

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-38728

AVALON GLOBOCARE CORP.

(Exact name of Registrant as specified in its charter)

Delaware

47-1685128

(State of incorporation)

(I.R.S. Employer Identification No.)

4400 Route 9 South, Suite 3100, Freehold, New Jersey 07728

(Address of principal executive offices) (zip code)

(732) 780-4400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| Common Stock, \$0.0001 par value per share | AVCO | The NASDAQ Capital Market |

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class | Outstanding November 9, 2020 |
|--|------------------------------|
| Common Stock, \$0.0001 par value per share | 81,398,764 shares |

AVALON GLOBOCARE CORP.

FORM 10-Q

September 30, 2020

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q and information contained in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Unless otherwise indicated, references in this report to “we,” “us”, “Avalon” or the “Company” refer to Avalon GloboCare Corp. and its consolidated subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | <u>September 30,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> |
|--|-------------------------------------|------------------------------------|
| | <u>(Unaudited)</u> | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,395,510 | \$ 764,891 |
| Accounts receivable | - | 4,710 |
| Accounts receivable - related party | - | 215,418 |
| Rent receivable | 97,385 | 23,759 |
| Deferred financing costs | 228,309 | 311,177 |
| Prepaid expenses and other current assets | <u>432,295</u> | <u>251,140</u> |
| Total Current Assets | <u>2,153,499</u> | <u>1,571,095</u> |
| NON-CURRENT ASSETS: | | |
| Rent receivable - noncurrent portion | 135,905 | 99,235 |
| Prepaid realtors' commission - noncurrent portion | 74,822 | - |
| Right-of-use asset, operating lease | 153,556 | - |
| Property and equipment, net | 500,513 | 601,425 |
| Investment in real estate, net | 7,649,441 | 7,735,680 |
| Equity method investment | <u>488,374</u> | <u>483,101</u> |
| Total Non-current Assets | <u>9,002,611</u> | <u>8,919,441</u> |
| Total Assets | <u>\$ 11,156,110</u> | <u>\$ 10,490,536</u> |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accrued professional fees | \$ 963,084 | \$ 1,243,190 |
| Accrued research and development fees | 442,435 | 650,000 |
| Accrued payroll liability | 246,469 | 373,083 |
| Accrued liabilities and other payables | 369,495 | 303,911 |
| Accrued liabilities and other payables - related parties | 262,452 | 187,042 |
| Operating lease obligation | 76,379 | - |
| Tenants' security deposit | <u>79,180</u> | <u>78,237</u> |
| Total Current Liabilities | <u>2,439,494</u> | <u>2,835,463</u> |
| NON-CURRENT LIABILITIES: | | |
| Operating lease obligation - noncurrent portion | 83,177 | - |
| Note payable - related party | 390,000 | 590,000 |
| Loan payable - related party | <u>2,900,000</u> | <u>2,600,000</u> |
| Total Non-current Liabilities | <u>3,373,177</u> | <u>3,190,000</u> |
| Total Liabilities | <u>5,812,671</u> | <u>6,025,463</u> |
| Commitments and Contingencies - (Note 13) | | |
| EQUITY: | | |
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2020 and December 31, 2019 | - | - |
| Common stock, \$0.0001 par value; 490,000,000 shares authorized; 81,876,855 shares issued and 81,356,855 shares outstanding at September 30, 2020; 76,730,802 shares issued and 76,210,802 shares outstanding at December 31, 2019 | 8,188 | 7,673 |
| Additional paid-in capital | 45,029,038 | 34,593,006 |
| Less: common stock held in treasury, at cost; 520,000 shares at September 30, 2020 and December 31, 2019 | (522,500) | (522,500) |
| Accumulated deficit | (38,941,059) | (29,361,937) |
| Statutory reserve | 6,578 | 6,578 |
| Accumulated other comprehensive loss - foreign currency translation adjustment | <u>(236,806)</u> | <u>(257,747)</u> |
| Total Avalon GloboCare Corp. stockholders' equity | <u>5,343,439</u> | <u>4,465,073</u> |
| Non-controlling interest | - | - |
| Total Equity | <u>5,343,439</u> | <u>4,465,073</u> |
| Total Liabilities and Equity | <u>\$ 11,156,110</u> | <u>\$ 10,490,536</u> |

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------------------|--|------------------------|
| | 2020 | 2019 | 2020 | 2019 |
| REVENUES | | | | |
| Real property rental | \$ 324,982 | \$ 264,141 | \$ 923,205 | \$ 795,656 |
| Medical related consulting services - related party | - | 108,520 | - | 234,214 |
| Development services and sales of developed products | - | 10,555 | - | 37,237 |
| Total Revenues | <u>324,982</u> | <u>383,216</u> | <u>923,205</u> | <u>1,067,107</u> |
| COSTS AND EXPENSES | | | | |
| Real property operating expenses | 135,821 | 193,738 | 663,086 | 617,173 |
| Medical related consulting services - related party | - | 94,442 | - | 202,908 |
| Development services and sales of developed products | - | 41,808 | - | 103,899 |
| Total Costs and Expenses | <u>135,821</u> | <u>329,988</u> | <u>663,086</u> | <u>923,980</u> |
| REAL PROPERTY OPERATING INCOME | 189,161 | 70,403 | 260,119 | 178,483 |
| GROSS PROFIT FROM MEDICAL RELATED CONSULTING SERVICES | - | 14,078 | - | 31,306 |
| GROSS LOSS FROM DEVELOPMENT SERVICES AND SALES OF DEVELOPED PRODUCTS | - | (31,253) | - | (66,662) |
| Total Gross Profit | <u>189,161</u> | <u>53,228</u> | <u>260,119</u> | <u>143,127</u> |
| OTHER OPERATING EXPENSES: | | | | |
| Professional fees | 1,753,182 | 1,630,827 | 4,868,530 | 3,891,539 |
| Compensation and related benefits | 1,058,570 | 2,187,959 | 3,241,090 | 6,388,292 |
| Research and development expenses | 238,432 | 265,139 | 674,935 | 1,367,310 |
| Other general and administrative | 329,535 | 435,639 | 891,141 | 1,771,387 |
| Impairment loss | - | 1,010,011 | - | 1,010,011 |
| Total Other Operating Expenses | <u>3,379,719</u> | <u>5,529,575</u> | <u>9,675,696</u> | <u>14,428,539</u> |
| LOSS FROM OPERATIONS | <u>(3,190,558)</u> | <u>(5,476,347)</u> | <u>(9,415,577)</u> | <u>(14,285,412)</u> |
| OTHER INCOME (EXPENSE) | | | | |
| Interest expense | - | (2,356) | - | (36,875) |
| Interest expense - related party | (41,531) | (8,842) | (126,169) | (23,425) |
| Change in fair value of warrants liabilities | - | 1,160,137 | - | 1,621,630 |
| Financing expense | - | - | - | (525,418) |
| Loss from equity method investment | (14,966) | (25,266) | (35,382) | (48,353) |
| Other (expense) income | (4,904) | 18,616 | (1,994) | 20,043 |
| Total Other Income (Expense), net | <u>(61,401)</u> | <u>1,142,289</u> | <u>(163,545)</u> | <u>1,007,602</u> |
| LOSS BEFORE INCOME TAXES | <u>(3,251,959)</u> | <u>(4,334,058)</u> | <u>(9,579,122)</u> | <u>(13,277,810)</u> |
| INCOME TAXES | - | - | - | - |
| NET LOSS | <u>\$ (3,251,959)</u> | <u>\$ (4,334,058)</u> | <u>\$ (9,579,122)</u> | <u>\$ (13,277,810)</u> |
| LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST | - | (475,863) | - | (656,575) |
| NET LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS | <u>\$ (3,251,959)</u> | <u>\$ (3,858,195)</u> | <u>\$ (9,579,122)</u> | <u>\$ (12,621,235)</u> |
| COMPREHENSIVE LOSS: | | | | |
| NET LOSS | <u>\$ (3,251,959)</u> | <u>\$ (4,334,058)</u> | <u>\$ (9,579,122)</u> | <u>\$ (13,277,810)</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Unrealized foreign currency translation gain (loss) | 39,698 | (69,388) | 20,941 | (60,009) |
| COMPREHENSIVE LOSS | <u>(3,212,261)</u> | <u>(4,403,446)</u> | <u>(9,558,181)</u> | <u>(13,337,819)</u> |
| LESS: COMPREHENSIVE LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST | - | (471,411) | - | (651,421) |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS | <u>\$ (3,212,261)</u> | <u>\$ (3,932,035)</u> | <u>\$ (9,558,181)</u> | <u>\$ (12,686,398)</u> |
| NET LOSS PER COMMON SHARE ATTRIBUTABLE TO AVALON GLOBOCARE CORP. COMMON SHAREHOLDERS: | | | | |
| Basic and diluted | <u>\$ (0.04)</u> | <u>\$ (0.05)</u> | <u>\$ (0.12)</u> | <u>\$ (0.17)</u> |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | | | |
| Basic and diluted | <u>80,622,003</u> | <u>75,665,676</u> | <u>78,747,345</u> | <u>74,859,871</u> |

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months Ended September 30, 2020
(Unaudited)

| | Avalon GloboCare Corp. Stockholders' Equity | | | | | | | | | | | |
|--|---|--------|------------------------|----------|----------------------------------|------------------------|-------------|------------------------|----------------------|---|-----------------------------|-----------------|
| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Statutory Reserve | Accumulated Other Comprehensive Loss | Non-controlling Interest | Total Equity |
| | Number of Shares | Amount | Number of Shares | Amount | | Number of Shares | Amount | | | | | |
| Balance, January 1, 2020 | - | \$ - | 76,730,802 | \$ 7,673 | \$34,593,006 | (520,000) | \$(522,500) | \$ (29,361,937) | \$ 6,578 | \$ (257,747) | \$ - | \$ 4,465,073 |
| Sale of common stock, net | - | - | 980,358 | 98 | 1,539,153 | - | - | - | - | - | - | 1,539,251 |
| Issuance of common stock for services | - | - | 222,577 | 22 | 213,278 | - | - | - | - | - | - | 213,300 |
| Stock-based compensation | - | - | - | - | 785,350 | - | - | - | - | - | - | 785,350 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | (22,066) | - | (22,066) |
| Net loss for the three months ended March 31, 2020 | - | - | - | - | - | - | - | (3,270,781) | - | - | - | (3,270,781) |
| Balance, March 31, 2020 | - | - | 77,933,737 | 7,793 | 37,130,787 | (520,000) | (522,500) | (32,632,718) | 6,578 | (279,813) | - | 3,710,127 |
| Sale of common stock, net | - | - | 1,795,150 | 180 | 2,959,687 | - | - | - | - | - | - | 2,959,867 |
| Issuance of common stock for services | - | - | 380,000 | 38 | 398,692 | - | - | - | - | - | - | 398,730 |
| Stock-based compensation | - | - | - | - | 726,600 | - | - | - | - | - | - | 726,600 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | 3,309 | - | 3,309 |
| Net loss for the three months ended June 30, 2020 | - | - | - | - | - | - | - | (3,056,382) | - | - | - | (3,056,382) |
| Balance, June 30, 2020 | - | - | 80,108,887 | 8,011 | 41,215,766 | (520,000) | (522,500) | (35,689,100) | 6,578 | (276,504) | - | 4,742,251 |
| Sale of common stock, net | - | - | 1,337,968 | 134 | 2,376,503 | - | - | - | - | - | - | 2,376,637 |
| Issuance of common stock for services | - | - | 430,000 | 43 | 697,407 | - | - | - | - | - | - | 697,450 |
| Stock-based compensation | - | - | - | - | 739,362 | - | - | - | - | - | - | 739,362 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | 39,698 | - | 39,698 |
| Net loss for the three months ended September 30, 2020 | - | - | - | - | - | - | - | (3,251,959) | - | - | - | (3,251,959) |
| Balance, September 30, 2020 | - | \$ - | 81,876,855 | \$ 8,188 | \$45,029,038 | (520,000) | \$(522,500) | \$ (38,941,059) | \$ 6,578 | \$ (236,806) | \$ - | \$ 5,343,439 |

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months Ended September 30, 2019
(Unaudited)

| Avalon GloboCare Corp. Stockholders' Equity | | | | | | | | | | | | |
|---|------------------------|--------|------------------------|----------|----------------------------------|------------------------|-------------|------------------------|----------------------|---|-----------------------------|-----------------|
| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Treasury Stock | | Accumulated Deficit | Statutory Reserve | Accumulated Other Comprehensive Loss | Non-controlling Interest | Total Equity |
| | Number of Shares | Amount | Number of Shares | Amount | | Number of Shares | Amount | | | | | |
| Balance, January 1, 2019 | - | \$ - | 73,830,751 | \$ 7,383 | \$24,153,378 | (520,000) | \$(522,500) | \$ (11,291,776) | \$ 6,578 | \$ (236,860) | \$ (862,200) | \$11,254,003 |
| Issuance of common stock upon cashless exercise of stock warrants | - | - | 350,856 | 35 | (35) | - | - | - | - | - | - | - |
| Issuance of common stock upon cashless exercise of stock options | - | - | 158,932 | 16 | (16) | - | - | - | - | - | - | - |
| Stock-based compensation | - | - | - | - | 2,272,747 | - | - | - | - | - | - | 2,272,747 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | 44,680 | (1,198) | 43,482 |
| Net loss for the three months ended March 31, 2019 | - | - | - | - | - | - | - | (4,405,816) | - | - | (99,113) | (4,504,929) |
| Balance, March 31, 2019 | - | - | 74,340,539 | 7,434 | 26,426,074 | (520,000) | (522,500) | (15,697,592) | 6,578 | (192,180) | (962,511) | 9,065,303 |
| Stock-based compensation | - | - | - | - | 1,524,139 | - | - | - | - | - | - | 1,524,139 |
| Issuance of common stock for service | - | - | 120,812 | 13 | 313,788 | - | - | - | - | - | - | 313,801 |
| Sale of common stock | - | - | 1,714,288 | 171 | 1,411,710 | - | - | - | - | - | - | 1,411,881 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | (36,003) | 1,900 | (34,103) |
| Net loss for the three months ended June 30, 2019 | - | - | - | - | - | - | - | (4,357,224) | - | - | (81,599) | (4,438,823) |
| Balance, June 30, 2019 | - | - | 76,175,639 | 7,618 | 29,675,711 | (520,000) | (522,500) | (20,054,816) | 6,578 | (228,183) | (1,042,210) | 7,842,198 |
| Stock-based compensation | - | - | - | - | 1,916,193 | - | - | - | - | - | - | 1,916,193 |
| Issuance of common stock for service | - | - | 115,417 | 11 | 391,856 | - | - | - | - | - | - | 391,867 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | - | (73,840) | 4,452 | (69,388) |
| Net loss for the three months ended September 30, 2019 | - | - | - | - | - | - | - | (3,858,195) | - | - | (475,863) | (4,334,058) |
| Balance, September 30, 2019 | - | \$ - | 76,291,056 | \$ 7,629 | \$31,983,760 | (520,000) | \$(522,500) | \$ (23,913,011) | \$ 6,578 | \$ (302,023) | \$ (1,513,621) | \$ 5,746,812 |

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended | |
|---|----------------------------------|----------------------------|
| | September 30, | |
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (9,579,122) | \$ (13,277,810) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Bad debt provision | 4,689 | - |
| Depreciation and amortization | 232,772 | 430,039 |
| Amortization of straight-line rent receivable | (15,947) | - |
| Stock-based compensation and service expense | 3,965,164 | 7,003,077 |
| Loss from equity method investment | 35,382 | 48,353 |
| Loss on fixed asset disposal | 2,643 | - |
| Changes in warrants derivative liabilities | - | (1,621,630) |
| Allocated financing costs | - | 525,418 |
| Impairment loss | - | 1,010,011 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | - | 48 |
| Accounts receivable - related party | 214,454 | (174,818) |
| Rent receivable | (94,349) | (15,047) |
| Prepaid expenses - related parties | - | 34,257 |
| Prepaid expenses and other current assets | (352,526) | 240,563 |
| Security deposit | - | 101,318 |
| Accrued liabilities and other payables | (680,758) | 326,686 |
| Accrued liabilities and other payables - related parties | 75,457 | 39,833 |
| Operating lease obligation | 6,000 | - |
| Tenants' security deposit | 943 | 11,537 |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(6,185,198)</u> | <u>(5,318,165)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | - | (379,279) |
| Improvement of commercial real estate | - | (16,321) |
| Prepayment made for purchase of long-term assets | - | (26,223) |
| Additional investment in equity method investment | (28,594) | (116,545) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(28,594)</u> | <u>(538,368)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds received from note payable - related party | - | 1,000,000 |
| Repayments of note payable - related party | (200,000) | (410,000) |
| Proceeds received from loan payable - related party | 300,000 | - |
| Proceeds received from offering | 7,233,678 | 6,000,008 |
| Disbursements for offering costs | (491,895) | (896,304) |
| Repayments of loan payable | - | (1,000,000) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>6,841,783</u> | <u>4,693,704</u> |
| EFFECT OF EXCHANGE RATE ON CASH | <u>2,628</u> | <u>(17,118)</u> |
| NET INCREASE (DECREASE) IN CASH | 630,619 | (1,179,947) |
| CASH - beginning of period | <u>764,891</u> | <u>2,252,287</u> |
| CASH - end of period | <u>\$ 1,395,510</u> | <u>\$ 1,072,340</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | <u>\$ 50,000</u> | <u>\$ 112,217</u> |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Property and equipment acquired on credit as payable | <u>\$ -</u> | <u>\$ 80,723</u> |
| Improvement of commercial real estate acquired on credit as payable | <u>\$ 38,400</u> | <u>\$ -</u> |
| Common stock issued for future services | <u>\$ 25,996</u> | <u>\$ -</u> |
| Deferred financing costs in accrued liabilities | <u>\$ 13,390</u> | <u>\$ -</u> |

See accompanying notes to the condensed consolidated financial statements.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Avalon GloboCare Corp. (the “Company” or “AVCO”) is a Delaware corporation. The Company was incorporated under the laws of the State of Delaware on July 28, 2014. On October 19, 2016, the Company entered into and closed a Share Exchange Agreement with the shareholders of Avalon Healthcare System, Inc., a Delaware corporation (“AHS”), each of which were accredited investors (“AHS Shareholders”) pursuant to which we acquired 100% of the outstanding securities of AHS in exchange for 50,000,000 shares of the Company’s common stock (the “AHS Acquisition”). AHS was incorporated on May 18, 2015 under the laws of the State of Delaware.

For accounting purposes, AHS was the surviving entity. The transaction was accounted for as a recapitalization of AHS pursuant to which AHS was treated as the accounting acquirer, surviving and continuing entity although the Company is the legal acquirer. The Company did not recognize goodwill or any intangible assets in connection with this transaction. Accordingly, the Company’s historical financial statements are those of AHS and its wholly-owned subsidiary, Avalon (Shanghai) Healthcare Technology Co., Ltd. (“Avalon Shanghai”) immediately following the consummation of this reverse merger transaction. AHS owns 100% of the capital stock of Avalon Shanghai, which is a wholly foreign-owned enterprise organized under the laws of the People’s Republic of China (“PRC”). Avalon Shanghai was incorporated on April 29, 2016 and is engaged in medical related consulting services for customers.

The Company is a clinical-stage, vertically integrated, leading CellTech bio-developer dedicated to advancing and empowering innovative, transformative immune effector cell therapy, exosome technology, as well as Coronavirus (“COVID-19”) related diagnostics and therapeutics. The Company also provides strategic advisory and outsourcing services to facilitate and enhance its clients’ growth and development, as well as competitiveness in healthcare and CellTech industry markets. Through its subsidiary structure with unique integration of verticals from innovative research and development (“R&D”) to automated bioproduction and accelerated clinical development, the Company is establishing a leading role in the fields of cellular immunotherapy (including CAR-T/NK), exosome technology (ACTEX™), and regenerative therapeutics.

On January 23, 2017, the Company incorporated Avalon (BVI) Ltd., a British Virgin Island company. There was no activity for the subsidiary since its incorporation through September 30, 2020. Avalon (BVI) Ltd. is dormant and is in process of being dissolved.

On February 7, 2017, the Company formed Avalon RT 9 Properties, LLC (“Avalon RT 9”), a New Jersey limited liability company. On May 5, 2017, Avalon RT 9 purchased a real property located in Township of Freehold, County of Monmouth, State of New Jersey, having a street address of 4400 Route 9 South, Freehold, NJ 07728. This property was purchased to serve as the Company’s world-wide headquarters for all corporate administration and operations. In addition, the property generates rental income. Avalon RT 9 owns this office building. Currently, Avalon RT 9’s business consists of the ownership and operation of the income-producing real estate property in New Jersey. As of September 30, 2020, the occupancy rate of the building is 87.0%.

On July 31, 2017, the Company formed Genexosome Technologies Inc. (“Genexosome”) in Nevada.

On July 18, 2018, the Company formed a wholly owned subsidiary, Avactis Biosciences Inc., a Nevada corporation, which will focus on accelerating commercial activities related to cellular therapies, including regenerative medicine with stem/progenitor cells as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others. The subsidiary is designed to integrate and optimize our global scientific and clinical resources to further advance the use of cellular therapies to treat certain cancers.

On June 13, 2019, the Company formed a wholly owned subsidiary, International Exosome Association LLC, a Delaware company. There was no activity for the subsidiary since its incorporation through September 30, 2020.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS (continued)

Details of the Company’s subsidiaries which are included in these consolidated financial statements as of September 30, 2020 are as follows:

| Name of Subsidiary | Place and date of Incorporation | Percentage of Ownership | Principal Activities |
|---|--|-------------------------|--|
| Avalon Healthcare System, Inc. (“AHS”) | Delaware May 18, 2015 | 100% held by AVCO | Provides medical related consulting services and developing Avalon Cell and Avalon Rehab in United States of America (“USA”) |
| Avalon (BVI) Ltd. (“Avalon BVI”) | British Virgin Island January 23, 2017 | 100% held by AVCO | Dormant, is in process of being dissolved |
| Avalon RT 9 Properties LLC (“Avalon RT 9”) | New Jersey February 7, 2017 | 100% held by AVCO | Owens and operates an income-producing real property and holds and manages the corporate headquarters |
| Avalon (Shanghai) Healthcare Technology Co., Ltd. (“Avalon Shanghai”) | PRC April 29, 2016 | 100% held by AHS | Provides medical related consulting services and developing Avalon Cell and Avalon Rehab in China |
| Genexosome Technologies Inc. (“Genexosome”) | Nevada July 31, 2017 | 60% held by AVCO | Develops proprietary diagnostic and therapeutic products using exosomes |
| Beijing Jieteng (Genexosome) Biotech Co., Ltd. (“Beijing Genexosome”) | PRC August 7, 2015 | 100% held by Genexosome | Provides development services for hospitals and other customers and sells developed items to hospitals and other customers in China |
| Avactis Biosciences Inc. (“Avactis”) | Nevada July 18, 2018 | 100% held by AVCO | Integrate and optimize global scientific and clinical resources to further advance cellular therapies, including regenerative medicine with stem/progenitor cells as well as cellular immunotherapy including CAR-T, CAR-NK, TCR-T and others to treat certain cancers |
| International Exosome Association LLC (“Exosome”) | Delaware June 13, 2019 | 100% held by AVCO | Promotes standardization related to exosome industry |

NOTE 2 – BASIS OF PRESENTATION AND GOING CONCERN CONDITION

Basis of Presentation

These interim condensed consolidated financial statements of the Company and its subsidiaries are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures necessary for a fair presentation of these interim condensed consolidated financial statements have been included. The results reported in the unaudited condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”). The Company’s unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission on April 6, 2020.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 – BASIS OF PRESENTATION AND GOING CONCERN CONDITION (continued)

Going Concern

The Company is a clinical-stage, vertically integrated, leading CellTech bio-developer dedicated to advancing and empowering innovative, transformative immune effector cell therapy, exosome technology, as well as COVID-19 related diagnostics and therapeutics. The Company also provides strategic advisory and outsourcing services to facilitate and enhance its clients' growth and development, as well as competitiveness in healthcare and CellTech industry markets. The Company also develops related products for sale and licensure in the United States and the People's Republic of China. In addition, the Company owns commercial real estate that houses its headquarters in Freehold, New Jersey. The Company did not generate any revenue from medical related consulting services segment and development services and sales of developed products segment during the nine months ended September 30, 2020. These unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

As reflected in the accompanying unaudited condensed consolidated financial statements, the Company had an accumulated deficit of \$38,941,059 at September 30, 2020, and has incurred recurring net loss and negative cash flow from operating activities of \$9,579,122 and \$6,185,198 for the nine months ended September 30, 2020, respectively. The Company has a limited operating history and its continued growth is dependent upon the re-commencing of medical consulting services which was completed in December 2019 to its only few clients who are related parties and generating rental revenue from its income-producing real estate property in New Jersey and performing development services for hospitals and other customers and sales of developed products to hospitals and other customers; hence generating revenues, and obtaining additional financing to fund future obligations and pay liabilities arising from normal business operations. In addition, the current cash balance cannot be projected to cover the operating expenses for the next twelve months from the release date of this report. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital, implement its business plan, and generate significant revenues. There are no assurances that the Company will be successful in its efforts to generate significant revenues, maintain sufficient cash balance or report profitable operations or to continue as a going concern. The Company plans on raising capital through the sale of equity to implement its business plan. However, there is no assurance these plans will be realized and that any additional financings will be available to the Company on satisfactory terms and conditions, if any.

The occurrence of an uncontrollable event such as the COVID-19 pandemic had negatively impact on the Company's operations. Some tenants have delayed on rent payment and our occupancy of our rental property has decreased. Our general development operations have continued during the COVID-19 pandemic and we have not had significant disruption. However, we are uncertain if the COVID-19 pandemic will impact future operations at our laboratory, or our ability to collaborate with other laboratories and universities. In addition, we are unsure if the COVID-19 pandemic will impact future clinical trials. Given the dynamic nature of these circumstances, the duration of business disruption and reduced traffic, the related financial effect cannot be reasonably estimated at this time but is expected to adversely impact the Company's business for the year of 2020.

The accompanying unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. 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. Actual results could differ from these estimates. Significant estimates during the nine months ended September 30, 2020 and 2019 include the allowance for doubtful accounts, the useful life of property and equipment and investment in real estate, assumptions used in assessing impairment of long-term assets, valuation of deferred tax assets and the associated valuation allowances, and valuation of stock-based compensation.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments and Fair Value Measurements

The Company adopted the guidance of Accounting Standards Codification (“ASC”) 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

- Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3-Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash, rent receivable, deferred financing costs, prepaid expenses and other current assets, accrued liabilities and other payables, accrued liabilities and other payables – related parties, operating lease obligation, tenants’ security deposit, approximate their fair market value based on the short-term maturity of these instruments.

ASC 825-10 “Financial Instruments”, allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

Cash and Cash Equivalents

A portion of the Company’s cash is maintained with state-owned banks within the PRC. Balances at state-owned banks within the PRC are covered by insurance up to RMB 500,000 (approximately \$74,000) per bank. Any balance over RMB 500,000 per bank in PRC will not be covered. At September 30, 2020, cash balances held in the PRC are RMB 1,302,475 (approximately \$192,000), of which, RMB 793,010 (approximately \$117,000) was not covered by such limited insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

The Company maintains a portion of its cash in bank and financial institution deposits within U.S. that at times may exceed federally-insured limits of \$250,000. The Company manages this credit risk by concentrating its cash balances in high quality financial institutions and by periodically evaluating the credit quality of the primary financial institutions holding such deposits. The Company has not experienced any losses in such bank accounts and believes it is not exposed to any risks on its cash in bank accounts. At September 30, 2020, the Company’s cash balances in United States bank accounts had approximately \$539,000 in excess of the federally-insured limits.

At September 30, 2020, the Company’s cash balances by geographic area were as follows:

| Country: | September 30, 2020 | |
|-----------------|---------------------------|--------|
| United States | \$ 1,203,710 | 86.3% |
| China | 191,800 | 13.7% |
| Total cash | \$ 1,395,510 | 100.0% |

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less when purchased and money market accounts to be cash equivalents. The Company had no cash equivalents at September 30, 2020 and December 31, 2019.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

Currently, a portion of the Company's operations are carried out in PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in PRC are subject to specific considerations and significant risks not typically associated with companies in North America. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. A portion of the Company's sales are credit sales which is to the customer whose ability to pay is dependent upon the industry economics prevailing in these areas; however, concentrations of credit risk with respect to trade accounts receivable is limited due to generally short payment terms. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

Investment in Unconsolidated Company – Epicon Biosciences Co., Ltd.

The Company uses the equity method of accounting for its investment in, and earning or loss of, company that it does not control but over which it does exert significant influence. The Company considers whether the fair value of its equity method investment has declined below its carrying value whenever adverse events or changes in circumstances indicate that recorded value may not be recoverable. If the Company considers any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write-down would be recorded to estimated fair value. See Note 5 for discussion of equity method investment.

Revenue Recognition

The Company recognizes revenue under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised goods or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" goods or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct).
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a goods or service is not distinct, the goods or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Types of revenue:

- Service fees under consulting agreements with related parties to provide medical related consulting services to its clients. The Company is paid for its services by its clients pursuant to the terms of the written consulting agreements. Each contract calls for a fixed payment.
- Service fees under agreements to perform development services for hospitals and other customers. The Company does not perform contracts that are contingent upon successful results.
- Sales of developed products to hospitals and other customers.

Revenue recognition criteria:

- The Company recognizes revenue by providing medical related consulting services under written service contracts with its customers. Revenue related to its service offerings is recognized as the services are performed.
- Revenue from development services performed under written contracts is recognized as services are provided.
- Revenue from sales of developed items to hospitals and other customers is recognized when items are shipped to customers and titles are transferred.

The Company has determined that the ASC 606 does not apply to rental contracts, which are within the scope of other revenue recognition accounting standards.

Rental income from operating leases is recognized on a straight-line basis under the guidance of ASC 842. Lease payments under tenant leases are recognized on a straight-line basis over the term of the related leases. The cumulative difference between lease revenue recognized under the straight-line method and contractual lease payments are included in rent receivable on the consolidated balance sheets.

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers.

Per Share Data

ASC Topic 260 “Earnings per Share,” requires presentation of both basic and diluted earnings per share (“EPS”) with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Per Share Data (continued)

Basic net loss per share are computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of common stock options and warrants (using the treasury stock method). Common stock equivalents are not included in the calculation of diluted net loss per share if their effect would be anti-dilutive. In a period in which the Company has a net loss, all potentially dilutive securities are excluded from the computation of diluted shares outstanding as they would have had an anti-dilutive impact.

The following table summarizes the securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive:

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---------------------------------|---|------------------|--|------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Stock options | 7,020,000 | 5,070,000 | 7,020,000 | 5,070,000 |
| Warrants | - | 1,714,288 | - | 1,714,288 |
| Potentially dilutive securities | <u>7,020,000</u> | <u>6,784,288</u> | <u>7,020,000</u> | <u>6,784,288</u> |

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have no effect on the previously reported financial position, results of operations and cash flows.

Recent Accounting Standards

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The objective of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to the financial statements by removing, modifying, and adding certain fair value disclosure requirements to facilitate clear communication of the information required by generally accepted accounting principles. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted upon issuance of this ASU. The adoption of ASU 2018 – 13 did not have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (“Topic 326”)*. The ASU introduces a new accounting model, the Current Expected Credit Losses model (“CECL”), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. ASU 2016-13 is effective for annual period beginning after December 15, 2022, including interim reporting periods within those annual reporting periods. The Company expects that the adoption will not have a material impact on the Company’s consolidated financial statements.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its consolidated financial condition, results of operations, cash flows or disclosures.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

At September 30, 2020 and December 31, 2019, prepaid expenses and other current assets consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| Prepaid professional fees | \$ 139,274 | \$ 153,478 |
| Prepaid research and development fees | 90,915 | - |
| Prepaid directors and officers liability insurance premium | 67,820 | 4,990 |
| Prepaid VAT on purchase | 47,026 | 40,602 |
| Security deposit | 25,478 | 24,847 |
| Prepaid NASDAQ listing fee | 23,417 | - |
| Other | 38,365 | 27,223 |
| Total | <u>\$ 432,295</u> | <u>\$ 251,140</u> |

NOTE 5 – EQUITY METHOD INVESTMENT

As of September 30, 2020 and December 31, 2019, the equity method investment amounted to \$488,374 and \$483,101, respectively. The investment represents the Company's subsidiary, Avalon Shanghai's interest in Epicon Biotech Co., Ltd. ("Epicon"). Epicon was incorporated on August 14, 2018 in PRC. Avalon Shanghai and the other unrelated company, Jiangsu Unicorn Biological Technology Co., Ltd. ("Unicorn"), accounted for 40% and 60% of the total ownership, respectively. Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements.

The Company treats the equity investment in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Company's share of the incorporated-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post incorporation change in the Company's share of the investee's net assets and any impairment loss relating to the investment.

For the three months ended September 30, 2020 and 2019, the Company's share of Epicon's net loss was \$14,966 and \$25,266, respectively, which was included in loss from equity-method investment in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2020 and 2019, the Company's share of Epicon's net loss was \$35,382 and \$48,353, respectively, which was included in loss from equity-method investment in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss.

Activity recorded for the Company's equity method investment in Epicon is summarized in the following table:

| | |
|---|-------------------|
| Equity investment carrying amount at January 1, 2020 | \$ 483,101 |
| Payment made for equity method investment | 28,594 |
| Epicon's net loss attributable to the Company | (35,382) |
| Foreign currency fluctuation | 12,061 |
| Equity investment carrying amount at September 30, 2020 | <u>\$ 488,374</u> |

The tables below present the summarized financial information, as provided to the Company by the investee, for the unconsolidated company:

| | September 30, 2020 | December 31, 2019 |
|------------------------|-----------------------|----------------------|
| Current assets | \$ 8,414 | \$ 77,272 |
| Noncurrent assets | 268,969 | 247,590 |
| Current liabilities | 6,264 | 324 |
| Noncurrent liabilities | - | - |
| Equity | 271,119 | 324,538 |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 – EQUITY METHOD INVESTMENT (continued)

| | <u>For the Three Months Ended</u> <u>September 30,</u> | | <u>For the Nine Months Ended</u> <u>September 30,</u> | |
|---------------------|---|-------------|--|-------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Net revenue | \$ - | \$ - | \$ - | \$ - |
| Gross profit | - | - | - | - |
| Loss from operation | 37,418 | 63,165 | 88,587 | 120,882 |
| Net loss | 37,417 | 63,165 | 88,456 | 120,882 |

NOTE 6 – ACCRUED LIABILITIES AND OTHER PAYABLES

At September 30, 2020 and December 31, 2019, accrued liabilities and other payables consisted of the following:

| | <u>September 30,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> |
|---------------------------------------|-------------------------------------|------------------------------------|
| Accrued professional fees | \$ 963,084 | \$ 1,243,190 |
| Accrued research and development fees | 442,435 | 650,000 |
| Accrued payroll liability | 246,469 | 373,083 |
| Accrued directors' compensation | 107,500 | 115,000 |
| Accounts payable | 83,850 | 84,316 |
| Accrued utilities | 32,711 | 12,260 |
| Deferred rental income | 60,239 | 13,136 |
| Other | 85,195 | 79,199 |
| | <u>\$ 2,021,483</u> | <u>\$ 2,570,184</u> |

NOTE 7 – RELATED PARTY TRANSACTIONS

Medical Related Consulting Services Revenue from Related Parties and Accounts Receivable – Related Party

During the three and nine months ended September 30, 2020 and 2019, medical related consulting services revenue from related parties was as follows:

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|---|-------------------|--|-------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Medical related consulting services provided to: | | | | |
| Beijing Daopei * | \$ - | \$ - | \$ - | \$ 55,908 |
| Shanghai Daopei * | - | - | - | 14,180 |
| Hebei Daopei * | - | 108,520 | - | 164,126 |
| | <u>\$ -</u> | <u>\$ 108,520</u> | <u>\$ -</u> | <u>\$ 234,214</u> |

* Beijing Daopei, Shanghai Daopei, and Hebei Daopei are subsidiaries of an entity whose chairman is Wenzhao Lu, the largest shareholder of the Company.

Accounts receivable – related party at September 30, 2020 and December 31, 2019 amounted to \$0 and \$215,418, respectively, and no allowance for doubtful accounts is deemed to be required on accounts receivable – related party at September 30, 2020 and December 31, 2019.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7 – RELATED PARTY TRANSACTIONS (continued)

Accrued Liabilities and Other Payables – Related Parties

As of September 30, 2020 and December 31, 2019, the Company owed David Jin, its shareholder, chief executive officer, president and board member, \$33,968 and \$24,254, respectively, for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

As of September 30, 2020 and December 31, 2019, the Company owed Meng Li, its shareholder and chief operating officer, \$0 and \$10,473, respectively, for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

At September 30, 2020 and December 31, 2019, the Company owed Yu Zhou, director and former co-chief executive officer and 40% owner of Genexosome, of \$3,121 for travel and other miscellaneous reimbursements, which have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

The Company acquired Beijing Genexosome for a cash payment of \$450,000. As of September 30, 2020 and December 31, 2019, the unpaid acquisition consideration of \$100,000, was payable to Yu Zhou, director and former co-chief executive officer and 40% owner of Genexosome, and has been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

As of September 30, 2020 and December 31, 2019, the accrued and unpaid interest related to borrowings from Wenzhao Lu, the Company's largest shareholder and chairman of the Board of Directors, amounted to \$125,363 and \$49,194, respectively, and have been included in accrued liabilities and other payables – related parties on the accompanying consolidated balance sheets.

Borrowings from Related Party

Promissory Note

On March 18, 2019, the Company issued Wenzhao Lu, the Company's largest shareholder and Chairman of the Board of Directors, a Promissory Note in the principal amount of \$1,000,000 ("Promissory Note") in consideration of cash in the amount of \$1,000,000. The Promissory Note accrues interest at the rate of 5% per annum and matures March 19, 2022. The Company repaid principal of \$410,000 and \$200,000 in the third quarter of 2019 and second quarter of 2020, respectively. As of September 30, 2020 and December 31, 2019, the outstanding principal balance was \$390,000 and \$590,000, respectively.

Line of Credit

On August 29, 2019, the Company entered into a Line of Credit Agreement (the "Line of Credit Agreement") providing the Company with a \$20 million line of credit (the "Line of Credit") from Wenzhao Lu (the "Lender"), the largest shareholder and Chairman of the Board of Directors of the Company. The Line of Credit allows the Company to request loans thereunder and to use the proceeds of such loans for working capital and operating expense purposes until the facility matures on December 31, 2024. The loans are unsecured and are not convertible into equity of the Company. Loans drawn under the Line of Credit bears interest at an annual rate of 5% and each individual loan will be payable three years from the date of issuance. The Company has a right to draw down on the line of credit and not at the discretion of the related party Lender. The Company may, at its option, prepay any borrowings under the Line of Credit, in whole or in part at any time prior to maturity, without premium or penalty. The Line of Credit Agreement includes customary events of default. If any such event of default occurs, the Lender may declare all outstanding loans under the Line of Credit to be due and payable immediately. As of September 30, 2020 and December 31, 2019, \$2,900,000 and \$2,600,000 was outstanding under the Line of Credit, respectively.

For the three months ended September 30, 2020 and 2019, the interest expense related to above borrowings amounted to \$41,531 and \$8,842, respectively, and has been included in interest expense – related party on the accompanying unaudited condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2020 and 2019, the interest expense related to above borrowings amounted to \$126,169 and \$23,425, respectively, and has been included in interest expense – related party on the accompanying unaudited condensed consolidated statements of operations and comprehensive loss.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7 – RELATED PARTY TRANSACTIONS (continued)

Borrowings from Related Party (continued)

Line of Credit (continued)

As of September 30, 2020 and December 31, 2019, the related accrued and unpaid interest for above borrowings was \$125,363 and \$49,194, respectively, and has been included in accrued liabilities and other payables – related parties on the accompanying condensed consolidated balance sheets.

Common Shares Sold to Related Party

On April 1, 2020, the Company sold 645,161 shares of its common stock to WLM Limited (“WLM”), an entity owned by Wenzhao Lu, Chairman of the Board of Directors of the Company, at a price per share of \$1.55 for an aggregate purchase price of \$1,000,000 (See Note 8 – Common Shares Sold for Cash).

Office Space from Related Party

Beijing Genexosome uses office space of a related party, free of rent, which is considered immaterial.

NOTE 8 – EQUITY

2020 Incentive Stock Plan

The Company held its annual meeting on August 4, 2020. During its annual meeting, the Company approved 2020 Incentive Stock Plan and reserved 5,000,000 shares of common stock for issuance thereunder.

Common Shares Sold for Cash

On April 1, 2020, the Company entered into a Subscription Agreement with WLM, an entity owned by Wenzhao Lu, Chairman of the Board of Directors of the Company, pursuant to which WLM purchased 645,161 shares of the Company’s common stock at a price per share of \$1.55 for an aggregate purchase price of \$1,000,000. The closing occurred on April 1, 2020.

On December 13, 2019, the Company entered into an Open Market Sale AgreementSM (the “Sales Agreement”) with Jefferies LLC, as sales agent (“Jefferies”), pursuant to which the Company may offer and sell, from time to time, through Jefferies, shares of its common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$20.0 million. On April 6, 2020, the date on which the Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2019, the Company’s registration statement became subject to the offering limits set forth in General Instruction I.B.6 of Form S-3. During the nine months ended September 30, 2020, Jefferies sold an aggregate of 3,468,315 shares of common stock at an average price of \$1.80 per share to investors. The Company recorded net proceeds of \$5,875,755, net of commission and other offering costs of \$357,923.

Common Shares Issued for Services

During the nine months ended September 30, 2020, the Company issued a total of 1,032,577 shares of its common stock for services rendered and to be rendered. These shares were valued at \$1,309,480, the fair market values on the grant dates using the reported closing share prices on the dates of grant and the Company recorded stock-based compensation expense of \$1,248,159 for the nine months ended September 30, 2020 and reduced accrued liabilities of \$35,325 and recorded prepaid expense of \$25,996 as of September 30, 2020 which will be amortized over the rest of corresponding service periods.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8 – EQUITY (continued)

Options

The following table summarizes the shares of the Company’s common stock issuable upon exercise of options outstanding at September 30, 2020:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | | |
|-------------------------|--|---|---------------------------------|--|---------------------------------|--|
| | Number Outstanding at September 30, 2020 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable at September 30, 2020 | Weighted Average Exercise Price | |
| \$ 0.50 | 2,000,000 | 6.36 | \$ 0.50 | 2,000,000 | \$ 0.50 | |
| 1.00 – 1.93 | 2,250,000 | 6.01 | 1.47 | 1,748,334 | 1.43 | |
| 2.00 – 2.80 | 2,740,000 | 3.02 | 2.17 | 2,740,000 | 2.17 | |
| 4.76 | 30,000 | 3.51 | 4.76 | 30,000 | 4.76 | |
| \$ 0.50 – 4.76 | 7,020,000 | 4.93 | \$ 1.48 | 6,518,334 | \$ 1.47 | |

Stock option activities for the nine months ended September 30, 2020 were as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|-------------------|---------------------------------|
| Outstanding at January 1, 2020 | 5,260,000 | \$ 1.45 |
| Granted | 1,760,000 | 1.57 |
| Terminated / Exercised | - | - |
| Outstanding at September 30, 2020 | 7,020,000 | \$ 1.48 |
| Options exercisable at September 30, 2020 | 6,518,334 | \$ 1.47 |
| Options expected to vest | 501,666 | \$ 1.59 |

The aggregate intrinsic values of both stock options outstanding and stock options exercisable at September 30, 2020 was \$1,597,500.

The fair values of options granted during the nine months ended September 30, 2020 were estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: volatility of 134.32% - 139.58%, risk-free rate of 0.25% - 1.67%, annual dividend yield of 0% and expected life of 3.00 – 10.00 years. The aggregate fair value of the options granted during the nine months ended September 30, 2020 was \$2,702,401.

Stock-based compensation expense associated with stock options granted amounted to \$739,362 and \$1,916,193, of which, \$605,555 and \$1,803,829 was recorded as compensation and related benefits, \$110,970 and \$112,364 was recorded as professional fees, \$22,837 and \$0 was recorded as research and development expenses, for the three months ended September 30, 2020 and 2019, respectively.

Stock-based compensation expense associated with stock options granted amounted to \$2,251,312 and \$5,713,079, of which, \$1,975,245 and \$5,155,983 was recorded as compensation and related benefits, \$240,162 and \$557,096 was recorded as professional fees, \$35,905 and \$0 was recorded as research and development expenses, for the nine months ended September 30, 2020 and 2019, respectively.

A summary of the status of the Company’s nonvested stock options granted as of September 30, 2020 and changes during the nine months ended September 30, 2020 is presented below:

| | Number of Options | Weighted Average Exercise Price |
|---------------------------------|-------------------|---------------------------------|
| Nonvested at January 1, 2020 | 264,723 | \$ 2.00 |
| Granted | 1,760,000 | 1.57 |
| Vested | (1,523,057) | (1.63) |
| Nonvested at September 30, 2020 | 501,666 | \$ 1.59 |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 9 - STATUTORY RESERVE

Avalon Shanghai and Beijing Genexosome operate in the PRC, are required to reserve 10% of their net profit after income tax, as determined in accordance with the PRC accounting rules and regulations. Appropriation to the statutory reserve by the Company is based on profit arrived at under PRC accounting standards for business enterprises for each year.

The profit arrived at must be set off against any accumulated losses sustained by the Company in prior years, before allocation is made to the statutory reserve. Appropriation to the statutory reserve must be made before distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends. The Company did not make any appropriation to statutory reserve for Avalon Shanghai and Beijing Genexosome during the nine months ended September 30, 2020 as they incurred net losses in the period.

NOTE 10 – RESTRICTED NET ASSETS

A portion of the Company's operations are conducted through its PRC subsidiaries, which can only pay dividends out of their retained earnings determined in accordance with the accounting standards and regulations in the PRC and after they have met the PRC requirements for appropriation to statutory reserve. In addition, a portion of the Company's businesses and assets are denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of the Company's PRC subsidiaries to transfer their net assets to the Parent Company through loans, advances or cash dividends.

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of the parent company to be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of this test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of its consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company in the form of loans, advances or cash dividends without the consent of a third party.

The Company's PRC subsidiaries' net assets as of September 30, 2020 and December 31, 2019 did not exceed 25% of the Company's consolidated net assets. Accordingly, the Parent Company's condensed consolidated financial statements have not been required in accordance with Rule 5-04 and Rule 12-04 of SEC Regulation S-X.

NOTE 11 - CONCENTRATIONS

Customers

The following table sets forth information as to each customer that accounted for 10% or more of the Company's revenues for the three and nine months ended September 30, 2020 and 2019.

| Customer | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|----------------------------------|------|---------------------------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| A (Hebei Daopei, a related party) | * | 28% | * | 15% |
| B | 28% | 21% | 29% | 23% |
| C | 18% | 14% | 18% | 15% |
| D | 14% | 11% | 14% | 12% |

* Less than 10%

Two customers, whose outstanding receivable accounted for 10% or more of the Company's total outstanding accounts receivable, accounts receivable – related party, and rent receivable at September 30, 2020, accounted for 62.6% of the Company's total outstanding accounts receivable, accounts receivable – related party, and rent receivable at September 30, 2020.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11 – CONCENTRATIONS (continued)

Customers (continued)

Two customers, whose outstanding receivable accounted for 10% or more of the Company's total outstanding accounts receivable, accounts receivable – related party, and rent receivable at December 31, 2019, accounted for 93.0% of the Company's total outstanding accounts receivable, accounts receivable – related party, and rent receivable at December 31, 2019.

Suppliers

No supplier accounted for 10% or more of the Company's purchase during the three and nine months ended September 30, 2020 and 2019.

One supplier, whose outstanding payable accounted for 10% or more of the Company's total outstanding accounts payable at September 30, 2020, accounted for 93.6% of the Company's total outstanding accounts payable at September 30, 2020.

One supplier, whose outstanding payable accounted for 10% or more of the Company's total outstanding accounts payable at December 31, 2019, accounted for 90.8% of the Company's total outstanding accounts payable at December 31, 2019.

NOTE 12 – SEGMENT INFORMATION

For the three and nine months ended September 30, 2020 and 2019, the Company operated in three reportable business segments - (1) the real property operating segment, (2) the medical related consulting services segment, and (3) the performing development services for hospitals and other customers and sales of developed products to hospitals and other customers segment. The Company's reportable segments are strategic business units that offer different services and products. They are managed separately based on the fundamental differences in their operations. Information with respect to these reportable business segments for the three and nine months ended September 30, 2020 and 2019 was as follows:

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12 – SEGMENT INFORMATION (continued)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------------|------------------------------------|------------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Real property operations | \$ 324,982 | \$ 264,141 | \$ 923,205 | \$ 795,656 |
| Medical related consulting services - related party | - | 108,520 | - | 234,214 |
| Development services and sales of developed products | - | 10,555 | - | 37,237 |
| Total | <u>324,982</u> | <u>383,216</u> | <u>923,205</u> | <u>1,067,107</u> |
| Costs and expenses | | | | |
| Real property operations | 135,821 | 193,738 | 663,086 | 617,173 |
| Medical related consulting services - related party | - | 94,442 | - | 202,908 |
| Development services and sales of developed products | - | 41,808 | - | 103,899 |
| Total | <u>135,821</u> | <u>329,988</u> | <u>663,086</u> | <u>923,980</u> |
| Gross profit (loss) | | | | |
| Real property operations | 189,161 | 70,403 | 260,119 | 178,483 |
| Medical related consulting services - related party | - | 14,078 | - | 31,306 |
| Development services and sales of developed products | - | (31,253) | - | (66,662) |
| Total | <u>189,161</u> | <u>53,228</u> | <u>260,119</u> | <u>143,127</u> |
| Other operating expenses | | | | |
| Real property operations | 77,852 | 75,750 | 291,886 | 253,347 |
| Medical related consulting services - related party | 160,557 | 206,085 | 491,683 | 446,156 |
| Development services and sales of developed products | 28,002 | 1,132,015 | 94,241 | 1,574,973 |
| Corporate/Other | 3,113,308 | 4,115,725 | 8,797,886 | 12,154,063 |
| Total | <u>3,379,719</u> | <u>5,529,575</u> | <u>9,675,696</u> | <u>14,428,539</u> |
| Other income (expense) | | | | |
| Interest expense | | | | |
| Real property operations | - | - | - | (32,877) |
| Corporate/Other | (41,531) | (11,198) | (126,169) | (27,423) |
| Total | <u>(41,531)</u> | <u>(11,198)</u> | <u>(126,169)</u> | <u>(60,300)</u> |
| Other income (expense) | | | | |
| Real property operations | 4 | 2,157 | (927) | 2,172 |
| Medical related consulting services - related party | (20,095) | (8,825) | (36,673) | (30,679) |
| Development services and sales of developed products | 221 | 18 | 224 | 197 |
| Corporate/Other | - | 1,160,137 | - | 1,096,212 |
| Total | <u>(19,870)</u> | <u>1,153,487</u> | <u>(37,376)</u> | <u>1,067,902</u> |
| Total other income (expense) | <u>(61,401)</u> | <u>1,142,289</u> | <u>(163,545)</u> | <u>1,007,602</u> |
| Net income (loss) | | | | |
| Real property operations | 111,313 | (3,190) | (32,694) | (105,569) |
| Medical related consulting services - related party | (180,652) | (200,832) | (528,356) | (445,529) |
| Development services and sales of developed products | (27,781) | (1,163,250) | (94,017) | (1,641,438) |
| Corporate/Other | (3,154,839) | (2,966,786) | (8,924,055) | (11,085,274) |
| Total | <u>\$ (3,251,959)</u> | <u>\$ (4,334,058)</u> | <u>\$ (9,579,122)</u> | <u>\$ (13,277,810)</u> |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 12 – SEGMENT INFORMATION (continued)

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| Identifiable long-lived tangible assets at September 30, 2020 and December 31, 2019 | | |
| Real property operating | \$ 7,662,047 | \$ 7,750,743 |
| Medical related consulting services | 228,606 | 263,621 |
| Development services and sales of developed products | 259,301 | 322,741 |
| Total | <u>\$ 8,149,954</u> | <u>\$ 8,337,105</u> |
| | September 30, 2020 | December 31, 2019 |
| Identifiable long-lived tangible assets at September 30, 2020 and December 31, 2019 | | |
| United States | \$ 7,734,740 | \$ 7,839,093 |
| China | 415,214 | 498,012 |
| Total | <u>\$ 8,149,954</u> | <u>\$ 8,337,105</u> |

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, the Company is subject to ordinary routine litigation incidental to its normal business operations. The Company is not currently a party to, and its property is not subject to, any material legal proceedings, except as set forth below.

On October 25, 2017, Genexosome entered into and closed a Stock Purchase Agreement with Beijing Genexosome and Yu Zhou, MD, PhD, the sole shareholder of Beijing Genexosome, pursuant to which Genexosome acquired all of the issued and outstanding securities of Beijing Genexosome in consideration of a cash payment in the amount of \$450,000, of which \$100,000 is still owed. Further, on October 25, 2017, Genexosome entered into and closed an Asset Purchase Agreement with Dr. Zhou, pursuant to which the Company acquired all assets, including all intellectual property and exosome separation systems, held by Dr. Zhou pertaining to the business of researching, developing and commercializing exosome technologies. In consideration of the assets, Genexosome paid Dr. Zhou \$876,087 in cash, transferred 500,000 shares of common stock of the Company to Dr. Zhou and issued Dr. Zhou 400 shares of common stock of Genexosome. Further, The Company had not been able to realize the financial projections provided by Dr. Zhou at the time of the acquisition and has decided to impair the intangible asset associated with this acquisition to zero. Dr. Zhou was terminated as Co-CEO of Genexosome on August 14, 2019. Further, on October 28, 2019, Research Institute at Nationwide Children’s Hospital (“Research Institute”) filed a Complaint in the United States District Court for the Southern District of Ohio Eastern Division against Dr. Zhou, Li Chen, the Company and Genexosome with various claims against the Company and Genexosome including misappropriation of trade secrets in violation of the Defend Trade Secrets Act of 2016 and violation of Ohio Uniform Trade Secrets Act. Research Institute is seeking monetary damages, injunctive relief, exemplary damages, injunctive relief and other equitable relief. The Company intends to vigorously defend against this action and pursue all available legal remedies. The civil case against Avalon is stayed pending resolution of the criminal proceedings against Dr. Zhou and Li Chen, and while there can be no assurances, the Company believes it has substantial legal and factual defenses to the Research Institute’s claims and the likelihood of any findings of liability for the Company cannot be assessed at this time.

Operating Leases

Avalon Shanghai Office Lease

On February 24, 2020, Avalon Shanghai entered into a lease for office space in Beijing, China, with a third party (the “Beijing Office Lease”). Pursuant to the Beijing Office Lease, the monthly rent is RMB 50,586 (approximately \$7,000) with a required security deposit of RMB 164,764 (approximately \$24,000). In addition, Avalon Shanghai needs to pay monthly maintenance fees of RMB 4,336 (approximately \$600). The term of the Beijing Office Lease is 12 months commencing on March 1, 2020 and expires on February 28, 2021. For the three and nine months ended September 30, 2020, rent expense and maintenance fees related to the Beijing Office Lease amounted to approximately \$36,000 and \$67,000, respectively. As of September 30, 2020, the future minimum rental payment required under this Beijing Office Lease is \$40,438.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

Operating Lease for General Business

In December 2019, the Company entered into a lease in New York, U.S., with a third party (the “New York Lease”). Pursuant to the New York Lease, the monthly rent is \$6,000. The term of the New York Lease is 3 years commencing on January 1, 2020 and expires on December 31, 2022. For the three and nine months ended September 30, 2020, rent expense related to the New York Lease amounted to \$18,000 and \$54,000, respectively.

Operating lease right-of-use asset related to the New York Lease is included in “Right-of-use asset, operating lease” and is included in the accompanying consolidated balance sheets. With respect to lease liability, operating lease liability is included in “Operating lease obligation” and “Operating lease obligation – noncurrent portion,” in the accompanying consolidated balance sheets. The Company’s leases as of December 31, 2019 did not meet the requirements to be recorded as a right-of-use asset and operating lease obligation as they were immaterial and less than 12 months in term.

Supplemental cash flow information related to the New York lease for the nine months ended September 30, 2020 is as follows:

| | |
|---|------------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows paid for operating lease | \$ 48,000 |
| Right-of-use asset obtained in exchange for lease obligation: | |
| Operating lease | \$ 201,028 |

Supplemental balance sheet information related to the New York Lease as of September 30, 2020 is as follows:

| | |
|--|-------------------|
| Operating Lease: | |
| Operating lease right-of-use asset | <u>\$ 153,556</u> |
| Current portion of operating lease liability | \$ 76,379 |
| Long-term operating lease liability | 83,177 |
| Total operating lease liability | <u>\$ 159,556</u> |

Weighted Average Remaining Lease Term (in years):

| | |
|-----------------|------|
| Operating lease | 2.25 |
|-----------------|------|

Weighted Average Discount Rate:

| | |
|-----------------|------|
| Operating lease | 5.0% |
|-----------------|------|

The following table summarizes the maturity of lease liability under the New York Lease as of September 30, 2020:

| For the Year Ending September 30: | Operating Lease |
|--|------------------------|
| 2021 | \$ 72,000 |
| 2022 | 72,000 |
| 2023 | 18,000 |
| 2024 and thereafter | - |
| Total lease payments | <u>162,000</u> |
| Amount of lease payments representing interest | (8,444) |
| Total present value of operating lease liability | <u>\$ 153,556</u> |

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

Equity Investment Commitment

On May 29, 2018, Avalon Shanghai entered into a Joint Venture Agreement with Jiangsu Unicorn Biological Technology Co., Ltd. (“Unicorn”), pursuant to which a company named Epicon Biotech Co., Ltd. (“Epicon”) was formed on August 14, 2018. Epicon is owned 60% by Unicorn and 40% by Avalon Shanghai. Within five years of execution of the Joint Venture Agreement, Unicorn shall invest cash into Epicon in an amount not less than RMB 8,000,000 (approximately \$1.2 million) and the premises of the laboratories of Nanjing Hospital of Chinese Medicine for exclusive use by Epicon, and Avalon Shanghai shall invest cash into Epicon in an amount not less than RMB 10,000,000 (approximately \$1.5 million). Epicon is focused on cell preparation, third party testing, biological sample repository for commercial and scientific research purposes and the clinical transformation of scientific achievements. As of September 30, 2020, Avalon Shanghai has contributed RMB 4,300,000 (approximately \$0.6 million) that was included in equity method investment on the accompanying consolidated balance sheets. Avalon Shanghai intends to use its present working capital together with borrowings from related party and equity raises to fund the project cost.

Joint Venture – AVAR BioTherapeutics (China) Co. Ltd.

On October 23, 2018, Avactis Biosciences, Inc. (“Avactis”), a wholly-owned subsidiary of the Company, and Arbele Limited (“Arbele”) agreed to the establishment of AVAR BioTherapeutics (China) Co. Ltd. (“AVAR”), a Sino-foreign equity joint venture, pursuant to an Equity Joint Venture Agreement (the “AVAR Agreement”), which will be owned 60% by Avactis and 40% by Arbele. The purpose and business scope of the Joint Venture is to research, develop, produce, sell, distribute and generally commercialize CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy in China. Avactis is required to contribute \$10 million (or equivalent in RMB) in cash and/or services, which shall be contributed in tranches based on milestones to be determined jointly by AVAR and Avactis in writing subject to Avactis’ cash reserves. Within 30 days, Arbele shall make a contribution of \$6.66 million in the form of entering into a License Agreement with AVAR granting AVAR with an exclusive right and license in China to its technology and intellectual property pertaining to CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology and any additional technology developed in the future with terms and conditions to be mutually agreed upon Avactis and AVAR and services.

In addition, Avactis is responsible for:

- Contributing registered capital of RMB 5,000,000 (approximately \$0.7 million) for working capital purposes as required by local regulation, which is not required to be contributed immediately and will be contributed subject to Avactis’ discretion;
- assist AVAR in setting up its business operations and obtaining all required permits and licenses from the Chinese government;
- assisting AVAR in recruiting, hiring and retaining personnel;
- providing AVAR with access to various hospital networks in China to assist in the testing and commercialization of the CAR-T/CAR-NK/TCR-T/universal cellular immunotherapy technology in China;
- assisting AVAR in managing the Good Manufacturing Practices (GMP) facility and clinic to be developed by AVAR;
- providing AVAR with advice pertaining to conducting clinicals in China; and
- Within 6 days of signing the AVAR Agreement, Avactis is required to pay to Arbele \$300,000 as a research and development fee with an additional two payments of \$300,000 (for a total of \$900,000) to be paid upon mutually agreed upon milestones.

Under AVAR Agreement, Arbele shall be responsible for the following:

- Entering into a License Agreement with AVAR; and
- Providing AVAR with research and development expertise pertaining to clinical laboratory medicine when hired by AVAR.

As of September 30, 2020, Avactis has paid \$900,000 to Arbele as research and development fee, and License Agreement has not been finalized.

AVALON GLOBOCARE CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

Line of Credit Agreement

On August 29, 2019, the Company entered into a Line of Credit Agreement (the “Line of Credit Agreement”) providing the Company with a \$20 million line of credit (the “Line of Credit”) from Wenzhao Lu (the “Lender”), a significant shareholder and director of the Company. The Line of Credit allows the Company to request loans thereunder and to use the proceeds of such loans for working capital and operating expense purposes until the facility matures on December 31, 2024. The loans are unsecured and are not convertible into equity of the Company. Loans drawn under the Line of Credit bears interest at an annual rate of 5% and each individual loan will be payable three years from the date of issuance. The Company has a right to draw down on the line of credit and not at the discretion of the related party Lender. The Company may, at its option, prepay any borrowings under the Line of Credit, in whole or in part at any time prior to maturity, without premium or penalty. The Line of Credit Agreement includes customary events of default. If any such event of default occurs, the Lender may declare all outstanding loans under the Line of Credit to be due and payable immediately. As of September 30, 2020, \$2,900,000 was outstanding under the Line of Credit.

NOTE 14 – SUBSEQUENT EVENTS

On October 20, 2020, the Company entered into a Distribution Agreement with Adial Pharmaceuticals, Inc. (“Adial”) (the “Adial Agreement”). Pursuant to the Adial Agreement, the Company was appointed as a non-exclusive sub-distributor of Adial’s SARS-CoV-2 antibody tests and antigen tests and other medical devices and equipment worldwide. Mr. Stilley, a director of the Company as well as a member of the Nominating and Corporate Governance Committee and Audit Committee, is the Chief Executive Officer and a director of Adial.

On December 13, 2019, the Company entered into an Open Market Sale AgreementSM (the “Sales Agreement”) with Jefferies LLC, as sales agent (“Jefferies”). From October 1, 2020 to November 9, 2020, Jefferies sold an aggregate of 41,909 shares of common stock at an average price of \$1.55 per share to investors. The Company received net cash proceeds of \$63,197, net of commission paid to sales agent of \$1,955.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2020 and 2019 should be read in conjunction with our unaudited condensed consolidated financial statements and related notes to those unaudited condensed consolidated financial statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Special Note Regarding Forward-Looking Statements and Business sections in our Form 10-K as filed with the Securities and Exchange Commission on April 6, 2020. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

Impact of COVID-19 on our Operations, Financial Condition, Liquidity and Results of Operations

The ultimate impact of the COVID-19 pandemic on our operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or us, may determine are needed.

The occurrence of COVID-19 pandemic had negatively impact on our operations. Some tenants have delayed on rent payment. Our general development operations have continued during the COVID-19 pandemic and we have not had significant disruption. However, we are uncertain if the COVID-19 pandemic will impact future operations at our laboratory, or our ability to collaborate with other laboratories and universities. In addition, we are unsure if the COVID-19 pandemic will impact future clinical trials. Given the dynamic nature of these circumstances, the duration of business disruption and reduced traffic, the related financial effect cannot be reasonably estimated at this time but is expected to adversely impact the Company’s business for the year of 2020.

We have limited cash available to fund planned operations and although we have other sources of capital described below under “Liquidity and Capital Resources,” management continues to pursue various financing alternatives to fund our operations so we can continue as a going concern. However, the COVID-19 pandemic has created significant economic uncertainty and volatility in the credit and capital markets. Management plans to secure the necessary financing through the issue of new equity and/or the entering into of strategic partnership arrangements but the ultimate impact of the COVID-19 pandemic on our ability to raise additional capital is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak and new information which may emerge concerning the severity of the COVID-19 pandemic. We may not be able to raise sufficient additional capital and may tailor our operations based on the amount of funding we are able to raise in the future. Nevertheless, there is no assurance that these initiatives will be successful. Further, there is no assurance that capital available to us in any future financing will be on acceptable terms.

Overview

We are a clinical-stage, vertically integrated, leading CellTech bio-developer dedicated to advancing and empowering innovative, transformative immune effector cell therapy, exosome technology, as well as COVID-19 related diagnostics and therapeutics. We also provide strategic advisory and outsourcing services to facilitate and enhance our clients' growth and development, as well as competitiveness in healthcare and CellTech industry markets. Through our subsidiary structure with unique integration of verticals from innovative R&D to automated bioproduction and accelerated clinical development, we are establishing a leading role in the fields of cellular immunotherapy (including CAR-T/NK), exosome technology (ACTEX™), and regenerative therapeutics.

Avalon achieves and fosters seamless integration of unique verticals to bridge and accelerate innovative research, bio-process development, clinical programs and product commercialization. Avalon’s upstream innovative research includes:

- Co-development of Avalon Clinical-grade Tissue-specific Exosome (“ACTEX™”) with Weill Cornell Medicine.
- Novel therapeutic and diagnostic targets development utilizing QTY-code protein design technology with Massachusetts Institute of Technology (MIT) including using the QTY code protein design technology for development of a hemofiltration device to treat Cytokine Storm.
- Co-development of next generation, transposon-based, multi-target CAR-T, CAR-NK and other immune effector cell therapeutic modalities with Arbele Corp
- Strategic partnership with the University of Natural Resources and Life Sciences (BOKU) in Vienna, Austria to develop an S-layer vaccine that can be administered by an intranasal or oral route against SARS-CoV-2, the novel coronavirus that causes COVID-19 disease.

Avalon's midstream bio-processing and bio-production facility is located in Nanjing, China with state-of-the-art, automated GMP and QC/QA infrastructure for standardized bio-manufacturing of clinical-grade cellular products involved in our clinical programs in immune effector cell therapy, regenerative therapeutics, as well as bio-banking.

Avalon's downstream medical team and facility consists of top-rated affiliated hospital network and experts specialized in hematology, oncology, cellular immunotherapy, hematopoietic stem/progenitor cell transplant, as well as regenerative therapeutics. Our major clinical programs include:

- **AVA-001:** Avalon has initiated its first-in-human clinical trial of CD19 CAR-T candidate, AVA-001 in August 2019 at the Hebei Yanda Lu Daopei Hospital and Beijing Lu Daopei Hospital in China (the world's single largest CAR-T treatment network with over 600 patients being treated with CAR-T) for the indication of relapsed/refractory B-cell acute lymphoblastic leukemia and non-Hodgkin Lymphoma. The AVA-001 candidate (co-developed with China Immunotech Co. Ltd) is characterized by the utilization of 4-1BB (CD137) co-stimulatory signaling pathway, conferring a strong anti-cancer activity during pre-clinical study. It also features a shorter bio-manufacturing time which leads to the advantage of prompt treatment to patients where timing is important related hematologic malignancies. Avalon has plans to recruit 20 patients (under registered clinical trial NCT03952923) for safety and efficacy studies.
- **AVA-101:** Avalon's transposon-based, multi-targeted CAR-T candidate, AVA-101 (co-developed with Arbele Corp.) will enter pre-clinical process development and validation phase. AVA-101 features non-viral, transposon-engineered CAR-T with multiple anti-cancer targets, as well as possessing molecular safety-switch mechanism to minimize the side effects, such as cytokine release syndrome and neurotoxicity, often associated with conventional CAR-T cellular therapy. Following the pre-clinical process development and validation phase, Avalon anticipates that it intends to pursue first-in-human clinical study of this next generation of potentially more effective and safer CAR-T candidate.
- **ACTEX™:** Stem cell-derived Avalon Clinical-grade Tissue-specific Exosomes (ACTEX™) is one of the core technology platforms that has been co-developed by Avalon GloboCare and Weill Cornell Medicine. The Company formed a strategic partnership with HydroPeptide, LLC, a leading epigenetics skin care company, to engage in co-development and commercialization of a series of clinical-grade, exosome-based cosmeceutical and orthopedic products. As part of this agreement, the Company signed a three-way Material Transfer Agreement between Avalon GloboCare, HydroPeptide and Weill Cornell Medicine.
- **FLASH-CAR™:** The Company advanced its next generation immune cell therapy using FLASH-CAR™ technology co-developed with the Company's strategic partner Arbele Limited. The adaptable FLASH-CAR™ platform can be used to create personalized cell therapy from a patient's own cells, as well as off-the-shelf cell therapy from a universal donor.
- **AVA-Trap™:** Avalon's AVA-Trap™ therapeutic program plans to enter animal model testing followed by expedited clinical studies with the goal of providing an effective therapeutic option to combat COVID-19 and other life-threatening conditions involving cytokine storms. The Company initiated a sponsored research and co-development project with Massachusetts Institute of Technology (MIT) led by Professor Shuguang Zhang as Principal Investigator in May 2019. Using the unique QTY code protein design platform, six water-soluble variant cytokine receptors have been successfully designed and tested to show binding affinity to the respective cytokines.

We generated revenue by providing medical related consulting services in advanced areas of immunotherapy and second opinion/referral services through our wholly-owned subsidiary Avalon (Shanghai) Healthcare Technology Co., Ltd., or Avalon Shanghai. We also own and operate rental commercial real property in New Jersey, where we are headquartered. We discontinued sales of exosome isolation systems in China and the United States through our joint venture Genexosome Technologies, Inc. However, we are actively developing other unrelated proprietary exosome related products for sale or licensure.

The value of the Renminbi ("RMB"), the main currency used in China, fluctuates and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies such as the U.S. dollar have generally been based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets.

Critical Accounting Policies

Use of Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to the allowance for doubtful accounts, the useful life of property and equipment and investment in real estate, assumptions used in assessing impairment of long-term assets, valuation of deferred tax assets and the associated valuation allowances, and valuation of stock-based compensation.

We base our estimates on historical experience and on various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

We recognize revenue under Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised goods or service that is distinct. A performance obligation meets ASC 606’s definition of a “distinct” goods or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the goods or service either on its own or together with other resources that are readily available to the customer (i.e., the goods or service is capable of being distinct).
- The entity’s promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the goods or service is distinct within the context of the contract).

If a goods or service is not distinct, the goods or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Types of revenue:

- Service fees under consulting agreements with related parties to provide medical related consulting services to our clients. We are paid for our services by our clients pursuant to the terms of the written consulting agreements. Each contract calls for a fixed payment.
- Service fees under agreements to perform development services for hospitals and other customers. We do not perform contracts that are contingent upon successful results.
- Sales of developed products to hospitals and other customers.

Revenue recognition criteria:

- We recognize revenue by providing medical related consulting services under written service contracts with our customers. Revenue related to our service offerings is recognized as the services are performed.
- Revenue from development services performed under written contracts is recognized as services are provided.
- Revenue from sales of developed items to hospitals and other customers is recognized when items are shipped to customers and titles are transferred.

We have determined that the ASC 606 does not apply to rental contracts, which are within the scope of other revenue recognition accounting standards.

Rental income from operating leases is recognized on a straight-line basis under the guidance of ASC 842. Lease payments under tenant leases are recognized on a straight-line basis over the term of the related leases. The cumulative difference between lease revenue recognized under the straight-line method and contractual lease payments are included in rent receivable on the consolidated balance sheets.

We do not offer promotional payments, customer coupons, rebates or other cash redemption offers to our customers.

Income Taxes

We are governed by the income tax laws of China and the United States. Income taxes are accounted for pursuant to ASC 740 "Accounting for Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. The charge for taxes is based on the results for the period as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is changed to equity. Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and we intend to settle its current tax assets and liabilities on a net basis.

Recent Accounting Standards

For details of applicable new accounting standards, please, refer to Recent Accounting Standards in Note 3 of our unaudited condensed consolidated financial statements accompanying this report.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the Three and Nine Months Ended September 30, 2020 and 2019

Revenues

For the three months ended September 30, 2020, we had real property rental revenue of \$324,982, as compared to \$264,141 for the three months ended September 30, 2019, an increase of \$60,841, or 23.0%. For the nine months ended September 30, 2020, we had real property rental revenue of \$923,205, as compared to \$795,656 for the nine months ended September 30, 2019, an increase of \$127,549, or 16.0%. The increase was primarily attributable to the increase of tenants in 2020 periods. We expect that our revenue from real property rent will remain in its current quarterly level with minimal increase in the near future. We are unsure of the short and long term financial impact of COVID - 19 on our ability to collect rental income or on our overall building occupancy rate.

For the three and nine months ended September 30, 2020, we did not have any medical related consulting services revenue since there was no demand for our consulting service from our related parties and there was no order for our medical related consulting services from third party in these periods. Although we maintain close working relationships with our related parties, the consulting agreements with our related parties expired as of December 31, 2019. There was no order from related party and third party customers in the nine months ended September 30, 2020. Currently, we are negotiating with our potential customers and expect to enter consulting services agreements in the first quarter of 2021. For the three and nine months ended September 30, 2019, we had medical related consulting services revenue from related parties of \$108,520 and \$234,214, respectively.

For the three and nine months ended September 30, 2020, we did not have any revenue from contract services through performing development services for hospitals and other customers and sales of developed products to hospitals and other customers. For the three and nine months ended September 30, 2019, we had revenue from contract services through performing development services for hospitals and other customers and sales of developed products to hospitals and other customers of \$10,555 and \$37,237, respectively. Feedback received from our research partners is that our exosome isolation system does not produce consistent results and does not deliver high exosome yields and concentrations and needs revision. We have discontinued sales of our exosome isolation system product. However, we are actively developing other unrelated proprietary exosome related products for sale or licensure.

Costs and Expenses

Real property operating expenses consist of property management fees, property insurance, real estate taxes, depreciation, repairs and maintenance fees, utilities and other expenses related to our rental properties.

For the three months ended September 30, 2020, our real property operating expenses amounted to \$135,821, as compared to \$193,738 for the three months ended September 30, 2019, a decrease of \$57,917, or 29.9%. The decrease was mainly due to a decrease in maintenance fees of approximately \$10,000, and a decrease in other miscellaneous items of approximately \$48,000.

For the nine months ended September 30, 2020, our real property operating expenses amounted to \$663,086, as compared to \$617,173 for the nine months ended September 30, 2019, an increase of \$45,913, or 7.4%. The increase was mainly due to an increase in real property repairs and maintenance expenses of approximately \$9,000, an increase in electric utility of approximately \$14,000, and an increase in other miscellaneous items of approximately \$23,000.

Costs of medical related consulting services include the cost of internal labor and related benefits, travel expenses related to medical related consulting services, subcontractor costs, other related consulting costs, and other overhead costs. Subcontractor costs were costs related to medical related consulting services incurred by our subcontractor, such as medical professional's compensation and travel costs.

For the three and nine months ended September 30, 2019, costs of medical related consulting services amounted to \$94,442 and \$202,908, respectively. There were no comparative revenue and related costs of revenue from our medical related consulting services for the three and nine months ended September 30, 2020 since there was no demand for our consulting service from our related parties in these periods and there was no order for our medical related consulting services from third party.

Costs of development services and sales of developed products include inventory costs, materials and supplies costs, internal labor and related benefits, depreciation, other overhead costs and shipping and handling costs incurred.

For the three and nine months ended September 30 2019, costs of development services for hospitals and other customers and sales of developed products to hospitals and other customers amounted to \$41,808 and \$103,899, respectively. We had neither revenue nor cost of revenue from this segment in the three and nine months ended September 30, 2020.

Real Property Operating Income

Our real property operating income for the three months ended September 30, 2020 was \$189,161, representing an increase of \$118,758, or 168.7%, as compared to \$70,403 for the three months ended September 30, 2019. The increase was mainly attributable to the increase in rental revenue resulting from the increase of tenants and the decrease in real property operating expenses as described above. Our real property operating income for the nine months ended September 30, 2020 was \$260,119, representing an increase of \$81,636, or 45.7%, as compared to \$178,483 for the nine months ended September 30, 2019. The increase was mainly attributable to the increase in rental revenue resulting from the increase of tenants as described above, offset by the increase in real property operating expenses. We expect our real property operating income will remain in its current quarterly level with minimal decrease in the near future. We are unsure of the short and long term financial impact of COVID -19 on our ability to collect rental income or on our overall building occupancy rate.

Gross Profit from Medical Related Consulting Services and Gross Margin

We did not generate any gross profit from medical related consulting services in the three months ended September 30, 2020. Our gross profit from medical related consulting services for the three months ended September 30, 2019 was \$14,078, with a gross margin of 13.0%.

We did not generate any gross profit from medical related consulting services in the nine months ended September 30, 2020. Our gross profit from medical related consulting services for the nine months ended September 30, 2019 was \$31,306, with a gross margin of 13.4%.

Gross Loss from Development Services and Sales of Developed Products and Gross Margin

We did not generate any gross profit from development services and sales of developed products in the three months ended September 30, 2020. Our gross loss from development services and sales of developed products for the three months ended September 30, 2019 was \$31,253, with a gross margin of (296.1)%.

We did not generate any gross profit from development services and sales of developed products in the nine months ended September 30, 2020. Our gross loss from development services and sales of developed products for the nine months ended September 30, 2019 was \$66,662, with a gross margin of (179.0)%.

Other Operating Expenses

For the three and nine months ended September 30, 2020 and 2019, other operating expenses consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|---------------------|--|----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Professional fees | \$ 1,753,182 | \$ 1,630,827 | \$ 4,868,530 | \$ 3,891,539 |
| Compensation and related benefits | 1,058,570 | 2,187,959 | 3,241,090 | 6,388,292 |
| Research and development | 238,432 | 265,139 | 674,935 | 1,367,310 |
| Advertising expenses | 102,472 | 141,100 | 216,317 | 606,922 |
| Amortization | - | 81,892 | - | 245,678 |
| Travel and entertainment | 32,735 | 92,087 | 137,548 | 389,101 |
| Directors and officers liability insurance premium | 78,862 | 55,057 | 194,887 | 122,720 |
| Other general and administrative | 115,466 | 65,503 | 342,389 | 406,966 |
| Impairment loss | - | 1,010,011 | - | 1,010,011 |
| | <u>\$ 3,379,719</u> | <u>\$ 5,529,575</u> | <u>\$ 9,675,696</u> | <u>\$ 14,428,539</u> |

- Professional fees primarily consisted of accounting fees, audit fees, legal service fees, consulting fees, investor relations service charges and other fees incurred for service related to being a public company. For the three months ended September 30, 2020, professional fees increased by \$122,355, or 7.5%, as compared to the three months ended September 30, 2019. The increase was primarily attributable to an increase in consulting fees of approximately \$690,000 mainly due to the increase in use of consulting service providers, offset by a decrease in legal services fees of approximately \$486,000 primarily due to the decrease in use of legal service providers, and a decrease in other miscellaneous items of approximately \$82,000. For the nine months ended September 30, 2020, professional fees increased by \$976,991, or 25.1%, as compared to the nine months ended September 30, 2019. The increase was primarily attributable to an increase in consulting fees of approximately \$840,000 mainly due to the increase in stock-based consulting fees, an increase in accounting service charges of approximately \$89,000 as a result of the increase in stock-based accounting fees and an increase in other miscellaneous items of approximately \$48,000. We expect that our professional fees will remain in its current quarterly level with minimal increase in the near future.

- For the three months ended September 30, 2020, compensation and related benefits decreased by \$1,129,389, or 51.6%, as compared to the three months ended September 30, 2019. The significant decrease was primarily attributable to a decrease in stock-based compensation of approximately \$1,198,000 which reflected the value of options granted and vested to our management. For the nine months ended September 30, 2020, compensation and related benefits decreased by \$3,147,202, or 49.3%, as compared to the nine months ended September 30, 2019. The significant decrease was primarily attributable to a decrease in stock-based compensation of approximately \$3,181,000 which reflected the value of options granted and vested to our management. We expect that our compensation and related benefits will remain at its current quarterly level in the rest of 2020.
- For the three months ended September 30, 2020, research and development expenses decreased by \$26,707, or 10.1%, as compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, research and development expenses decreased by \$692,375, or 50.6%, as compared to the nine months ended September 30, 2019. Our first project with Arbele was completed in January 2020 and no further research and development project was incurred in the nine months ended September 30, 2020. Our research and development contract with Weill Cornell Medicine expired as of November 2019 and expect to enter another agreement by the end of fourth quarter of 2020. Therefore, our research and development expenses in 2020 periods decreased as compared to the corresponding periods of 2019. We expect our research and development expenses will increase in the near future.
- For the three months ended September 30, 2020, advertising expenses decreased by \$38,628 or 27.4% as compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, advertising expenses decreased by \$390,605 or 64.4% as compared to the nine months ended September 30, 2019. The decrease was primarily due to decreased advertising activities incurred as a result of stricter control on corporation spending. We expect that our advertising expenses will continue to decrease in the near future.
- For the three months ended September 30, 2020, amortization expense from intangible assets decreased by \$81,892, or 100.0%, as compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, amortization expense from intangible assets decreased by \$245,678, or 100.0%, as compared to the nine months ended September 30, 2019. At the end of September 2019, our intangible assets were impaired to zero and therefore, no amortization expense was recorded related to intangible assets in the nine months ended September 30, 2020.
- For the three months ended September 30, 2020, travel and entertainment expense decreased by \$59,352, or 64.5%, as compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, travel and entertainment expense decreased by \$251,553, or 64.6%, as compared to the nine months ended September 30, 2019. The decrease was mainly due to decreased business travel activities and decreased entertainment expenditure resulting from COVID-19. In the nine months ended September 30, 2020, the spread of COVID-19 has caused public health officials to recommend precautions to mitigate the spread of the virus, such as, cease traveling to non-essential jobs and curtail all unnecessary travel, and stay at home as much as possible.
- For the three months ended September 30, 2020, directors and officers liability insurance premium increased by \$23,805, or 43.2%, as compared to the three months ended September 30, 2019. For the nine months ended September 30, 2020, directors and officers liability insurance premium increased by \$72,167, or 58.8%, as compared to the nine months ended September 30, 2019. The increase was mainly due to different insurance provider with different premium.
- Other general and administrative expenses mainly consisted of NASDAQ listing fee, academic sponsorship, and other miscellaneous items. For the three months ended September 30, 2020, other general and administrative expenses increased by \$49,963, or 76.3%, as compared to the three months ended September 30, 2019, which was mainly due to an increase in fee from NASDAQ of approximately \$29,000, and an increase in other miscellaneous items of approximately \$21,000. For the nine months ended September 30, 2020, other general and administrative expenses decreased by \$64,577, or 15.9%, as compared to the nine months ended September 30, 2019, which was mainly due to a decrease in academic sponsorship expenditure of approximately \$95,000, offset by an increase in other miscellaneous items of approximately \$30,000.
- In September 2019, we assessed our intangible assets for any impairment and concluded that there were indicators of impairment as of September 30, 2019 and we calculated that the estimated undiscounted cash flows were less than the carrying amount of those intangible assets. We have not been able to realize the financial projections provided by Dr. Zhou at the time of the intangible assets purchase and have decided to impair the intangible assets to zero. Based on our analysis, we recognized an impairment loss of \$1,010,011 for the three and nine months ended September 30, 2019, which reduced the value of intangible assets purchased to zero. We did not record any impairment charge for the three and nine months ended September 30, 2020.

Loss from Operations

As a result of the foregoing, for the three months ended September 30, 2020, loss from operations amounted to \$3,190,558, as compared to \$5,476,347 for the three months ended September 30, 2019, a decrease of \$2,285,789, or 41.7%.

As a result of the foregoing, for the nine months ended September 30, 2020, loss from operations amounted to \$9,415,577, as compared to \$14,285,412 for the nine months ended September 30, 2019, a decrease of \$4,869,835, or 34.1%.

Other Income (Expense)

Other income (expense) mainly includes interest expense, change in fair value of warrants liabilities, allocated financing costs, and loss from equity-method investment

Other expense, net, totaled \$61,401 for the three months ended September 30, 2020, as compared to other income, net, of \$1,142,289 for the three months ended September 30, 2019, a decrease of \$1,203,690, or 105.4%, which was primarily attributable to a decrease in change in fair value of warrants liabilities of approximately \$1,160,000, an increase in interest expense of approximately \$30,000, a decrease in other income approximately \$24,000, offset by a decrease in loss from equity method investment of approximately \$10,000.

Other expense, net, totaled \$163,545 for the nine months ended September 30, 2020, as compared to other income, net, of \$1,007,602 for the nine months ended September 30, 2019, a decrease of \$1,171,147, or 116.2%, which was primarily attributable to a decrease in change in fair value of warrants liabilities of approximately \$1,622,000, an increase in interest expense of approximately \$66,000, a decrease in other income approximately \$22,000, offset by a decrease in allocated financing expense of approximately \$525,000 and a decrease in loss from equity method investment of approximately \$13,000.

Income Taxes

We did not have any income taxes expense for the three and nine months ended September 30, 2020 and 2019 since we incurred losses in the periods.

Net Loss

As a result of the factors described above, our net loss was \$3,251,959 for the three months ended September 30, 2020, as compared to \$4,334,058 for the three months ended September 30, 2019, a decrease of \$1,082,099 or 25.0%.

As a result of the factors described above, our net loss was \$9,579,122 for the nine months ended September 30, 2020, as compared to \$13,277,810 for the nine months ended September 30, 2019, a decrease of \$3,698,688 or 27.9%.

Net Loss Attributable to Avalon GloboCare Corp. Common Shareholders

The net loss attributable to Avalon GloboCare Corp. common shareholders was \$3,251,959 or \$(0.04) per share (basic and diluted) for the three months ended September 30, 2020, as compared with \$3,858,195, or \$(0.05) per share (basic and diluted) for the three months ended September 30, 2019, a change of \$606,236 or 15.7%.

The net loss attributable to Avalon GloboCare Corp. common shareholders was \$9,579,122 or \$(0.12) per share (basic and diluted) for the nine months ended September 30, 2020, as compared with \$12,621,235, or \$(0.17) per share (basic and diluted) for the nine months ended September 30, 2019, a change of \$3,042,113 or 24.1%.

Foreign Currency Translation Adjustment

Our reporting currency is the U.S. dollar. The functional currency of our parent company, AHS, Avalon RT 9, Genexosome, Avactis, and Exosome, is the U.S. dollar and the functional currency of Avalon Shanghai and Beijing Genexosome, is the Chinese Renminbi ("RMB"). The financial statements of our subsidiaries whose functional currency is the RMB are translated to U.S. dollars using period end rates of exchange for assets and liabilities, average rate of exchange for revenues, costs, and expenses and cash flows, and at historical exchange rates for equity. Net gains and losses resulting from foreign exchange transactions are included in the results of operations. As a result of foreign currency translations, which are a non-cash adjustment, we reported a foreign currency translation gain of \$39,698 and a foreign currency translation loss of \$69,388 for the three months ended September 30, 2020 and 2019, respectively. As a result of foreign currency translations, which are a non-cash adjustment, we reported a foreign currency translation gain of \$20,941 and a foreign currency translation loss of \$60,009 for the nine months ended September 30, 2020 and 2019, respectively. This non-cash gain/loss had the effect of decreasing/increasing our reported comprehensive loss.

Comprehensive Loss

As a result of our foreign currency translation adjustment, we had comprehensive loss of \$3,212,261 and \$4,403,446 for the three months ended September 30, 2020 and 2019, respectively.

As a result of our foreign currency translation adjustment, we had comprehensive loss of \$9,558,181 and \$13,337,819 for the nine months ended September 30, 2020 and 2019, respectively.

Liquidity and Capital Resources

The Company has a limited operating history and its continued growth is dependent upon the re-commencing of medical consulting services which was completed in December 2019 to its only few clients who are related parties and generating rental revenue from its income-producing real estate property in New Jersey and performing development services for hospitals and other customers and sales of developed products to hospitals and other customers; hence generating revenues, and obtaining additional financing to fund future obligations and pay liabilities arising from normal business operations. In addition, the current cash balance cannot be projected to cover the operating expenses for the next twelve months from the release date of this report. These matters raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital, implement its business plan, and generate significant revenues. There are no assurances that the Company will be successful in its efforts to generate significant revenues, maintain sufficient cash balance or report profitable operations or to continue as a going concern. The Company plans on raising capital through the sale of equity to implement its business plan. However, there is no assurance these plans will be realized and that any additional financings will be available to the Company on satisfactory terms and conditions, if any.

The occurrence of an uncontrollable event such as the COVID-19 pandemic is likely to negatively affect the Company's operations. Efforts to contain the spread of the coronavirus have intensified, including social distancing, travel bans and quarantine, and these are likely to negatively impact our tenants, employees and consultants. These, in turn, will not only impact our operations, financial condition and demand for our medical related consulting services but our overall ability to react timely to mitigate the impact of this event. Given the dynamic nature of these circumstances, the duration of business disruption and reduced traffic, the related financial effect cannot be reasonably estimated at this time but is expected to adversely impact our business for the year of 2020.

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. At September 30, 2020 and December 31, 2019, we had cash balance of approximately \$1,396,000 and \$765,000, respectively. These funds are kept in financial institutions located as follows:

| Country: | September 30, | | December 31, | |
|-----------------|----------------------|---------------|---------------------|---------------|
| | 2020 | | 2019 | |
| United States | \$ 1,203,710 | 86.3% | \$ 371,929 | 48.6% |
| China | 191,800 | 13.7% | 392,962 | 51.4% |
| Total cash | <u>\$ 1,395,510</u> | <u>100.0%</u> | <u>\$ 764,891</u> | <u>100.0%</u> |

Under applicable PRC regulations, foreign invested enterprises, or FIEs, in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a foreign invested enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends.

In addition, a portion of our businesses and assets are denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of our PRC subsidiary to transfer its net assets to the Parent Company through loans, advances or cash dividends.

The current PRC Enterprise Income Tax (“EIT”) Law and its implementing rules generally provide that a 10% withholding tax applies to China-sourced income derived by non-resident enterprises for PRC enterprise income tax purposes unless the jurisdiction of incorporation of such enterprises’ shareholder has a tax treaty with China that provides for a different withholding arrangement.

The following table sets forth a summary of changes in our working capital from December 31, 2019 to September 30, 2020:

| | September 30, | December 31, | Changes in | |
|---------------------------------|---------------------|-----------------------|-------------------|----------------|
| | 2020 | 2019 | Amount | Percentage |
| Working capital deficit: | | | | |
| Total current assets | \$ 2,153,499 | \$ 1,571,095 | \$ 582,404 | 37.1% |
| Total current liabilities | 2,439,494 | 2,835,463 | (395,969) | (14.0)% |
| Working capital deficit | <u>\$ (285,995)</u> | <u>\$ (1,264,368)</u> | <u>\$ 978,373</u> | <u>(77.4)%</u> |

Our working capital deficit decreased by \$978,373 to \$285,995 at September 30, 2020 from \$1,264,368 at December 31, 2019. The decrease in working capital deficit was primarily attributable to an increase in cash of approximately \$631,000, an increase in rent receivable of approximately \$74,000, an increase in prepaid expenses and other current assets of approximately \$181,000, a decrease in accrued professional fees of approximately \$280,000, a decrease in accrued research and development fees of approximately \$208,000, a decrease in accrued payroll liability of approximately \$127,000, offset by a decrease in accounts receivable – related party of approximately \$215,000, a decrease in deferred financing costs of approximately \$83,000, an increase in accrued liabilities and other payables of approximately \$66,000, an increase in accrued liabilities and other payables – related parties of approximately \$75,000, and an increase in operating lease obligation of approximately \$76,000.

Because the exchange rate conversion is different for the consolidated balance sheets and the consolidated statements of cash flows, the changes in assets and liabilities reflected on the consolidated statements of cash flows are not necessarily identical with the comparable changes reflected on the consolidated balance sheets.

Cash Flows for the Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

The following summarizes the key components of our cash flows for the nine months ended September 30, 2020 and 2019:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------------|
| | 2020 | 2019 |
| Net cash used in operating activities | \$ (6,185,198) | \$ (5,318,165) |
| Net cash used in investing activities | (28,594) | (538,368) |
| Net cash provided by financing activities | 6,841,783 | 4,693,704 |
| Effect of exchange rate on cash | 2,628 | (17,118) |
| Net increase (decrease) in cash | <u>\$ 630,619</u> | <u>\$ (1,179,947)</u> |

Net cash flow used in operating activities for the nine months ended September 30, 2020 was \$6,185,198, which primarily reflected our consolidated net loss of approximately \$9,579,000, and the changes in operating assets and liabilities, primarily consisting of an increase in rent receivable of approximately \$94,000, an increase in prepaid expenses and other current assets of approximately \$353,000, a decrease in accrued liabilities and other payables of approximately \$681,000, offset by a decrease in accounts receivable – related party of approximately \$214,000, an increase in accrued liabilities and other payables – related parties of approximately \$75,000, and the non-cash items adjustment primarily consisting of depreciation and amortization of approximately \$233,000, and stock-based compensation and service expense of approximately \$3,965,000.

Net cash flow used in operating activities for the nine months ended September 30, 2019 was \$5,318,165, which primarily reflected our consolidated net loss of approximately \$13,278,000, the non-cash item adjustment consisting of change in warrants derivative liabilities of approximately \$1,622,000, and the changes in operating assets and liabilities, primarily consisting of an increase in accounts receivable – related parties of approximately \$175,000, offset by a decrease in prepaid expenses and other current assets of approximately \$241,000, a decrease in security deposit of approximately \$101,000, and an increase in accrued liabilities and other payables of approximately \$327,000, and the add-back of non-cash items mainly consisting of depreciation and amortization of approximately \$430,000, stock-based compensation and service expense of approximately \$7,003,000, allocated financing costs of approximately \$525,000, and impairment loss of approximately \$1,010,000.

We expect our cash used in operating activities to increase due to the following:

- the development and commercialization of new products;
- an increase in professional staff and services; and
- an increase in public relations and/or sales promotions for existing and/or new brands as we expand within existing markets or enter new markets.

Net cash flow used in investing activities was \$28,594 for the nine months ended September 30, 2020 as compared to \$538,368 for the nine months ended September 30, 2019. During the nine months ended September 30, 2020, we made additional investment in equity method investment of approximately \$29,000. During the nine months ended September 30, 2019, we made payment for purchase of property and equipment of approximately \$379,000, made payment for improvement of commercial real estate of approximately \$16,000, made prepayment for purchase of long-term assets of approximately \$26,000, and made payment for equity method investment of approximately \$117,000.

Net cash flow provided by financing activities was \$6,841,783 for the nine months ended September 30, 2020 as compared to \$4,693,704 for the nine months ended September 30, 2019. During the nine months ended September 30, 2020, we received proceeds from related party borrowings of \$300,000 and net proceeds from equity offering of approximately \$6,742,000 (net of cash paid for commission and offering costs of approximately \$492,000), offset by repayments made for note payable – related party of \$200,000. During the nine months ended September 30, 2019, we received proceeds from note payable – related party of \$1,000,000, and net proceeds for equity offering of approximately \$5,104,000, offset by repayments made for note payable – related party of \$410,000, and repayments for loan payable of \$1,000,000.

Our capital requirements for the next twelve months primarily relate to working capital requirements, including salaries, fees related to third parties' professional services, reduction of accrued liabilities, mergers, acquisitions and the development of business opportunities. These uses of cash will depend on numerous factors including our sales and other revenues, and our ability to control costs. All funds received have been expended in the furtherance of growing the business. The following trends are reasonably likely to result in a material decrease in our liquidity over the near to long term:

- an increase in working capital requirements to finance our current business, including ongoing research and development programs, clinical studies, as well as commercial strategies;
- the use of capital for mergers, acquisitions and the development of business opportunities;
- addition of administrative personnel as the business grows; and
- the cost of being a public company.

In the third quarter of 2019, we had secured a \$20 million credit facility (Line of Credit) provided by our Chairman, Wenzhao Lu. The unsecured credit facility bears interest at a rate of 5% and provides for maturity on drawn loans 36 months after funding. The note is not convertible to equity. As of September 30, 2020, the total principal amount outstanding under the Credit Line was \$2.9 million and we have approximately \$17.1 million remaining available under the Line Credit.

On December 13, 2019, we entered into an Open Market Sale AgreementSM (the "Sales Agreement") with Jefferies LLC, as sales agent ("Jefferies"), pursuant to which we may offer and sell, from time to time, through Jefferies, shares of our common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$20.0 million. On April 6, 2020, the date on which we filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, our registration statement became subject to the offering limits set forth in General Instruction I.B.6 of Form S-3. As of April 6, 2020, the aggregate market value of our outstanding common stock held by non-affiliates, or public float, was \$39,564,237, based on 23,691,160 shares of our outstanding common stock that were held by non-affiliates on such date and a price of \$1.67 per share, which was the price at which our common stock was last sold on The Nasdaq Capital Market on February 19, 2020 (a date within 60 days of the date hereof), calculated in accordance with General Instruction I.B.6 of Form S-3. We have not offered any securities pursuant to General Instruction I.B.6 of Form S-3 in the 12 calendar months preceding the date of this prospectus supplement. We filed a prospectus supplement to amend and supplement the information in our prospectus and original prospectus supplement based on the amount of securities that we are eligible to sell under General Instruction I.B.6 of Form S-3. After giving effect to the \$13,000,000 offering limit imposed by General Instruction I.B.6 of Form S-3, we may offer and sell additional shares of our common stock having an aggregate offering price of up to \$13,000,000 from time to time through Jefferies acting as our sales agent in accordance with the terms of the sales agreement. As of September 30, 2020, we sold a total of 3,606,910 shares of our common stock through Jefferies with an aggregate offering price of \$6,507,414 and we have approximately \$8.5 million offering price remaining available under the Sales Agreement.

We estimate that based on current plans and assumptions, that our available cash will be insufficient to satisfy our cash requirements under our present operating expectations through cash available under our Credit Line and sales of equity through our Sales Agreement. Other than funds received from the sale of our equity and advances from our related party, and cash resource generating from our operations, we presently have no other significant alternative source of working capital. We have used these funds to fund our operating expenses, pay our obligations and grow our company. We will need to raise significant additional capital to fund our operations and to provide working capital for our ongoing operations and obligations. Therefore, our future operation is dependent on our ability to secure additional financing. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will be required to cease our operations. To date, we have not considered this alternative, nor do we view it as a likely occurrence.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows. The following tables summarize our contractual obligations as of September 30, 2020, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

| Contractual obligations: | Payments Due by Period | | | | |
|---|-------------------------------|-----------------------------|---------------------|---------------------|-----------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
| Operating lease commitment | \$ 202,438 | \$ 112,438 | \$ 90,000 | \$ - | \$ - |
| Acquisition consideration | 100,000 | 100,000 | - | - | - |
| Borrowings from related party (principal) | 3,290,000 | - | 3,290,000 | - | - |
| Accrued interest – related party | 125,363 | 125,363 | - | - | - |
| Epicon equity investment obligation | 839,371 | 279,790 | 559,581 | - | - |
| AVAR joint venture commitment | 10,736,290 | 736,290 | 5,000,000 | 5,000,000 | - |
| Total | \$ 15,293,462 | \$ 1,353,881 | \$ 8,939,581 | \$ 5,000,000 | \$ - |

Off-balance Sheet Arrangements

We presently do not have off-balance sheet arrangements.

Foreign Currency Exchange Rate Risk

A portion of our operations are in China. Thus, a portion of our revenues and operating results may be impacted by exchange rate fluctuations between RMB and US dollars. For the three months ended September 30, 2020 and 2019, we had an unrealized foreign currency translation gain of approximately \$40,000 and an unrealized foreign currency translation loss of approximately \$69,000, respectively, because of changes in the exchange rate. For the nine months ended September 30, 2020 and 2019, we had an unrealized foreign currency translation gain of approximately \$21,000 and an unrealized foreign currency translation loss of approximately \$60,000, respectively, because of changes in the exchange rate.

Inflation

The effect of inflation on our revenue and operating results was not significant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

In connection with the preparation of the quarterly report on Form 10-Q for the quarter ended September 30, 2020, our management, including our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures, which are defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, management concluded that our internal control over financial reporting were not effective as of September 30, 2020 due to the significant deficiencies which aggregate to a material weakness and was previously reported in our Form 10-K Annual Report for the year ended December 31, 2019 (“2019 10-K”), that have not yet been remediated.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to ordinary routine litigation incidental to our normal business operations. We are not currently a party to, and our property is not subject to, any material legal proceedings, except as set forth below.

On October 25, 2017, Genexosome entered into and closed a Stock Purchase Agreement with Beijing Genexosome and Yu Zhou, MD, PhD, the sole shareholder of Beijing Genexosome, pursuant to which Genexosome acquired all of the issued and outstanding securities of Beijing Genexosome in consideration of a cash payment in the amount of \$450,000, of which \$100,000 is still owed. Further, on October 25, 2017, Genexosome entered into and closed an Asset Purchase Agreement with Dr. Zhou, pursuant to which the Company acquired all assets, including all intellectual property and exosome separation systems, held by Dr. Zhou pertaining to the business of researching, developing and commercializing exosome technologies. In consideration of the assets, Genexosome paid Dr. Zhou \$876,087 in cash, transferred 500,000 shares of common stock of the Company to Dr. Zhou and issued Dr. Zhou 400 shares of common stock of Genexosome. Further, The Company had not been able to realize the financial projections provided by Dr. Zhou at the time of the acquisition and has decided to impair the intangible asset associated with this acquisition to zero. Dr. Zhou was terminated as Co-CEO of Genexosome on August 14, 2019. Further, on October 28, 2019, Research Institute at Nationwide Children's Hospital ("Research Institute") filed a Complaint in the United States District Court for the Southern District of Ohio Eastern Division against Dr. Zhou, Li Chen, the Company and Genexosome with various claims against the Company and Genexosome including misappropriation of trade secrets in violation of the Defend Trade Secrets Act of 2016 and violation of Ohio Uniform Trade Secrets Act. Research Institute is seeking monetary damages, injunctive relief, exemplary damages, injunctive relief and other equitable relief. The case number is 2:19-cv-4574. The Company intends to vigorously defend against this action and pursue all available legal remedies. The civil case against Avalon is stayed pending resolution of the criminal proceedings against Dr. Zhou and Li Chen, and while there can be no assurances, the Company believes it has substantial legal and factual defenses to the Research Institute's claims.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors set forth under Part I, Item 1A., "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. You should carefully consider these factors in addition to the other information set forth in this report which could materially affect our business, financial condition or future results. The risks and uncertainties described in this report and in our Annual Report on Form 10-K for the year ended December 31, 2019, as well as other reports and statements that we file with the SEC, are not the only risks and uncertainties facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, results of operations or cash flows.

Amidst the COVID-19 outbreak, some tenants have delayed on rent payment. Our general development operations have continued during the COVID-19 pandemic and we have not had significant disruption. Currently we are unable to accurately predict the future impact of COVID-19 due to the developing circumstances and uncertainty surrounding this current pandemic, including the ultimate geographic spread of COVID-19, the severity of the disease, the duration of the outbreak, and effectiveness of the actions that may be taken by governmental authorities. Our management has been closely monitoring the impact caused by COVID-19 and we will continue to operate our business as steadily and safely as we can.

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

Common Shares Issued for Services

During the nine months ended September 30, 2020, we issued a total of 1,032,577 shares of our common stock for services rendered and to be rendered. These shares were valued at \$1,309,480, the fair market values on the grant dates using the reported closing share prices on the dates of grant and we recorded stock-based compensation expense of \$1,248,159 for the nine months ended September 30, 2020 and reduced accrued liabilities of \$35,325 and recorded prepaid expense of \$25,996 as of September 30, 2020 which will be amortized over the rest of corresponding service periods.

Common Shares Sold for Cash

On April 1, 2020, the Company entered into a Subscription Agreement with WLM, an entity owned by Wenzhao Lu, Chairman of the Board of Directors of the Company, pursuant to which WLM purchased 645,161 shares of the Company's common stock at a price per share of \$1.55 for an aggregate purchase price of \$1,000,000. The closing occurred on April 1, 2020.

The offers, sales, and issuances of the securities described above were deemed to be exempt from registration under the Securities Act of 1933 in reliance on Section 4(a)(2) of the Securities Act of 1933 or Regulation D promulgated thereunder as transactions by an issuer not involving a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited or sophisticated person and had adequate access, through employment, business or other relationships, to information about us.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On October 20, 2020, the Company entered into a Distribution Agreement with Adial Pharmaceuticals, Inc. (“Adial”) (the “Adial Agreement”). Pursuant to the Adial Agreement, the Company was appointed as a non-exclusive sub-distributor of Adial’s SARS-CoV-2 antibody tests and antigen tests and other medical devices and equipment worldwide. Mr. Stilley, a director of the Company as well as a member of the Nominating and Corporate Governance Committee and Audit Committee, is the Chief Executive Officer and a director of Adial.

On August 17, 2020, the Company entered into a Commercialization Partnership Agreement with Cellex, Inc. (“Cellex”), which was dated August 10, 2020 (the “Cellex Agreement”). Pursuant to the Cellex Agreement, the Company was granted a right to promote, market, transfer, distribute, and/or sell Cellex’s qSARS-COV-2 IgG/IgM Rapid Test Kit and Kit Control on a non-exclusive basis. The Cellex Agreement provides that the Company may purchase the products at a set per unit price and, in the event of bulk sales or tender offers, the Company may receive a commission.

On December 13, 2019, the Company entered into an Open Market Sale AgreementSM (the “Sales Agreement”) with Jefferies LLC, as sales agent (“Jefferies”), pursuant to which the Company may offer and sell, from time to time, through Jefferies, shares of its common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$20.0 million. On April 6, 2020, the date on which the Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2019, the Company’s registration statement became subject to the offering limits set forth in General Instruction I.B.6 of Form S-3. During the nine months ended September 30, 2020, Jefferies sold an aggregate of 3,468,315 shares of common stock at an average price of \$1.80 per share to investors. The Company recorded net proceeds of \$5,875,755, net of commission and other offering costs of \$357,923. From October 1, 2020 to November 9, 2020, Jefferies sold an aggregate of 41,909 shares of common stock at an average price of \$1.55 per share to investors. The Company received net cash proceeds of \$63,197, net of commission paid to sales agent of \$1,955.

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

| Exhibit Number | Description |
|-----------------------|---|
| 1.1 | Open Market Sale AgreementSM, dated as of December 13, 2019, by and between Avalon GloboCare Corp. and Jefferies LLC. (incorporated by reference to Exhibit 1.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 13, 2019) |
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018) |
| 3.2 | Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018) |
| 4.1 | Form of Subscription Agreement by and between Avalon GloboCare Corp. and the December 2016 Accredited Investors (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 21, 2016) |
| 4.2 † | Stock Option issued to Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017) |
| 4.3 | Form of Subscription Agreement by and between Avalon GloboCare Corp. and the March 2017 Accredited Investor (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.4 | Share Subscription Agreement between Avalon GloboCare Corp., Avalon (Shanghai) Healthcare Technology Co., Ltd., Beijing DOING Biomedical Technology Co., Ltd. and Daron Liang (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.5 | Warranty Agreement between Lu Wenzhao and Beijing DOING Biomedical Technology Co., Ltd. (incorporated by reference to Exhibit 4.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2017) |
| 4.6 | Form of Subscription Agreement between Avalon GloboCare Corp. and the October 2017 Accredited Investors (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017) |
| 4.7 | Form of Warrant to Boustead Securities, LLC in connection with the private placements (incorporated by reference to Exhibit 4.8 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 27, 2018) |
| 4.8 | Form of Warrant (April 2019) (Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2019) |

| | |
|--------|---|
| 10.1 | <u>Share Exchange Agreement dated as of October 19, 2016 by and among Avalon Healthcare System, Inc., the shareholders of Avalon Healthcare System, Inc. and Avalon GloboCare Corp. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2016)</u> |
| 10.2 † | <u>Executive Employment Agreement, effective December 1, 2016, by and between Avalon GloboCare Corp. and David Jin (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2016)</u> |
| 10.3 | <u>Agreement of Sale by and between Freehold Craig Road Partnership, as Seller, and Avalon GloboCare Corp., as Buyer dated as of December 22, 2016 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 23, 2016)</u> |
| 10.4 † | <u>Executive Employment Agreement by and between Avalon (Shanghai) Healthcare Technology Ltd. and Meng Li dated January 11, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2017)</u> |
| 10.5 † | <u>Executive Retention Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017)</u> |
| 10.6 † | <u>Indemnification Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated February 21, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017)</u> |
| 10.7 † | <u>Director Agreement by and between Avalon GloboCare Corp. and Steven P. Sukel dated April 28, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2017)</u> |
| 10.8 † | <u>Director Agreement by and between Avalon GloboCare Corp. and Yancen Lu dated April 28, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2017)</u> |
| 10.9 | <u>Consultation Service Contract between Daopei Investment Management (Shanghai) Co., Ltd. and Avalon HealthCare System Inc. dated April 1, 2016 (English translation) (incorporated by reference to Exhibit 10.8 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017)</u> |
| 10.10 | <u>Consultation Service Contract between Hebei Yanda Ludaopei Hospital Co., Ltd and Avalon HealthCare System Inc. dated April 1, 2016 (English translation) (incorporated by reference to Exhibit 10.9 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017)</u> |
| 10.11 | <u>Consultation Service Contract between Nanshan Memorial Stem Cell Biotechnology Co., Ltd. and Avalon HealthCare System Inc. dated April 1, 2016 (English translation) (incorporated by reference to Exhibit 10.10 of Amendment No. 1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 7, 2017)</u> |
| 10.12 | <u>Loan Agreement between Lotus Capital Overseas Limited and Avalon (Shanghai) Healthcare Technology Co., Ltd. dated April 19, 2017 (English translation) (incorporated by reference to Exhibit 10.12 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2017)</u> |
| 10.13 | <u>Securities Purchase Agreement between Avalon GloboCare Corp. and Genexosome Technologies Inc. dated October 25, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017)</u> |
| 10.14 | <u>Asset Purchase Agreement between Genexosome Technologies Inc. and Yu Zhou dated October 25, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017)</u> |

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| 10.15 | <u>Stock Purchase Agreement between Genexosome Technologies Inc., Beijing Jieteng (Genexosome) Biotech Co. Ltd. and Yu Zhou dated October 25, 2017 (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017)</u> |
| 10.16 † | <u>Executive Retention Agreement between Genexosome Technologies Inc. and Yu Zhou dated October 25, 2017 (incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017)</u> |
| 10.17 | <u>Invention Assignment, Confidentiality, Non-Compete and Non-Solicit Agreement between Genexosome Technologies Inc. and Yu Zhou dated October 25, 2017 (incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017)</u> |
| 10.18 † | <u>Director Agreement by and between Avalon GloboCare Corp. and Wilbert J. Tauzin II dated November 1, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2017)</u> |
| 10.19 | <u>Agreement between Avalon GloboCare Corp. and Tauzin Consultants, LLC dated November 1, 2017 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2017)</u> |
| 10.20 † | <u>Letter Agreement by and between Avalon GloboCare Corp. and David Jin dated April 3, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 4, 2018)</u> |
| 10.21 † | <u>Letter Agreement by and between Avalon GloboCare Corp. and Meng Li dated April 3, 2018 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 4, 2018)</u> |
| 10.22 | <u>Advisory Service Contract between Ludaopei Hematology Research Institute Co., Ltd. and Avalon (Shanghai) Healthcare Technology Co., Ltd. dated April 1, 2018 (English translation) (Incorporated by reference to that Form S-1 Registration Statement filed with the Securities and Exchange Commission on April 19, 2018)</u> |
| 10.23 | <u>Form of Subscription Agreement by and between Avalon GloboCare Corp. and the April 2018 Accredited Investors (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 18, 2018)</u> |
| 10.24 | <u>Supplementary Agreement Related to Share Subscription by and between Avalon GloboCare Corp., Avalon (Shanghai) Healthcare Technology Co., Ltd., Beijing DOING Biomedical Technology Co., Ltd. and Daron Liang dated April 23, 2018 (English translation) (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 26, 2018)</u> |
| 10.25 | <u>Loan Extension Agreement between Lotus Capital Overseas Limited and Avalon (Shanghai) Healthcare Technology Co., Ltd. dated May 3, 2018 (English translation) (incorporated by reference to Exhibit 10.18 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 11, 2018)</u> |
| 10.26 † | <u>Director Agreement by and between Avalon GloboCare Corp. and Tevi Troy dated June 4, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2018)</u> |
| 10.27 | <u>Joint Venture Agreement by and between Avalon (Shanghai) Healthcare Technology Co., Ltd. and Jiangsu Unicorn Biological Technology Co., Ltd. dated May 29, 2018 (English translation) (incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2018)</u> |
| 10.28 † | <u>Director Agreement by and between Avalon GloboCare Corp. and William Stilley, III dated July 5, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 10, 2018)</u> |
| 10.29 † | <u>Director Agreement by and between Avalon GloboCare Corp. and Steven A. Sanders dated July 30, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 31, 2018)</u> |

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| 10.30 | <u>Loan Extension Agreement between Lotus Capital Overseas Limited and Avalon (Shanghai) Healthcare Technology Co., Ltd. dated August 3, 2018 (English translation) (incorporated by reference to Exhibit 10.30 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 7, 2018)</u> |
| 10.31 | <u>Strategic Partnership Agreement between Avalon GloboCare Corp. and Weill Cornell Medical College of Cornell University dated August 6, 2018 (incorporated by reference to Exhibit 10.31 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on August 7, 2018)</u> |
| 10.32 | <u>Equity Joint Venture Agreement by and between Avactis Biosciences, Inc., a wholly-owned subsidiary of Avalon GloboCare Corp., and Arbele Limited for the establishment of AVAR (China) BioTherapeutics Ltd. dated October 23, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2018)</u> |
| 10.33 | <u>Letter Agreement by and between Avalon GloboCare Corp. and David Jin dated January 3, 2019 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019)</u> |
| 10.34 | <u>Letter Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated January 3, 2019 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019)</u> |
| 10.35 | <u>Letter Agreement by and between Avalon (Shanghai) Healthcare Technology Co. Ltd. and Meng Li dated January 3, 2019 (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2019)</u> |
| 10.36 | <u>Promissory Note issued to Daniel Lu dated March 18, 2019 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2019)</u> |
| 10.37† | <u>Director Agreement by and between Avalon GloboCare Corp. and Meng Li dated April 5, 2019 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 8, 2019)</u> |
| 10.38† | <u>Director Agreement by and between Avalon GloboCare Corp. and Yue “Charles” Li dated April 5, 2019 (Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 8, 2019)</u> |
| 10.39 | <u>Form of Securities Purchase Agreement dated April 25, 2019 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 26, 2019)</u> |
| 10.40 | <u>Revolving Line of Credit Agreement dated as of August 29, 2019 between Avalon GloboCare Corp. and Wenzhao “Daniel” Lu dated August 29, 2019 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 3, 2019)</u> |
| 10.41 | <u>Form of Warrant Redemption and Cancellation Agreement (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2019)</u> |
| 10.42 | <u>Letter Agreement by and between Avalon GloboCare Corp. and David Jin dated February 20, 2020 (Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2020)</u> |
| 10.43 | <u>Letter Agreement by and between Avalon GloboCare Corp. and Meng Li dated February 20, 2020 (Incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2020)</u> |
| 10.44 | <u>Letter Agreement by and between Avalon GloboCare Corp. and Luisa Ingargiola dated February 20, 2020 (Incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 24, 2020)</u> |

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| 21.1 | List of Subsidiaries (incorporated by reference to Exhibit 21.1 of the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 20, 2018) |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act |
| 32.1* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act |
| 101.INS* | XBRL INSTANCE DOCUMENT |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT |

* Filed herewith

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AVALON GLOBOCARE CORP.
(Registrant)

Date: November 9, 2020

By: /s/ David K. Jin
David K. Jin
Chief Executive Officer, President and Director (Principal
Executive Officer)

Date: November 9, 2020

By: /s/ Luisa Ingargiola
Luisa Ingargiola
Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David K. Jin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "report") of Avalon GloboCare Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

By: /s/ David K. Jin
David K. Jin
Chief Executive Officer, President and Director (Principal
Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Luisa Ingargiola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "report") of Avalon GloboCare Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

By: /s/ Luisa Ingargiola
Luisa Ingargiola
Chief Financial Officer
(Principal Financial and Accounting Officer)

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

The undersigned, David K. Jin and Luisa Ingargiola, in their capacities as Chief Executive Officer and Chief Financial Officer, respectively, of Avalon GloboCare Corp. (the "Registrant") do each hereby certify with respect to the Quarterly Report on Form 10-Q of the Registrant for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that, to the best of their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of, and for, the periods presented in this Report.

Date: November 9, 2020

/s/ David K. Jin

David K. Jin
Chief Executive Officer, President and Director (Principal Executive Officer)

Date: November 9, 2020

/s/ Luisa Ingargiola

Luisa Ingargiola
Chief Financial Officer
(Principal Financial and Accounting Officer)