QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended
December 31, 2020 and 2019

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Quadrant Biosciences, Inc. and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Quadrant Biosciences, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quadrant Biosciences, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of Quadrant Biosciences, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to Quadrant Biosciences, Inc. and Subsidiaries in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Quadrant Biosciences, Inc. and Subsidiaries is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Capitalized internal-use software development costs (Software as a Service)

As discussed in Notes A (21) and E to the consolidated financial statements, Quadrant Biosciences, Inc. and Subsidiaries capitalizes certain internal-use software costs related to new products, as well as existing products when those costs will result in significant additional functionality. Quadrant Biosciences, Inc. and Subsidiaries capitalized internal-use software asset, net of accumulated amortization, was $6,434,639 as of December 31, 2020. Quadrant Biosciences, Inc. and Subsidiaries capitalized $1,849,840 of internal-use software costs during the year ended December 31, 2020.

We identified the determination of capitalized internal-use software development costs as a critical audit matter because of the degree of subjectivity involved in assessing which projects met the capitalization criteria.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of an internal control related to the critical audit matter. This control related to the determination of which software development projects met the capitalization criteria. For a selection of current year capitalized software costs, we evaluated Quadrant Biosciences, Inc. and Subsidiaries' determination to capitalize the costs by reading their analysis and discussing the objective and status of the projects with appropriate members of management. We also assessed consistency with the objectives by testing samples of the most significant categories of capitalized costs.

Dannible & McKee, LLP

Dannible & McKee, LLP
We have served as Quadrant Biosciences, Inc.'s auditor since 2019.
Syracuse, New York
April 1, 2021

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31,

ASSETS

	2020	2019
Current Assets:		
Cash and cash equivalents	$ 9,743,455	$ 1,289,474
Accounts receivable, net of allowance for doubtful accounts of $0 in 2020 and 2019.	1,354,350	12,653
Prepaid expenses and other current assets	23,975	39,547
R&D tax credit receivables	188,117	413,841
NY tax credit receivable	34,550	16,150
Inventories	1,463,855	307,000
Total Current Assets	12,808,302	2,078,665
Furniture and Equipment:		
Furniture & equipment	71,788	38,292
Less: accumulated depreciation	32,630	24,294
Total Furniture and Equipment	39,158	13,998
Other Assets:		
Deferred tax asset	5,801,031	-
Right-of-use lease asset	56,703	135,866
Line of credit origination fees	17,099	17,099
Software as service	8,523,769	7,046,853
Less: accumulated amortization	2,106,229	620,248
Total Other Assets	12,292,373	6,579,570
Total Assets	$25,139,833	$ 8,672,233

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	2020	2019
Current Liabilities:		
Accounts payable	$ 1,207,732	$ 238,730
Royalty payable	858,614	-
Contract liabilities	7,642,227	69,656
Pathfinder line of credit	403,996	-
Current portion lease liability	60,918	80,567
Accrued payroll and related liabilities	789,561	46,330
Accrued liabilities	21,026	76,439
Current portion of long-term debt	1,708	-
Pledges payable	-	225,000
Total Current Liabilities	10,985,782	736,722
Long-Term Liabilities:		
Lease liability, net of current portion	-	60,918
Notes payable	5,707,571	5,288,146
Total Long Term Liabilities	5,707,571	5,349,064
Stockholders' Equity:		
Common stock, par value $0.0001 per share, 125,000,000 shares authorized, 88,955,194 and 87,932,825 issued and outstanding, respectively	8,896	8,793
Additional paid in capital	26,808,240	22,680,362
Accumulated deficit	(18,370,656)	(20,102,708)
Total Stockholders' Equity	8,446,480	2,586,447
Total Liabilities and Stockholders' Equity	$25,139,833	$ 8,672,233

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31,

	2020	2019
Revenues:		
Product sales, net	$ 10,602,171	$ 3,454
Product assembly	891,574	-
Testing services	48,218	51,283
Grant revenue	241,646	316,299
Licensing and maintenance services	17,514	42,775
Total Revenues	11,801,123	413,811
Cost of Products Sold	8,609,760	426,512
Gross Profit	3,191,363	(12,701)
Sales and Marketing Expenses	551,797	1,012,132
Research and Development Costs	521,875	280,879
Selling and Administrative Expenses:		
Depreciation and amortization	8,336	6,407
Employee benefits and taxes	557,420	365,595
Office expenses	196,966	413,167
Other expenses	293,400	280,900
Professional fees	394,461	879,641
Rent & lease expense	130,888	100,568
Salaries and wages	3,303,932	2,724,030
Stock option compensation	1,626,907	890,578
Travel	90,416	307,338
Total Selling and Administrative Expenses	6,602,726	5,968,224
Loss from Operations	(4,485,035)	(7,273,936)
Other (Expenses) Income:		
Toolkit rental income	20,333	5,460
Loss on software impairment	(98,646)	-
EIDL advance grant and PPP forgiveness	765,600	-
Interest income	1,911	22,787
Interest expense	(291,542)	(254,842)
Total Other Income (Expenses)	397,656	(226,595)
Net Loss Before Income Tax	(4,087,379)	(7,500,531)
Income Tax Benefit	5,819,431	204,267
Net Income (loss)	$ 1,732,052	$ (7,296,264)
Per share data:		
Basic income (loss), per common share	$ 0.02	$ (0.09)
Diluted income (loss), per common share	0.02	(0.09)
Shares used in computing net income (loss) per common share:		
Basic	88,725,387	84,183,139
Diluted	105,547,196	84,183,139

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

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2020 and 2019

	Common Shares	Treasury Stock Common Shares
Balance, December 31, 2018	82,481,721	-
Exercised stock options ($0.003 per share)	40,000	-
Purchase of treasury stock, at $1.25 per share	(40,000)	40,000
Retired treasury stock	-	(40,000)
Issuance of common stock, at $1.25 per share	4,042,000	-
Exercised stock options ($0.003 per share)	652,288	-
Exercised stock options ($0.39 per share)	434,816	-
Issuance of common stock, at $2.50 per share	322,000	-
Stock option compensation	-	-
Stock issuance costs	-	-
Net loss	-	-
Balance, December 31, 2019	87,932,825	-
Exercised stock options ($0.003 per share)	12,500	-
Issuance of common stock, at $2.50 per share	702,100	-
Issuance of common stock, at $3.00 per share	307,769	-
Stock option compensation	-	-
Stock issuance costs	-	-
Net income	-	-
Balance, December 31, 2020	88,955,194	-

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

Common Stock Par Value	Treasury Stock (Common)	Additional Paid-in Capital	(Accumulated Deficit)	Total
$ 8,248	$ -	$ 15,841,089	$(12,806,444)	$ 3,042,893
4	-	116	-	120
(4)	(4)	(49,996)	-	(50,000)
-	4	-	-	-
404	-	5,052,096	-	5,052,500
65	-	1,893	-	1,958
44	-	169,618	-	169,662
32	-	804,968	-	805,000
-	-	890,578	-	890,578
-	-	(30,000)	-	(30,000)
-	-	-	(7,296,264)	(7,296,264)
8,793	-	22,680,362	(20,102,708)	2,586,447
2	-	38	-	40
70	-	1,755,180	-	1,755,250
31	-	923,276	-	923,307
-	-	1,626,907	-	1,626,907
-	-	(177,523)	-	(177,523)
-	-	-	1,732,052	1,732,052
$ 8,896	$ -	$ 26,808,240	$(18,370,656)	$ 8,446,480

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2020	2019
Cash Flows from Operating Activities:		
Net income (loss)	$ 1,732,052	$ (7,296,264)
Adjustments to reconcile net income (loss) to net cash provided by (used in) by operating activities:		
Depreciation and amortization	1,494,317	396,773
Employee stock option compensation	1,626,907	890,578
Deferred tax benefit	(5,801,031)	-
Forgiveness of PPP loan	(755,600)	-
Changes in income tax credit receivable	207,324	(192,475)
Changes in accounts receivable	(1,341,697)	11,424
Changes in accounts payable	969,002	75,742
Changes in royalty payable	858,614	-
Changes in contract liabilities	7,572,571	(11,711)
Changes in accrued interest	272,814	254,813
Changes in inventories	(1,156,855)	(14,309)
Changes in right-of-use lease asset	79,163	83,032
Changes in pledges payable	(225,000)	(75,000)
Changes in lease liability	(80,567)	(78,818)
Changes in prepaid expenses and other current assets	15,572	25,316
Changes in accrued payroll and related liabilities	743,231	(139,894)
Changes in accrued liabilities	(55,413)	11,556
Cash Provided by (Used in) Operating Activities	6,155,404	(6,059,237)
Cash Flows from Investing Activities:		
Cash paid for purchases of fixed assets	(33,496)	-
Payments of software development costs	(1,476,916)	(3,546,255)
Cash Used in Investing Activities	(1,510,412)	(3,546,255)
Cash Flows from Financing Activities:		
Proceeds from SBA EIDL loan	150,000	-
Proceeds from PPP loan	755,600	-
Proceeds from line of credit	500,000	-
Repayment of line of credit	(97,685)	-
Proceeds from sale of stock and exercise of options, net of issuance costs	2,501,074	5,999,240
Purchase of treasury stock	-	(50,000)
Cash Provided by Financing Activities	3,808,989	5,949,240
Net Change in Cash	8,453,981	(3,656,252)

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

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31,

	2020	2019
Net Change in Cash:	8,453,981	(3,656,252)
Cash, beginning of year	1,289,474	4,945,726
Cash, end of year	$ 9,743,455	$ 1,289,474
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 20,409	$ 29
Income taxes	1,143	12,845

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

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2020 and 2019

A. Summary of Significant Accounting Policies:

1. Quadrant Biosciences Inc. (“the Company”,”Quadrant”) is an epigenetic diagnostic company with a focus on the early detection of neurological disorders and other large-scale health issues. The Company operates primarily in the United States. Markets served include the healthcare, educational institution, and sports management fields.

   The Company’s commercial technology results from the translation of basic science developed by the company and in conjunction with academic partners.

   Quadrant Biosciences Inc. is the parent company and owns 100% of its subsidiaries, Motion Intelligence LLC, Quadrant Epigenetics LLC, Quadrant IP Holdings LLC, Quadrant Vision Technologies LLC, Quadrant Viral Testing LLC, Quadrant Biosciences Canada Ltd, and Quadrant Laboratories LLC.

   Motion Intelligence LLC is a wholly owned subsidiary which sells ClearEdge toolkits to end users utilizing distributors and agents.

   Quadrant Epigenetics LLC is a wholly owned subsidiary which will record revenue from epigenetic activities.

   Quadrant IP Holdings LLC is a wholly owned subsidiary which houses the Company’s patents.

   Quadrant Vision Technologies LLC is a wholly owned subsidiary created to partner with a health provider.

   Quadrant Viral Testing LLC is a wholly owned subsidiary created to sell the wastewater testing services and the Clarifi COVID-19 individual test kit to CLIA approved laboratories.

   Quadrant Biosciences Canada Ltd is a wholly owned subsidiary created to pay an employee residing in Canada.

   Quadrant Laboratories LLC is a wholly owned, which, plans to operate and administer clinical laboratories in which diagnostic medical testing and related commercial activities are conducted.

2. Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Motion Intelligence LLC, Quadrant Epigenetics LLC, Quadrant IP Holdings LLC, Quadrant Vision Technologies LLC, Quadrant Viral Testing LLC, Quadrant Biosciences Canada Ltd, and Quadrant Laboratories LLC. All intercompany balances and transactions have been eliminated in consolidation.

3. Cash – For the purposes of cash flow disclosures, cash is defined as cash deposited in financial institutions and any investments that mature within three months or less from the initial purchase date.

4. Furniture and Equipment – Furniture and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based on the expected useful lives of the assets, which range from 5 to 7 years. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major betterments are capitalized. Depreciation expense is included in selling and administrative expenses. Depreciation expense for the years ended December 31, 2020 and 2019 was $8,336 and $6,407, respectively.

5. Inventories – Inventories are stated at the lower of cost or market using the average cost method or net realizable value. Net realizable value is determined as the estimated selling price in the normal course of business minus the cost of completion, disposal and transportation.

6. Accrued Vacation – Employees are eligible to receive 80 hours paid vacation time after one year of service, after three years of service eligible employees will receive 120 hours paid vacation. The vacation policy is a use it or lose it policy.

7. Royalty Payable – The Company has an exclusive license with The Research Foundation for The State University of New York for a COVID-19 Saliva Diagnostic. The Company shall pay to the Foundation a royalty of 50% of all net income as defined in the agreement. Net income is defined as gross revenue received by the Company and its affiliates from third party customers, less, sales tax or duties actually paid, transportation costs actually paid, amounts credited or returned, cost of goods sold, commissions paid to sales representatives, patent costs paid by the Company, and product liability insurance premiums covering the licensed product. As of December 31, 2020, and 2019 the amount owed for royalty payments was $858,614 and $0, respectively. Royalty expense is included in cost of products sold. For the year ended December 31, 2020 and 2019 the expense was $858,614 and $0, respectively.

8. Income Taxes – The Company accounts for income taxes under FASB ASC 740-10. Deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which are anticipated to be in effect when these differences reverse. The deferred tax provision is the result of the net change in the deferred tax assets and liabilities. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts expected to be realized. See Note G.

   The Company follows FASB ASB 740-10, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will include interest on income tax liabilities in interest expense and penalties in operations if such amounts arise. The Company determined it has no uncertain tax positions and therefore no amounts are recorded.

The Company is a certified Start-Up New York business. As such the Company is exempt from New York franchise tax for 10 years due to their Start-Up New York locations

9. Research and Development Expenditures – Research and development expenditures of $521,875 and $280,079 for the years ended December 31, 2020 and 2019, respectively, were expensed as incurred.

10. Accounts Receivable – Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts on an ongoing basis. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Presently no allowance has been established for potential losses. The Company does not have any off-balance-sheet credit exposure related to its customers.

11. Other Assets – Line of credit origination fees of $17,099 in 2020 and 2019, net of accumulated amortization of $17,099 at December 31, 2020 and 2019, respectively, were being amortized on a straight-line basis over the expected term of the loan, which was 24 months. Amortization expense for the line of credit origination fees for the years ended December 31, 2020 and 2019 was $0 and $7,528, respectively.

12. Concentration of Business Risk – In 2020 and 2019, all of the Company's Clarifi ASD inventory was purchased from two vendors and held by another two vendors. 78% of inventory purchases were from a single vendor for Clarifi Covid-19 and Wastewater. In 2020 95% of test kit sales and 100% of product assembly were to one customer.

13. Advertising – The Company expenses all advertising costs. Advertising expenses totaled $535,567 and $965,412 for the years ended December 31, 2020 and 2019, respectively.

14. Sales Tax – Certain states impose a sales tax on the Company's sales to nonexempt customers. The Company collects the required sales tax from customers and remits the entire amount to the respective states. The Company's policy is to exclude the tax collected and remitted from revenues and expenses and record a liability for the tax at the time of invoicing.

15. Stock-Based Compensation – The Company accounts for stock options under the provisions of ASC 718 Stock Compensation. For options granted in 2020 and 2019, compensation expense is recognized over the requisite service periods of the option agreements based on their fair value computed under Black-Scholes option-pricing model. See Note F.

16. Treasury Stock – The Company repurchased common stock shares of 40,000 in the year ending December 31, 2019 at $1.25 per share. During 2020 and 2019, 0 and 40,000 shares of treasury stock were retired, respectively.

17. Estimates and Assumptions – Management of the Company uses estimates and assumptions in preparing consolidated financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that management uses.

18. Shipping Costs – Shipping costs are included in cost of goods sold.

19. Grant Revenue – The Company evaluates terms and conditions of individual grants to determine whether they meet the characteristics of an exchange transaction or a nonexchange transaction. Revenue from grants that are determined to be exchange transactions are recognized according to ASC 606. Revenue from grants that are nonexchange transactions are recognized over the period of performance, to match the revenue with the related expenses in a systematic manner. In 2020 and 2019, the Company recognized revenue on a grant from National Institute of Mental Health (NIH), which was classified as a nonexchange transaction, of $241,646 and $316,299, respectively.

20. Earnings Per Share – The Company presents basic earnings per share ("EPS"), computed based on the weighted average number of common shares outstanding for the period, and when applicable diluted EPS, which gives the effect to all dilutive potential shares outstanding (i.e. options) during the period after restatement for any stock dividends. Income or loss used in the EPS calculation is net income or loss for each year. There are outstanding dilutive stock options for the year ended December 31, 2020 of 16,821,443. The dilutive options for 2020 have been included in the EPS calculation and have not been included for 2019 due to being antidilutive.

21. Impairment of Long-Lived Assets – The carrying values of long-lived assets other than goodwill are generally evaluated for impairment only if events or changes in facts and circumstances indicate that carrying values may not be recoverable. Any impairment determined would be recorded in the current period and would be measured by comparing the fair value of the related asset to its carrying value. Fair value is generally determined by identifying estimated undiscounted cash flows to be generated by those assets.

    An impairment charge related to capitalized software development costs for ClearEdge were taken of $98,646 for the year ending December 31, 2020. No impairment has been recorded for the year ended December 31, 2019.

22. Software – In accordance with authoritative accounting guidance, costs related to the development of internal use software are evaluated based upon the development stage of the software and expensed or capitalized based upon this evaluation.

    Expenses are reviewed on a quarterly basis for inclusion in the software as service capitalization and include but are not limited to software, software subscriptions, consultants, testing materials, sponsored research, legal fees, and salaries for employees based on estimations of time spent in development, design, testing, or otherwise supporting the software as service projects. The capitalized costs are amortized over the estimated lives of the products, which is generally three years. See Note E.

23. Leases – The Company has recognized right-of-use assets and lease liabilities resulting from operating leases where the Company is the lessee, as described in Note C. The Company has made an accounting policy election to not recognize lease assets and lease liabilities for leases with a term of 12 months or less.

24. Revenue from Contracts with Customers – All of the Company's revenue from contracts with customers are in the scope of ASC 606 and are included in revenues on the Consolidated Statement of Operations. Revenue is measured based on consideration specified in a contract with a customer and excludes any sales discounts. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer. No incremental contract costs are incurred in obtaining contracts.

25. Related Party Transactions – The Company rents certain operating premises from a related party, as explained in Note C.

B. Revenue from Contracts with Customers:

Performance Obligations and Significant Judgments

The following is a description of the Company's performance obligations from contracts with customers accounted for under ASC 606:

Credits provided as incentives on ClearEdge toolkit sales – At times, the Company provided credits to certain customers who purchased ClearEdge toolkits to be redeemed for future testing services. The Company allocated a portion of the consideration received from the toolkit sales to these credits based on the observable stand-alone selling price of $1 per credit and allocated the remaining consideration to the toolkit using the residual approach as an estimate of the toolkit's stand-alone selling price. The amount allocated to the credits was deferred in contract liabilities on the Consolidated Balance Sheet and was recognized as revenue when the credits were redeemed for testing services. Revenue was recognized in net product sales. All credits were redeemed as of December 31, 2020.

Testing services – Testing services consist of diagnostic tests and assessments performed by the Company using its ClearEdge technology. The Company recognizes revenue at the time the service is provided. Customers typically prepay for testing services by purchasing credits to be redeemed for future testing services. The credits are deferred in contract liabilities on the Consolidated Balance Sheet and recognized as testing services revenue at the time of performance.

Licensing services – Licensing services consist of a license granted to end users in order to access the ClearEdge network, including its database of test results, via the communications interface incorporated into the toolkit. Revenue is recognized on a monthly basis after the month of licensing services are complete. The Company stopped performing licensing services in October 2020.

Maintenance services – Maintenance services consist of an agreement to replace a customer's toolkit with a replacement unit if the equipment fails to operate in accordance with its performance specifications during the term of the agreement due to ordinary wear and tear or accidental damage. The plan is limited to one replacement unit in any 12-month period and a new unit after 5 years. Revenue is recognized on a monthly basis after the month of maintenance services are complete. The Company stopped performing maintenance services in October 2020.

Clarifi ASD tests – In 2019, the Company launched Clarifi, a new clinically-validated saliva test aiding in the diagnosis of autism spectrum disorder. The Company recognizes revenue at the time the test results are delivered to the customer. Customers prepay for the test upon submitting the saliva sample. The payments are deferred in contract liabilities on the Consolidated Balance Sheet and recognized in net product sales at the time of performance.

Wastewater testing – In 2020, the Company began offering testing services to analyze wastewater across NYS for the COVID-19 virus. The Company recognizes revenue in net product sales at the time the test results are delivered to the customer. Customers are invoiced for these services upon delivery of test results and recorded in accounts receivable until payment is received.

Clarifi COVID-19 test kit sales – In 2020, the Company, along with SUNY Upstate, developed a saliva test to detect the COVID-19 virus. The Company recognizes revenue at the time the test kits are shipped to the customer. Customers prepay for the test kits at the time of order. The payments are deferred in contract liabilities on the Consolidated Balance Sheet and recognized in net product sales at the time of performance.

Product assembly services – At times, the Company provides assembly services for Clarifi COVID-19 test kits for a separate fee. The Company recognizes revenue in product assembly revenue at the time the test kits are shipped to the customer. Customers are invoiced for these services upon shipment of test kits and recorded in accounts receivable until payment is received.

Disaggregation of Revenues

The following table presents the Company's sources of net revenues, disaggregated by major product and service lines, and timing of revenue recognition for the year ended December 31,

Major products/service lines	2020	2019
ClearEdge toolkit sales	$ -	$ 3,454
Testing services run on ClearEdge platform	48,218	51,283
Licensing and maintenance services	17,514	42,775
Clarifi ASD tests	16,066	-
Wastewater testing	769,440	-
Clarifi COVID-19 test kit sales	9,816,665	-
Product assembly services	891,574	-
	$11,559,477	$ 97,512

Timing of revenue recognition	2020	2019
Transferred at a point in time	$11,541,963	$ 54,737
Transferred over time	17,514	42,775
	$11,559,477	$ 97,512

Contract Balances

The following table provides information about receivables and contract liabilities from contracts with customers as of December 31,

	2020	2019
Receivables, which are included in "Accounts receivable"	$ 1,354,350	$ 3,373
Contract liabilities	7,642,227	69,656

Full payment on toolkits is due at the time of shipment, full payment on wastewater tests is due at the time of delivery of test results, and full payment on product assembly services is due at the time of shipment of test kits. Receivables represent the Company's unconditional rights to such consideration.

Contract liabilities represent advance consideration received from customers for ClearEdge test runs, Clarifi ASD tests, and Clarifi COVID-19 test kit sales. Customers typically prepay for test runs, ASD tests, and COVID-19 test kit sales. At the time of payment for ClearEdge test runs, such customers receive credits to use at their discretion.

Significant changes in the contract liabilities balances during the period are as follows:

	2020	2019
Revenue recognized that was included in the contract liability balance at the beginning of the period	$ 66,656	$ 54,737
Increases due to cash received, excluding amounts recognized as revenue during the period	(7,639,227)	(43,026)

Allocation of Transaction Price to Remaining Performance Obligations

Estimated revenues expected to be recognized in the future relating to performance obligations that are unsatisfied (or partially satisfied) as of December 31, 2020 and 2019 are $7,642,227 and $69,656, respectively. Unsatisfied (or partially satisfied) performance obligations mainly consist of prepayments for Clarifi COVID-19 test kits. The Company recognized $69,656 of the revenue from remaining performance obligations as of December 31, 2019 in 2020, and expects to recognize all revenue from remaining performance obligations as of December 31, 2020 in 2021.

C. Operating Lease Commitments:

The Company has entered into a number of lease arrangements. Specifically, operating leases for office space have been entered into in Ithaca and Syracuse, NY and San Antonio, TX during the periods. The Company leases its San Antonio premises from a Board member and officer of the Company through December 31, 2020. Rental expense paid to this Board member amounted to $18,000 and $7,500 for the years ended December 31, 2020 and 2019, respectively.

In addition, the Company has elected the short-term lease practical expedient related to office space rentals. Two of the Company's office space leases include optional renewal periods. The Company does not consider these additional renewal periods to be reasonably certain of being exercised, as comparable locations could be identified within the same trade areas for comparable lease rates.

The provisions of the Company's leases include both fixed rental payments and lease payments that increase at pre-determined dates. While the majority of the Company's leases are gross leases, there is a lease where separate payments are made to the lessor based on the pro-rata share of operating expenses including real property taxes, insurance and common area maintenance expenses. The Company has elected the practical expedient not to separate lease and non-lease components for all office space leases.

During the years ended December 31, 2020 and 2019, rent expenses were recognized associated with operating leases as fixed rent expense of $87,583 and $89,369 respectively.

Amounts recognized as right-of-use assets related to operating leases are included in other assets, while related lease liabilities are shown as current liabilities and long-term liabilities. As of December 31, 2020 and 2019, right-of-use assets and lease liabilities relating to operating leases were as follows:

	2020	2019
Operating lease right-of-use assets	$ 56,703	$ 135,866
Operating lease liabilities		
Current portion of lease liability	60,918	80,567
Lease liability, net of current portion	-	60,918

During the years ended December 31, 2020 and 2019, the Company had the following cash and non-cash activities associated with operating leases:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 88,987	$ 83,369
No non-cash activity during the period		

The future minimum annual payments due under operating leases as of December 31, 2020 are as follows:

2021	$	60,918

As of December 31, 2020, and 2019, the weighted-average remaining lease term for all operating leases is .75 and 1.75 years, respectively.

Because the Company does not have access to the rate implicit in the lease, the incremental borrowing rate is utilized as the discount rate. The weighted average discount rate associated with operating leases as of December 31, 2020 and 2019 is 4.51% and 4.44%, respectively.

D. Inventories:

Inventories consisted of the following:

		2020	2019
Clarifi ASD			
	Testing supplies	$ 124,985	$ 144,809
Clarifi COVID-19			
	Testing supplies	925,448	-
	Inventory in transit	302,368	-
Wastewater			
	Testing supplies	111,054	-
ClearEdge			
	Raw materials	-	95,851
	Finished goods	-	66,340
		$ 1,463,855	$ 307,000

E. Software as Service:

The Company capitalized software costs of $1,849,840 and $3,546,255 for the years ended December 31, 2020 and 2019, respectively. The Company expensed $274,280 as research and development costs for software that was capitalized that was discontinued.

The Company amortized $1,485,981 and $382,838 of capitalized costs for the years ended December 31, 2020 and 2019, respectively. The Company has software development costs of $3,999,241 for which amortization has not started as the software has not yet been placed in service for the year ended December 31, 2020. Amortization expense is included in cost of goods sold. Future amortization for assets placed in service will be $1,277,179, and $1,158,220 for 2021 and 2022, respectively.

F. Stock Option Plan:

Under the Company's 2016 Equity Incentive Plan (the Plan), the Company, at the discretion of the board of directors, may issue stock awards for shares of the Company's common stock. The board may, in its discretion, determine restrictions and conditions on the exercisability of the stock options and stock purchase rights. No option shall be exercisable after expiration of ten years from the date it was granted. Shares issued for exercised options are newly-issued from shares authorized. 34,000,000 common stock options have been authorized for the Plan.

The price of common stock covered by any option granted under the Plan shall be determined by the board at the time such option is granted, provided, however, that in the case of incentive stock options the option price shall not be less than the fair market value of the common stock on the date granted. No options have been granted for less than 100% of the fair market value of common shares at the date of option grant.

Vesting periods for these awards generally range from under one year to three years.

The fair value of the awards is determined and fixed on the grant date based on the Company's most recent stock valuation report. The stock valuation report is a 409A estimation of fair value report prepared by a qualified outside party. The traditional valuation techniques and methodologies used in determining the fair market value include market, income and cost valuation approaches. Changes in the assumptions made in the valuation may contribute to significant changes in the fair market value of the underlying stock during the period. This estimation of fair value is considered highly complex and subjective.

The Company's calculation for the stock awards under its stock-based compensation arrangements was made using the Black-Scholes model with the following assumptions:

	2020	2019
Dividend yield	0%	0%
Volatility	50.00%	50.00%
Discount rate	1.64%	3.03%
Expected life	5.77	5.77
Fair value of common stock per share	$ 3.00	$ 1.25
Expected rate of forfeitures	0.00%	0.00%

Management's policy is to account for forfeitures as they occur. Total compensation cost related to nonvested awards not yet recognized is $6,256,981 as of December 31, 2020. It is expected to be recognized over the weighted-average period of 2.193 years. Stock option compensation of $1,626,907 and $890,578 was recognized for the years ending December 31, 2020 and 2019, respectively.

A summary of the status of the Company's stock option plan as of December 31, 2020 and 2019 is presented below:

Fixed Options	Shares	Weighted Average Exercise Price
January 1, 2019	25,856,511	$ 0.277
Granted	6,332,930	1.250
Forfeited	(4,739,647)	0.368
Exercised	(1,127,104)	0.152
December 31, 2019	26,322,690	0.456
Granted	4,210,568	3.00
Forfeited	(1,431,158)	0.466
Exercised	(12,500)	0.003
December 31, 2020	29,089,600	0.824
Exerciseable:		
December 31, 2020	21,907,699	
Weighted average fair value of options granted in 2020	$ 1.43	

G. Income Taxes:

The components of the benefit for income taxes in the accompanying Consolidated Statements of Operations are as follows:

	2020	2019
Current:		
Federal	$ -	$ 188,117
State	18,400	16,150
	18,400	204,267
Deferred:		
Federal	4,363,047	-
State	1,437,984	-
	5,801,031	-
Tax benefit	$ 5,819,431	$ 204,267

The components of the benefit for income taxes differs from the amount that would result from applying the federal statutory rate for the years ended December 31, 2020 and 2019 as follows:

	2020		2019	
	Amount	%	Amount	%
Statutory tax rate	$(1,034,107)	25.3%	$(1,897,634)	25.3%
Valuation allowance change	(5,016,348)	122.7%	1,705,054	-22.7%
Permanent differences	231,024	-5.7%	(11,687)	0.2%
	$(5,819,431)	142.4%	$(204,267)	2.7%

The temporary differences which give rise to deferred tax assets and (liabilities) at December 31 are as follows:

	2020	2019
Accelerated depreciation	$(2,694)	$(1,604)
Other assets	(1,802,164)	(1,803,818)
Charitable contribution carryovers	168,464	91,638
Stock option compensation	550,146	500,686
Research and development tax credit carryforward	243,367	52,882
NOL carryforward	6,643,912	6,176,564
Valuation allowance	-	(5,016,348)
Net deferred tax position	$ 5,801,031	$ -

The (decrease) and increase in the valuation allowance was approximately ($5,016,000) and $1,705,000 for the years ended December 31, 2020 and 2019, respectively.

As required by FASB ASC 740 the Company has evaluated the positive and negative evidence bearing upon the realization of its net deferred tax assets. The Company has determined that, at this time, it is more likely than not that the Company will realize all of the benefits of federal and state net deferred tax assets, and, as a result, the established valuation allowance was removed. The research and development tax credit carryforwards and NOL carryforwards generated through December 31, 2020, of approximately $243,000 and $24,718,000, respectively, expire at various time through 2038. The Company has recorded income tax credit receivable amounts of $18,400 and $204,267 for the years ending December 31, 2020 and 2019, respectively. These credits consist of $0 and $188,117 of federal research and development credits which the Company as a qualified small business elected as a payroll tax credit, and $18,400 and $16,150 from New York State QETC employment credit. Pursuant to the Tax Cuts and Jobs Act, any of the Company’s newly generated Federal NOL carryforwards can be carried forward indefinitely, while being limited to 80% of taxable income (determined without regard to the deduction). The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2017 through December 31, 2020. The Company has no uncertain tax positions. As of December 31, 2020, and 2019 there is no accrual for interest or penalties related to uncertain tax positions.

H. Pension Plan:

The Company utilizes the Pinnacle Employee Services, LLC 401(k) and Profit Sharing Plan, as all employees of Quadrant Biosciences Inc. are provided through Pinnacle Employee Services, LLC. All employees are eligible to participate. Employees receive a 3% non-elective company contribution after 90 days of employment. Company contributions totaled $110,258 and $90,870 for the years ended December 31, 2020 and 2019, respectively.

I. Line of Credit:

In November 2017, the Company obtained a line of credit with a borrowing capacity of $500,000 and $1,250,000 as of December 31, 2020 and December 31, 2019, respectively, at an interest rate of Bank Prime plus 1.125%. The interest rate at December 31, 2020 and 2019 was 5.375% and 5.875%, respectively. The line of credit had a balance of $403,996 and $0 at December 31, 2020 and 2019.

This line of credit has been secured by all the business assets of the Company and certain of the personal assets of Richard Uhlig, the Company's Chairman and CEO. As compensation, Richard Uhlig received 6,480,683 stock options in 2018 with a value of $1,555,364 based on the Black-Scholes model calculation.

J. Long-Term Debt:

Long-term debt consists of the following as of December 31:

	2020	2019
Loan from VEP Biotech Ltd, with a maturity date of October 2023, an interest rate of 5%, and no required payment of principal or interest until maturity.	$ 5,555,858	$ 5,288,146
SBA Economic Injury Disaster loan, with a maturity date of May 2050, an interest rate of 3.75%, and payments of $731 beginning in May 2021	153,421	-
	5,709,279	5,288,146
Less: current portion	1,708	-
	$ 5,707,571	$ 5,288,146

Future maturities of long-term debt subsequent to 2021 are $3,077 in 2022, $5,559,053 in 2023, $3,317 in 2024, $3,443 in 2025 and $138,681 in 2026 and thereafter.

Accrued interest included in the outstanding loan balance due to VEP Biotech, Ltd. was $555,858 and $288,146 for the years ending December 31, 2020 and 2019, respectively.

Accrued interest included in the outstanding loan balance due to the SBA was $3,421 for the year ended December 31, 2020.

K. Pledges Payable:

The Company pledged contributions to Autism Speaks, a 501(c)(3) not-for-profit corporation dedicated to promoting solutions, across the spectrum and throughout the life span, for the needs of individuals with autism and their families. The total pledged contribution was $350,000. The balance at the end of 2019 of $225,000 was paid in 2020.

L. Paycheck Protection Plan Loan:

During April 2020, the Company applied for and received a Paycheck Protection Program Loan of $755,600 as created by the C.A.R.E.S Act and a EIDL advance grant of $10,000. The loan has an interest rate of 1%, a maturity date of 2 years, and loan payments are deferred for six months. The loan is eligible for forgiveness based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

The AICPA has issued TQA 3200.18 outlining treatment options of the PPP loan by non-governmental entities, and the Staff of the Office of the Chief Accountant of the SEC have indicated they would not object to an SEC registrant accounting for a PPP loan under either option. These options include treating the amount as a loan in accordance with FASB ASC 470 and accruing interest in accordance with FASB ASC 835-30, or as a government grant by analogy to International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance.

The Company has elected to treat the PPP loan as a government grant under IAS 20 utilizing the option provided by AICPA TQA 3200.18. Under this treatment, income is recognized as the funds are spent. All funds from the PPP loan were spent as of June 30, 2020.

The Company applied for and received forgiveness of the entire loan in January 2021.

M. Concentration of Credit Risk:

The Company may, at times, have cash on deposit in financial institutions in excess of FDIC or NCUA insured amounts.

N. Reclassification:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes in order to conform with the presentation in the current year consolidated financial statements.

O. Industry Segment Data:

The Company's primary business segments involve the operation of Quadrant Biosciences Inc and Quadrant Viral Testing LLC. Quadrant Biosciences Inc researches, designs, and develops technological tools to identify epigenetic and functional disorders resulting from neurodegeneration and brain trauma, and pooled saliva detection services for the coronavirus disease. Quadrant Viral Testing LLC sells COVID-19 testing kits to certified laboratories and sells and operates wastewater detection services for coronavirus disease.

P. Legal Matters:

None.

Q. Coronavirus (COVID-19):

Due to the uncertainties created by COVID-19, including the mandated temporary work stoppage in many sectors and imposing limitations on travel and size and duration of grouping meetings, the Company took actions to limit and mitigate the financial impact. Based on these uncertainties, the Company reduced salaries ranging from 10-75% during 2020. The salary reductions will be accrued to employees and paid out when and in a manner determined appropriate by management.

The Company also applied for and received relief from Federal stimulus programs, including the Paycheck Protection Program, and the Economic Injury Disaster Loan program.

R. Subsequent Events:

On February 18, 2021, the Company completed its most recent raise that started in September 2020. The Company raised $384,363 via the issuance of a 6% Convertible Note that matures on August 25, 2025.

On February 22, 2021, the Company paid down the entire outstanding balance of the Line of Credit in the amount of $403,996.

On March 18, 2021, the Line of Credit mentioned in Footnote I was increased to a borrowing limit of $1,000,000.

In March 2021, Quadrant Laboratories LLC has (itself and/or in association with the State University of New York) established clinical laboratories in Syracuse and Buffalo, New York.

The Company has evaluated subsequent events through April 1, 2021, the date which the financial statements were available for issue.