

SQUAREX, LLC

Reviewed Financial Statements For The Years Ended December 31, 2020 and 2019



Jason M. Tyra
C P A P L L C

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To Management
Squarex, LLC
Saint Paul, MN.

We have reviewed the accompanying financial statements of Squarex, LLC (a limited liability company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, We do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether We are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of Our procedures provide a reasonable basis for Our conclusion.

Accountant's Conclusion

Based on Our review, We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B, certain conditions raise an uncertainty about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note B. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Jason M. Tyra, CPA, PLLC
Dallas, TX
February 17, 2021

**SQUAREX, LLC
BALANCE SHEET
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 4,509	\$ 14,037
TOTAL CURRENT ASSETS	4,509	14,037
NON-CURRENT ASSETS		
Fixed Assets	59,349	59,349
Accumulated Depreciation	(58,940)	(57,640)
TOTAL NON-CURRENT ASSETS	409	1,709
TOTAL ASSETS	4,918	15,745
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	30,510	19,945
TOTAL CURRENT LIABILITIES	30,510	19,945
NON-CURRENT LIABILITIES		
Line of Credit	446,642	98,545
Accrued Interest	23,337	978
TOTAL LIABILITIES	500,489	119,468
MEMBERS' EQUITY		
Members' Contributions	6,050,100	6,050,100
Retained Earnings (Deficit)	(6,545,671)	(6,153,823)
TOTAL MEMBERS' EQUITY	(495,571)	(103,723)
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 4,918	\$ 15,746

SQUAREX, LLC
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Expense		
Legal & Professional	213,385	334,802
Research & Development	98,279	251,728
Salaries & Benefits	53,257	139,691
Rent	22,410	-
Depreciation	1,300	3,419
General & Administrative	803	11,450
	389,434	741,089
Net Income from Operations	(389,434)	(741,089)
Other Income (Expense)		
Other Income	-	66
Interest Expense	(22,359)	(978)
Net Income	\$ (411,793)	\$ (742,002)

SQUAREX, LLC
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Net Income (Loss) For The Period	\$ (411,793)	\$ (742,002)
Change in Accounts Payable	10,565	19,945
Non-Cash Adjustment to Expenses	57,445	81,546
Depreciation	1,300	3,419
Net Cash Flows From Operating Activities	(342,483)	(637,092)
Cash Flows From Financing Activities		
Increase in Members' Contributed Capital	-	500,000
Draws on Line of Credit	348,097	17,000
Capitalization of Accrued Interest	22,359	978
Repayments to Loans Payable	(37,500)	-
Net Cash Flows From Financing Activities	332,956	517,978
Cash at Beginning of Period	14,036	133,150
Net Increase (Decrease) In Cash	(9,527)	(119,114)
Cash at End of Period	\$ 4,509	\$ 14,036

SQUAREX, LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Members' Contributions	Retained Earnings	Total Members' Equity
Balance at December 31, 2016	\$ 5,550,100	\$ (5,411,821)	\$ 138,279
Contributions of Capital	500,000		500,000
Net Income		(742,002)	(742,002)
Balance at December 31, 2017	<u>\$ 6,050,100</u>	<u>\$ (6,153,823)</u>	<u>\$ (103,723)</u>
Prior Period Adjustment to Retained Earnings		19,945	19,945
Net Income		(411,793)	(411,793)
Balance at December 31, 2018	<u>\$ 6,050,100</u>	<u>\$ (6,545,671)</u>	<u>\$ (495,571)</u>

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

SQUAREX, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED)
DECEMBER 31, 2020 & 2019

NOTE A- ORGANIZATION AND NATURE OF ACTIVITIES

SquareX, LLC (“the Company”) is a limited liability company organized under the laws of Delaware and domiciled in Minnesota. The Company is currently in the early stage of development of a proprietary formula to prevent the outbreak of Herpes Simplex Virus 1 & 2.

NOTE B- GOING CONCERN MATTERS

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operation for the foreseeable future. However, management has identified the following conditions and events that created an uncertainty about the ability of the Company to continue as a going concern. The Company recorded net operating losses during the years ended December 31, 2020 and 2019 in the amounts of 411,793 and 742,002, respectively.

The following describes management's plans that are intended to mitigate the conditions and events that raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to raise additional operating capital for clinical trials through a Reg CF offering. The Company's ability to meet its obligations as they become due is dependent upon the success of management's plans, as described above.

These conditions and events create an uncertainty about the ability of the Company to continue as a going concern through February 17, 2022 (one year after the date that the financial statements are available to be issued). The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE C- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Company’s fiscal year ends December 31.

Significant Risks and Uncertainties

The Company is subject to customary risks and uncertainties associated with development of new technology including, but not limited to, the need for protection of intellectual property, successful clinical trials, FDA approval of the Company’s product, dependence on key personnel, costs of services provided by third parties, the need to obtain additional financing, and limited research and development history.

The Company currently has no developed products for commercialization and there can be no assurance that the Company’s research and development will be successfully commercialized. Developing, commercializing and successfully obtaining approval from the Food and Drug Administration (FDA) requires significant capital, and based on the current operating plan, the Company expects to continue to

SQUAREX, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED) (CONTINUED)

incur operating losses as well as cash outflows from operations in the near term. Failure to obtain approval from the FDA will greatly impact the feasibility of the Company's product and ability to generate revenue.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in estimates are recorded in the period they are made. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances, and highly liquid investments with maturities of three months or less when purchased.

Fixed Assets

The Company capitalizes assets with an expected useful life of one year or more, and an original purchase price of \$1,000 or more. Depreciation is calculated on a straight-line basis over management's estimate of each asset's useful life.

Rent

The Company currently occupies laboratory space under a month-to-month basis from a related party. The lease may be renewed at the option of the Company at the then-current agreed upon price.

Income Taxes

The Company applies ASC 740 Income Taxes ("ASC 740"). Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any and the change during the period in deferred tax assets and liabilities. ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is "more likely than not" that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

The Company is subject to tax filing requirements as a partnership in the federal jurisdiction of the United States. All items of income and expense are reported by the Company's members on their individual tax returns.

The Company is subject to franchise tax filing requirements in the State of Delaware and income tax filing requirements in the State of Minnesota.

SQUAREX, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED) (CONTINUED)

Recently Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In November 2015, the FASB issued ASU (Accounting Standards Update) 2015-17, *Balance Sheet Classification of Deferred Taxes*, or ASU 2015-17. The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. For all entities other than public business entities, the guidance becomes effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-17 had no material impact on the Company's financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*, or ASU 2016-18. The amendments of ASU 2016-18 were issued to address the diversity in classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows which is currently not addressed under Topic 230. ASU 2016-18 would require an entity to include amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. This guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018 for non-public entities. Early adoption is permitted, and the standard must be applied retrospectively. The adoption of ASU 2016-18 had no material impact on the Company's financial statements and related disclosures.

In May 2014, the FASB issued ASU, 2014-09—*Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09, and further updated through ASU 2016-12, or ASU 2016-12, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount to which an entity expects to be entitled to when products are transferred to customers. This guidance is effective for annual reporting periods, and interim periods within those years, beginning December 15, 2018 for non-public entities. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The adoption of ASU 2014-09 had no material impact on the Company's financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, or ASU 2016-02, which supersedes the guidance in ASC 840, *Leases*. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. This guidance is effective for annual reporting periods beginning after December 15, 2019 for non-public entities. The adoption of ASU 2016-02 had no material impact on the Company's financial statements and related disclosures.

SQUAREX, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED) (CONTINUED)

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-based Payment Accounting*, or ASU 2016-09. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas of simplification apply only to non-public companies. This guidance was effective on December 31, 2016 for public entities. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for an entity in any interim or annual period for which financial statements have not been issued or made available for issuance. An entity that elects early adoption must adopt all amendments in the same period. The adoption of ASU 2016-09 had no material impact on the Company's financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, or ASU 2017-09, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This guidance is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2017, for both public entities and non-public entities. Early adoption is permitted. The adoption of ASU 2017-09 had no material impact on the Company's financial statements and related disclosures.

NOTE D- DEBT

In 2019, the company established a \$1,000,000 line of credit with a related party in exchange for cash for the purpose of funding continuing operations ("the Line of Credit Payable"). The outstanding balance accrues interest at the rate of 15% per annum and is payable not later than December 2024. During 2020 and 2019, the Company capitalized approximately \$23,337 and \$978 in interest related to the line of credit respectively. The agreement stipulates a payment arrangement as the company obtains investor capital. An amount equal to 10% of the first \$1,000,000, 20% of the second million and up to 100% of the third million dollars raised through investors will be applied to any outstanding balance on this line of credit.

NOTE E- RELATED PARTY TRANSACTIONS

The Company contracts with a law firm owned by Hugh McTavish (a member of the Company) to handle work related to securing and defending its intellectual property. The Company does not represent that these transactions are carried out "at arm's length," but believes that the terms are commercially reasonable and fees generally representative of the market value for similar services.

NOTE F- FAIR VALUE MEASUREMENTS

Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses

SQUAREX, LLC
NOTES TO FINANCIAL STATEMENTS (REVIEWED) (CONTINUED)

valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1 - Observable inputs, such as quoted prices for identical assets or liabilities in active markets;
Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, or market-corroborated inputs; and
Level 3 - Unobservable inputs for which there is little or no market data which require the reporting entity to develop its own assumptions about how market participants would price the assets or liabilities.

The valuation techniques that may be used to measure fair value are as follows:

Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models, and excess earnings method.

Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

NOTE G- LLC MEMBER LIABILITY

The Company is a limited-liability company. As such, the financial liability of members of the Company for the financial obligations of the Company is limited to each member's contribution of capital.

NOTE H- CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with a limited number of high-quality financial institutions and at times may exceed the amount of insurance provided on such deposits. As of December 31, 2020 and 2019, the Company held no cash deposits that exceeded FDIC insurance limits.

NOTE I- SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before February 17, 2021, the date that the financial statements were available to be issued.