DANNIBLE & MCKEE, LLP
Certified Public Accountants and Consultants
Financial Plaza, 221 S. Warren St., Syracuse, New York 13202-1628
(315) 472-9127 Fax (315) 472-0026

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, 2021 and 2020, 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, 2021 and 2020, 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 (22) 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 $7,993,342 and $6,434,639, as of December 31, 2021 and 2020, respectively.

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
We have served as Quadrant Biosciences, Inc.'s auditor since 2019.
Syracuse, New York
April 1, 2022

QUADRANT BIOSCIENCES INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended
December 31, 2021 and 2020

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

ASSETS

	2021	2020
Current Assets:		
Cash and cash equivalents	$ 8,116,233	$ 9,743,455
Accounts receivable, net	13,651,979	1,354,350
Prepaid expenses	3,367,754	23,975
Other current assets	1,211,193	-
R&D tax credit receivables	-	188,117
NY tax credit receivable	-	34,550
Inventories	472,128	1,463,855
Total Current Assets	26,819,287	12,808,302
Furniture and Equipment:		
Furniture & equipment	1,056,661	71,788
Less: accumulated depreciation	82,133	32,630
Total Furniture and Equipment, net	974,528	39,158
Other Assets:		
Deferred tax asset	1,564,598	5,801,031
Right-of-use lease asset	875,950	56,703
Line of credit origination fees	-	17,099
Software as service	10,187,392	8,523,769
Less: accumulated amortization	2,194,050	2,106,229
Total Other Assets	10,433,890	12,292,373
Total Assets	$38,227,705	$25,139,833

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	2021	2020
Current Liabilities:		
Accounts payable	$ 809,495	$ 1,207,732
Royalty payable	3,533,378	858,614
Contract liabilities	1,910,078	7,642,227
Pathfinder line of credit	-	403,996
Current portion lease liability	289,756	60,918
Accrued payroll and related liabilities	229,911	789,561
Federal tax payable	131,518	-
Accrued liabilities	483,040	21,026
Current portion of long-term debt	5,848	1,708
Total Current Liabilities	7,393,024	10,985,782
Long-Term Liabilities:		
Lease liability, net of current portion	588,963	-
Convertible debt	437,237	-
Notes payable	5,990,322	5,707,571
Total Long Term Liabilities	7,016,522	5,707,571
Stockholders' Equity:		
Common stock, par value $0.0001 per share, 125,000,000 shares authorized, 88,992,860 and 88,955,194 issued and outstanding, respectively	8,900	8,896
Additional paid in capital	29,932,108	26,808,240
Accumulated deficit	(6,122,849)	(18,370,656)
Total Stockholders' Equity	23,818,159	8,446,480
Total Liabilities and Stockholders' Equity	$38,227,705	$25,139,833

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

	2021	2020
Revenues:		
Product sales, net	$44,136,077	$10,602,171
Product assembly	2,608,994	891,574
Testing services, net	13,641,262	48,218
Other revenue	132,846	259,160
Total Revenues	60,519,179	11,801,123
Cost of Products Sold	33,466,238	8,609,760
Gross Profit	27,052,941	3,191,363
Sales and Marketing Expenses	156,918	551,797
Research and Development Costs	206,092	521,875
Selling and Administrative Expenses:		
Charitable contributions	24,475	152,836
Depreciation and amortization	49,504	8,336
Employee benefits and taxes	832,622	557,420
Office expenses	760,454	196,966
Other expenses	653,382	361,868
Professional fees	948,310	394,461
Salaries and wages	3,624,093	3,303,932
Stock option compensation	3,142,708	1,626,907
Total Selling and Administrative Expenses	10,035,548	6,602,726
Income (Loss) from Operations	16,654,383	(4,485,035)
Other (Expenses) Income:		
Other income (expenses)	298,989	(76,402)
EIDL advance grant and PPP forgiveness	-	765,600
Interest expense	(309,842)	(291,542)
Total Other (Expenses) Income	(10,853)	397,656
Net Income (Loss) Before Income Tax	16,643,530	(4,087,379)
Deferred Income Tax (Expense) Benefit	(4,236,433)	5,801,031
Income Tax (Expense) Benefit	(159,290)	18,400
Net Income	$12,247,807	$ 1,732,052
Per share data:		
Basic income, per common share	$ 0.14	$ 0.02
Diluted income, per common share	0.12	0.02
Shares used in computing net income per common share:		
Basic	88,974,967	88,725,387
Diluted	105,832,846	105,547,196

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, 2021 and 2020

	Common Shares	Common Stock Par Value
Balance, December 31, 2019	87,932,825	$ 8,793
Exercised stock options ($0.003 per share)	12,500	2
Issuance of common stock, at $2.50 per share	702,100	70
Issuance of common stock, at $3.00 per share	307,769	31
Stock option compensation	-	-
Stock issuance costs	-	-
Net income	-	-
Balance, December 31, 2020	88,955,194	8,896
Exercised stock options ($0.003 per share)	37,000	4
Exercised stock options ($3.00 per share)	666	-
Stock option compensation	-	-
Stock issuance costs	-	-
Net income	-	-
Balance, December 31, 2021	88,992,860	$ 8,900

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

Additional Paid-in Capital	(Accumulated Deficit)	Total
$ 22,680,362	$(20,102,708)	$ 2,586,447
38	-	40
1,755,180	-	1,755,250
923,276	-	923,307
1,626,907	-	1,626,907
(177,523)	-	(177,523)
-	1,732,052	1,732,052
26,808,240	(18,370,656)	8,446,480
110	-	114
1,998	-	1,998
3,142,708	-	3,142,708
(20,948)	-	(20,948)
-	12,247,807	12,247,807
$ 29,932,108	$(6,122,849)	$ 23,818,159

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

	2021	2020
Cash Flows from Operating Activities:		
Net income	$ 12,247,807	$ 1,732,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	393,060	1,494,317
Employee stock option compensation	3,142,708	1,626,907
Deferred tax expense (benefit)	4,236,433	(5,801,031)
Forgiveness of loan	(196,345)	(755,600)
Changes in income tax credit receivable	222,667	207,324
Changes in accounts receivable	(12,297,629)	(1,341,697)
Changes in accounts payable	(398,237)	969,002
Changes in royalty payable	2,674,764	858,614
Changes in contract liabilities	(5,732,149)	7,572,571
Changes in accrued interest	307,500	272,814
Changes in inventories	991,727	(1,156,855)
Changes in operating right-of-use lease asset	(833,260)	79,163
Changes in income taxes payable	131,518	-
Changes in pledges payable	-	(225,000)
Changes in operating lease liability	830,347	(80,567)
Changes in prepaid expenses and other current assets	(4,554,972)	15,572
Changes in accrued payroll and related liabilities	(559,650)	743,231
Changes in accrued liabilities	166,239	(55,413)
Cash Provided by Operating Activities	772,528	6,155,404
Cash Flows from Investing Activities:		
Cash paid for purchases of fixed assets	(492,753)	(33,496)
Payments of software development costs	(1,888,247)	(1,476,916)
Cash Used in Investing Activities	(2,381,000)	(1,510,412)
Cash Flows from Financing Activities:		
Payments on financing lease	(12,546)	-
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	(403,996)	(97,685)
Proceeds from convertible debt	416,628	-
Proceeds from sale of stock and exercise of options, net of issuance costs	(18,836)	2,501,074
Cash (Used in) Provided by Financing Activities	(18,750)	3,808,989
Net Change in Cash	(1,627,222)	8,453,981

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,

	2021	2020
Net Change in Cash	(1,627,222)	8,453,981
Cash, beginning of year	9,743,455	1,289,474
Cash, end of year	$ 8,116,233	$ 9,743,455
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 2,342	$ 20,409
Income taxes	14,345	1,143

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, 2021 and 2020

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 sold 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 subsidiary, which, operates and administers clinical laboratories in which diagnostic medical testing and related commercial activities are conducted. On July 1, 2021, Quadrant Laboratories, LLC received CLIA Accreditation and NY State Department of Health CLEP permits for its two laboratories located in Syracuse and Buffalo, New York. These laboratories will be performing all of the Company's COVID-19 testing going forward along with any future tests that the Company develops or other third-party tests it decides to perform.

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. The Company has $538,475 in laboratory equipment received, but not in service as of December 31, 2021. 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, 2021 and 2020 was $49,503 and $8,336, respectively.

5. Inventories – Inventories consist of raw materials and supplies, and 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 paid vacation time based on years of service. 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 (the Foundation) for a COVID-19 Saliva Diagnostic. The Company paid to the Foundation a royalty of 50% of all net income as defined in the agreement through June 30, 2021. Under this agreement income is defined as COVID-19 related 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. Effective July 1, 2021, the Company shall pay to the Foundation a royalty on COVID-19 related net sales at 10% for the quarter beginning July 1, 2021, through December 31, 2021 and decreasing by 2% each quarter until it reaches 6% for the period beginning July 1, 2022 through termination of the agreement, with certain specific exclusions. As of December 31, 2021, and 2020 the amount owed for royalty payments was $3,533,378 and $858,614, respectively. Royalty expense is included in cost of products sold. For the year ended December 31, 2021 and 2020 the expense was $7,833,833 and $858,614, 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 ASC 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.

Commencing on July 24, 2015, 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 $206,092 and $521,875 for the years ended December 31, 2021 and 2020, respectively, were expensed as incurred.

10. Accounts Receivable – Accounts receivable are recorded at the invoiced amount less certain price concessions and do not bear interest. The Company's accounts receivable is bifurcated between direct customers and third-party payers.

Direct customers represent the portion of the Company's revenue and accounts receivable related to employers, schools and other entities where payment is received directly from the entity ordering the product or service. Accounts receivable for customers are recorded at the invoiced amount. 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 for client payers 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. There has been no allowance established for potential losses on direct customer accounts receivable.

Third-party payers represent the portion of the Company's revenue and accounts receivable related to Medicare, Medicaid, and commercial insurance companies. Third-party payer revenue and accounts receivable is recorded net of explicit and implicit price concessions which are based on healthcare industry trends and regulations, current economic conditions, and aging of accounts. The Company reviews its allowances for the explicit and implicit price concessions on an ongoing basis. The Company has contracted with a medical billing company that provides billing services for the laboratories.

The Company does not have any off-balance-sheet credit exposure related to its customers.

11. Prepaid Expenses – Prepaid expenses primarily consist of prepaid expenses related to various insurances and agreements over a period of time. In 2021 the Company entered into a research support agreement under which the contracting entity will use its best efforts to recruit and coordinate participation in a study for the Company. In exchange the Company provided prepaid research funding of $3,100,000 during the fourth quarter of 2021 and will provide up to an additional $3,097,000 through October 31, 2023, based on certain participation milestones being met.

12. Other Current Assets – Other current assets represent the capitalization of potentially useful scrap materials.

13. Concentration of Business Risk – In 2021 and 2020, all of the Company's Clarifi ASD inventory was purchased by two vendors. There is no Clarifi ASD inventory recorded at December 31, 2021. For the year ended December 31, 2021 and 2020 94% and 78%, respectively, of inventory related to the Clarifi COVID-19 and wastewater services were purchases from a single vendor.

    For the year ended December 31, 2021 80% of test kit sales, 100% of product assembly services and 100% of lab testing revenue were to one customer. For the year ended December 31, 2020 95% of test kit sales and 100% of product assembly services were to one customer.

14. Advertising and Promotion – The Company expenses all advertising costs. Advertising expenses totaled $95,946 and $535,567 for the years ended December 31, 2021 and 2020, respectively.

15. 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.

16. Stock-Based Compensation – The Company accounts for stock options under the provisions of ASC 718 Stock Compensation. For options granted in 2021 and 2020, 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.

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 that are non-reimbursable 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 2021 and 2020, the Company recognized revenue within other revenue on a grant from National Institute of Mental Health (NIH), which was classified as a nonexchange transaction, of $132,846 and $241,646, respectively.

    During 2021, the Company entered an equipment use agreement with The Foundation, acting on behalf of the University at Buffalo. This equipment use agreement provides that the Foundation will contribute resources to the Company valued at up to $500,000 by way of a grant with ownership of the equipment transferring to the Company at the end of the agreement period, provided the Company meets certain performance milestones. The monthly payments due under the agreement will be deferred and forgiven annually for meeting performance milestones. Under the agreement, $492,120 of equipment was recorded in furniture and equipment at December 31, 2021. $196,345 pro-rata forgiveness of the accrued liability was recorded in other income (expenses) for the year ended December 31, 2021, with the remaining liability of $295,775 recorded in accrued liabilities in the consolidated balance sheet at December 31, 2021. As neither the acquisition of the equipment nor the corresponding liability represented a source or use of cash, these activities have been excluded from the consolidated statements of cash flows.

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, convertible debt) 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 and convertible debt for the year ended December 31, 2021 and 2020, of 16,857,879 and 16,821,809, respectively.

The following table illustrates the computation of basic and diluted EPS for the year ended December 31, 2021, and 2020.

For the Year Ended December 31, 2020

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income from continuing operations	$ 1,732,052		
Basic EPS			
Income available to common stockholders	1,732,052	88,725,387	$ 0.02
Effect of Dilutive Securities			
Common Stock Options		16,821,809	
Diluted EPS			
Income available to common stockholders and assumed conversions	$ 1,732,052	105,547,196	$ 0.02

For the Year Ended December 31, 2021

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income from continuing operations	$12,247,807		
Basic EPS			
Income available to common stockholders	12,247,807	88,974,967	$ 0.14
Effect of Dilutive Securities			
Common Stock Options		16,821,443	
Convertible Debt		36,436	
Diluted EPS			
Income available to common stockholders and assumed conversions	$12,247,807	105,832,846	$ 0.12

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 of $98,646 was recorded in other income (expenses) for the year ending December 31, 2020. No impairment was recorded for the year ended December 31, 2021.

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 and finance 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 unless the company has the ability and intent to extend the lease beyond a 12-month term.

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 Statements of Income. Revenue is measured based on consideration specified in a contract with a customer, less any explicit or implicit price concessions. 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.

    Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transactions, that are collected by the Company from a customer, are excluded from revenue. See Note B.

25. Related Party Transactions – The Company did not have any significant related party transactions for the years ended December 31, 2021 and 2020.

B. Revenue from Contracts with Customers:

<u>Performance Obligations and Significant Judgments</u>

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

Testing services – Testing services consist of diagnostic tests and assessments performed by the Company using its Clarifi COVID-19 Saliva Test in its CLIA and CLEP laboratories and its ClearEdge technology. The Company recognizes revenue at the time the service is provided. Third-party payers being billed for certain COVID-19 tests are billed once the testing service is complete. Other customers at times prepay for testing services. ClearEdge customers prepay for testing services by purchasing credits to be redeemed for future testing services. The revenues are deferred in contract liabilities on the Consolidated Balance Sheet and recognized as testing services revenue at the time of performance.

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. In 2021, Clarifi ASD tests were temporarily removed from the market due to the Company's concentration in COVID-19 testing products and services.

Wastewater testing – In 2020, the Company began offering testing services to analyze wastewater across New York State 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 pay 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. For test kits sold to camps, counties, and private businesses a portion of revenue is recognized when the swabs are shipped with the remaining revenue being recognized as test results are delivered.

Third-party COVID testing revenue - In 2021, the Company began performing certain COVID-19 laboratory testing services that in accordance with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) are billed to third party insurers. Under the CARES Act if an individual is uninsured Quadrant will bill and receive reimbursement as administered through Health Resources and Services Administration (HRSA). The third-party payers are billed at the Company's established list price and revenue is recorded net of contractual discounts. The Company's sales are recorded based upon reimbursement amounts as required under the CARES Act and historical reimbursement experience. In addition to contractual discounts, other adjustments including anticipated payer denials are considered when determining revenue. Any remaining adjustments to revenue are recorded at the time of final collection and settlement. These adjustments are not material to the Company's results of operations in the year ending December 31, 2021.

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	2021	2020
Lab testing revenue	$ 2,625,456	$ -
ClearEdge and ASD	15,381	64,284
Licensing and maintenance services	-	17,514
Third-party COVID testing revenue	11,001,414	-
Wastewater testing	698,784	769,440
Clarifi COVID-19 test kit sales	43,436,304	9,816,665
Product assembly services	2,608,994	891,574
	$60,386,333	$11,559,477

Other than licensing and maintenance services, revenue is recognized at a point in time.

Contract Balances

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

	2021	2020
Receivables, which are included in "Accounts receivable"	$13,651,979	$ 1,354,350
Contract liabilities	1,910,078	7,642,227

Full payment on test kits is due at the time of shipment, unless specified within the contract, 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 related to Clarifi COVID-19 test kit sales. Certain lab testing is typically included with the sale of COVID-19 test kits and the revenue allocated to the lab testing performance obligation is recognized by the Company when the testing is completed. Additionally, at times customers prepay for return shipping of the Clarifi COVID-19 tests and the Company recognizes the related revenue when shipping occurs.

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

	2021	2020
Revenue recognized that was included in the contract liability balance at the beginning of the period	$(7,642,227)	$(66,656)
Increases due to cash received, excluded amounts recognized as revenue during the period	1,910,078	7,639,227

<u>Allocation of Transaction Price to Remaining Performance Obligations</u>

Estimated revenues expected to be recognized in the future relating to performance obligations that are unsatisfied (or partially satisfied) as of December 31, 2021 and 2020 are $1,910,078 and $7,642,227, respectively. Unsatisfied (or partially satisfied) performance obligations mainly consist of prepayments for Clarifi COVID-19 test kits. The Company recognized all the revenue from the remaining performance obligations as of December 31, 2020 in 2021, and expects to recognize all revenue from remaining performance obligations as of December 31, 2021 in 2022.

C. Lease Commitments:

The Company has entered into a number of lease arrangements. Specifically, operating leases for office space have been entered into in Syracuse and Buffalo, NY and San Antonio, TX during the periods. A finance lease has been entered into for equipment in Syracuse, NY.

The Company has elected the practical expedient related to short term leases for office space rentals. One of the Company's office space leases include optional renewal periods. The Company considers the renewal reasonably certain of being exercised.

The provisions of the Company's leases include both fixed rental payments and lease payments that increase at pre-determined dates. The Company has elected the practical expedient not to separate lease and non-lease components for all leases.

During the years ended December 31, 2021 and 2020, rent expenses were recognized associated with operating and finance leases as fixed rent expense of $147,797 and $87,583 respectively.

Amounts recognized as right-of-use assets related to operating and finance leases are included in other assets, while related lease liabilities are shown as current liabilities and long-term liabilities. As of December 31, 2021 and 2020, right-of-use assets and lease liabilities relating to leases were as follows:

	2021	2020
Operating lease right-of-use assets	$ 560,667	$ 56,703
Finance lease right-of-use assets	315,283	-
Operating and finance lease liabilities:		
Current portion of operating lease	211,944	60,918
Current portion of finance lease	77,812	-
Operating lease liability, net of current	343,019	-
Finance lease liability, net of current	245,944	-

During the years ended December 31, 2021 and 2020, the Company had the following cash and non-cash activities associated with operating and finance leases:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities-		
Operating cash flows:		
from operating leases	$ 141,811	$ 88,987
from finance leases	15,694	-
Additions to right-of-use assets obtained from:		
New operating lease liabilities	630,742	-
New finance lease liabilities	336,302	-

The future minimum annual payments due under operating and finance leases as of December 31, 2021 are as follows:

	Operating	Financing
2022	$ 225,579	$ 94,164
2023	150,589	94,164
2024	135,591	94,164
2025	79,094	78,470
	$ 590,853	$ 360,962

Amortization of finance lease right-of-use assets was $14,013 and $0 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, and 2020, the weighted-average remaining lease term for all operating leases is 3.39 and .75 years, respectively.

When 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, 2021 and 2020 is 4.14% and 4.51%, respectively.

D. Inventories:

Inventories consisted of the following:

		2021	2020
Clarifi ASD			
	Testing supplies	$ -	$ 124,985
Clarifi COVID-19			
	Testing supplies	457,441	925,448
	Inventory in transit	-	302,368
Wastewater			
	Testing supplies	14,687	111,054
		$ 472,128	$ 1,463,855

E. Software as Service:

The Company capitalized software costs of $1,888,247 and $1,849,840 for the years ended December 31, 2021 and 2020, respectively.

The Company amortized $329,544 and $1,485,981 of capitalized costs for the years ended December 31, 2021 and 2020, respectively. The Company has software development costs of $5,887,489 for which amortization has not started as the software has not yet been placed in service for the year ended December 31, 2021. Amortization expense is included in cost of goods sold. Future amortization for assets placed in service will be $0 for 2022, and in subsequent years, until software is placed into service or back into service.

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 IRS Code Section 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:

	2021	2020
Dividend yield	0%	0%
Volatility	60.00%	50.00%
Discount rate	0.27%	1.64%
Expected life	5.77	5.77
Fair value of common stock per share	$ 3.00	$ 3.00
Expected rate of forfeitures	0.00%	0.00%

Management's policy is to account for forfeitures as they occur.

A summary of the status of the Company's stock option plan as of December 31, 2021 and 2020 is presented below:

Fixed Options	Shares	Weighted Average Exercise Price
January 1, 2020	26,322,690	$ 0.456
Granted	4,210,568	3.000
Forfeited	(1,431,158)	0.466
Exercised	(12,500)	0.003
December 31, 2020	29,089,600	0.824
Granted	1,665,000	3.000
Forfeited	(3,329,883)	1.520
Exercised	(37,666)	0.056
December 31, 2021	27,387,051	0.873
Exerciseable:		
December 31, 2021	22,469,673	

The weighted-average grant-date fair value of options granted during the years ended December 31, 2021 and 2020, was $1.60 and $1.43.

A summary of the status of the Company's nonvested shares as of December 31, 2021 and the changes during the year then ended is presented below.

Nonvested shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2021	7,181,901	$ 1.09
Granted	1,665,000	1.60
Vested	(2,755,188)	1.00
Forfeited	(1,174,334)	1.25
Nonvested at December 31, 2021	4,917,379	$ 1.26

Total compensation cost related to nonvested awards not yet recognized is $4,299,548 as of December 31, 2021. It is expected to be recognized over the weighted-average period of .91 years. Stock option compensation of $3,142,708 and $1,626,907 was recognized for the years ending December 31, 2021 and 2020, respectively.

G. Income Taxes:

The components of the (expense)/benefit for income taxes in the accompanying Consolidated Statements of Income are as follows:

	2021	2020
Current:		
Federal	$ (128,795)	$ -
State	(30,495)	18,400
	(159,290)	18,400
Deferred:		
Federal	(3,186,135)	4,363,049
State	(1,050,298)	1,437,982
	(4,236,433)	5,801,031
Tax (expense) benefit	$ (4,395,723)	$ 5,819,431

The components of the expense (benefit) for income taxes differs from the amount that would result from applying the federal statutory rate for the years ended December 31, 2021 and 2020 as follows:

	2021		2020	
	Amount	%	Amount	%
Statutory tax rate	$ 4,210,813	25.3%	$(1,034,107)	25.3%
Valuation allowance change	-	0.0%	(5,016,348)	122.7%
Permanent differences	184,910	1.1%	231,024	-5.7%
	$ 4,395,723	26.4%	$(5,819,431)	142.4%

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

	2021	2020
Accelerated depreciation	$ (112,353)	$ (2,694)
Other assets	(2,241,065)	(1,802,164)
Charitable contribution carryovers	91,556	168,464
Stock option compensation	895,468	550,146
Research and development tax credit carryforward	20,103	243,367
NOL carryforward	2,910,889	6,643,912
Net deferred tax asset	$ 1,564,598	$ 5,801,031

The decrease in the valuation allowance was approximately $0 and $5,016,000 for the years ended December 31, 2021 and 2020, 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 in 2020. The research and development tax credit carryforwards and NOL carryforwards generated through December 31, 2021, of approximately $20,000 and $10,650,000, respectively, expire at various time through 2038. 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 had a change of control during 2015, which limits the amount of Federal NOL that can be used per year going forward from the NOLs created prior to the change in control. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2018 through December 31, 2021. The Company has no uncertain tax positions. As of December 31, 2021, and 2020 there is no accrual for interest or penalties related to uncertain tax positions.

H. Pension Plan:

The Company partners with a professional employer organization to offer a defined contribution retirement plan. All employees are eligible to participate and receive a 3% non-elective company contribution beginning after 90 days of employment on the first day of the subsequent quarter. Company contributions totaled $120,377 and $110,258 for the years ended December 31, 2021 and 2020, respectively.

I. Line of Credit:

The Company has a line of credit with a borrowing capacity of $1,000,000 at an interest rate of greater of 5.375% or Bank Prime plus 1.125%. The interest rate at December 31, 2021 and 2020 was 5.375%. The line of credit had a balance of $0 and $403,996 at December 31, 2021 and 2020.

This line of credit was 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. 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 is eligible for forgiveness which the company applied for and received in January 2021.

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.

K. Long-Term Debt:

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

	2021	2020
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.	$ 5,837,124	$ 5,555,858
Convertible debt, with a maturity of August 2025, an interest rate of 6% and no required payment of principal or interest until maturity or conversion.	437,237	-
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 2022	159,046	153,421
	6,433,407	5,709,279
Less: current portion	5,848	1,708
	$ 6,427,559	$ 5,707,571

Future minimum annual debt payments subsequent to 2022 are as follows:

2023	$ 5,845,896
2024	8,772
2025	446,009
2026	8,772
2027 and after	118,110
	$ 6,427,559

Accrued interest included in the outstanding loan balance due to VEP Biotech, Ltd. was $837,124 and $555,858 for the years ending December 31, 2021 and 2020, respectively.

Accrued interest included in the outstanding loan balance due to the SBA was $9,046 and $3,421 for the years ending December 31, 2021 and 2020, respectively.

Accrued interest included in the outstanding loan balance due convertible debt holders was $20,609 for the year ended December 31, 2021.

Convertible debt is convertible to common stock upon qualified financing, maturity or change in control the conversion is based upon the most recent price per share multiplied by 0.8.

L. Concentration of Credit Risk:

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

M. 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.

N. Industry Segment Data:

The Company's primary business segments involve the operation of Quadrant Biosciences Inc, Quadrant Laboratories LLC, 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 Laboratories LLC operates and administers clinical laboratories which process COVID-19 testing kits. Quadrant Viral Testing LLC sells COVID-19 testing kits to certified laboratories and sells and operates wastewater detection services for coronavirus disease.

O. Legal Matters:

None.

P. Coronavirus (COVID-19):

During 2020 due to the onset of the COVID-19 pandemic, the Company took actions to limit and mitigate any potential negative financial impact. Additionally, during 2020 the Company applied for and received relief from Federal stimulus programs, including the Paycheck Protection Program and the Economic Injury Disaster Loan Program.

Throughout 2021 and into 2022 there continues to be uncertainty related to COVID-19 for the Company, particularly as it relates to the Company's Clarifi COVID-19 business line. Globally, the continued uncertainty is caused by new COVID-19 variants, public health policy and regulations, and supply chain constraints.

Q. Subsequent Events:

The Company has evaluated subsequent events through April 1, 2022, the date which the financial statements were available for issue.