INNOVUS PHARMACEUTICALS, INC.
Form 10-Q
October 24, 2012

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

x Quarterly Report Under Section 13 or 15(d)

Of the Securities Exchange Act of 1934

For Quarterly Period ended September 30,2012.

¨ Transition Report Under Section 13 or 15(d) of the Exchange Act.

For the transition period from ___ to ____.

Commission File Number: 000-52991

INNOVUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	87-0324697 (IRS Employer Identification No.)

80 W. Sierra Madre Blvd., #392

Sierra Madre, CA 91024

(Address of principal executive offices)

Registrant's telephone number including area code:(626) 227-1630

Former Address, if changed since last report.

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 Rule 405 of Regulation S-T (§220.405 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 x No ¨ Not applicable ¨

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 proceeding 12 months (or 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: x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

As of October 22, 2012, Registrant had 16,198,292 shares of common stock, par value of $.001 per share, outstanding.

ITEM I - FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by Innovus Pharmaceuticals, Inc. (the "Company", "Registrant", “we”, “us”, or “our”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

In our opinion, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial position of the Company as of September 30, 2012, and the results of our operations from January 1, 2012, through September 30, 2012 were made. The results of our operations for such interim periods are not necessarily indicative of the results to be expected for the entire year.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read with the financial statements and notes appearing in this Form 10-Q:

We, Innovus Pharmaceuticals, Inc., as an entity continuing the business operations of FasTrack, are a development stage company as we have limited assets, operations and income. The merger agreement (the Agreement”), dated December 7, 2011, stipulated that Innovus and FasTrack would undergo a combination whereby both companies would survive as legal entities, but FasTrack would become a wholly-owned subsidiary of Innovus. Pursuant to the Agreement, Innovus changed its name from North Horizon, Inc. to Innovus Pharmaceuticals, Inc.

For the next twelve months, additional capital will be required to maintain our corporate operations, which will include filing appropriate reports with the Securities and Exchange Commission, and we will need to seek additional funding for product acquisition and development once we have selected product(s) for exploitation. If we are unable to obtain significant financing, our ability to continue as a going concern is doubtful.

We are focused on the development and in-licensing/acquisition of new and innovative pharmaceutical product opportunities that offer definable pathways to regulatory approvals, partnering and commercialization. We have a three-pronged approach in our business strategy:

- To internally develop new, 505(b)(2) topical products based on a proven drug delivery technology; and
- To in-license/acquire late stage revenue generating pharmaceutical products; and
- To leverage near term revenue opportunities afforded by our proprietary pipeline comprised of ethical therapeutic (“Rx”) and over-the-counter (“OTC”) products.

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Our business model is designed to create multiple opportunities for success while minimizing the risks associated with reliance on any single technology platform or product type, and to bridge the critical gap between promising new product candidates and product opportunities that are ready for commercialization. Consistent with our long-term strategy, we will consider various corporate development transactions designed to place our product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

In parallel, as our business strategy advances and corresponding valuations are established, we plan to pursue new product opportunities and acquisitions with strong value enhancement potential. Our other long-term goal is to improve our balance sheet and cash flow with minimal dilution to our shareholders. This strategy may include debt financing and/or acquisitions of small revenue generating companies and products, which we believe would accelerate our shareholders' return on investment and provide us with additional cash flow to fund our own product development.

We believe that inflation has not and will not have a material effect on our operations. If we are involved in a merger or acquisition, management will evaluate the possible effects of inflation on operations and our business.

Liquidity and Capital Resources

At September 30, 2012, the Company had $33,145 in cash as compared to $25,014 at December 31, 2011. On January 13, 2012, the Board of Directors authorized the issuance of a total of $174,668 in convertible promissory notes (the "January Notes) to six individuals. One January Note for $74,668 was issued to an accredited investor to settle liabilities assumed from North Horizon and therefore this did not result in any cash inflow for us. Five January Notes for a total of $100,000 in a new cash infusion were issued to five individuals, three of whom are members of the Company's Board of Directors. The January Notes bear an annual interest rate of 8% and are payable in cash at the earlier of January 13, 2013, or when the Company completes a financing of a minimum of $4 million (the "Financing"). The holders of the January Notes have the option to convert their principal and interest accrued into the Company's securities ("New Financing Securities") that will be issued to the investors in the future Financing. In the event the Company defaults on repayment, or if the Company fails to complete a Financing within one year of the note date, the annual interest rate would increase to 13% and the holders of the January Notes would have the option to convert the note to the Company's common stock at $0.05 per share.

On June 26, 2012 the Company issued 134,000 shares of common stock to an unrelated investor at $0.75 per share for cash proceeds of $100,500. Also on June 26, 2012 the Company issued an additional 16,580 shares upon conversion of a note payable to an unrelated creditor. The note balance of $12,000, plus accrued interest totaling $435 was considered paid in full pursuant to this conversion.

On October 4, 2012, we entered into a Settlement Agreement with Apricus Biosciences, Inc. ("Apricus Bio") pursuant to which we sold to Apricus Bio our remaining fifty percent (50%) share of the future commercial right of PrevOnco™, in exchange for the return to us of 135,888 shares of our common stock which Apricus Bio had acquired through the conversion of promissory notes issued by the Company and a one-time cash payment to us of $25,000 (See Note 8).

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Results of Operations

For the three months ended September 30, 2012 and 2011

(The 2011 results reflect only pre-merger former FasTrack entity, as a private company)

Revenues and Cost of Sales - for the three months ended September 30, 2012 and 2011 the Company earned no revenues, and consequently, no cost of sales. Gross profit for three months ended September 30, 2012 and 2011 was $-0-.

Operating Expenses - Operating expenses for the three months ended September 30, 2012 and 2011 totaled $73,231 and $87,450, respectively, resulting in a $14,219 decrease. This decrease was primarily the result of decreases in professional fees as a result of the completion of the reverse merger transaction in December 2011 and the filing of our first Form 10K in March 2012.

Other expenses - The Company recognized interest expense of $4,288 and $5,153 for the three months ended September 30, 2012 and 2011, respectively, resulting in a change of $865. This change is primarily the result of decreased level of debt during 2012 compared to 2011, after completion of the transaction between North Horizon and FasTrack.

Net Loss - The Company recognized net losses in the amount of $77,519 and $92,603, for the three month periods ended September 30, 2012 and 2011, respectively. This decreased net loss results primarily from decreases in operating expenses and interest expense.

For the nine months ended September 30, 2012 and 2011

(The 2011 results reflect only pre-merger former FasTrack entity, as a private company)

Revenues and Cost of Sales - for the nine months ended September 30, 2012 and 2011 the Company earned no revenues, and consequently, no cost of sales. Gross profit for nine months ended September 30, 2012 and 2011 was $-0-.

Operating Expenses - Operating expenses for the nine months ended September 30, 2012 and 2011 totaled $179,357 and $158,650, respectively, resulting in an $20,707 increase. This increase was primarily the result of increases in professional fees as a result of the completion of the reverse merger transaction in December 2011 and the filing of our first Form 10K in March 2012.

Other expenses - The Company recognized interest expense of $12,743 and $14,203 for the nine months ended September 30, 2012 and 2011, respectively, resulting in a decrease of $1,460. This change is primarily the result of decreased level of debt during 2012 compared to 2011, after completion of the transaction between North Horizon and FasTrack.

Net Loss - The Company recognized net losses in the amount of $192,100 and $172,853, for the nine month periods ended September 30, 2012 and 2011, respectively. This increased net loss results primarily from increases in operating expenses and interest expense.

Off-Balance Sheet Arrangements

We have no such arrangements to discuss.

Forward Looking Statements

This Report makes certain forward-looking statements. Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 refer to the term “forward looking statements.” Such statements may refer to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance, and similar matters.

Such words as “may”, “will”, “expect”, “continue”, “estimate”, “project”, and “intend” and similar terms and expressions are intended to identify forward looking statements. These terms may relate to events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and financial position. We advise readers that actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements, including but not limited to, the following: our ability to find a suitable business venture that will benefit us, our ability to investigate a potential business venture, and our ability to determine all information about a business venture.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

This item is not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we conducted an evaluation under the supervision and direct participation of our management, including our chief executive officer, of the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating disclosure controls and procedures, management recognizes that there are inherent limitations to the effectiveness of any system of disclosure procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. In evaluating and implementing possible controls and procedures, management is required to apply its reasonable judgment. Based on the evaluation described above, our management, including our chief executive officer, has concluded that, as of September 30, 2012, our disclosure controls and procedures were not effective.

We have one employee, and she is responsible for all matters surrounding accounting and business transactions. Management believes that the material weakness of the lack of segregation of responsibilities can impact our financial statements. The existence of any material weakness precludes an effective determination.

Changes in Internal Controls over Financial Reporting

We had no significant changes in our internal controls during the period ended September 30, 2012. Management concluded there has been no change in our internal control over financial reporting during the quarter ended September 30, 2012. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and there is no certainty that any design will succeed in achieving it stated goal under all potential future considerations regardless of how remote.

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PART II

ITEM 1 – LEGAL PROCEEDINGS

None.

ITEM 1A – RISK FACTORS

This item is not applicable to smaller reporting companies.

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

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – (REMOVED AND RESERVED)

This item is not applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS AND FINANCIAL STATEMENTS

(a)(1)(2) Financial statements. See the financial statements for the three months ended September 30, 2012 and 2011, presented in Item 6

(a)(3) Exhibits. The following exhibits are filed as part of this Quarter Report:

No.	Description
2.1	Merger Agreement and Plan of Merger - previously filed on July 20, 2011
3.1	Articles of Incorporation- previously filed
3.2	Bylaws- previously filed
3.3	Ethics Policy- previously filed

3.4	Amendments to Articles of Incorporation – Nevada- previously filed on December 12, 2011
3.5	Certificate of Merger – Delaware- previously filed on December 12, 2011
3.6	Articles of Merger – Utah- previously filed on December 12, 2011
10.1	Financial Advisory and Consulting Agreement with Dawson James Securities, Inc., - previously filed on December 12, 2011
10.2	Placement Agent Agreement with Dawson James Securities, Inc., dated December 16, 2011- previously filed on March 29, 2012
10.3	Addendum to Placement Agent Agreement with Dawson James Securities, Inc., dated March 21, 2012- previously filed on March 29, 2012
10.3	Vivian Liu Employment Offer, dated March 7, 2012- previously filed on March 29, 2012
21.2	List of subsidiaries- previously filed on December 12, 2011
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification
32.2	Certification

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.

Date: October 24, 2012

Innovus Pharmaceuticals, Inc.
By s/Vivian Liu
President and Chief Executive Officer

By s/Vivian Liu
Chief Financial Officer

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Condensed Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash	$33,145	$25,014
Total Current Assets	33,145	25,014
TOTAL ASSETS	$33,145	$25,014
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$1,175	$1,687
Convertible debentures - related party	162,668	-
Promissory notes	50,000	50,000
Accrued interest payable	12,308	-
Related-party payables	-	87,168
Total Current Liabilities	226,151	138,855
Contigent liability related to common shares, subject to recsission rights, issuable to FasTrack shareholders arising from Merger (14,722,077 shares)	-	28,926
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock; 150,000,000 shares authorized, at $0.001 par value, 16,333,670 and 1,325,125 shares issued and outstanding, respectively	16,334	1,325
Additional paid-in capital	2,733,183	2,606,331
Deficit accumulated during the development stage	(2,942,523)	(2,750,423)
Total Stockholders' Equity (Deficit)	(193,006)	(142,767)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$33,145	$25,014

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

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011	From October 31, 2008 (Inception) through September 30, 2012
REVENUES	$ -	$ -	$ -	$ -	$ -
OPERATING EXPENSES					
Research and development	-	58,960	-	58,960	78,960
Professional fees	51,872	23,379	134,834	73,512	266,110
Investment banking fees	-	-	-	-	1,954,865
General and administrative	21,359	5,111	44,523	26,178	141,682
Total Operating Expenses	73,231	87,450	179,357	158,650	2,441,617
LOSS FROM OPERATIONS	(73,231)	(87,450)	(179,357)	(158,650)	(2,441,617)
OTHER INCOME (EXPENSES)					
Interest expense	(4,288)	(5,153)	(12,743)	(14,203)	(104,028)
Total Other Expenses	(4,288)	(5,153)	(12,743)	(14,203)	(104,028)
LOSS BEFORE INCOME TAXES	(77,519)	(92,603)	(192,100)	(172,853)	(2,545,645)
PROVISION FOR INCOME TAXES	-	-	-	-	-
NET LOSS	$ (77,519)	$ (92,603)	$ (192,100)	$ (172,853)	$ (2,545,645)
BASIC LOSS AND DILUTED LOSS PER SHARE	$ (0.00)	$ (0.07)	$ (0.02)	$ (0.13)	

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	16,333,670	1,325,125	10,549,045	1,325,125

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

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Statements of Stockholders' Deficit

(unaudited)

	Common Stock (Shares)	(Amount)	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Deficit
Balance at Inception on October 31, 2008	-	$ -	$ -	$ -	$ -
Balance on December 31, 2008	-	-	-	-	-
Common stock issued in FasTrack asset purchase	13,372,284	13,372	12,648	-	26,020
Common stock issued in Sorrento business combination	-	-	11,000	-	11,000
Deemed distribution for the value of assets acquired from Apricus Bio	-	-	-	(396,878)	(396,878)
Net loss for the year ended December 31, 2009	-	-	-	(27,370)	(27,370)
Balance at December 31, 2009	13,372,284	13,372	23,648	(424,248)	(387,228)
Common stock issued for compensation of board members	381,761	382	368	-	750
Deemed contribution for the value of assets sold to Apricus Bio	-	-	204,896	-	204,896
Net loss for the year ended December 31, 2010	-	-	-	(69,923)	(69,923)
Balance at December 31, 2010	13,754,045	13,754	228,912	(494,171)	(251,505)
Common stock issued for services rendered	134,364	134	6,866	-	7,000
	833,668	834	804	-	1,638

Common stock issued for compensation of officer					
Forgiveness of interest by Apricus Bio	-	-	4,021	-	4,021
Contibution to capital arising from conversion of convertible promissory notes held by Apricus Bio at Merger date pursuant to terms of convertible note, resulting in the future issuance of 135,888 shares of common stock in March 2012 to Apricus Bio	-	-	538,117	-	538,117
Common stock issued for net assets acquired in reverse-merger	1,325,125	1,325	(63,050)	-	(61,725)
Issuance of warrants to investment banker for services	-	-	1,904,865	-	1,904,865
Reclassification of shares issuable to FasTrack shareholders pursuant to rescission offer	(14,722,077)	(14,722)	(14,204)	-	(28,926)
Net loss for the year ended December 31, 2011	-	-	-	(2,256,252)	(2,256,252)
Balance at December 31, 2011	1,325,125	1,325	2,606,331	(2,750,423)	(142,767)
Common stock issued on conversion of promissory note	135,888	136	(136)	-	-
Common stock issued for cash	134,000	134	100,366	-	100,500
Common stock issued in conversion of debt	16,580	17	12,418	-	12,435
Expiration of FasTrack rescission offer	14,722,077	14,722	14,204	-	28,926
Net loss for the nine months ended September 30, 2012	-	-	-	(192,100)	(192,100)
Balance at September 30, 2012	16,333,670	$ 16,334	$ 2,733,183	$ (2,942,523)	$ (193,006)

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

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2012	2011	From October 31, 2008 (Inception) through September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (192,100)	$ (172,853)	$ (2,545,645)
Adjustments to reconcile net loss to net cash used by operating activities:			
Common stock issued for services	-	8,638	9,388
Investment banking fees - fair value of warrants granted	-	-	1,904,865
Non-cash interest expense (including a discount on conversion of Apricus Bio convertible notes of $48,920)	-	2,795	91,461
Promissory note issued for services rendered	-	-	50,000
Research and development expense recognized upon purchase of SSAO inhibitor assets	-	-	20,000
Expenses paid on behalf of the Company by Apricus Bio	-	-	25,990
Changes in operating assets and liabilities			
Related-party payable	(12,500)	(18,600)	12,668
Interest payable	12,743	-	12,743
Accounts payable	(512)	(18,354)	1,175
Net Cash Used in Operating Activities	(192,369)	(198,374)	(417,355)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of loans from officers	-	-	23,603
Repayment of loans from officers	-	-	(23,603)
Proceeds from stock issued for cash	100,500	-	100,500
Proceeds from convertible debentures	100,000	273,568	350,000

Net Cash Provided by Financing Activities	200,500	273,568	450,500
NET CHANGE IN CASH	8,131	75,194	33,145
CASH AT BEGINNING OF PERIOD	25,014	1,650	-
CASH AT END OF PERIOD	$ 33,145	$ 76,844	$ 33,145
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - SEE NOTE 7 FOR DISCLOSURES OF NON-CASH FINANCING ACTIVITIES			
CASH PAID FOR:			
Interest	$ -	$ -	$ -
Income Taxes	$ -	$ -	$ -

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

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INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

September 30, 2012 and December 31, 2011

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

In the opinion of management, the accompanying condensed financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly the Company's financial position, results of operations and cash flows. The condensed balance sheet as of December 31, 2011 has been derived from audited financial statements as of that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (the "SEC"). The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these condensed financial statements are read in conjunction with the financial statements and notes included in its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC.

NOTE 2 - GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As a result of its losses to date, expected losses in the future, limited capital resources and accumulated deficit, there is substantial doubt as to the Company’s ability to continue as a going concern. The Company has not yet established a source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing to finance the acquisition of product targets and the development of such targets. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. On October 4, 2012, we entered into a Settlement Agreement with Apricus Biosciences, Inc. (“Apricus Bio”) pursuant to which we sold to Apricus Bio our remaining fifty percent (50%) share of the future commercial right of PrevOnco™, in exchange for the return to us of 135,888 shares of our common stock which Apricus Bio had acquired through the conversion of promissory notes issued by the Company and a one-time cash payment to us of $25,000 (See Note 8).

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

September 30, 2012 and December 31, 2011

NOTE 2 - GOING CONCERN (CONTINUED)

In the Company’s annual report filed for the year ended December 31, 2011, the Company’s independent registered public accounting firm has included an explanatory paragraph in their report dated March 30, 2012, expressing substantial doubt about the Company’s ability to continue as a going concern.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company’s financial position or operations.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Company has recorded expenses paid on its behalf by shareholders as a related party payable. At December 31, 2011, this payable totaled $87,168. During the nine months ended September 30, 2012 the Company repaid $12,500 on this amount, and converted the remaining $74,668 into a convertible debenture (see Note 5).

NOTE 5 – CONVERTIBLE DEBENTURES – RELATED PARTIES

On January 13, 2012, the Board of Directors authorized the issuance of a total of $174,668 in promissory notes (the "January Notes") to six individuals. One Note for $74,668 was issued to one accredited investor in exchange for the liabilities assumed from North Horizon, Inc. The five remaining January Notes for a total of $100,000 in new cash infusion were issued to five individuals, three of whom are members of the Company's Board of Directors. The January Notes bear an annual interest rate of 8% and payable in cash at the earlier of January 13, 2013 or when the Company completes a financing of a minimum of $4 million (the "Financing"). The holders of the January Notes have the right to convert their principal and interest accrued into the Company's securities ("New Financing Securities") that will be issued to the investors in the future Financing. In the event the Company defaults on repayment, or if the Company fails to complete a Financing within one year of the note date, the annual interest rate would increase to 13% and the holders of the January Notes would have the right to convert at $0.05 per share. Through September 30, 2012, $12,000 of such notes were converted into shares of common stock (see Note 6), leaving a balance of $162,668 at September 30, 2012. Interest expense recognized for the three and nine months ended September 30, 2012 was $4,288 and $12,743, respectively.

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

September 30, 2012 and December 31, 2011

NOTE 5 – CONVERTIBLE DEBENTURES – RELATED PARTIES (CONTINUED)

The embedded conversion feature is contingent upon the occurrence of the future Financing. The value of the contingent conversion feature, if beneficial, will be recognized when the contingencies are resolved.

NOTE 6 – STOCKHOLDERS' EQUITY

Rescission Offer

On February 29, 2012, the Company made an offer for rescission to former FasTrack shareholders of the record date for the approval of the Reverse Merger. The Reverse Merger had been approved by the written consent of FasTrack shareholders holding a majority of the shares outstanding. Because FasTrack had not solicited any proxies from its shareholders for approval of the Reverse Merger, limited or no information had been provided to the FasTrack shareholders who had not signed the written consent. The Company sent to the former FasTrack shareholders the North Horizon Information Statement dated September 27, 2011 and a report on Form 8-K dated December 12, 2011, which provided information about North Horizon and FasTrack including a description of the business, future plans, risk factors, financial information, description of the transactions, biographical summaries of the new officer and directors, financial statements and pro-forma financial statement for North Horizon and FasTrack as of September 30, 2011. Former shareholders of FasTrack had thirty days to accept or reject the rescission offer of $6 per share ($.002 after effect of conversion ratio) from the date of receipt of the information. The rescission offer was limited to the FasTrack shareholders who were shareholders as of the record date of December 7, 2011. The Rescission Offer was not accepted by any parties, and expired on April 14, 2012. Through the date of rescission offer expiration (April 14, 2012), the Company recognized the amounts potentially refundable under this offer as a liability. On April 14, 2012, the amount of such liability was reclassified to stockholders' equity since the rescission period expired.

Contingency related to shares of common stock issued in the Reverse Merger

As of the date of the merger between FasTrack and North Horizon (the record date), the FasTrack shareholders may not have received adequate information regarding the combination and merger. The FasTrack shareholders reside in thirteen states and commonwealths. The securities statutes of these jurisdictions have exemptions for an exchange or for a transaction that is termed an "isolated transaction." Despite the fact, that none of FasTrack shareholders chose to rescind the offer, as described above, the shareholders reside in different jurisdictions and the statutes of limitations in these jurisdictions have different terms, the longest being four years . Until such statutes expire, a shareholder may make a claim against the Company. Until and unless such a claim is made there will be no impact on the Company. At this time the Company unable to determine if any shareholder will make a claim and if pursued what any outcome may be.

Issuances of Common Stock

On June 26, 2012 the Company issued 134,000 shares of common stock to an unrelated investor at $0.75 per share for cash proceeds of $100,500.

INNOVUS PHARMACEUTICALS, INC.

(Formerly North Horizon, Inc.)

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

September 30, 2012 and December 31, 2011

NOTE 6 – STOCKHOLDERS' EQUITY (CONTINUED)

On June 26, 2012 the Company and an unrelated noteholder reached a settlement on outstanding balance of $12,000, plus accrued interest of $435, of the convertible debenture whereas the fair value of the 16,580 shares of common stock issued approximated the carrying value of the outstanding convertible debenture at time of settlement. Accordingly, no gain or loss resulted from the settlement (See Note 5).

NOTE 7 – NON CASH FINANCING ACTIVITIES

Nine-month period ended September 30, 2012:

· $74,668 payable to a related party was converted into a convertible note, as described in Note 5.

· The Company issued 135,888 shares of common stock related to the conversion of the Apricus Bio convertible promissory note that was originally issued in December 2011 and deemed contributed to capital in March 2012.

· A $12,000 note payable with accrued interest of $435 was converted into 16,580 shares of common stock, as described in Note 6.

· Contingent liability in the amount of $28,926 was reclassified to equity due to expiration of the rescission rights, none of which were exercised.

Nine-month period ended September 30, 2011:

- The Company issued of 134,364 shares of common stock to Dr. Bassam Damaj, our largest shareholder, for a settlement of $7,000 of accounts payable balance.

NOTE 8 – SUBSEQUENT EVENTS

On October 4, 2012, we entered into a Settlement Agreement with Apricus Biosciences, Inc. (“Apricus Bio”) pursuant to which we sold to Apricus Bio our remaining fifty percent (50%) share of the future commercial right of PrevOnco™, in exchange for the return to us of 135,888 shares of our common stock which Apricus Bio had acquired through the conversion of promissory notes issued by the Company and a one-time cash payment to us of $25,000. In addition, we agreed to terminate our licensing right to the NexACT® technology and any claim to any PrevOnco™ backup compounds.