# APPENDIX 4E

## PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

### 31 DECEMBER 2019 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2018)

| | $USD | up/down | % movement |
|---|---|---|---|
| **Revenue from ordinary activities** | $639,704 | down | (36.19%) |
| Loss after tax from ordinary activities attributable to members | ($13,293,976) | up | 143.99% |
| Loss after tax attributable to members | ($13,293,976) | up | 143.99% |

**Dividend information**

| | Amount per security $USD | Franked amount per security $USD | Tax rate for franking credit |
|---|---|---|---|
| Dividend | Nil | Nil | N/A |
| Previous corresponding dividend | Nil | Nil | N/A |

**Net tangible asset backing**

| | 31 Dec 2019 $USD | 31 Dec 2018 $USD |
|---|---|---|
| Net tangible asset per share of common stock | $0.08 | ($0.14) |
| Net tangible asset per CDI | $0.08 | N/A |

- **Annual financial results:**
  This report is based on the accompanying consolidated 2019 Financial Statements which have been audited by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Report included in the 2019 Financial Statements.

- **Changes in control over entities:**
  There were no entities over which control has been gained or lost during 2019.

- **Details of dividends and dividend reinvestment plans:**
  No dividends have been declared or proposed.

- **Details of associates or joint ventures:**
  N/A

- **Set of accounting standards used in compiling the report:**
  The audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (US GAAP) and are denominated in U.S. dollars.

- **Details of audit disputes or audit qualification:**
  None

**A commentary on the results for the period:**

The net loss for the year increased to $13,293,976 compared to $5,448,482 for the previous corresponding period due primarily to non-cash interest and note conversion-related charges.

Total revenue for the year was $639,704 compared to $1,002,449 for the previous corresponding period.

Total operating expenses increased to $7,187,079 from $5,819,687 because of increased expenses primarily associated with staffing expansion and costs associated with being a public company.

The Company had cash and cash equivalents of $5,048,893 at 31 December 2019 compared to $1,588,348 at 31 December 2018. Net cash flow from financing activities for the year was $10,451,472.

Please refer to our audited consolidated financial statements, with accompanying notes, which are attached hereto.

# IMRICOR MEDICAL SYSTEMS INC.
Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years December 31, 2019 and 2018

## IMRICOR MEDICAL SYSTEMS INC.

TABLE OF CONTENTS

# INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors
Imricor Medical Systems Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Imricor Medical Systems Inc., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imricor Medical Systems Inc. as of December 31, 2019 and 2018 and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in Note 3 to the financial statements, the company's accumulated deficit and need for additional working capital raise substantial doubt about its ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 3 to the financial statements. The financial statements do not include any adjustments that might result from this uncertainty. Our opinion is not modified with respect to that matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 19, 2020

# IMRICOR MEDICAL SYSTEMS INC.
## BALANCE SHEETS
As of December 31, 2019 and 2018

***ASSETS***

| | 2019 | 2018 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 5,048,893 | $ 1,588,348 |
| Accounts receivable | 256,294 | 55,856 |
| Inventory | 1,220,616 | 374,316 |
| Prepaid expenses and other current assets | 287,787 | 67,405 |
| Total Current Assets | 6,813,590 | 2,085,925 |
| **ACCOUNTS RECEIVABLE-LONG TERM** | 277,070 | 316,540 |
| **PROPERTY AND EQUIPMENT, NET** | 2,285,390 | 2,115,102 |
| **OTHER ASSETS** | 192,174 | 211,375 |
| **OPERATING LEASE RIGHT OF USE ASSETS** | 453,305 | - |
| **PREPAID SERVICE AGREEMENT** | 500,000 | 500,000 |
| **TOTAL ASSETS** | $ 10,521,529 | $ 5,228,942 |

***LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)***

| | 2019 | 2018 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 540,980 | $ 274,314 |
| Accrued expenses | 367,497 | 150,026 |
| Current portion of contract liabilities | 14,557 | - |
| Current portion of operating lease liabilities | 118,843 | - |
| Current portion of finance lease liability | 8,420 | 3,004 |
| Current portion of financing obligation | 374,023 | - |
| Total Current Liabilities | 1,424,320 | 427,344 |
| **LONG-TERM LIABILITIES** | | |
| Contract liabilities, net of current portion | 592,853 | 592,853 |
| Accrued interest | - | 506,147 |
| Convertible notes, net of discount | - | 9,596,609 |
| Operating lease liabilities, net of current portion | 330,803 | - |
| Finance lease liability, net of current portion | 28,160 | - |
| Financing obligation, net of current portion | 1,111,976 | - |
| Total Liabilities | 3,488,112 | 11,122,953 |
| **COMMITMENTS AND CONTINGENCIES (NOTE 7)** | | |
| **STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| Preferred stock, $0.0001 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2019 and 2018 | - | - |
| Common stock, $0.0001 and $0.01 par value as of December 31, 2019 and 2018, respectively: 535,000,000 and 120,000,000 shares authorized as of December 31, 2019 and 2018, respectively and 92,682,535 and 44,002,813 shares issued and outstanding as of December 31, 2019 and 2018, respectively | 9,268 | 420,028 |
| Additional paid-in capital, common stock | 47,449,853 | 20,817,689 |
| Accumulated deficit | (40,425,704) | (27,131,728) |
| Total Stockholders' Equity (Deficit) | 7,033,417 | (5,894,011) |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | $ 10,521,529 | $ 5,228,942 |

See accompanying notes to financial statements

# IMRICOR MEDICAL SYSTEMS INC.

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2019 and 2018

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Product sales | $ | 376,321 | $ | - |
| Royalties and license fees | | - | | 811,538 |
| Contract revenue | | 263,383 | | 190,911 |
| Total Revenue | | 639,704 | | 1,002,449 |
| **COSTS AND EXPENSES** | | | | |
| Cost of goods sold | | 377,365 | | - |
| Sales and marketing | | 573,058 | | 703,532 |
| Research and development | | 3,601,203 | | 3,526,193 |
| General and administrative | | 2,635,453 | | 1,589,962 |
| Total Operating Expenses | | 7,187,079 | | 5,819,687 |
| Loss from Operations | | (6,547,375) | | (4,817,238) |
| **OTHER INCOME (EXPENSE)** | | | | |
| Interest income | | 13,856 | | 13,009 |
| Foreign currency exchange gain | | 216,139 | | 158,257 |
| Down round expense (**NOTE 5**) | | (1,802,129) | | - |
| Beneficial conversion feature expense (**NOTE 5**) | | (4,129,856) | | - |
| Interest expense | | (1,030,732) | | (799,760) |
| Other expense | | (13,879) | | (2,750) |
| Total Other Income (Expense) | | (6,746,601) | | (631,244) |
| **NET LOSS** | $ | (13,293,976) | $ | (5,448,482) |
| **EARNINGS PER SHARE:** | | | | |
| Basic and diluted loss per common share | $ | (0.22) | $ | (0.13) |
| Basic and diluted weighted average shares outstanding | | 60,526,541 | | 41,997,662 |

# IMRICOR MEDICAL SYSTEMS INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2019 and 2018

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|
| **BALANCES, December 31, 2017** | 41,982,813 | $419,828 | $20,369,729 | $(24,897,618) | $(4,108,061) |
| **Cumulative effect of adopting ASC 606 (Note 2)** | - | - | - | 3,214,372 | 3,214,372 |
| **BALANCES, January 1, 2018** | 41,982,813 | 419,828 | 20,369,729 | (21,683,246) | (893,689) |
| Stock-based compensation expense | - | - | 437,120 | - | 437,120 |
| Exercise of stock options | 20,000 | 200 | 10,840 | - | 11,040 |
| Net loss | - | - | - | (5,448,482) | (5,448,482) |
| **BALANCES, December 31, 2018** | 42,002,813 | 420,028 | 20,817,689 | (27,131,728) | (5,894,011) |
| Stock-based compensation expense | - | - | 533,110 | - | 533,110 |
| Exercise of warrants | 150,000 | 1,500 | 49,650 | - | 51,150 |
| Exercise of stock options | 2,281,538 | 21,924 | 133,166 | - | 155,090 |
| Change in par value from $0.01 to $0.0001 | - | (439,009) | 439,009 | - | - |
| Issuance of common stock for convertible notes and accrued interest | 29,217,437 | 2,922 | 12,530,842 | - | 12,533,764 |
| Issuance of common stock, net of issuance costs paid in cash of $1,752,176 | 15,662,650 | 1,566 | 7,014,739 | - | 7,016,305 |
| Issuance of common stock for services related to equity financing | 180,722 | 18 | (18) | - | - |
| Issuance of down round common stock | 3,187,375 | 319 | 1,801,810 | - | 1,802,129 |
| Beneficial conversion feature of convertible notes | - | - | 4,129,856 | - | 4,129,856 |
| Net loss | - | - | - | (13,293,976) | (13,293,976) |
| **BALANCES, December 31, 2019** | 92,682,535 | $9,268 | $47,449,853 | $(40,425,704) | $7,033,417 |

# IMRICOR MEDICAL SYSTEMS INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (13,293,976) | $ (5,448,482 |
| Adjustments to reconcile net loss to net cash flows from operating activities | | |
| Depreciation | 257,300 | 77,531 |
| Stock-based compensation expense | 533,110 | 437,120 |
| Gain on disposal of property and equipment | (26,250) | - |
| Amortization of debt issuance costs | 174,044 | 103,963 |
| Accrued interest | 578,295 | 542,073 |
| Beneficial conversion feature expense | 4,129,856 | 153,071 |
| Down round expense | 1,802,129 | - |
| Foreign currency exchange gain | (216,139) | (158,257) |
| Changes in assets and liabilities | | |
| Accounts receivable | (160,968) | 26,673 |
| Inventory | (846,300) | (226,395) |
| Prepaid expenses and other assets | (40,260) | 7,570 |
| Accounts payable | 249,138 | 58,740 |
| Accrued expenses | 217,471 | 4,084 |
| Contract liabilities | 14,557 | (311,539) |
| Net Cash Flows from Operating Activities | (6,627,993) | (4,733,848) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payment of security deposit | (164,580) | (3,861) |
| Purchases of property and equipment | (364,758) | (146,732) |
| Net Cash Flows from Investing Activities | (529,338) | (150,593) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from exercise of options and warrants | 206,240 | 11,040 |
| Proceeds from convertible notes | 1,745,932 | 4,750,760 |
| Proceeds from financing obligation | 1,700,000 | - |
| Payments on financing obligation | (214,001) | - |
| Debt issuance costs associated with convertible notes | - | (49,347) |
| Proceeds from issuance of common stock, net | 7,016,305 | - |
| Payments on finance lease liability | (3,004) | (8,744) |
| Net Cash Flows from Financing Activities | 10,451,472 | 4,703,709 |
| **Net Change in Cash** | 3,294,141 | (180,732) |
| CASH - Beginning of Year | 1,588,348 | 1,769,080 |
| Effect of foreign currency exchange rate changes on cash | 166,404 | - |
| **CASH - End of Year** | $ 5,048,893 | $ 1,588,348 |
| **Supplemental cash flow disclosure** | | |
| Cash paid for interest | $ 278,393 | $ 353 |
| **Noncash investing and financing activities** | | |
| 2018 Convertible notes issued in exchange for 2017 Notes and accrued interest | $ - | $ 2,551,186 |
| Convertible notes issued in exchange for debt issuance costs | $ - | $ 228,660 |
| Service agreement received in exchange for convertible notes | $ - | $ 500,000 |
| Property and equipment received in exchange for convertible notes | $ - | $ 1,900,000 |
| Common stock issued for 2019 and 2018 Notes and accrued interest | $ 12,533,764 | $ - |

## NOTE 1 - Summary of Significant Accounting Policies

*Nature of Operations and Basis of Presentation*

Imricor Medical Systems, Inc. ("Imricor" and the "Company") is a U.S.-based medical device company that seeks to address the current issues with traditional x-ray-guided ablation procedures through the development of MRI-guided technology. Incorporated in the State of Delaware in 2006, the Company's principal focus is the design, manufacturing, sale and distribution of MRI-compatible products for cardiac catheter ablation procedures. Imricor's unique technology utilizes an intellectual property (IP) portfolio that includes technology developed in-house, as well as IP originating from Johns Hopkins University and Koninklijke Philips N.V. The Company is headquartered in Burnsville, Minnesota, where it has development and manufacturing facilities. Imricor is a pioneer and leader in developing MRI-compatible products for cardiac catheter ablation procedures and will be the first company in the world to bring commercially viable and safe MRI-compatible products to the cardiac catheter ablation market. The Company's primary product offering, the Vision-MR Ablation Catheter is specifically designed to work under real-time MRI guidance, with the intent of enabling higher success rates along with a faster and safer treatment compared to conventional procedures using x-ray guided catheters. Historically, Imricor generated income from licensing some of its IP for use in implantable devices and performing contract research, but expects to generate most of its future income from the sale of the MRI-compatible products it has developed for use in cardiac catheter ablation procedures (comprising single-use consumables and capital goods). On January 13, 2016, Imricor obtained CE mark approval to place one of its key products, the Advantage-MR EP Recorder/Stimulator System, on the market in the European Union. On January 23, 2020, the Company obtained CE mark approval for its other key products, the Vision-MR Ablation Catheter (with an indication for treating type I atrial flutter) and the Vision-MR Dispersive Electrode.

The Company has prepared the accompanying financial statements and notes in conformity with accounting principles generally accepted in the United States of America (US GAAP).

The Company's financial statements and notes are presented in United States dollar.

*Cash*

Cash consists of funds in depository accounts. The Company holds cash with high quality financial institutions and at times, such balances may be in excess of federal insurance limits.

*Accounts Receivable*

Accounts receivable are unsecured, are recorded at net realizable value, and do not bear interest except if a revenue transaction has a significant financing component (see **NOTE 2**). The Company makes judgments as to its ability to collect outstanding receivables based upon significant patterns of uncollectability, historical experience, and managements' evaluation of specific accounts and will provide an allowance for credit losses when collection becomes doubtful. The Company performs credit evaluations of its customers' financial condition on an as-needed basis. Payment is generally due 30 days from the invoice date and accounts past 30 days are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the related allowance. To date the Company has not experienced any write-offs or significant deterioration of its accounts receivable aging, and therefore, no allowance for doubtful accounts was considered necessary as of December 31, 2019 or 2018.

Accounts receivable includes unbilled receivables of $39,470 and $40,655 as of December 31, 2019 and 2018, respectively, which represents the current portion of minimum royalties due to the Company during the years ended December 31, 2020 and 2019. The long-term accounts receivable relates to minimum royalties due to the Company for years ending after December 31, 2020 (see **NOTE 2)**.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Inventory*

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. The Company has reserved $76,910 and $0 as an allowance for excess or obsolete inventory as of December 31, 2019 and 2018, respectively. Inventories are as follows as of December 31, 2019 and December 31, 2018:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 822,217 | $ 320,847 |
| Work in process | 65,765 | 32,778 |
| Finish goods | 409,544 | 20,691 |
| Less: obsolescence reserve | (76,910) | - |
| | $ 1,220,616 | $ 374,316 |

*Property and Equipment*

Property and equipment are stated at cost. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the estimated useful lives of the related assets or life of the lease.

The standard estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Office furniture and equipment | 5 years |
| Lab and production equipment | 5 years |
| Computer equipment | 3 years |
| MRI scanner | 7 years |
| Leasehold improvements | 7 years |

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the impairment tests indicate that the carrying value of the asset, or asset group, is greater than the expected undiscounted cash flows to be generated by such asset or asset group, further analysis is performed to determine the fair value of the asset or asset group. To the extent the fair value of the asset or asset group is less than its carrying value, an impairment loss is recognized equal to the amount the carrying value of the asset or asset group exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or asset groups, or by discounting estimated future cash flows from such assets or asset groups using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets or asset groups, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. To date, the Company has not recognized any impairment loss for property and equipment.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Research and Development Costs*

The Company expenses research and development costs as incurred.

*Other Assets*

Other assets on the balance sheet include security deposits related to the Company's operating leases and financing obligation.

*Patents*

Expenditures for patent costs are charged to operations as incurred.

*Income Taxes*

Income taxes are recorded under the liability method. Deferred income taxes are provided for temporary differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance to the extent the realization of the related deferred tax asset is not assured.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

*Loss per Share*

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 60,526,541 and 41,977,662 for the years ended December 31, 2019 and 2018, respectively.

Dilutive net income (loss) per share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. The effects of including incremental shares associated with convertible notes, options, warrants and unvested royalty conversion rights are anti-dilutive due to the net loss incurred and are not included in the diluted weighted average number of shares of common stock outstanding for the years ending December 31, 2019 and 2018.

*Foreign currency exchange gains (losses)*

During the years ended December 31, 2019 and 2018, the Company had various transactions in foreign currency, including convertible note investments from Australian investors (see **NOTE 5**) denominated in Australian dollars, accounts payable for certain expenses to Australian vendors that are denominated in Australian dollars, accounts receivable denominated in Euros, and cash accounts denominated in both Australian dollars and Euros. These assets and liabilities have been translated into U.S. dollars at year-end exchange rates. Foreign currency exchange gains and losses are included in the statements of operations within other income (expense).

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Financial Instruments*

The carrying amounts for all financial instruments approximate fair value. The carrying amounts for cash, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The fair value of convertible notes approximates carrying value and have been estimated based on discounted cash flows using interest rates being offered for similar instruments having the same or similar maturities and collateral requirements.

*Revenue Recognition*

The Company recognizes revenue in accordance with Accounting Standards Codification, Topic 606, Revenue from Contracts with Customers (ASC 606), which the Company adopted effective January 1, 2018. The Company recognizes revenue for product sales when its customers obtain control of the products, which occurs at a point in time, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods. Control is transferred to customers when title to the goods and risk of loss transfers, which was upon shipment for products sales recognized during the year ended December 31, 2019.

The Company’s product sales contain a single performance obligation and the transaction price is based on invoice price as there is no variable consideration impacting the transaction price.

Sales tax and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. Product sales include shipment and handling fees charged to customers. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

Revenue from service contracts is recognized over the contract period on a straight-line basis.

Historically, the Company has generated revenue principally from technology licenses, research and development services and government contracts. Consideration received for revenue arrangements with multiple components is allocated among the separate performance obligations based upon their relative estimated standalone selling price.

In determining the appropriate amount of revenue to be recognized as we fulfill our obligations under our agreements, we perform the following steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when (or as) each performance obligation is satisfied.

The Company enters into collaboration agreements for research and development services that are within the scope of ASC 606, under which it licenses certain rights to its intellectual property to third parties. The terms of these arrangements typically include payment to the Company of one or more of the following: upfront non-refundable license fees; reimbursement of certain costs; development milestone payments; and royalties on net sales of licensed products. The amount of variable consideration is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period. The contracts into which the Company enters generally do not include significant financing components.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

As part of the accounting for these arrangements, the Company must use significant judgment to determine: (a) the transaction price under step (iii) above and (b) the timing of revenue recognition, including the appropriate measure of progress in step (v) above. The Company uses judgment to determine whether milestones or other variable consideration, except for royalties, should be included in the transaction price, as described further below. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Company's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Company generally allocates the milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

Amounts received prior to revenue recognition are recorded as a contract liability. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as current portion of contract liabilities in the accompanying balance sheets. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date are classified as contract liabilities, net of current portion.

*Licenses of Intellectual Property*

In assessing whether a right to use license is distinct from the other promises, the Company considers factors such as the research and development capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Company considers whether the collaboration partner can benefit from a license for its intended purpose without the receipt of the remaining promise(s), whether the value of the license is dependent on the unsatisfied promise(s), whether there are other vendors that could provide the remaining promise(s), and whether it is separately identifiable from the remaining promise(s). For licenses that are combined with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue.

The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

*Milestone Payments*

At the inception of each arrangement that includes development milestone payments, the Company evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgment involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of each subsequent reporting period, the Company reevaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Royalties*

Minimum guaranteed royalties are recognized upon the execution of the license agreement as these proceeds are not variable consideration. If it is determined that there is a significant financing component in the agreement, revenue is reduced for the amount that represents future interest income. For agreements that include sales-based royalties, including milestone payments based on a level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

*Stock-Based Compensation*

The Company recognizes compensation expense for all stock-based payment awards made to employees and non-employee directors and consultants in its statements of operations based on their fair values at the date of grant based on the Black-Scholes pricing model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period for all awards, net of an estimated forfeiture rate, resulting in the recognition of compensation expense for only those shares expected to vest. Compensation expense is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. See **NOTE 8** for further details and assumptions regarding the Black-Scholes pricing model.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

*Subsequent Events*

For the year ended December 31, 2019, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through February 19, 2020.

## NOTE 1 - Summary of Significant Accounting Policies (cont.)

*Recent Accounting Standards*

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "Leases." ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (for public entities), and interim periods within fiscal years beginning after December 15, 2018 (for public entities), with earlier application permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. The Company has performed a review of the requirements of the new guidance and has identified which of its leases are within the scope of ASU 2016-02. The Company has reviewed all of its lease contracts and applied the new standard to the lease contracts and compared the results to our former accounting methods. The Company adopted this ASU beginning on January 1, 2019 using the transition option provided under ASU 2018-11. The impact of the adoption on January 1, 2019 was an increase of $220,000 to other long-term assets and current and long-term liabilities, respectively, on the balance sheet, with no impact to the statement of operations. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard which allowed it to carry forward the historical lease classification. (See **NOTE 6**).

## NOTE 2 – Revenue Recognition

Effective January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, and financial instruments.

*Impact of Adoption*

As a result of adopting the standard, the Company recognized an adjustment to reduce the accumulated deficit by $3,214,372 mainly related to accelerating revenue related to minimum royalties and license and development arrangements where the Company has fulfilled their performance obligations as of December 31, 2017.

*Royalties and License Fees*

On June 1, 2012, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which could total up to $6,000,000. All these milestone payments, including the non-refundable license fee, were collected on or before October 2015. In addition, the agreement provides for a royalty of 3% of product sales, subject to a minimum of $50,000 per year.

The Company determined that the promises pursuant to the agreement were not distinct from one another, as the license has limited value without the remaining obligations. All obligations were fulfilled on or before October 2015. Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in the elimination of the remaining balance of $1,333,333 in contract liabilities, as the performance obligation has been fulfilled.

**NOTE 2 – Revenue Recognition (cont.)**

In addition, the adoption of ASC 606 resulted in the recognition of the portion of remaining minimum royalty payments to be received, less the portion which represents future interest income. The amount expected to be received within 12 months is included in Accounts Receivable and the amounts expected to be received in future periods beyond 12 months are included in Accounts Receivable-Long term. Any royalties received in the future which are more than the minimum guaranteed royalty will be recognized when they are earned.

On November 27, 2013, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to $7,000,000. The Company collected $6,000,000 of these milestone payments, including the non-refundable license fee, on or before October 2016.

The Company determined there were three distinct performance obligations pursuant to the agreement each related to a separate product development program. The first milestone was completed in October 2014. The second milestone has effectively been cancelled. The Company currently has no intention to engage in the development program and there is no contractual obligation to do so. The customer paid the third milestone payment, in advance of final completion of the obligation, as the customer put the project on hold and did not want to lose their exclusive rights to the intellectual property.

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in an allocation of the upfront payment to the first and third milestones on a relative standalone value basis. No allocation of the upfront payment was made to the second milestone, given the Company's position that this development program has been effectively cancelled. The Company has estimated that 72% of the third milestone was completed prior to January 1, 2018. As a result of the adoption of ASC 606, the remaining contract liability associated with the first milestone and 72% of the contract liability associated with the third milestone was eliminated. $373,333, which represents 28% of the third milestone as well as the relative portion of the upfront payment, is included in long-term contract liabilities as of December 31, 2019 and 2018. The customer sold the portion of the business which held this license in May 2018. The license has been assigned to the purchaser. The project is still on hold with no plans to work on final development during the next 12 months, and therefore, the contract liability is included in long-term liabilities.

In November 2017, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to $2,250,000. The non-refundable license fee of $500,000 was collected in November 2017 and two milestone payments totaling $500,000 were collected during the year ended December 31, 2018.

The Company determined that the promises pursuant to the agreement were not distinct from one another, as the license has limited value without the remaining obligations.

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in a change in recognition of the upfront payment from over the life of the license to over the period of expected performance. As of December 31, 2018, the Company determined that it would not be able to fulfill the remaining two milestones in the timeframe as outlined in the agreement. The Company was in negotiations with the customer to amend the agreement to change the dates for completion of the remaining milestones. However, as of December 31, 2018, the Company had completed all of its performance obligations related to the milestone's probable of completion. Consequently, the Company recognized the remaining upfront non-refundable license fee of $461,538 during the year ended December 31, 2018. In addition, during the year ended December 31, 2018, the Company recognized $350,000 related to the achievement of the first two milestones which was recognized over time as the performance obligation was fulfilled, subject to constraint.

The agreement was amended in March 2019. The timelines for the two remaining milestones were extended through the year ended December 31, 2019. The agreement was again amended in October 2019 to extend the timelines to June 30, 2020 and revenue will be recognized upon completion of each remaining milestone. No revenue was recognized related to this contract during the year ended December 31, 2019.

**NOTE 2 – Revenue Recognition (cont.)**

*Government Contract Revenue*

The Company was awarded a contract with the government on September 26, 2017 for up to $2,402,951 to develop a Magnetic Resonance Imaging (MRI) compatible injection catheter for MRI-guided procedures. The Company recognized revenue for this contract over time using the “as invoiced” practical expedient. There was no change in the pattern of revenue recognition under ASC 606 for this contract. The Company recognized $263,383 and $190,911 as revenue during the years ended December 31, 2019 and 2018, respectively. The Company cancelled the contract in December 2019 to allow engineering resources to focus on the development of its core pipeline products.

*Contract Liabilities*

Amounts received prior to satisfying the above revenue recognition criteria are recorded as contract liabilities in the accompanying balance sheets, with the contract liabilities to be recognized beyond one year being classified as non-current contract liabilities. As of December 31, 2019, and 2018, the Company had contract liabilities of $607,410 and $592,853, respectively.

The following table sets forth information related to the contract liabilities for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Balance at the beginning of the year | $ 592,853 | $ 3,719,695 |
| Decrease a result of cumulative catch-up arising from the adoption of ASC 606 | - | (2,815,303) |
| Decrease from revenue recognized for completion of performance obligations that was included in contract liabilities at the beginning of the period | - | (311,539) |
| Cash received in advance for service contract | 14,557 | - |
| Balance at the end of the year | $ 607,410 | $ 592,853 |

The cumulative effect of the changes made to our balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

| | Balance as of December 31, 2017 | Adjustment | Balance as of January 1, 2018 |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Accounts receivable | $ - | $ 41,874 | $ 41,874 |
| Total Current Assets | 2,175,757 | 41,874 | 2,217,631 |
| ACCOUNTS RECEIVABLE-LONG TERM | - | 357,195 | 357,195 |
| TOTAL ASSETS | $ 2,345,391 | $ 399,069 | $ 2,744,460 |
| CURRENT LIABILITIES | | | |
| Current portion of contract liabilities | $ 465,759 | $ (154,220 ) | $ 311,539 |
| Total Current Liabilities | 834,324 | (154,220 ) | 680,104 |
| LONG-TERM LIABILITIES | | | |
| Contract liabilities, net current portion | 3,253,936 | (2,661,083 ) | 592,853 |
| Total Liabilities | 6,453,452 | (2,815,303 ) | 3,638,149 |
| STOCKHOLDERS’ DEFICIT | | | |
| Accumulated deficit | (24,897,618) | 3,214,372 | (21,683,246) |
| Total Stockholders’ Deficit | (4,108,061) | 3,214,372 | (893,689) |
| TOTAL LIABILITIES AND STOCKHOLDERS’ DEFICIT | $ 2,345,391 | $ 399,069 | $ 2,744,460 |

**NOTE 3 – Going Concern**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both of the years ended December 31, 2019 and 2018, had an accumulated deficit as of December 31, 2019 and is in need of additional working capital to fund future operations. These conditions raise substantial doubt about its ability to continue as a going concern for twelve months from the report date.

To continue in existence and expand its operations, the Company will be required to, and management plans to, raise additional working capital through an equity or debt offering and ultimately attain profitable operations. If the Company is not able to raise additional working capital, it would have a material adverse effect on the operations of the Company and continuing research and development of its product, as well as commercialization.

**NOTE 4 – Property and Equipment**

Property and equipment consisted of the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Office furniture and equipment | $ 186,030 | $ 179,133 |
| Lab and production equipment | 1,099,744 | 742,977 |
| Computer equipment | 194,890 | 178,259 |
| MRI scanner | 1,200,000 | 1,200,000 |
| Leasehold improvements | 723,952 | 717,283 |
| | 3,404,616 | 3,017,652 |
| Less: Accumulated depreciation and amortization | (1,119,226) | (902,550) |
| | $ 2,285,390 | $ 2,115,102 |

Depreciation expense was $257,300 and $77,531 for the years ended December 31, 2019 and 2018, respectively. The MRI scanner and leasehold improvements related to new space for the MRI scanner were placed in service in May 2019, which is when depreciation began on those assets.

**NOTE 5 – Convertible Notes**

During September and October 2017, the Company issued $2,325,000 in unsecured convertible notes (“2017 Notes”) with several equity investors, including $885,000 issued to related parties. The notes bore interest at a rate of six percent annually from the date of issuance and principal and interest were due on August 31, 2018. The 2017 Notes, including accrued interest, were automatically convertible into the next round of equity financing if at least $5,000,000 in new funding was raised (“Qualified Financing”) prior to the maturity date, at a conversion price equal to 94% of the price per share paid by investors in the Qualified Financing. As the conversion features were contingent upon completion of a Qualified Financing, no beneficial conversion feature was recorded upon commencement of the notes.

**NOTE 5 – Convertible Notes (cont.)**

During April 2018, the 2017 Notes and accrued interest of $2,398,115 were converted, with a six percent discount of $153,071, into $2,551,186 in new unsecured convertible notes ("2018 Notes"), of which $967,686 was to related parties. The Company also issued $7,379,420 of new 2018 Notes with several current and new investors, including $260,000 to related parties. In connection with the issuance of the 2018 Notes, a strategic investor invested $3,400,000 consisting of $1,000,000 in cash, and $2,400,000 of in-kind contribution. The in-kind contribution included $1,200,000 for an MRI scanner, $500,000 for a four-year prepaid service agreement on the MRI scanner, and $700,000 in a leasehold improvement allowance to build out space for the MRI scanner. The MRI scanner and leasehold improvements are included in property and equipment as of both December 31, 2019 and 2018. The prepaid service agreement is included in other long-term assets. In connection with the 2018 Notes, the Company incurred debt issuance costs of $278,007, of which $228,660 were settled with the issuance of additional 2018 Notes. These debt issuance costs were being amortized straight-line over the expected maturity date and recognized as interest expense. The remaining unamortized balance was expensed upon the Company's completion of its Australian Initial Public Offering (IPO). The 2018 Notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal is paid or converted.

On February 4, April 3 and April 4, 2019, the Company issued $1,745,932 in additional convertible notes, ("2019 Notes"), respectively, including $662,506 to related parties. The notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal was converted.

The 2018 and 2019 Notes and accrued interest totaling $12,533,764 automatically converted into 29,217,437 Conversion Shares immediately prior to, and contingent upon, the allotment of CHESS Depositary Interests (CDIs) as a result of the IPO, (see **NOTE 8**). The number of Conversion Shares issued upon conversion of the 2018 and 2019 Notes was 75% of the IPO share price of $0.5654 per share. The Company recorded $578,295 in interest expense related to the 2018 and 2019 Notes for the year ended December 31, 2019. The Company recorded $695,144 in interest expense for the year ended December 31, 2018 related to the 2017 and 2018 Notes, of which $153,071 represented the six percent discount related to the 2017 Note conversion, and $35,926 of additional accrued interest converted, both of which were included in the convertible debt balance and $506,147 which is included in accrued interest as of December 31, 2018.

A beneficial conversion feature expense of $4,129,856 was recorded upon completion of the Company's IPO and is included as "beneficial conversion feature expense" in the Statement of Operations for the year ended December 31, 2019.

During 2016 and 2017, the Company issued $2,680,000 in unsecured convertible notes ("Notes") with several equity investors, including $100,000 to related parties. The notes bore interest at a rate of six percent annually from the date of issuance and were due on August 1, 2017. In August 2017, the Company converted the Notes and accrued interest totaling $2,798,674 into 3,833,799 shares of Common stock**.** In the event the Company issued securities within the 180-day period immediately following the conversion of the Notes ("Qualified Financing"), the Noteholders were to receive additional shares of Common stock such that total shares issued would be based upon a price that was 94% of the price paid by the subsequent investors. The 2017 Notes (described above) met the definition of a Qualified Financing. Consequently, in connection with the IPO, the Company issued 3,187,375 additional shares such that the total shares received was based upon an adjusted purchase price of $0.3986 per share in 2019. The fair value of the additional shares issued was $1,802,129 and is included as "Down round expense" in the Statement of Operations for the year ended December 31, 2019 (See **NOTE 8**). The fair value of this Down round liability as of December 31, 2018 was immaterial.

**NOTE 5 – Convertible Notes (cont.)**

The following table summarizes the Convertible notes, discount and interest as of December 31, 2018:

| | |
|---|---|
| Convertible notes-related parties | $ 1,227,686 |
| Convertible notes-all other | 8,542,967 |
| Total Convertible notes | 9,770,653 |
| Debt discount | (174,044) |
| Convertible notes, net of discount | $ 9,596,609 |
| | |
| Accrued interest-related parties | $ 68,844 |
| Accrued interest-all other | 437,303 |
| Total Accrued interest | $ 506,147 |

Interest expense is as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Convertible notes-related parties | $ 93,721 | $ 140,580 |
| Convertible notes-all other | 484,574 | 554,564 |
| Total convertible notes | $ 578,295 | $ 695,144 |

**NOTE 6 – Leases**

*Operating Leases*

In March 2007, the Company entered into an operating lease agreement for its office space which was originally set to expire in July 2014. The lease was extended through July 2019. In June 2019, the lease was extended through October 2022. The Company entered into a second operating lease agreement for office and warehouse space in August 2018 which commenced on January 1, 2019 and expires in March 2026. Neither lease includes renewal or extension rights. Both lease agreements require the Company to pay a pro rata portion of the lessor's actual operating expenses which are considered variable lease costs as the expenses are trued up on an annual basis. Rent expense of $120,234 was incurred for the year ended December 31, 2018.

On January 1, 2019, the Company recorded a $220,000 right to use asset and lease liability associated with these leases in accordance with ASC 842. In June 2019, when the extension for the office space lease was executed, the Company recorded a $358,506 right to use asset and lease liability associated with the lease extension.

As our operating leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. As of December 31, 2019, the remaining lease term was 4.0 years and discount rate was 8.0%. For the year ended December 31, 2019, the operating cash outflows from our operating leases for office and manufacturing space was $144,195.

**NOTE 6 – Leases (cont.)**

As of December 31, 2019, maturities of our operating lease liabilities are as follows:

| | | |
|---|---|---|
| 2020 | $ | 150,453 |
| 2021 | | 151,305 |
| 2022 | | 121,662 |
| 2023 | | 31,008 |
| 2024 | | 32,664 |
| 2025 and thereafter | | 42,113 |
| Total lease payments | | 529,205 |
| Less interest | | (79,559) |
| Present value of lease liabilities | $ | 449,646 |

The cost components of the Company's operating leases were as follows for the year ended December 31, 2019:

| | |
|---|---|
| Operating lease cost | $ 154,687 |
| Variable lease cost | 73,375 |
| Total | $ 228,062 |

*Finance Lease Liability*

Prior to the adoption of ASC 842, the Company acquired various equipment during 2014 under capital leases. The cost of the equipment capitalized was $104,017. Accumulated amortization as of December 31, 2019 and 2018 was $104,017 and $100,381, respectively. Amortization expense is included in general and administrative expenses on the statement of operations as depreciation expense. The lease terminated in April 2019.

In December 2019, the Company entered into a $36,580 finance lease agreement for certain equipment. The Company traded in fully depreciated equipment worth $26,250. The total equipment value of $62,380 is included in property and equipment. The interest rate implied in the finance lease is 5.4% and the term of the lease is four years.

The Company's remaining payments under the terms of the finance lease are as follows as of December 31, 2019:

| | | |
|---|---|---|
| 2020 | $ | 10,188 |
| 2021 | | 10,188 |
| 2022 | | 10,188 |
| 2023 | | 10,188 |
| Total payments | | 40,752 |
| Less amount representing interest | | (4,172) |
| Total present value of total payments | | 36,580 |
| Less current portion | | (8,420) |
| Finance lease liability, net of current portion | $ | 28,160 |

## NOTE 6 – Leases (cont.)

*Financing Obligation*

On June 1, 2019, the Company entered into a sale leaseback agreement for the purchase of its MRI scanner ($1,200,000) and related Service Agreement ($500,000). The term of the lease is 36 months with a monthly rental payment of $54,865. Based on ASC 842, the lease meets the requirements to be classified as a finance lease. Therefore, the agreement is considered a failed sale leaseback arrangement and is not accounted for as a lease under ASC 842, but rather is accounted for as a financing obligation. The lease agreement includes an option to repurchase the related assets for $425,000 at the end of the lease term, which the Company deems it is reasonably certain to do. The MRI scanner is included in property and equipment and the Service Agreement is in Long-term assets. The interest rate implied in the financing obligation is 21.5%.

The Company's remaining payments under the terms of the financing obligation are as follows as of December 31, 2019:

| | |
|---|---|
| 2020 | $ 658,380 |
| 2021 | 658,380 |
| 2022 | 274,325 |
| Expected buy out at end of lease term | 425,000 |
| Total payments | 2,016,085 |
| Less amount representing interest | (530,086) |
| Total present value of total payments | 1,485,999 |
| Less current portion | (374,023) |
| Financing obligation, net of current portion | $ 1,111,976 |

## NOTE 7 - Commitments and Contingencies

*Retirement Plan*

The Company maintains a 401(k) retirement plan for its employees in which eligible employees can contribute a percentage of their compensation. The Company may also make discretionary contributions. The Company contributed $22,770 during the year ended December 31, 2019. The Company did not make any contributions for the year ended December 31, 2018.

*Employment Agreements*

The Company has employment agreements with the CEO and senior executives of the Company. The agreements require severance of twelve and six months, respectively, of current annual salary and medical insurance in the event employment is terminated without cause, respectively.

## NOTE 8 - Stockholders' Equity (Deficit)

*Capital Stock Authorized*

As of December 31, 2019, the Board of Directors of the Company had authorized 560,000,000 shares of capital stock, consisting of 535,000,000 shares of common stock and 25,000,000 shares of preferred stock. As December 31, 2018, the Board of Directors of the Company had authorized 145,000,000 shares of capital stock, consisting of 120,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

During April 2018, 20,000 options to purchase common stock were exercised at $0.552 per share for total proceeds of $11,040.

During January and March 2019, 150,000 warrants to purchase common stock were exercised at $0.341 per share for total proceeds of $51,150.

During January 2019, a total of 2,400,000 options to purchase common stock were exercised with a portion of the exercise via a cashless exercise. 1,282,474 options to purchase common stock were exercised at $0.097 per share for total proceeds of $124,400. In addition, 1,117,526 options to purchase common stock were exercised at $0.097 per share on a cashless exercise basis at a fair market value of $0.52 per share, resulting in the issuance of 909,064 shares of common stock.

On August 29, 2019, the Company completed its Initial Public Offering and associated listing on the Australian Securities Exchange (ASX). The ASX uses an electronic system called CHESS for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHESS system of holding securities or electronic transfers of legal title to shares. To enable companies to have their securities cleared and settled electronically through CHESS, depository instruments called CDIs are issued. CDIs are units of beneficial ownership in shares and are traded in a manner similar to shares of Australian companies listed on the ASX. The legal title to the shares are held by a depository, CDN, which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement. The equity capital raise consisted of 14,578,313 CDIs representing the same number of shares of common stock at $0.83 Australian dollars per share and 1,084,337 common shares at $0.5654 US dollars per share in a concurrent US Private Placement, for total proceeds of $7,016,305, net of expenses.

180,722 CDIs were issued in exchange for services related to the Company's equity financing. 3,187,375 shares of common were issued to Noteholders in connection with the down round liability (see **NOTE 5**).

In December 2019, 90,000 options to purchase common stock were exercised at $0.341 per share for total proceeds of $30,690.

*Dividend Rights*

Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the common stock shall be entitled to receive, out of any assets of the Corporation legally available therefore, any dividends as may be declared from time to time by the Board of Directors. The right to such dividends shall not be cumulative, and no right shall accrue by reason of the fact that dividends are not declared in any prior period.

*Voting Rights*

The holder of each share of common stock shall have the right to one vote for each such share, and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

**NOTE 8 - Stockholders' Equity (Deficit) (cont.)**

*Stock Option Plans*

The Company and its stockholders adopted a stock incentive plan (the "2006 Plan") in 2006. The 2006 Plan, as amended on January 26, 2011 by the shareholders, reserved 10,918,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On May 22, 2016, the Company replaced the 2006 Plan with the 2016 Plan, as the 2006 Plan was expiring. The terms of the 2016 Plan were the same as the 2006 Plan. In August 2018, the Board of Directors approved an increase of 500,000 shares to the option pool. On February 14, 2019, the Board of Directors terminated the 2016 Plan and approved the 2019 Plan, reserving 11,418,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On February 14, 2019, the Board of Directors also authorized the Company to offer to current employees, directors and consultants an option to exchange certain previously issued options for repriced options with additional vesting requirements ranging from two to four years. As a result, 5,462,600 incentive and nonqualified stock options were cancelled and reissued on March 15, 2019 resulting in incremental value of $563,546 which will be expensed over the revised vesting terms. On June 4, 2019, the Board of Directors approved an increase of 2,000,000 shares to the option pool and provided that on the first day of each of the Company's fiscal years during the term of this 2019 Plan beginning in 2020, the number of shares of Common Stock available for issuance from time to time under this 2019 Plan will be increased by an amount equal to the less of (i) five percent (5%) of the aggregate number of shares reserved under this Plan on the last day of the immediately preceding fiscal year, and (ii) such number of shares determined by the Board (the "Annual Increase"). Prior to the Company's offering on the ASX, the Board of Directors determined the exercise price of all options, but the exercise price of incentive options shall not be less than the fair value of the common stock at the date of grant. Options granted after completion of the offering on the ASX are granted at a price equal to the closing sale price of a CDI as of the date of grant, converted from Australian dollars to US dollars using the prevailing exchange rate. Vesting terms of outstanding options range from immediate to four years. In no event are the options exercisable for more than ten years after the date of grant. The Company issues new shares of common stock when stock options are exercised.

Information regarding the Company's stock options is summarized below:

| | Number of Options | Weighted- Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Options outstanding - December 31, 2018 | 9,935,833 | $ 0.56 | |
| Exercised | (2,490,000) | 0.11 | |
| Cancelled | (610,900) | 0.72 | |
| Cancelled and regranted | (5,462,600) | 0.76 | |
| Regranted | 5,462,600 | 0.52 | |
| Granted | 1,230,000 | 0.89 | |
| Options outstanding – December 31, 2019 | 8,064,933 | $ 0.58 | $ 2,175,380 |
| Options exercisable – December 31, 2019 | 1,522,333 | $ 0.56 | $ 423,860 |
| Weighted average fair value of options granted during the year ended December 31, 2019 | | $ 0.46 | |
| Weighted average fair value of options granted during the year ended December 31, 2018 | | $ 0.43 | |

As of December 31, 2019, the Company had 1,489,167 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 8.10 and 2.96 years, respectively, as of December 31, 2019.

The intrinsic value of options exercised during the years ended December 31, 2019 and 2018 was $1,059,729 and $5,960,
respectively.

**NOTE 8 - Stockholders' Equity (Deficit) (cont.)**

The fair value of option awards granted was determined using the Black-Scholes option pricing model utilizing the following assumptions:

| | 2019 | 2018 |
|---|---|---|
| Expected life | 5 - 7 years | 5 - 7 years |
| Volatility | 48.12% | 48.12% |
| Risk-free interest rate | 2.50%-2.83% | 2.83% |
| Dividend Yield | 0% | 0% |

The Company reviews its current assumptions on a periodic basis and adjusts them as necessary to determine the option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is based on an evaluation of historic expected lives from the Company's stock option grants. Volatility is based on historic volatilities of traded shares from a selected publicly traded peer group, believed to be comparable after consideration of size, maturity, profitability, growth, risk and return on investment. The Company did not use its own historical volatility as the majority of stock option grants were issued prior to or in connection with the IPO and the Company has limited volatility history. The risk-free interest rate is based on the yield of constant maturity U.S. treasury bonds with a remaining term equal to the expected life of the awards at the grant date. The expected dividend yield is zero, as the Company has not paid or declared any dividends to common stockholders and does not expect to pay dividends in the foreseeable future. Historical data is used to estimate pre-vesting forfeitures and the Company records stock-based compensation expense only for those awards that are expected to vest.

Total stock-based compensation expense resulting from options granted was $533,110 and $437,120 for the years ended December 31, 2019 and 2018, respectively, and charged to the Company's Statement of Operations as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Sales and marketing | $ 26,798 | $ 200,557 |
| Research and development | 184,991 | 208,232 |
| General and administrative | 321,321 | 28,331 |
| | $ 533,110 | $ 437,120 |

No income tax benefits were recognized related to this compensation expense due to the full valuation allowance provided on the Company's deferred income tax assets.

As of December 31, 2019, the total unrecognized compensation cost related to unvested stock options was $1,446,089. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

| | **Total** |
|---|---|
| 2020 | $ 614,908 |
| 2021 | 454,462 |
| 2022 | 259,504 |
| 2023 | 117,215 |
| Total | $ 1,446,089 |

## NOTE 8 - Stockholders' Equity (Deficit) (cont.)

*Stock Warrants*

The Company has also issued warrants to purchase shares of common stock which are summarized below:

| | Number of Warrants | Weighted- Average Exercise Price |
|---|---|---|
| Warrants outstanding – December 31, 2018 | 937,909 | $ 0.67 |
| Warants exercised | (150,000) | 0.34 |
| Warrants outstanding – December 31, 2019 | 787,909 | $ 0.73 |
| Remaining weighted average contractual life in years, as of December 31, 2019 | | 0.33 |

During January and March 2019, 150,000 warrants to purchase common stock were exercised at $0.341 per share for total proceeds of $51,150.

*Royalty Conversion Rights*

The Company has issued rights to 7,200,000 shares of common stock upon the earlier of an acquisition transaction, an initial public offering pursuant to an effective registration statement under the US Securities Act of 1933 (an initial public offering in the US), or the expiration of certain license agreements.

## NOTE 9 - Income Taxes

The Company has generated both federal and state net operating losses (NOL) of approximately $30,847,000 and federal and state research and development credit carryforwards of approximately $1,685,000 as of December 31, 2019, which, if not used, will begin to expire in 2023. The Company believes that its ability to fully utilize the existing NOL and credit carryforwards could be restricted by changes in control that may have occurred or may occur in the future and by its ability to generate net income. The Company has not yet conducted a formal study of whether, or to what extent, past changes in control of the Company impairs its NOL and credit carryforwards because such NOL and credit carryforwards cannot be utilized until the Company achieves profitability. The Company has established a full valuation allowance as of December 31, 2019 and 2018, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

Income tax expense (benefit) consists of the following for the year ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Current: | | |
| Federal | $ - | $ - |
| State | - | - |
| | - | - |
| Deferred: | | |
| Federal | (1,936,000) | (590,000) |
| State | - | - |
| | (1,936,000) | (590,000) |
| Deferred tax asset valuation allowance | 1,936,000 | 590,000 |
| Total provision (benefit) | $ - | $ - |

**NOTE 9 - Income Taxes (cont.)**

Components of deferred income taxes are as follows as of December 31:

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforwards | $ 8,020,000 | $ 6,086,000 |
| Research and development credit carryforwards | 1,348,000 | 1,168,000 |
| Stock-based compensation | 154,000 | 138,000 |
| Accrued expenses | 5,000 | 136,000 |
| Deferred revenue | 158,000 | 154,000 |
| Prepaid expenses and other assets | (130,000) | (104,000) |
| Foreign currency exchange | (43,000) | - |
| Depreciation and amortization | 7,000 | 5,000 |
| Gross deferred tax assets (liabilities) | 9,519,000 | 7,583,000 |
| Less valuation allowance | (9,519,000) | (7,583,000) |
| Net deferred tax assets | $ - | $ - |

The change in the valuation allowance was $1,936,000 and $590,000 for the years ended December 31, 2019 and 2018, respectively.

The effective tax rate for the year ended December 31, 2019 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance, non-deductible down round expense and beneficial conversion feature expense, incentive stock option expense, and research and development credits.

The Company has recognized a reserve of approximately $337,000 and $292,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2019 and 2018, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2019 remain subject to examination by all major taxing authorities due to the net operating loss carryovers. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense in the Company's Statement of Operations.

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future.