as of March 31, 2017 to meet its obligations, the factors discussed above raise substantial doubt as to our ability to continue as a going concern. Based on our current plans for the next twelve months from the issuance of the financial statements, that is through April 2018, we anticipate that the operation of Aoxing Pharmaceutical and Shaanxi Weinan will be resumed in the second quarter of 2017 and the sales of their pharmaceutical products will be the primary organic source of funds for future operating activities in 2017. In addition, we expect that the acquisition and production of the new drug permit will be completed in the second half of 2017, together with the launching of the new product “Easy Breathing”, it will bring additional revenue and generate profits in the coming future. Currently, the Company is able to collect outstanding accounts and other receivables to meet its debt obligations; we may also try to procure bank borrowing, if available, as well as capital raises through public or private offerings of its shares and warrants. There is no assurance that we will find such funding on acceptable terms, if at all. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

We anticipate that the new topical health product called “Easy Breathing” will be launched for sale in 2017. The product was developed by the Company’s research and development team over the past 3 years. The product is designed to have effects of relieving stuffy nose, inhibiting nasal bacteria and viruses, and mitigating effects on the inflammation of nasal mucosa. It will be manufactured, distributed and sold in China. We expect to sell approximately 400,000 units within the next 2 years, which is expected to yield approximately $7.2 million (RMB 50 million) and improve our cash flow position.

Principles of Consolidation

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

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

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

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

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

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

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

Unaudited Interim Financial Information

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

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

Foreign Currency

The Company's reporting currency is the U.S. dollar ("$"). The Company's operations in the PRC use the Chinese Yuan Renminbi ("RMB") as its functional currency. The financial statements of the subsidiary and VIEs are translated into U.S. dollars in accordance with ASC 830, *Foreign Currency Matters*. According to the topic, all assets and liabilities were translated at the current exchange rate, stockholders' equity are translated at the historical rates and income statement items are translated at the average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC 220, *Comprehensive Income*. Foreign exchange transaction gains and losses are reflected in the statement of operations. For the period ended March 31, 2017 and 2016, the Company recognized foreign translation under other comprehensive income adjustment of an income for $316,905 and a loss for $309,255, respectively.

Fair Value of Financial Instruments

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

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

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

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, Distinguishing Liabilities from Equity, and ASC 815, Derivatives and Hedging. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant are valued using the Binominal Model.

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

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

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

At March 31, 2017:

	Carrying amount			
	Level 1	**Level 2**	**Level 3**	**Estimated fair value**
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	$ -	$ 483,858	$ -	$ 483,858

	Carrying amount			
	Level 1	**Level 2**	**Level 3**	**Estimated fair value**
Financial liabilities				
Carried at (amortized) cost:				
Short-term bank loans	$ -	$ -	$ 2,343,732	$ 2, 343,732
Carried at fair value:				
Warrants liability	-	-	438,510	438,510
	$ -	$ -	$ 2,782,242	$ 2, 782,242

At December 31, 2016:

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

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

Warrants Liability	
Value at December 31, 2016	$ 455,476
Fair value adjustment of warrants during the three months end March 31, 2017	(16,966)
Value at March 31, 2017	$ 438,510

At March 31, 2017, the fair value of the warrants liability, which are recognized as level 3 financial instruments, were calculated using the binomial model that included the following inputs: stock price of the underlying asset of $2.93, an exercise price of $5.55 expected volatility of 124.95%, risk free rate of 1.5% and will be expired after 3.05 years. The change in fair value was recognized on the Company’s statement of operations during the period ended March 31, 2017.

In accordance with ASC-820-10-50-2(g), the Company has performed a sensitivity analysis of the outstanding warrants of the Company which are classified as level 3 financial instruments. The Company recalculated the value of warrants by applying a +/- 5% changes to the input variables in the binomial model that vary overtime, namely, the volatility and the risk free rate. A 5.0% decrease in volatility would decrease the value of the warrants to $22,090; a 5.0% increase in volatility would increase the value of the warrants to $20,900. A 5.0% decrease or increase in the risk free rate would not have materially changed the value of the warrants; the value of the warrants is not strongly correlated with small changes in interest rates.

Use of Estimates

The preparation of the consolidated financial statements in conformity with the GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for certain items such as allowance for doubtful accounts, depreciation and amortization, impairment, inventory allowance, taxes and contingencies.

Cash and Cash Equivalents

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

Accounts Receivable

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

As of March 31, 2017 and December 31, 2016, the allowance for doubtful debts was approximately $3.2 million and $3.2 million respectively.

Inventories

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

	March 31, 2017 (unaudited)	December 31, 2016
Raw materials	$ 164,696	$ 164,985
Work in process	-	-
Finished goods	-	1,579
	$ 164,696	$ 166,564

Property and Equipment

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

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

Property and equipment consisted of the following:

	March 31, 2017 (unaudited)	December 31, 2016
Buildings	$ 2,379,559	$ 2,358,423
Building improvements	5,151,368	5,105,612
Machinery & equipment	1,108,690	1,098,843
Furniture & fixtures	49,665	49,224
Vehicle	104,295	103,368
Construction in progress	450,979	446,973
	$ 9,244,556	$ 9,162,443
Less: Accumulated depreciation	(3,427,390)	(3,295,831)
	$ 5,817,166	$ 5,866,612

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

Intangible Assets

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

Land use rights	50 years
Proprietary technologies	10 years

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

	March 31, 2017 (unaudited)	December 31, 2016
Land use rights	$ 2,872,827	$ 2,863,154
Proprietary technologies	14,697,505	14,634,737
	17,570,332	17,497,891
Less: Accumulated amortization and impairment	(12,085,093)	(11,890,745)
	$ 5,485,239	$ 5,607,146

The estimated future amortization expenses related to intangible assets as of March 31, 2017 are as follows:

Years Ending December 31,	
2017	$ 802,280
2018	1,069,707
2019	1,008,858
2020	108,277
2021	68,715
Thereafter	2,427,402

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

Share warrants

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

Revenue Recognition

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

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

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

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU No. 2014-09, "Revenue from Contracts with Customers", which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2019, and early adoption is permitted. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the "new revenue standards"). The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company currently expects to adopt the new revenue standards in its first quarter of 2018 utilizing the full retrospective transition method. The adoption of the new revenue standards is not expected to have any material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update ASU No. 2015-02, "Consolidation" (Topic 810). ASU 2015-02 changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation mode. ASU 2015-02 affects the following areas: (1) Limited partnerships and similar legal entities. (2) Evaluating fees paid to a decision maker or a service provider as a variable interest. (3) The effect of fee arrangements on the primary beneficiary determination. (4) The effect of related parties on the primary beneficiary determination. (5) Certain investment funds. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the guidance in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have any material impact on the Company's financial statement presentation or disclosures.

In July 2015, the FASB issued Accounting Standards Update ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out ("LIFO"). ASU 2015-11 is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company will adopt the standard in the interim and annual period after December 31, 2016. The adoption of ASU 2015-11 is not expected to have any material impact on the Company's consolidated financial statements.

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

In March 2016, the FASB issued Accounting Standards Update ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. ASU 2016-09 will be effective for public companies for reporting periods beginning after December 15, 2016. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

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

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The updated guidance aims to reduce diversity in presentation and classification of certain cash receipts and cash payments by addressing eight specific cash flow issues including (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies; (6) Distributions Received from Equity Method Investees; (7) Beneficial Interests in Securitization Transactions and (8) Separately Identifiable Cash Flows and Application of the Predominance Principle. Among the afore-mentioned eight addressed cash flow issues, the category of "Separately Identifiable Cash Flows and Application of the Predominance Principle" requires a reporting entity to classify cash receipts and payments that have aspects of more than one class of cash flows first by applying specific guidance in generally accepted accounting principles (GAAP) and, only in the absence of specific guidance, by determining each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, a reporting entity should classify such cash receipts and cash payments by referring to the predominant source or use of cash flows for the item. The updated guidance is effective from reporting periods beginning after December 15, 2018. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

As of March 31, 2017, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company's financial statements.

Note 3 – DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	March 31, 2017	December 31, 2016
Current portion		
Deposit for research & development	$ 80	$ 80
Other receivables and prepaid expenses	17,117	170,982
	17,197	171,062
Non-current portion		
a) Deposit paid for intended acquisition a health product material supplier	$ 11,681,565	$ 11,591,407
b) Deposit paid for intended acquisition a health product manufacturer	4,933,829	4,895,749
c) Deposit paid for construction work	895,432	888,521
d) Deposit paid for intended acquisition of a mining company	2,612,027	2,591,867
e) Deposit paid for acquisition of intangible assets	1,189,923	1,180,740
Deposits	$ 21,312,776	$ 21,148,284

a. In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately $11.9 million (RMB 82 million) in cash. The completion of the acquisition is subject to the completion of a valuation report and certain conditions set out in the letter of intent being met. The deposit is fully refundable if certain conditions set out in the letter of intent are not met. The acquisition has yet to complete by March 31, 2017.

b. In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer for an aggregate consideration of approximately $8.1 million (RMB 56 million), the acquisition is in final stage and the Company is reviewing the draft of shares transfer agreement. The acquisition has yet to complete by March 31, 2017.

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

d. In November 2016, the Company agreed to pay approximately $2.6 million (RMB 18 million) for a potential acquisition of a mining company in the PRC which is principally engaged in the supply of raw materials to produce health products. The deposit is fully refundable and the acquisition was yet to complete by March 31, 2017.

e. In December 2016, the Company signed a purchase contract to acquire an existing drug permit from an independent third party at a consideration approximately $1.2 million (RMB 8.2 million). The deposit is fully refundable if certain conditions set out in the purchase contract are not met. The acquisition has yet to complete by March 31, 2017.

Note 4 – LOAN RECEIVABLES

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

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

Note 5 – SHORT-TERM BANK LOANS

Short-term bank loans consisted of the followings:

Inception date	Details	Balance as at March 31, 2017	Balance as at December 31, 2016
May 26, 2014	RMB 20 million, one year term loan, annual interest rate at 7.80%. During the period ended March 31, 2017, the Company paid interest of RMB 0.3 million. As of March 31, 2017, the Company had cumulatively repaid RMB 3.8 million and recorded accrued interest expenses of RMB 2.4 million.	$ 2,343,732	$ 2,325,643

The loan is secured by (i) personal guarantee executed by a major shareholder of the Company; (ii) pledge of the Company's buildings and land use right with carrying amount of approximately $3.2 million as of March 31, 2017 (Note 2); and the guarantee executed by Shaanxi BioStar. As of March 31, 2017, the short-term bank loan is due on demand due to violation of loan covenants, and the Company is in negotiations with the bank to extend the loans.

Note 6 – STOCKHOLDERS' EQUITY

(a) Common stock

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

(b) Warrants

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

In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount $960,894, representing the full fair value of the warrants was recognized in year 2014. As of March 21, 2017, the warrants were fully expired.

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

In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount $455,476, representing the full fair value of the warrants was recognized in year 2016. As of March 31, 2017, the carrying amount of the warrants was $438,510, being its fair value.

For the periods ended March 31, 2017 and 2016, a fair value adjustment of $16,966 and $28,191 reduced the carrying value of warrants was made and recorded as a gain in the Consolidated Statements of Operations and Comprehensive Income.

As of March 31, 2017 and December 31, 2016, the Company has 235,000 and 343,429 warrants outstanding, with weighted average exercise price of $5.5 and $4.78, respectively.

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

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

(c) Stock Options

The following tables summarize activities for the Company's options for the three months ended March 31, 2017.

		Weighted Average	
	Number of options	**Exercise Price ($)**	**Remaining Life (years)**
Balance, December 31, 2016	3,429	11.76	0.3
Balance, March 31, 2017	3,429	11.76	0.05
Vested and exercisable as at March 31, 2017	3,429	11.76	0.05

As of March 31, 2017, there was no unrecognized compensation cost related to outstanding stock options, and the intrinsic value was close to zero because the exercise price was out-of-the-money.

Note 7 – INCOME TAXES

The Company was incorporated in the United States of America ("USA") and has operations in one tax jurisdiction, i.e. the PRC. The Company generated substantially all of its net results from its operations in the PRC for the three months ended March 31, 2017 and 2016, and has recorded income tax (benefits)/provision for the periods, as applicable.

Uncertain Tax Positions

Interest associated with unrecognized tax benefits are classified as income tax, and penalties are classified in selling, general and administrative expenses in the statements of operations. For the three months ended March 31, 2017 and 2016, the Company had no unrecognized tax benefits and related interest and penalties expenses. Currently, the Company is not subject to examination by major tax jurisdictions.

Note 8 – STATUTORY RESERVES

The Company's subsidiaries and VIE in the PRC are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws and regulations applicable to China's foreign investment enterprises and with China's Company Laws, an enterprise's income, after the payment of the PRC income taxes, must be allocated to the statutory surplus reserves. The proportion of allocation for reserves is 10 percent of the profit after tax to the surplus reserve fund, and the cumulative amount shall not exceed 50 percent of registered capital.

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

Note 9 – LOSS PER SHARE

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

	Three Months Ended March 31,			
	2017		2016	
Basic loss per share:				
Numerator:				
Net loss used in computing basic loss per share	$	(1,014,150)	$	(620,341)
Denominator:				
Weighted average common shares outstanding		2,637,188		2,210,913
Basic loss per share	$	(0.38)	$	(0.28)
Diluted loss per share:				
Numerator:				
Net loss used in computing diluted loss per share	$	(1,014,150)	$	(620,341)
Denominator:				
Weighted average common shares outstanding		2,637,188		2,210,913
Diluted loss per share	$	(0.38)	$	(0.28)

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

In accordance with ASC-260-10-50-I(c), for the periods end March 31, 2017 and 2016, the Company, using the treasury stock method, determined that both the outstanding options and warrants would have been anti-dilutive if included in the denominator of the Company's dilutive loss per share calculation because they were both out of the money. Holders of either securities would not have exercised the rights under these securities; accordingly, the options and warrants have been excluded from the loss per share calculation. Details of the attributes, such a strike price and time to maturity of the options and warrants are detailed in "Note 6 Stockholder's Equity".

Note 10 – OTHER COMPREHENSIVE INCOME

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

	March 31, 2017		December 31,2016	
Accumulated other comprehensive income, beginning of period	$	680,651	$	3,434,348
Change in cumulative translation adjustment		316,905		(2,753,697)
Accumulated other comprehensive income, end of period	$	997,556	$	680,651

Note 11 – COMMITMENTS

	Total capital payment commitment	March 31, 2017	December 31, 2016
a) Three agreements with certain research institutes to conduct clinical trials for two new and one existing drugs.	$ 1.9	$ 0.7	$ 0.7
b) In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately $11.9 million (RMB 82 million) in cash.	11.9	0.2	0.2
c) In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer for an aggregate consideration of approximately $8.1 million (RMB 56 million), subject to the completion of a due diligence report and certain conditions set out in the letter of intent being met.	8.1	3.2	3.2
d) In November 2016, the Company entered into a construction contract to carry out improvement work in production plant.	1.0	0.1	0.1
Total capital payment commitment		$ 4.2	$ 4.2

Note 12 – SEGMENT INFORMATION

For the periods ended March 31, 2017 and 2016, all revenues of the Company represented the net sales of pharmaceutical products. No financial information by business segment is presented. Furthermore, as all revenues are derived from the PRC, no geographic information by geographical segment is presented. All tangible and intangible assets are located in the PRC.

Note 13 – RISKS CONCENTRATION

The following table illustrates the Company’s risks concentration:

Sales risks concentration

Customer	Percentage of total sales during the Three Months Ended March 31, 2017	2016
A	-%	100%
B	-%	-%
Total risks concentration	-%	100%

Note 14 – CONTINGENCIES

Effective as of February 5, 2017, an independent member of the board, Zhongyang Shang tendered his resignation of the Board and of the Board’s standing committees due to severe personal health issues.

On February 21, 2017, the Company received a notification letter from Nasdaq Listing Qualifications (“Nasdaq”) advising the Company that, following Zhongyang Shang’s resignation as an independent director of the Company, the Company was not in compliance with Nasdaq’s continued listing requirements set forth in Listing Rule 5605 pertaining to the independent director membership of the Company’s Board and its Audit and Compensation Committees.

Pursuant to Listing Rules 5605(b)(1)(A), 5605(c)(4) and 5605(d)(4), the Company is extended a cure period to regain compliance with the foregoing deficiency as follows:

Until the earlier of the Company’s next annual shareholders’ meeting or February 5, 2018, or
If the next annual shareholders’ meeting is held before August 4, 2017, then the Company must evidence compliance no later than August 4, 2017 (together, the “Compliance Deadline”).

If the Company does not regain compliance by the Compliance Deadline, the Company’s securities will be subject to delisting. At that time, the Company may appeal the delisting determination to a Hearings Panel.

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

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

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

Overview

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

In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. ("Shaanxi Weinan") from the holders of 100% of equity interests in Shaanxi Weinan. The aggregate purchase price is RMB 61 million (approximately $9.55 million), in cash and payable in several tranches.

Shaanxi Weinan owns drug approvals and permits for a portfolio of 86 drugs and one health product, all of which, were added to the Company's drug portfolio following the completion of this acquisition. The Company completed this acquisition on October 25, 2011.

In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the "Weinan Supplemental Agreement") with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which registration has been completed in April 2013. The aggregate purchase price was approximately $10.2 million, consisting of approximately $8.8 million in cash and 1,602,564 shares of the Company's common stock, valued at approximately $1.4 million.

Since 2013, we improved our customer portfolio and provided subcontracting services to hospital which provides the prescription. For the years ended 31 December 2016 and 2015, the subcontracting services income from the hospital contributed $0 and $12.4 million, respectively, to our revenue. We currently manufacture and sell twelve over-the-counter ("OTC") medications and seventeen prescription-based pharmaceuticals which are sold and distributed in over 25 provinces and provincial-level cities throughout China. We also have exclusive supply contract with a hospital to supply six pharmaceutical products. Our best-selling product, Xin Ao Xing Oleanolic Acid Capsule ("Xin Aoxing Capsule"), is a state-approved OTC drug for treatment of Hepatitis B.

October 2016 Registered Offering

On October 11, 2016, the Company and certain institutional investors entered into a securities purchase agreement (the "Purchase Agreement") in connection with an offering ("Offering") pursuant to which the Company agreed to sell, and the investors agreed to purchase 425,000 shares of the Company's common stock and warrants to purchase up to 212,500 shares of the Company's common stock, for aggregate gross proceeds, before deducting fees to the placement agent and other estimated offering expenses payable by the Company, of approximately $1.91 million. The warrants are exercisable beginning six months and a day after the closing of this offering and expire three and a half years from the date of issuance at an exercise price of $5.55 per share. The exercise price and number of shares underlying the warrants are subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The exercisability of the warrants may be limited if, upon exercise, the holder thereof or any of its affiliates would beneficially own more than 4.99% of the Company's common stock. The net proceeds from the offering were used for working capital and other general corporate purposes. FT Global Capital, Inc. served as the placement agents for the offering. The Offering was effected as a takedown off the Company's shelf registration statement on Form S-3 (File No. 333-192963), which became effective on January 3, 2014, pursuant to a prospectus supplement to be filed with the Securities and Exchange Commission.

February 2017 Nasdaq Deficiency Notification Re: Board Composition

On February 21, 2017, the Company received a notification letter from Nasdaq Listing Qualifications ("Nasdaq") advising the Company that, following Zhongyang Shang's resignation as an independent director of the Company, the Company was not in compliance with Nasdaq's continued listing requirements set forth in Listing Rule 5605 pertaining to the independent director membership of the Company's Board and its Audit and Compensation Committees. Pursuant to Listing Rules 5605(b)(1)(A), 5605(c)(4) and 5605(d)(4), the Company is extended a cure period to regain compliance with the foregoing deficiency as follows: until the earlier of the Company's next annual shareholders' meeting or February 5, 2018, or if the next annual shareholders' meeting is held before August 4, 2017, then the Company must evidence compliance no later than August 4, 2017 (together, the "Compliance Deadline"). If the Company does not regain compliance by the Compliance Deadline, the Company's securities will be subject to delisting. At that time, the Company may appeal the delisting determination to a Hearings Panel. In its February 9, 2017 Current Report on Form 8-K, the Company disclosed Mr. Shang's departure as a Board and Board committee member due to severe personal health issues. The Company is currently in the process of taking steps to address the foregoing continued listing deficiency; it intends to complete this process by the Compliance Deadline so as to regain the Company's compliance with the Nasdaq continued listing requirements.

Results of Operations

Net Sales

	Three Months Ended March 31,				%
	2017		2016		change
Aoxing Pharmaceutical Products		%		%	
Xin Aoxing Capsule	$ -	-%	$ -	-%	-%
Other Aoxing Pharmaceutical products	-	-%	-	-%	-%
Subtotal	$ -	-%	$ -	-%	-%
Shaanxi Weinan Products	-	-%	801,627	100.0%	(100.0%)
Hospital products	-	-%	-	-%	-%
Total gross sales l	$ -	-%	$ 801,627	100.0%	(100.0%)
Sales discount	$ -	-%	$ -	-%	-%
Total net sales	$ -	-%	$ 801,627	100.0%	(100.0%)

For the three months ended March 31, 2017, total net sales decreased by approximately $0.8 million or 100% compared to the same period in 2016.

The Company had no sales on all Aoxing Pharmaceutical Products in the three months ended March 31, 2017 as Aoxing Pharmaceutical temporarily stopped production to conduct maintenance of its production lines in order to renew its GMP certificates which is expected to be renewed in the second quarter of 2017 at which time the production is expected to resume. If the Company is unable to renew its GMP certificates and resume production as intended, then its operations will be materially affected and the Company might become insolvent. In addition, its revenues, operations and the value of our common stock and common stock equivalents would be materially negatively impacted; the Company may substantially curtail or cease its operations.

There were no sales of Shaanxi Weinan's products during the three months ended March 31, 2017 due to replacing production equipment to comply with government's environmental protection requirement. We currently anticipate that the production of Shaanxi Weinan products will resume in June 2017.

Table of Contents

Cost of sales

	Three Months Ended March 31, 2017		2016		% change
Aoxing Pharmaceutical Products		%		%	
Xin Aoxing Capsule	$ -	-%	$ -	-%	-%
Other Aoxing Pharmaceutical products	-	-%	-	-%	-%
Subtotal	$ -	-%	$ -	-%	-%
Shaanxi Weinan Products	-	-%	456,657	100.0%	(100.0%)
Hospital products	-	-%	-	-%	-%
Total cost of sales	$ -	-%	$ 456,657	100.0%	(100.0%)

For the three months ended March 31, 2017, cost of sales decreased by approximately $0.5 million or 100%, compared to the same period in 2016, no costs of sales due to no production and no sales for the reasons mentioned above.

Gross Profit

	Three Months Ended March 31, 2017		2016	
Aoxing Pharmaceutical Products	Gross Profit	Product Gross Margin %	Gross Profit	Product Gross Margin %
Xin Aoxing Capsule	$ -	-%	$ -	-%
Other Aoxing Pharmaceutical products	-	-%	-	-%
Sub-total	$ -	-%	$ -	-%
Shaanxi Weinan Products	$ -	-%	344,970	(100.0%)
Hospital products	-	-%	-	-%
Sales discount	$ -	-%	$ -	-%
Total gross profit	$ -	-%	$ 344,970	(100.0%)

Gross profit decreased by $0.3 million or 100% for three months ended March 31, 2017, as compared to same period in 2016. The decrease in gross profit was the result of no sale thus no gross profit for the period.

Operating Expenses

	Three months ended March 31, 2017		2016		
	Operating expenses	% of net sales	Operating expenses	% of net sales	% change
Selling expenses	$ 273,476	-%	$ 323,066	40.3%	(15.4%)
General and administrative expenses	766,325	-%	690,422	86.1%	11.0%
Total operating expenses	$ 1,039,801	-%	$ 1,013,488	126,4%	(2.6%)

Total operating expense was relatively flat for the three months ended March 31, 2017, as compared to the same period in 2016.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall decrease was approximately $0.05 million or 15.4%. The decrease in selling expenses was a result of the above mentioned lack of sales.

General and administrative expenses consist of personnel expenses, amortization and depreciation, professional fees and other general and administrative expenses. During the three months ended March 31, 2017, general and administrative expenses increased approximately $0.08 million or 11.0%. The increase in general and administrative expenses was mainly due to the increase in personnel expenses, as salary increment was offered to employees for retention during the operation suspension period.

Provision for Income Taxes

For the three months ended March 31, 2017 and 2016, we had no income tax expense nor income tax benefit. We are subject to the uniform corporate income tax rate of 25% in China. The calculation of effective tax rate includes the operating results of all our subsidiaries and the U.S. parent company.

Liquidity and Capital Resources

There is substantial doubt that the Company will continue as a going concern. As of March 31, 2017, we had cash and cash equivalents of approximately $0.5 million and net working capital of approximately $1.0 million. No production due to preparation of GMP certification renewals at our Aoxing facility and replacing production equipment to comply with government's environmental protection requirement at our Weinan facility led to weak results in generating cash flows during the fiscal year. We have been working with the bank to extend the outstanding loans, trying to collect as much account receivables as possible, and restoring production volumes to regular levels. However, as of the time of this filing, we cannot provide any assurance that we will be able to successfully extend our loans and restore all production to regular volumes as we anticipate. If we are unable to renew our GMP certificates to allow production resumption as anticipated, our operations will be materially affected and we might become insolvent. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our revenues and operations and the value of our common stock and common stock equivalents would be materially negatively impacted and we may cease our operations. While our production levels of Shaanxi Weinan products helped to offset the substantial decrease in our sales volume in 2016, however, due to the temporarily suspension of production in both Aoxing and Weinan, no revenue has been generated in current quarter. There is no assurance that the production lines at Aoxing will resume as anticipated and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the anticipated production levels. Our inability to regain anticipated production levels may have material adverse effects on our business, operations and financial performance, and may render the Company insolvent.

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

Based on our current plans for the next 12 months, we anticipate that the sales of the Company's pharmaceutical products will be the primary organic source of funds for future operating activities in 2017. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, as we may deem appropriate, we may rely on more bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all.

Net cash provided by operating activities for the three months ended March 31, 2017 was approximately $0.3 million. This was primarily due to our net loss of approximately $1.0 million, adjusted by non-cash related expenses including depreciation and amortization of approximately $0.3 million, then increased by favorable changes in working capital of approximately $1.1 million. The favorable changes in working capital were mainly due to decrease in accounts receivable offset by decrease in accounts and other payables.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

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

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

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

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

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

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

1. If after taking legal action, it appears that an accounts receivable is not likely to become collectible, such accounts receivable will be written off if it is more than two years old.

2. If during the collection period, the customer provides bankruptcy or other insolvency documentation, the corresponding accounts receivable will be written off.

3. If we are no longer able to locate a particular customer in order for us to take any collection or legal actions, the accounts receivable for such customer will be written off if it is more than two years old.

Inventory

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

Property and Equipment

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

Stock-Based Compensation

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

Valuation of Intangibles

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

Research and Development

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

Income Taxes

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

Foreign Currency

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

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2017:

	Payments due by period ($ million)				
	Total	**Within 1 year**	**1-3 years**	**3-5 years**	**>5 years**
Research and development contracts	$ 0.7	$ 0.7	$ -	-	-
Purchase of a health product manufacturer	3.2	3.2	-	-	-
Acquire a project for mining rights, mining assets and a mining company	0.2	0.2	-	-	-
Construction contract for improvement work	0.1	0.1	-	-	-
Total contractual obligations	$ 4.2	$ 4.2	$ -	-	-

Inflation

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

In May 2015, a bank account of Shaanxi Aoxing Pharmaceutical Company Limited was frozen as a result of actions by Bai Yun, an individual lender (not affiliated with the Company), in his attempt to collect the outstanding balance on the personal loan due to him from Ronghua Wang in the amount of RMB 2.67 million (USD$0.44 million), which personal loan was in default. The foregoing debt was personal debt of Ronghua Wang dating to 2010, which Ronghua Wang obtained to acquire a real estate parcel; no assets of Shaanxi Aoxing Pharmaceutical Company Limited were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Also, the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose). As of June 2014, Wang Ronghua owed Bai Yun RMB 5.17 million (or US$0.8 million representing principal and accrued interest on the original loan. Subsequently, Ronghua Wang commenced a lawsuit against the seller of the real estate in question and, in December 2014, secured a judgment in the amount of RMB 17 million against the seller to recover the purchase price. At approximately the same time, Bai Yun initiated a legal action against Ronghua Wang to collect on the outstanding debt. The parties to the dispute engage in settlement negotiations and on January 9, 2015, the court finalized the settlement arrangement between the parties. Ronghua Wang has been attempting to collect on his judgment against the seller, but so far he has not been successful, which, in turn, resulted in his inability to honor the terms of his settlement arrangement with Bai Yun. In May 2015, Bai Yun sought to foreclose on the Company's land and bank account to satisfy the outstanding debt and in February 2016, the court attempted to force a sale of the Company's 2,674 sq. meter parcel which is currently idle, at an auction. In order to prevent such auction sale, Ronghua Wang paid RMB 2.5 million (US$0.36 million) to Bai Yun in March 2016 which amount was applied to the outstanding debt; following this payment, Bai Yun petitioned the court to terminate the auction sale. The title of the buildings and land use rights subject of this legal matter are currently seized by the court, but have not been transferred to the lender. As at March 31, 2017, Ronghua Wang is currently negotiating the terms in settling the remaining balance on the loan and had partially repaid the outstanding balance of the loan, thus avoiding the Company's land use rights and buildings being seized and auctioned with proceeds used to settle this debt. If he pays off the remaining balance of the loan to Bai Yun, it is the Company's understanding that the properties and land will be immediately released. As of the date of this report, the matter has not been resolved and the remaining balance owed to Bai Yun still outstanding; accordingly, the properties and land remain seized by the courts.

Item 1. Legal Proceedings. (Cont'd)

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

Item 1A. Risk Factors.

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

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

Working capital required to implement our business plan will most likely be provided by funds obtained through offerings of our equity, debt, debt-linked securities, and/or equity-linked securities, and revenues generated by us. No assurance can be given that we will have revenues sufficient to support and sustain our operations or that we would be able to obtain equity/debt financing in the current economic environment. If we do not have sufficient working capital and are unable to generate sufficient revenues or raise additional funds, we may delay the completion of or significantly reduce the scope of our current business plan; delay some of our development and clinical or marketing efforts; postpone the hiring of new personnel; or, under certain dire financial circumstances, substantially curtail or cease our operations. Our current levels of working capital and the need for additional financing raise substantial doubt as to our ability to continue as a going concern. We may need substantial additional capital to fund our operations. To date, we have relied almost exclusively on organically generated revenues financing transactions to fund losses from our operations. Our inability to obtain sufficient additional financing would have a material adverse effect on our ability to implement our business plan and, as a result, could require us to significantly curtail or potentially cease our operations. At March 31, 2017, we had cash and cash equivalents of approximately $0.5 million, total current assets of approximately $6.3 million and total current liabilities of approximately $5.3 million. We will need to engage in capital-raising transactions in the near future. Such financing transactions may well cause substantial dilution to our shareholders and could involve the issuance of securities with rights senior to the outstanding shares. Our ability to complete additional financings is dependent on, among other things, the state of the capital markets at the time of any proposed offering, market reception of the Company and the likelihood of the success of its business model, of the offering terms, etc. There is no assurance that we will be able to obtain any such additional capital as we need to finance our efforts, through asset sales, equity or debt financing, or any combination thereof, on satisfactory terms or at all. Additionally, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and to support our operations. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our revenues and operations and the value of our common stock and common stock equivalents would be materially negatively impacted and we may cease our operations.

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

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

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

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

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

During the three months ended March 31, 2017, neither the Company, nor any of its affiliated purchasers repurchased any of the Company's securities. The Company did not sell any unregistered securities during the same fiscal period.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

4.1	Form of Warrant to Purchase Shares of Common Stock (Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on October 12, 2016).
10.1	Securities Purchase Agreement (Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on October 12, 2016).
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document

SIGNATURES

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

BIOSTAR PHARMACEUTICALS, INC.
(Registrant)

Date: May 19, 2017	By:	/s/ Ronghua Wang Ronghua Wang, Chief Executive Officer and President (Principal Executive Officer)
Date: May 19, 2017	By:	/s/ Xiaojuan Zhai Xiaojuan Zhai, Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Ronghua Wang, certify that:

1. I have reviewed this Form 10-Q of Biostar Pharmaceuticals, Inc.;

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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 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.

Date: May 19, 2017
/s/ Ronghua Wang
Ronghua Wang
President, Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION

I, Qinghua Liu, certify that:

1. I have reviewed this Form 10-Q of Biostar Pharmaceuticals, Inc.;

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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 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.

Date: May 19, 2017
/s/ Xiaojuan Zhai
Xiaojuan Zhai, Chief Financial Officer (Principal Financial and Accounting Officer)

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. §1350

Pursuant to 18 U.S.C. §1350 and in connection with the Quarterly Report on Form 10-Q of Biostar Pharmaceuticals, Inc. (the "Company") for the fiscal period ended March 31, 2017 (the "Report"), I, Ronghua Wang, President and Chief Executive Officer of the Company, hereby certify that to the best of my knowledge and belief:

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 operations of the Company for said period.

/s/ Ronghua Wang
Ronghua Wang
President, Chief Executive Officer (Principal Executive Officer)

Date: May 19, 2017

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. §1350

Pursuant to 18 U.S.C. §1350 and in connection with the Quarterly Report on Form 10-Q of Biostar Pharmaceuticals, Inc. (the "Company") for the fiscal period ended March 31, 2017 (the "Report"), I, Xiaojuan Zhai, Chief Financial Officer of the Company, hereby certify that to the best of my knowledge and belief:

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 operations of the Company for said period.

/s/ Xiaojuan Zhai
Xiaojuan Zhai
Chief Financial Officer (Principal Financial and Accounting Officer)

Date: May 19, 2017

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.