

## APPENDIX 4E

### PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

#### 31 DECEMBER 2020 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2019)

	\$USD	up/down	% movement
<b>Revenue from ordinary activities</b>	\$702,161	up	9.76%
Loss after tax from ordinary activities attributable to members	(\$12,446,473)	down	(6.38%)
Loss after tax attributable to members	(\$12,446,473)	down	(6.38%)

#### 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 2020 \$USD	31 Dec 2019 \$USD
Net tangible asset per share of common stock	\$0.23	\$0.08
Net tangible asset per CDI	\$0.23	\$0.08

- **Annual financial results:**

This report is based on the accompanying consolidated 2020 Financial Statements which have been audited by Baker Tilly Virchow Krause, LLP with the Independent Auditor's Report included in the 2020 Financial Statements.

- **Changes in control over entities:**

There were no entities over which control has been gained or lost during 2020.

- **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 decreased to \$12,446,473 compared to \$13,293,976 for the previous corresponding period due primarily to non-cash interest and note conversion-related charges incurred during the year ended December 31, 2019.

Total revenue for the year was \$702,161 compared to \$639,704 for the previous corresponding period.

Total operating expenses increased to \$12,658,421 from \$7,187,079 because of increased expenses primarily associated with staffing expansion, D&O insurance and costs associated with being a public company.

The Company had cash and cash equivalents of \$25,139,812 at 31 December 2020 compared to \$5,048,893 at 31 December 2019. Net cash flow from financing activities for the year was \$33,024,711.

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

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**IMRICOR MEDICAL SYSTEMS, INC.**  
Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years ended December 31, 2020 and 2019

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## IMRICOR MEDICAL SYSTEMS, INC.

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## Independent Auditors' Report

To the Stockholders and Board of Directors of  
Imricor Medical Systems Inc.

We have audited the accompanying financial statements of Imricor Medical Systems Inc., which comprise the balance sheets as of December 31, 2020 and 2019, 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, 2020 and 2019 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.

*Baker Tilly US, LLP*

Minneapolis, Minnesota  
February 24, 2021

**IMRICOR MEDICAL SYSTEMS, INC.**  
**BALANCE SHEETS**  
As of December 31, 2020 and 2019

<b>ASSETS</b>	2020	2019
<b>CURRENT ASSETS</b>		
Cash	\$ 25,139,812	\$ 5,048,893
Accounts receivable	223,237	256,294
Inventory	3,069,920	1,220,616
Prepaid expenses and other current assets	<u>491,628</u>	<u>287,787</u>
Total Current Assets	28,924,597	6,813,590
<b>ACCOUNTS RECEIVABLE-LONG TERM</b>	238,749	277,070
<b>PROPERTY AND EQUIPMENT, NET</b>	3,094,721	2,285,390
<b>OTHER ASSETS</b>	224,320	192,174
<b>OPERATING LEASE RIGHT OF USE ASSETS</b>	795,365	453,305
<b>PREPAID SERVICE AGREEMENT</b>	<u>291,664</u>	<u>500,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 33,569,416</u>	<u>\$ 10,521,529</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 529,132	\$ 540,980
Accrued expenses	1,068,908	367,497
Current portion of contract liabilities	40,202	14,557
Current portion of operating lease liabilities	189,143	118,843
Current portion of finance lease liability	8,886	8,420
Current portion of financing obligation	<u>462,961</u>	<u>374,023</u>
Total Current Liabilities	2,299,232	1,424,320
<b>LONG-TERM LIABILITIES</b>		
Other long-term liabilities	67,395	-
Contract liabilities, net of current portion	549,806	592,853
Operating lease liabilities, net of current portion	1,168,644	330,803
Finance lease liability, net of current portion	19,274	28,160
Financing obligation, net of current portion	<u>649,015</u>	<u>1,111,976</u>
Total Liabilities	<u>4,753,366</u>	<u>3,488,112</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 7)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.0001 par value:		
25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2020 and 2019	-	-
Common stock, \$0.0001 par value:		
535,000,000 shares authorized as of both December 31, 2020 and 2019 and 125,549,550 and 92,682,535 shares issued and outstanding as of December 31, 2020 and 2019, respectively	12,556	9,268
Additional paid-in capital	81,675,671	47,449,853
Accumulated deficit	<u>(52,872,177)</u>	<u>(40,425,704)</u>
Total Stockholders' Equity	<u>28,816,050</u>	<u>7,033,417</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 33,569,416</u>	<u>\$ 10,521,529</u>

**IMRICOR MEDICAL SYSTEMS, INC.**  
**STATEMENTS OF OPERATIONS**  
For the Years Ended December 31, 2020 and 2019

<b>REVENUES</b>	2020	2019
Product revenues	\$ 468,263	\$ 376,321
Service revenue	38,009	-
Consulting revenue	100,000	-
Government contract revenue	95,889	263,383
Total Revenue	702,161	639,704
 <b>COSTS AND EXPENSES</b>		
Cost of goods sold	1,099,833	377,365
Sales and marketing	1,683,653	573,058
Research and development	5,546,324	3,601,203
General and administrative	4,328,611	2,635,453
Total Operating Expenses	12,658,421	7,187,079
Loss from Operations	(11,956,260)	(6,547,375)
 <b>OTHER INCOME (EXPENSE)</b>		
Interest income	29,237	13,856
Foreign currency exchange gain (loss)	(198,398)	216,139
Down round expense ( <b>NOTE 5</b> )	-	(1,802,129)
Beneficial conversion feature expense ( <b>NOTE 5</b> )	-	(4,129,856)
Interest expense	(300,637)	(1,030,732)
Other expense	(20,415)	(13,879)
Total Other Expense	(490,213)	(6,746,601)
 <b>NET LOSS</b>	\$ (12,446,473)	\$ (13,293,976)
 <b>EARNINGS PER SHARE:</b>		
Basic and diluted loss per common share	\$ (0.11)	\$ (0.22)
Basic and diluted weighted average shares outstanding	110,137,915	60,526,541

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**IMRICOR MEDICAL SYSTEMS, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
For the Years Ended December 31, 2020 and 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
<b>BALANCES, December 31, 2018</b>	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)
<b>BALANCES, December 31, 2019</b>	92,682,535	\$9,268	\$47,449,853	\$(40,425,704)	\$7,033,417
Stock-based compensation expense	-	-	821,952	-	821,952
Exercise of warrants, net of fees	406,849	41	295,384	-	295,425
Exercise of stock options, net of fees	413,333	41	174,154	-	174,195
Issuance of royalty conversion shares	7,197,634	720	(720)	-	-
Issuance of common stock, net of issuance costs paid in cash of \$1,863,233	24,849,199	2,486	32,935,048	-	32,937,534
Net loss	-	-	-	(12,446,473)	(12,446,473)
<b>BALANCES, December 31, 2020</b>	125,549,550	\$12,556	\$81,675,671	\$(52,872,177)	\$28,816,050

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**IMRICOR MEDICAL SYSTEMS, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (12,446,473)	\$ (13,293,976)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	528,089	257,300
Stock-based compensation expense	821,952	533,110
Gain on disposal of property and equipment	-	(26,250)
Amortization of debt issuance costs	-	174,044
Accrued interest	-	578,295
Beneficial conversion feature expense	-	4,129,856
Down round expense	-	1,802,129
Foreign currency exchange gain	198,398	(216,139)
Changes in assets and liabilities		
Accounts receivable	71,378	(160,968)
Inventory	(1,849,304)	(846,300)
Prepaid expenses and other assets	(24,958)	(40,260)
Accounts payable	(281,175)	249,138
Accrued expenses	768,806	217,471
Contract liabilities	(17,402)	14,557
Net Cash Flows from Operating Activities	(12,230,689)	(6,627,993)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment of security deposit	(32,146)	(164,580)
Purchases of property and equipment	(741,886)	(364,758)
Net Cash Flows from Investing Activities	(774,032)	(529,338)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of options and warrants	469,620	206,240
Proceeds from convertible notes	-	1,745,932
Proceeds from financing obligation	-	1,700,000
Payments on financing obligation	(374,023)	(214,001)
Proceeds from issuance of common stock, net	32,937,534	7,016,305
Payments on finance lease liability	(8,420)	(3,004)
Net Cash Flows from Financing Activities	33,024,711	10,451,472
<b>Net Change in Cash</b>	20,019,990	3,294,141
CASH - Beginning of Year	5,048,893	1,588,348
Effect of foreign currency exchange rate changes on cash	70,929	166,404
<b>CASH - End of Year</b>	\$ 25,139,812	\$ 5,048,893
<b>Supplemental cash flow disclosure</b>		
Cash paid for interest	\$ 300,637	\$ 278,393
<b>Noncash investing and financing activities</b>		
Common stock issued for 2019 and 2018 Notes and accrued interest	\$ -	\$ 12,533,764
Leasehold Improvements paid by landlord	\$ 595,534	\$ -
Operating lease right of use asset	\$ 606,277	\$ -

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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**NOTE 1 - Summary of Significant Accounting Policies**

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*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 Magnetic Resonance Imaging (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. 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 revenue from licensing some of its IP for use in implantable devices and performing contract research, but expects to generate most of its future revenue 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, which is also the functional currency.

*Impact of COVID-19 Pandemic*

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, which continues to spread throughout the world and has resulted in travel restrictions, quarantines, “stay-at-home” and “shelter-in-place” orders, business limitations and shut downs. During the year ended December 31, 2020, the Company’s revenue was impacted by the COVID-19 pandemic as hospital restrictions banned outside personnel and postponed most elective procedures. Our products treat conditions that are considered elective.

We have implemented several steps in response to COVID-19 including restricting all unnecessary travel, working from home when possible, social distancing and masking and adopting more stringent cleaning procedures in our facilities.

We are unable to accurately predict the full impact that COVID-19 will have on our future results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, impact on our customers and our vendors, for an indefinite period of time. Our future results of operations and liquidity could be adversely impacted by delays in payments from customers, supply chain disruptions, and uncertain demand.

We will continue to monitor the situation and take further actions that we determine are in the best interest of our stakeholders.

*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.

**IMRICOR MEDICAL SYSTEMS, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 As of and for the years ended December 31, 2020 and 2019

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

*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. 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, 2020 or 2019.

Accounts receivable includes unbilled receivables of \$38,321 and \$39,470 as of December 31, 2020 and 2019, respectively, which represents the current portion of minimum royalties due to the Company during the following year. The accounts receivable-long term relates to minimum royalties due to the Company for years ending after December 31, 2021.

*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. Inventories are as follows as of December 31, 2020 and 2019:

	December 31,	
	2020	2019
Raw materials	\$ 1,216,964	\$ 822,217
Work in process	423,666	65,765
Finish goods	1,716,052	409,544
Less: obsolescence reserve	(286,762)	(76,910)
	\$ 3,069,920	\$ 1,220,616

*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

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**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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

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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.

*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 and financing obligations.

*Other Long-term liabilities*

A certain portion of the Company's share of Social Security tax was deferred in accordance with The Coronavirus, Aid, Relief and Economic Security Act and is included in other long-term liabilities.

*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 110,137,915 and 60,526,541 for the years ended December 31, 2020 and 2019, respectively.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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

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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, 2020 and 2019.

*Foreign currency exchange gains (losses)*

During the years ended December 31, 2020 and 2019, the Company had accounts payable that are denominated in both Australian dollars and Euros and accounts receivable denominated in Euros. As of December 31, 2019, the Company had cash accounts denominated in both Australian dollars and Euros. As of December 31, 2020, the Company had cash accounts denominated in 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).

*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 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.

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.

*Royalties*

On June 1, 2012, the Company licensed certain intellectual property to a customer which included a royalty of 3% of product sales, subject to a minimum of \$50,000 per year. The minimum guaranteed royalties were recognized upon the execution of the license agreement as these proceeds were not variable consideration. The remaining minimum royalty payments to be received, less the portion which represents future interest 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.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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

*Consulting Revenue*

In June 2015, the Company entered into a Joint Research Agreement. The Agreement was amended in August 2017 whereby the Company received an upfront payment of \$100,000 to cover costs incurred in the course of providing certain services, which had been included in Contract liabilities-net of current portion. The agreement was to terminate upon the earlier of completion of the project or five years. The project was not completed and has terminated. Therefore, \$100,000 has been recognized as Consulting revenue for the year ended December 31, 2020.

*Government Contract Revenue*

The Company recognizes revenue for government contracts over time using the "as invoiced" practical expedient.

The Company was awarded a contract with the U.S. government on September 26, 2017 for up to \$2,402,951 to develop a MRI compatible injection catheter for MRI-guided procedures. The Company recognized \$0 and \$263,383 as revenue during the years ended December 31, 2020 and 2019, respectively. The Company cancelled the contract in December 2019 to allow engineering resources to focus on the development of its core pipeline products.

The Company was awarded a contract with the U.S. government on September 25, 2020 for up to \$399,539 to develop an MRI compatible myocardial biopsy system. The Company recognized \$95,889 as revenue during the year ended December 31, 2020.

*Contract Liabilities*

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.

\$373,333 is included in long-term contract liabilities as of December 31, 2020 and 2019. 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.

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, 2020 and 2019, the Company had contract liabilities of \$590,008 and \$607,410, respectively.

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

	<u>2020</u>	<u>2019</u>
Balance at the beginning of the year	\$ 607,410	\$ 592,853
Decrease from revenue recognized for completion of performance obligations that were included in contract liabilities at the beginning of the period included in:		
Consulting revenue	(100,000)	-
Service revenue	(14,557)	-
Increase for revenue deferred as the performance obligation has not been satisfied	97,155	14,557
Balance at the end of the year	<u>\$ 590,008</u>	<u>\$ 607,410</u>

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**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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

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*Stock-Based Compensation*

The Company measures and records compensation expense using the applicable accounting guidance for share-based payments related to stock option awards granted to directors and employees. The fair value of stock options, including performance awards, without a market condition is estimated, at the date of grant, using the Black-Scholes option-pricing model. The fair value of restricted stock awards and stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield.

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.

*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, 2020, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through February 23, 2021.

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**NOTE 2 – Liquidity**

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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, 2020 and 2019, had an accumulated deficit as of December 31, 2020. As of December 31, 2020, the Company's cash balance was \$25.1 million. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses.

The Company believes that it will have sufficient working capital to operate for at least twelve months beyond February 23, 2021.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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**NOTE 3 – Accrued Expenses**

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Accrued expenses consist of the following:

	December 31,	
	2020	2019
Compensation	\$ 504,372	\$ 228,888
Other accruals	564,536	138,609
Total accrued expenses	<u>\$ 1,068,908</u>	<u>\$ 367,497</u>

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**NOTE 4 – Property and Equipment**

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Property and equipment consisted of the following:

	December 31,	
	2020	2019
Office furniture and equipment	\$ 390,160	\$ 186,030
Lab and production equipment	1,414,136	1,099,744
Computer equipment	277,821	194,890
MRI scanner	1,200,000	1,200,000
Leasehold improvements	1,459,919	723,952
	<u>4,742,036</u>	<u>3,404,616</u>
Less: Accumulated depreciation and amortization	(1,647,315)	(1,119,226)
	<u>\$ 3,094,721</u>	<u>\$ 2,285,390</u>

Depreciation expense was \$528,089 and \$257,300 for the years ended December 31, 2020 and 2019, 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.

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**NOTE 5 – Convertible Notes**

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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.

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 includes \$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 to house the MRI scanner. The MRI scanner and leasehold improvements are included in property and equipment as of both December 31, 2020 and 2019. The prepaid service agreement to be amortized within one year is included in prepaid expenses and other current assets and the amount to be recognized beyond one year is included as prepaid service agreement in other long-term assets. During the year ended December 31, 2020, the Company recorded \$83,336 in expense which is included in research and development expenses.

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**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 – Convertible Notes (cont.)**

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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 Initial Public Offering ("IPO") and associated listing on the Australian Securities Exchange ("ASX") on August 26, 2019. The 2018 Notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal was converted.

On February 4, April 3 and April 4, 2019, the Company issued \$1,745,932 in additional convertible notes ("2019 Notes"), 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 CHES 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.

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**).

Interest expense related to the convertible notes for the year ended December 31, 2019 was \$578,295 including \$93,721 to related parties.

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**NOTE 6 – Leases**

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*Operating Leases*

In March 2007, the Company entered into an operating lease agreement for its office and manufacturing 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 was originally set to expire in March 2026. In February 2020, this lease was amended to include an expansion of space and an increase to the term through May 2030. 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.

**IMRICOR MEDICAL SYSTEMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – Leases (cont.)**

On January 1, 2019, the Company recorded a \$220,000 right to use asset and lease liability associated with these leases. 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. The remaining consideration associated with the Company's office and warehouse space lease has been reallocated and the lease liability remeasured as the amended lease provided for additional space and the lease term has been extended. In addition, the landlord agreed to pay \$593,534 in leasehold improvements. Upon commencement of the lease in June 2020, the Company recorded \$593,534 in leasehold improvements, a \$606,277 right to use asset, and a \$1,201,811 lease liability.

As our 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, 2020 and 2019, the remaining lease term was 8.5 and 4.5 years and discount rate was 5.5% and 8.0%, respectively. For the year ended December 31, 2020 and 2019, the operating cash outflows from our operating lease for office and manufacturing space was \$192,166 and \$144,195, respectively.

As of December 31, 2020, maturities of our operating lease liabilities are as follows:

2021	\$ 262,522
2022	236,191
2023	148,966
2024	153,437
2025	158,050
2026 and thereafter	<u>756,399</u>
Total lease payments	1,715,565
Less interest	<u>(357,778)</u>
Present value of lease liabilities	1,357,787
Less current portion	<u>(189,143)</u>
Operating lease liability, net of current portion	<u>\$ 1,168,644</u>

The cost components of the Company's operating leases were as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Operating lease cost	\$ 192,166	\$ 154,687
Variable least cost	<u>117,356</u>	<u>73,735</u>
Total	<u>\$ 309,522</u>	<u>\$ 228,062</u>

*Finance Lease Liability*

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.

**IMRICOR MEDICAL SYSTEMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – Leases (cont.)**

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The Company's remaining payments under the terms of the finance lease are as follows as of December 31, 2020:

2021	\$	10,188
2022		10,188
2023		10,188
Total payments		<u>30,564</u>
Less amount representing interest		<u>(2,404)</u>
Total present value of total payments		28,160
Less current portion		<u>(8,886)</u>
Finance lease liability, net of current portion	\$	<u>19,274</u>

*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. 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, but rather is accounted for as a financing obligation. The MRI scanner is included in property and equipment and the Service Agreement is included as Prepaid Service Agreement. 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 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, 2020:

2021	\$	658,380
2022		274,325
Expected buy out at end of lease term		425,000
Total payments		<u>1,357,705</u>
Less amount representing interest		<u>(245,729)</u>
Total present value of total payments		1,111,976
Less current portion		<u>(462,961)</u>
Financing obligation, net of current portion	\$	<u>649,015</u>

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**NOTE 7 - Commitments and Contingencies**

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*Vendor concentration*

Certain components and products that meet the Company's requirements are available only from a single supplier or a limited number of suppliers. The inability to obtain components and products as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company believes that it will be able to source alternative suppliers or materials if required to do so.

For the year ended December 31, 2020, the Company had accounts payable to two vendors that accounted for 12% and 11% of the total outstanding balance.

*Purchase Commitments*

At December 31, 2020, the Company had \$241,431 in outstanding firm purchase commitments.

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**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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**NOTE 7 - Commitments and Contingencies (cont.)**

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*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 contributed a safe harbor match of \$170,062 during the year ended December 31, 2020 and a discretionary contribution of \$22,770 during the year ended December 31, 2019.

*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.

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**NOTE 8 - Stockholders' Equity**

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*Capital Stock Authorized*

As of both December 31, 2020 and 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.

Common Stock

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 CHES for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHES system of holding securities or electronic transfers of legal title to shares. To enable companies to have their securities cleared and settled electronically through CHES, 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.

In February 2020, the Company completed an equity raise on the ASX which consisted of 12,083,333 CDIs representing the same number of shares of common stock at \$1.68 Australian dollars per share for proceeds of \$12,653,221, net of expenses.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2020 and 2019

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

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During April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$295,425, net of expenses.

In February 2007, the Company issued rights to 7,200,000 shares of common stock (as adjusted for a subsequent stock split) 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. The number of shares to be issued was to be reduced for the value of any royalties paid. In April 2020, the agreements related to these rights expired and the Company issued 7,197,634 shares of common stock. The number of shares issued was reduced by 2,366 to reflect the value of royalties paid. The value of the shares was recorded as an expense upon issuance, which was when the liability was fixed and determinable.

During the year ended December 31, 2020, 413,333 options to purchase common stock were exercised at prices ranging from \$0.341 to \$0.60 per share for total proceeds of \$174,195, net of expenses.

In October 2020, the Company completed an underwritten placement on the ASX which consisted of 12,106,383 CDIs representing the same number of shares of common stock at \$2.35 Australian dollars per share for proceeds of \$19,195,477, net of expenses.

In November 2020, the Company completed an underwritten security purchase plan on the ASX which consisted of 659,483 CDIs representing the same number of common stock at \$2.35 Australian dollars per share for proceeds of \$1,088,836, net of expenses.

*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.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 - Stockholders' Equity (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 the 2019 Plan beginning in 2020, the number of shares of Common Stock available for issuance from time to time under the 2019 Plan will be increased by an amount equal to the lesser 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"). On April 20, 2020, the Board of Directors approved an increase of 3,470,925 shares to the option pool, which was approved by the shareholders at the Annual Meeting on May 12, 2020. 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 addition, some options issued to the executive management team vest upon completion of certain milestones, performance requirements, and market conditions. 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, 2019	8,064,933	\$ 0.58	
Exercised	(413,333)	0.44	
Cancelled	(261,500)	0.69	
Granted	2,572,994	0.95	
Options outstanding – December 31, 2020	9,963,094	\$ 0.68	\$ 10,530,311
Options exercisable – December 31, 2020	5,310,350	\$ 0.57	\$ 6,776,761
Weighted average fair value of options granted during the year ended December 31, 2020		\$ 0.58	
Weighted average fair value of options granted during the year ended December 31, 2019		\$ 0.46	

As of December 31, 2020, the Company had 2,648,598 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 8.01 and 7.30 years, respectively, as of December 31, 2020.

The intrinsic value of options exercised during the years ended December 31, 2020 and 2019 was \$306,453 and \$1,059,729, respectively.

**IMRICOR MEDICAL SYSTEMS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 - Stockholders' Equity (cont.)**

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

	<u>2020</u>	<u>2019</u>
Expected life	7 years	5 - 7 years
Volatility	68.3%	48.12%
Risk-free interest rate	0.64%	2.50%-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 \$821,952 and \$533,110 for the years ended December 31, 2020 and 2019, respectively, and charged to the Company's Statement of Operations as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Sales and marketing	\$ 64,315	\$ 26,798
Research and development	296,421	184,991
General and administrative	461,216	321,321
	<u>\$ 821,952</u>	<u>\$ 533,110</u>

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, 2020, the total unrecognized compensation cost related to unvested stock options then outstanding was \$2,034,998. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

	<u>Total</u>
2021	\$ 807,178
2022	612,219
2023	469,930
2024	145,671
Total	<u>\$ 2,034,998</u>

Issuance of additional options subsequent to December 31, 2020 could affect future expected amounts.

**IMRICOR MEDICAL SYSTEMS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 - Stockholders' Equity (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, 2019	787,909	\$ 0.73
Warrants cancelled	(381,060)	0.73
Warrants exercised	(406,849)	0.73
Warrants outstanding – December 31, 2020	<u>-</u>	<u>\$ -</u>

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 April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$295,425, net of expenses. The intrinsic value was \$46,121. The remaining 381,060 warrants were cancelled.

**NOTE 9 - Income Taxes**

The Company has generated both federal and state net operating losses (NOL) of approximately \$41,265,000 and federal and state research and development credit carryforwards of approximately \$1,498,000 as of December 31, 2020, 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, 2020 and 2019, 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:

	2020	2019
Current:		
Federal	\$ -	\$ -
State	-	-
	<u>-</u>	<u>-</u>
Deferred:		
Federal	(3,141,000)	(1,936,000)
State	-	-
	<u>(3,141,000)</u>	<u>(1,936,000)</u>
Deferred tax asset valuation allowance	3,141,000	1,936,000
Total provision (benefit)	<u>\$ -</u>	<u>\$ -</u>

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

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

	2020	2019
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 10,752,000	\$ 8,020,000
Research and development credit carryforwards	1,498,000	1,348,000
Stock-based compensation	185,000	154,000
Accrued expenses	17,000	5,000
Deferred revenue	153,000	158,000
Prepaid expenses and other assets	(73,000)	(130,000)
Foreign currency exchange	18,000	(43,000)
Depreciation and amortization	110,000	7,000
Gross deferred tax assets (liabilities)	12,660,000	9,519,000
Less valuation allowance	(12,660,000)	(9,519,000)
Net deferred tax assets	\$ -	\$ -

The change in the valuation allowance was \$3,141,000 and \$1,936,000 for the years ended December 31, 2020 and 2019, respectively.

The effective tax rate for the year ended December 31, 2020 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance, incentive stock option expense, and research and development credits.

The Company has recognized a reserve of approximately \$374,000 and \$337,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2020 and 2019, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2020 remain subject to examination by all major taxing authorities due to the net operating loss carryforwards. 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.

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