

**Notice of Issuance of the 14th Series Share Options with Exercise Price Amendment Clause
 by Allotment to Third Party, and Commitment Contract**

September 21, 2017 – RaQualia Pharma Inc. (JASDAQ Code: 4579; hereinafter referred to as the “Company”) today announced that it held a meeting of its board of directors today and resolved that the 14th series share options with exercise price amendment clause by allotment to third party (hereinafter referred to as the “share options”) would be issued and a commitment contract would be concluded after the filing of a notification under the Financial Instruments and Exchange Act becomes effective.

1. Outline of offering

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| (1) | Date of allotment | October 10, 2017 |
| (2) | Number of share options | 1,000 share options |
| (3) | Paid-in amount | 10,900 yen per share option (Total amount to be paid in for share options: 10,900,000 yen) |
| (4) | Number of dilutive shares resulting from the issuance | Number of dilutive shares: 1,000,000 shares (1,000 shares per share option) The number of dilutive shares is 1,000,000 shares even in the case of the lower limit exercise price (see (6) below). |
| (5) | Amount of funds raised (Estimated amount of net proceeds) | 1,106,900,000 yen (Note) |
| (6) | Exercise price and amendment conditions of exercise price | Initial exercise price: 1,116 yen The upper limit exercise price is not set. The lower limit exercise price is 670 yen (subject to the adjustment by the provisions of the 11th paragraph of the attached Essential Points of Issuance; such price is hereinafter referred to as the “lower limit exercise price”). The exercise price is modified on the day on which each demand to exercise the share options becomes effective (hereinafter referred to as the “modification date”), to the amount equivalent to 91% of the closing price of the ordinary trading of our common share (calculated to the second decimal place, and rounded up to the first decimal place) on the Tokyo Stock Exchange, Inc. on the trading day immediately preceding the modification date (if no closing price is available on that day, the immediately preceding trading day on which the closing price is available applies; hereinafter referred to as the “calculation base date”). However, when such modified amount falls below the lower limit exercise price, the lower limit exercise price is deemed to be the exercise price after the modification. |
| (7) | Offer or allotment | The share options are issued by allotment to third party. |
| (8) | Expected allottee | Daiwa Securities Co. Ltd. |

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| (9) Others | <p>The Company plans to conclude a contract to purchase the share options (hereinafter referred to as “Share Option Purchase Contract”) and a commitment contract with Daiwa Securities Co. Ltd. (hereinafter referred to as “Daiwa Securities”) after the filing of a notification under the Financial Instruments and Exchange Act becomes effective.</p> <p>The commitment contract stipulates the following contents:</p> <ul style="list-style-type: none"> •Request by the Company that the share options be exercised; •Prohibition by the Company of exercising the share options; and •Request by Daiwa Securities to acquire the share options. |
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(Note) “Amount of funds raised” is the amount calculated by deducting the estimated amount of issue costs from the amount calculated by adding the total amount of the value of property contributed upon exercise of the share options to the total amount to be paid in for the share options. The total amount of the value of property contributed upon exercise of the share options is the amount calculated assuming that all of the share options are exercised at the initial exercise price. When the exercise price is modified or adjusted, the amount of funds raised is increased or decreased. Also, when the share options are not exercised within the exercise period and when the Company retires the share options acquired, the amount of funds raised is decreased.

2. Purpose of and reason for offering

The Company considered various ways of raising funds in order to appropriate them during the fiscal year ending December 2018, for (i) research and development cost to continuously create lead compounds (*1) and development compounds (*2) in the exploratory research phase, (ii) capital investments for maintenance and update of research and development instrument, and (iii) research and development cost incurred in and after the preclinical study phase. Based on the consideration results, the Company has determined that a scheme proposed by our expected allottee Daiwa Securities (hereinafter referred to as “the scheme”) will enable the Company to control the amount and timing of exercising share options to a considerable extent and that our financial needs can be best met by adopting the way of raising funds under the scheme. Therefore, we are going to raise funds by issuing the share options, which are share options with exercise price amendment clause.

On the occasion of this raising of funds, the Company has considered it necessary to have flexible ways of raising funds enabling us to quickly respond to our future funding needs, and also have ways of raising funds giving due consideration to the interest of existing shareholders. As a result, the Company has decided to issue the share options at this time.

- *1. Lead compounds: Compounds that become the seeds of new medicines that affect druggable target molecules (i.e. disease-related proteins such as enzymes that become targets for medicines) and whose effectiveness has been confirmed through testing using disease model animals. After the effectiveness and safety of these seeds are improved even more, they become candidate development compounds (i.e. compounds that become candidates for development compounds in the later phase of exploratory research in which development compounds are selected out of a few compounds).
- *2. Development compounds: After the completion of exploratory research, compounds usable in the development phase are narrowed down to one, and then preclinical development starts as a development project. On and after the start of such development, compounds are called development compounds.

[Purpose of raising funds]

To achieve our Mid-Term Business Plan “Odyssey 2018,” the Company considers it necessary to further strengthen its research and development system aiming for continuous creation of lead compounds and development compounds. Under Odyssey 2018, we have also established a funding strategy to maintain our long-term financial base in a stable manner and support the above business strategy. As the Company does not have adequate funds for research and development cost, etc. to be incurred in the implementation of the plan until the end of the fiscal year ending December 2019 (the final year of Odyssey 2018), additional funding on the market is necessary. This is why we have decided to raise funds at this time. More specifically, raised funds are to be used during the fiscal year ending December 2018, for (i) research and development cost to continuously create lead compounds and development compounds in the exploratory research phase, (ii) capital investments for maintenance and update of research and development instrument, and (iii) research and development cost incurred in and after the preclinical study phase.

3. Outline of and reason for selection of way of raising funds

(1) Outline of way of raising funds

This raising of funds has a structure in which the Company allots to Daiwa Securities the share options with exercise price amendment clause that can be exercised for two years by way of allotment to third party and our capital increases in association with the exercise of share options by Daiwa Securities. In addition, the Company may acquire all the share options on its own judgment by paying the amount of money equivalent to the amount to be paid in for the share options.

The Company plans to conclude a Share Option Purchase Contract and a commitment contract including the following contents with Daiwa Securities after the filing of a notification under the Financial Instruments and Exchange Act becomes effective.

(2) Reason for selection of way of raising funds

The Company has received proposals of raising funds of a capital nature from multiple securities firms, including our expected allottee Daiwa Securities, and of debt financing such as loans from financial institutions. As a result of considering various ways of raising funds including the said proposals in a comprehensive manner, the Company has determined that the way of raising funds by the scheme proposed by Daiwa Securities will be the best choice at present, in which our capital needs can be met while giving due consideration to the interest of existing shareholders as the amount and timing of exercising share options can be controlled to a considerable extent by notifying exercise requests and exercise prohibitions based on the resolution of the Company's board of directors.

4. Amount, uses and estimated timing of expenditure of funds raised

(1) Amount of funds to be raised (estimated amount of net proceeds)

| Total amount to be paid in | Estimated amount of issue costs | Estimated amount of net proceeds |
|----------------------------|---------------------------------|----------------------------------|
| 1,126,900,000 yen | 20,000,000 yen | 1,106,900,000 yen |

(Notes)

1. "Estimated amount of net proceeds" above is amount calculated by deducting estimated amount of issue costs for the share options from the sum of total amount of issue price for the share options (10,900,000 yen) and total amount of value of property contributed upon exercise of the share options (1,116,000,000 yen). The total amount of the value of property contributed upon exercise of the share options is the amount calculated assuming that all of the share options are exercised at the initial exercise price.
2. When the exercise price of the share options is modified or adjusted, the total amount of value of property contributed upon exercise of the share options is increased or decreased. Also, when the share options are not exercised within the exercise period and when the Company retires the share options acquired, the total amount of value of property contributed upon exercise of the share options and the estimated amount of issue costs are decreased.
3. "Estimated amount of issue costs" does not include consumption taxes, including local consumption taxes.
4. "Estimated amount of issue costs" is the total amount of attorney fees, cost of assessing share options, and other administrative expenses (e.g. cost related to securities registration statement preparation and registration changes).

(2) Concrete uses of funds to be raised

The estimated amount of net proceeds including the total amount of the value of property contributed upon exercise of the share options is 1,106,900,000 yen as described in "(1) Amount of funds to be raised (estimated amount of net proceeds)" above.

| Concrete uses of funds | Amount (million yen) | Estimated timing of expenditure |
|---|----------------------|---------------------------------|
| (i) Research and development cost to continuously create lead compounds and development compounds in the exploratory research phase | 700 | January 2018 to December 2018 |
| (ii) Capital investments for maintenance and update of research and development instrument | 300 | January 2018 to December 2018 |
| (iii) Research and development cost incurred in and after the preclinical study phase | 106 | January 2018 to December 2018 |

The Company plans to appropriate the funds to be raised by the share options for continuous creation of lead compounds planned for the implementation period of the Odyssey 2018 and cost of research and development of development compounds planned to be undertaken during the period.

5. Consideration of reasonableness of uses of funds

The funds to be raised this time are expected to contribute to future improvement of our revenue and we believe that such uses of funds are reasonable. Therefore, we believe that the funds to be raised this time will contribute to the interests of existing shareholders through medium- and long-term improvement of our corporate value.

6. Reasonableness of issue conditions, etc.

(1) Basis for judging that issue conditions are reasonable

The Company has entrusted PLUTUS CONSULTING Co., Ltd. (representative: Mahito Noguchi; address: 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo; hereinafter referred to as “PLUTUS”), a third-party appraiser, with the valuation of prices of the share options in which the terms and conditions stipulated in the Essential Points of Issuance for the share options, as well as the Share Option Purchase Contract and commitment contract to be concluded with Daiwa Securities (our expected allottee) are taken into account. PLUTUS has, taking into account the terms and conditions stipulated in the Essential Points of Issuance for the share options, as well as the Share Option Purchase Contract and commitment contract to be concluded with Daiwa Securities (our expected allottee), performed the evaluation assuming certain prerequisites (e.g. no acquisition based on a notification from the Company, uniformly diversified exercise conducted by the expected allottee over the assumed payment period pursuant to the capital spending plan, and mandatory exercise of rights when purchase request rights are exercisable) that focus on various factors as of the evaluation base date (e.g. market environment, the Company’s share price, volatility of the Company’s shares, dividend yields, liquidity of the Company’s shares, the Company’s funding needs, rights exercise by the expected allottee, and changes in shares held by the expected allottee), and also using a Monte Carlo simulation (a general price calculation model).

As a result, the value of each share option has been calculated to be 10,900 yen. In reference to this amount, the Company determined the paid-in amount per share option to be 10,900 yen (the same amount as the above valuation amount).

The initial exercise price of the share options is the amount equivalent to the closing price of the ordinary trading of our common share on the trading day (i.e. September 20, 2017) immediately preceding the day of the board of directors’ resolution on the issuance. Then due to its modification, the exercise price will be the amount equivalent to 91% of the closing price of the ordinary trading of our common share on the trading day immediately preceding the day on which each demand to exercise the share options becomes effective. However, this price will never be below 670 yen, which is the lower limit exercise price of the share options. The lower limit exercise price has been set at the amount equivalent to 60% of the closing price of our common share on the trading day immediately preceding the issuance resolution day, and is never deemed to be a level excessively lower than the prices of our common share during the past six months and the price of our common share on the day immediately preceding the issuance resolution day. Accordingly, the said amount is not particularly considered to be unreasonable. As the paid-in amount for the share options is determined based on such exercise price, the Company believes that such paid-in amount for the share options is appropriate.

(2) Basis for judging that the number of share options to be issued and the level of share dilution are reasonable

As a result of raising funds at this time, 19,246,450 shares (the number of outstanding shares as of July 31, 2017) are diluted by a maximum of 5.20%. However, as the Company is considering aiming for increased corporate value through future revenue improvement by raising funds, the raised funds are considered to contribute to share value enhancement for existing shareholders even if the relevant dilution is taken into consideration. As a result, the Company considers that such number of share options to be issued and the level of share dilution are reasonable.

7. Reason for selecting the expected allottee

Outline of the expected allottee

(As of March 31, 2017)

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|------|--|--|----------------|----------------|
| (1) | Company name | Daiwa Securities Co. Ltd. | | |
| (2) | Head office | 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo | | |
| (3) | Representative | Seiji Nakata, President (as of September 21, 2017) | | |
| (4) | Description of business | Financial instruments business | | |
| (5) | Capital stock | 100,000,000,000 yen | | |
| (6) | Date of establishment | August 21, 1992 | | |
| (7) | Number of issued shares | 810,200 shares | | |
| (8) | Fiscal year-end | March 31 | | |
| (9) | Number of employees | 8,785 | | |
| (10) | Major business partners | Investors and issuers | | |
| (11) | Main financing banks | Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited | | |
| (12) | Major shareholder and shareholding ratio | Daiwa Securities Group Inc. 100% | | |
| (13) | Relationship between companies involved in allotment | | | |
| | Capital relationships | Number of the Company's shares owned by expected allottee: 237,400 shares (As of June 30, 2017) Number of the expected allottee's shares owned by the Company: 0 shares (As of June 30, 2017) | | |
| | Personal relationships | No items to report. | | |
| | Business relationships | The Company's lead underwriter | | |
| | Situation applicable to the related parties | No items to report. | | |
| (14) | Business results and financial positions for the last three years (non-consolidated) (million yen unless otherwise noted) | | | |
| | As of and for the fiscal year ended: | March 31, 2015 | March 31, 2016 | March 31, 2017 |
| | Net assets | 700,728 | 781,164 | 839,193 |
| | Total assets | 12,068,012 | 10,524,143 | 10,285,825 |
| | Net assets per share (yen) | 864,883.09 | 964,162.20 | 1,035,785.78 |
| | Operating revenue | 386,659 | 369,158 | 334,911 |
| | Operating income | 136,590 | 114,541 | 82,414 |
| | Ordinary income | 138,687 | 116,272 | 85,234 |
| | Profit | 127,032 | 80,859 | 58,461 |
| | Earnings per share (yen) | 156,791.37 | 99,801.97 | 72,156.28 |
| | Dividends per share (yen) | 86,400 | – | 124,000 |

8. Future prospects

The effects of this funding on our business performance for the fiscal year ending December 2017 are immaterial.

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