# APPENDIX 4E

## PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

### 31 DECEMBER 2022 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2021)

| | $USD | up/down | % movement |
|---|---|---|---|
| **Revenue from ordinary activities** | $816,011 | up | 17.20% |
| Loss after tax from ordinary activities attributable to members | ($17,356,267) | down | 12.04% |
| Net loss attributable to members | ($17,356,267) | down | 12.04% |

| **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 2022 $USD | 31 Dec 2021 $USD |
|---|---|---|
| Net tangible asset per share of common stock | $0.05 | $0.17 |
| Net tangible asset per CDI | $0.05 | $0.17 |

- **Annual financial results:**
  This report is based on the accompanying 2022 Financial Statements which have been audited by BDO USA LLP with the Independent Auditor's Report included in the 2022 Financial Statements.

- **Changes in control over entities:**
  There were no entities over which control has been gained or lost during 2022.

- **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 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:**
  An unqualified opinion has been issued and includes an emphasis of matter paragraph relating to substantial doubt about the Company's ability to continue as a going concern.

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

Total revenue for the year was $816,011 compared to $696,267 for the prior corresponding period (“PCP”) due to increased product sales, largely driven by more active sites able to perform procedures and the easing of COVID related restrictions throughout the current year. Total product sales of $647,230 were up approximately $276,000, or 74%, compared to the PCP.

The net loss for the year decreased to $17,356,267 compared to $19,732,540 for the PCP due primarily to decreased compensation expenses and research and development costs, reflecting the cost reduction measures which were implemented earlier in the year.

The Company had cash and cash equivalents of $5,687,816 at 31 December 2022 compared to $18,516,208 at 31 December 2021. Net cash flow from financing activities for the year was $3,943,432 largely comprising proceeds received from the Company’s September placement and the convertible note issued to an existing US-based investor in December.

The Company’s sales have been limited by lingering impacts of the pandemic and MRI availability at sites where cardiology departments do not yet own their own MRI; however, the Company expects both effects to diminish as time passes and additional hospitals invest in a dedicated iCMR lab. Further, the Company is making steady progress toward obtaining CE Mark on our devices needed to perform complex ablations, such as Ventricular Tachycardia (“VT”) in Europe, and U.S. Food and Drug Administration (“FDA”) approval for atrial flutter devices in the U.S., which will expand the Company’s reach for treating patients.

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

# IMRICOR MEDICAL SYSTEMS, INC.
Minneapolis, Minnesota

Including Independent Auditor's Report

As of and for the years ended December 31, 2022 and 2021

**IMRICOR MEDICAL SYSTEMS, INC.**

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# Independent Auditor's Report

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

### *Opinion*

We have audited the financial statements of Imricor Medical Systems, Inc. (the Company), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 2022 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Substantial Doubt About the Company's Ability to Continue as a Going Concern*

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 3 to the financial statements, the Company has suffered recurring losses from operations, an accumulated deficit, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### *Other Matter*

The 2021 financial statements of the Company were audited by other auditors, whose report dated February 23, 2022 expressed an unmodified opinion on those statements.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

February 22, 2023

# IMRICOR MEDICAL SYSTEMS, INC.

BALANCE SHEETS

As of December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| ***ASSETS*** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 5,687,816 | $ 18,516,208 |
| Accounts receivable | 125,544 | 94,735 |
| Inventory | 2,276,743 | 2,582,813 |
| Prepaid expenses and other current assets | 1,594,211 | 1,505,556 |
| Total Current Assets | 9,684,314 | 22,699,312 |
| **ACCOUNTS RECEIVABLE-LONG TERM** | 228,984 | 201,544 |
| **PROPERTY AND EQUIPMENT, NET** | 2,563,356 | 2,951,924 |
| **OTHER ASSETS** | 227,779 | 363,676 |
| **OPERATING LEASE RIGHT OF USE ASSETS** | 996,428 | 647,951 |
| **TOTAL ASSETS** | $ 13,700,861 | $ 26,864,407 |
| ***LIABILITIES AND STOCKHOLDERS' EQUITY*** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 259,267 | $ 686,724 |
| Accrued expenses | 924,936 | 1,354,428 |
| Current portion of contract liabilities | 23,358 | 175,286 |
| Current portion of operating lease liabilities | 198,073 | 186,498 |
| Current portion of finance lease liability | 160,680 | 332,157 |
| Current portion of financing obligation | 508,424 | - |
| Total Current Liabilities | 2,074,738 | 2,735,093 |
| **LONG-TERM LIABILITIES** | | |
| Convertible note | 2,182,900 | - |
| Contract liabilities, net of current portion | 492,853 | 509,604 |
| Operating lease liabilities, net of current portion | 1,329,890 | 992,319 |
| Finance lease liability, net of current portion | 65,999 | 226,677 |
| Other long-term liabilities | 44,041 | - |
| Total Liabilities | 6,190,421 | 4,463,693 |
| **COMMITMENTS AND CONTINGENCIES (NOTE 7)** | | |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, $0.0001 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2022 and 2021 | - | - |
| Common stock, $0.0001 par value: 535,000,000 shares authorized as of both December 31, 2022 and 2021 and 151,347,625 and 143,234,637 shares issued and outstanding as of December 31, 2022 and 2021, respectively | 15,135 | 14,324 |
| Additional paid-in capital | 97,456,289 | 94,991,107 |
| Accumulated deficit | (89,960,984) | (72,604,717) |
| Total Stockholders' Equity | 7,510,440 | 22,400,714 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 13,700,861 | $ 26,864,407 |

See accompanying notes to financial statements

**IMRICOR MEDICAL SYSTEMS, INC.**
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **REVENUES** | | |
| Product revenue | $ 647,230 | $ 371,340 |
| Service revenue | 120,835 | 69,223 |
| Government contract revenue | 47,946 | 255,704 |
| Total Revenues | 816,011 | 696,267 |
| **COSTS AND EXPENSES** | | |
| Cost of goods sold | 2,342,795 | 2,592,191 |
| Sales and marketing | 2,804,769 | 2,868,360 |
| Research and development | 7,946,129 | 9,675,493 |
| General and administrative | 4,982,404 | 5,819,622 |
| Total Costs and Expenses | 18,076,097 | 20,955,666 |
| Loss from Operations | (17,260,086) | (20,259,399) |
| **OTHER INCOME (EXPENSE)** | | |
| Interest income | 107,999 | 16,725 |
| Employee retention credit | - | 757,714 |
| Foreign currency exchange loss | (17,955) | (42,990) |
| Interest expense | (177,917) | (108,849) |
| Fair value change in convertible note | 14,200 | - |
| Other expense | (22,508) | (95,741) |
| Total Other Income (Expense) | (96,181) | 526,859 |
| **NET LOSS** | $ (17,356,267) | $ (19,732,540) |
| **EARNINGS PER SHARE:** | | |
| Basic and diluted loss per common share | $ (0.12) | $ (0.15) |
| Basic and diluted weighted average shares outstanding | 145,744,865 | 130,801,707 |

See accompanying notes to financial statements

# IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2022 and 2021

| | Common Stock | | Additional | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Deficit | Equity |
| **BALANCES, December 31, 2020** | 125,549,550 | $ 12,556 | $ 81,675,671 | $(52,872,177) | $ 28,816,050 |
| Stock-based compensation expense | - | - | 1,149,598 | - | 1,149,598 |
| Exercise of stock options, net of fees | 185,259 | 18 | 87,828 | - | 87,846 |
| Issuance of common stock, net of issuance costs of $716,863 | 17,499,828 | 1,750 | 12,078,010 | - | 12,079,760 |
| Net loss | - | - | - | (19,732,540) | (19,732,540) |
| **BALANCES, December 31, 2021** | 143,234,637 | $ 14,324 | $ 94,991,107 | $(72,604,717) | $ 22,400,714 |
| Stock-based compensation expense | - | - | 320,835 | - | 320,835 |
| Exercise of stock options, net of fees | 59,300 | 6 | 29,825 | - | 29,831 |
| Issuance of common stock and restricted stock, net of issuance costs of $22,924 | 8,053,688 | 805 | 1,992,673 | - | 1,993,478 |
| Issuance of warrants, net of fees | - | - | 121,849 | - | 121,849 |
| Net loss | - | - | - | (17,356,267) | (17,356,267) |
| **BALANCES, December 31, 2022** | 151,347,625 | $ 15,135 | $ 97,456,289 | $(89,960,984) | $ 7,510,440 |

See accompanying notes to financial statements

# IMRICOR MEDICAL SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (17,356,267) | $ (19,732,540) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | | |
| Depreciation | 712,491 | 689,114 |
| Stock-based compensation expense | 320,835 | 1,149,598 |
| Loss on disposal of property and equipment | 509 | 82,970 |
| Change in inventory reserves | 682,187 | 668,464 |
| Foreign currency exchange loss | 17,955 | 42,990 |
| Change in fair value of convertible note | (14,200) | - |
| Amortization of issuance costs of convertible note | 103,937 | - |
| Changes in assets and liabilities | | |
| Accounts receivable | (68,217) | 154,062 |
| Inventory | (444,967) | (181,357) |
| Prepaid expenses and other assets | 585,196 | (823,616) |
| Accounts payable | (404,192) | 148,762 |
| Accrued expenses | (476,809) | 218,125 |
| Contract liabilities | (168,679) | 94,882 |
| Net Cash Flows used in Operating Activities | (16,510,221) | (17,488,546) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Equity investment | - | (69,560) |
| Purchases of property and equipment | (238,859) | (625,745) |
| Net Cash Flows used in Investing Activities | (238,859) | (695,305) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from exercise of stock options | 29,831 | 87,846 |
| Proceeds from financing obligation | 839,148 | - |
| Payments on financing obligation | (864,121) | (337,804) |
| Proceeds from convertible note and warrant | 2,325,000 | - |
| Debt issuance costs on convertible note | (47,749) | - |
| Proceeds from issuance of common stock | 2,016,402 | 12,079,760 |
| Issuance costs of common stock and restricted stock | (22,924) | - |
| Payments on finance lease liability | (332,155) | (243,498) |
| Net Cash Flows provided by Investing Activities | 3,943,432 | 11,586,304 |
| **Net Change in Cash** | (12,805,648) | (6,597,547) |
| CASH - Beginning of Year | 18,516,208 | 25,139,812 |
| Effect of foreign currency exchange rate changes on cash | (22,744) | (26,057) |
| **CASH - End of Year** | $ 5,687,816 | $ 18,516,208 |
| **Supplemental cash flow disclosure** | | |
| Cash paid for interest | $ 73,932 | $ 176,674 |
| **Noncash investing and financing activities** | | |
| Property and equipment included in accounts payable | $ 16,723 | $ - |
| Transfer from inventory to property and equipment | $ 68,850 | $ - |
| Leasehold improvements paid by landlord | $ 35,041 | $ - |
| Operating lease right of use assets in exchange for operating lease liability | $ 570,752 | $ - |
| Issuance costs included in accounts payable and accrued expenses | $ 62,239 | $ - |

See accompanying notes to financial statements

## 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 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 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 is the Vision-MR Ablation Catheter, which 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 dollars, which is also the functional currency.

*Impact of COVID-19 Pandemic*

During the years ended December 31, 2022 and 2021, the Company’s revenue was impacted by the COVID-19 pandemic. The Company continued to observe intermittent suspension of many elective procedures associated with various surges in COVID-19, including procedures that utilize the Company’s products. The impact of COVID-19 has varied by region and by healthcare facility. As a result, lab adoption and procedure volumes have been constrained. While restrictions on elective procedures have now been lifted, there have been shortages of personnel at hospitals which has hampered the ability to perform procedures using the Company’s products.

The Company is unable to accurately predict the full impact that COVID-19 will have on its results from operations, financial condition, liquidity, and cash flows due to numerous uncertainties, including the duration and severity of outbreaks and containment measures, the emergence of new variants, and the impact on the Company’s customers and its vendors. The Company’s future results of operations and liquidity could be adversely impacted by delays in payments from customers, supply chain disruptions, product design changes, and uncertain demand which could lead to expiration of inventory. The Company will continue to monitor the situation and take further actions that it determines are in the best interest of its 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.

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

*Accounts Receivable and Customer Concentrations*

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 provides 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 significant write-offs or significant deterioration of its accounts receivable aging, and therefore, no allowance for doubtful accounts was considered necessary as of December 31, 2022 or 2021. During the year ended December 31, 2022, the Company had sales from 4 customers that accounted for 72% of revenue and accounts receivable from 5 customers that represented 97% of the accounts receivable balance. During the year ended December 31, 2021, the Company had sales from 3 customers that accounted for 67% of revenue and accounts receivable from 3 customers that represented 96% of the accounts receivable balance.

Accounts receivable includes unbilled receivables of $41,874 and $37,205 as of December 31, 2022 and 2021, 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, 2023.

*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:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Raw materials | $ 1,456,282 | $ 1,476,630 |
| Work in process | 400,059 | 549,303 |
| Finished goods | 997,871 | 1,512,106 |
| Less: excess and obsolescence reserves | (577,469) | (955,226) |
| | $ 2,276,743 | $ 2,582,813 |

The Company utilizes significant estimates in determining the realizable value of its inventory, including the future revenue forecasts that will result in product sales. These estimates have a corresponding impact on the inventory values recorded as of December 31, 2022 and 2021. Management continually evaluates the likelihood of future sales based on current economic conditions, restrictions on ability for customers to perform elective procedures, expiration timing of products, and product design changes prior to sale of product on hand. If actual conditions are less favorable than those the Company has projected, it may need to increase its reserves for excess and obsolete inventories. Any increases in the Company's reserves will adversely impact its results of operations. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in the inventory. Future sales of inventory on hand at December 31, 2022 will result in recognition of cost of sales based on initial inventory costs, net of reserves taken for expected realization values.

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

The Company recognizes an expense for commitments of inventory purchases that will not provide future economic benefit when that is known. Based upon estimates of future demand for its products and the timing of future generation products, the Company recorded an expense of $113,888 for the year ended December 31, 2022, which is included in Cost of goods sold on the statements of operations. The Company had a balance of $194,823 in Accrued expenses on the balance sheets related to these commitments at December 31, 2022. For the year ended December 31, 2021, the Company recorded an expense of $212,931 related to these commitments, which is included in Cost of goods sold on the statements of operations and in Accrued expenses on the balance sheets.

*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 - 5 years |
| MRI scanner | 7 years |
| Leasehold improvements | Lesser of useful life or remaining lease term |

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 and an equity investment of $69,560 made during the year ended December 31, 2021. The equity investment is held at cost, less impairment plus or minus changes resulting from observable price changes. There have been no impairment losses or observable price changes recognized for the years ended December 31, 2022 and 2021.

*Patents*

Expenditures for patent costs are charged to operations as incurred.

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

*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 145,744,865 and 130,801,707 for the years ended December 31, 2022 and 2021, 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 options outstanding 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, 2022 and 2021.

The table below provides potentially dilutive securities not included in the calculation of the diluted net loss per share for the years ended December 31 because to do so would be anti-dilutive:

| | 2022 | 2021 |
|---|---|---|
| Exercise of stock options | 12,913,186 | 11,253,506 |
| Conversion of convertible note | 8,659,794 | - |
| Exercise of warrant | 907,141 | - |
| Total | 22,480,121 | 11,253,506 |

*Foreign Currency Exchange Gains (Losses)*

During the years ended December 31, 2022 and 2021, the Company had accounts payable that are denominated in Australian dollars, British pound sterling, and Euros and cash accounts and accounts receivable 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).

*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, the timing of which varies on an individual customer basis.

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

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.

All revenue is derived from foreign countries. 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.

*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 25, 2020 for up to $399,539 to develop an MRI compatible myocardial biopsy system. The Company recognized $47,946 and $255,704 as revenue during the years ended December 31, 2022 and 2021, respectively.

*Contract Liabilities*

In 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. A total of $373,333 of this amount is deferred and is included in long-term contract liabilities as of December 31, 2022 and 2021. 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, 2022 and 2021, the Company had total current and long-term contract liabilities of $516,211 and $684,890, respectively, of which $492,853 and $509,604 was included in long-term liabilities as of December 31, 2022 and 2021, respectively.

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

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

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | $ 684,890 | $ 590,008 |
| Decrease from revenue recognized for completion of performance obligations that were included in contract liabilities at the beginning of the period included in: | | |
| Equipment revenue | (97,842) | - |
| Service revenue | (73,419) | (40,202) |
| Increase for revenue deferred as the performance obligation has not been satisfied | 2,582 | 135,084 |
| Balance at the end of the year | $ 516,211 | $ 684,890 |

*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 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.

The Company's policy is to account for forfeitures as they occur and compensation expense is recognized on a straight-line basis over the vesting period for awards with service and market conditions; for awards with performance conditions, expense is recognized for those that are probable of being achieved. 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 9** for further details and assumptions regarding the Black-Scholes pricing model.

*Fair Value Measurement*

ASC 820, Fair Value Measurements, ("ASC 820") provides guidance on the development and disclosure of fair value measurements. Under this accounting guidance, fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

The accounting guidance classifies fair value measurements in one of the following three categories for disclosure purposes:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 prices for similar assets or liabilities that are directly or indirectly observable in the marketplace.
- Level 3: Unobservable inputs which are supported by little or no market activity and values determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

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

The Company evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires significant judgments to be made by the Company.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a nonrecurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. The convertible note (Note 8) is recognized at fair value on a recurring basis at December 31, 2022 and is a Level 3 measurement. There have been no transfers between levels.

As of December 31, 2022 and 2021, the recorded values of cash, prepaid expenses, accounts payable, and accrued expenses and other liabilities approximate their fair values due to the short-term nature of these items.

*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.

*Employee retention credit*

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law providing numerous tax provisions and other stimulus measures, including an employee retention credit (“ERC”), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC.

The Company qualified for the ERC as it experienced a significant decline in gross receipts in 2021 and 2020. The Company determined that it was eligible for the ERC as follows:

| | Total |
|---|---|
| Quarter ended September 30, 2020 | $ 269,654 |
| Quarter ended December 31, 2020 | 22,995 |
| Quarter ended September 30, 2021 | 465,065 |
| Total | $ 757,714 |

As it relates to the 2020 amounts, the Company applied for the ERC by amending its previously filed forms 941 and, as a result, the Company has accounted for this government grant by way of analogy to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 410, Asset Retirement and Environmental Obligations. ASC 410-30-35-8 indicates that a claim for recovery should be recognized only when the claim is probable of recovery as defined in ASC 450-20-25-1 (i.e. Contingencies). Accordingly, the Company believes that the recovery of employment tax amounts previously paid is probable and, therefore, has recorded amounts shown above.

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

As it relates to the 2021 amounts, the Company has elected to account for the credit as a government grant. U.S. GAAP do not include grant accounting guidance related to transfers of assets from governments to business entities, therefore, the Company has elected to follow the grant accounting model in International Accounting Standard ("IAS") 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, the Company cannot recognize any income from the grant until there is reasonable assurance (similar to the "probable" threshold in U.S. GAAP) that any conditions attached to the grant will be met and that the grant will be received. Once it is reasonably assured that the grant conditions will be met and that the grant will be received, grant income is recorded on a systematic basis over the periods in which the Company recognizes the payroll expenses for which the grant is intended to compensate. Income from the grant can be presented as either other income or as a reduction in the expenses for which the grant was intended to compensate.

During the year ended December 31, 2021, the Company recorded ERC benefits of $757,714 in other income (expense) on the statements of operations. The receivable balance of $474,445 and $757,714 as of December 31, 2022 and 2021, respectively, is included in Prepaid expense and other current assets on the balance sheets. The Company collected the remaining receivable balance in January 2023.

*Recent Accounting Pronouncement*

During June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, and November 2019, the FASB also issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses; ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses; ASU No 2019-05, Targeted Transition Relief and ASU No. 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU No. 2019-11 amends ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company does not expect the adoption of this ASU to have a material impact on the financial statements.

In August 2020, the FASB issued Accounting Standards Update ("ASU") 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"), which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU also removes certain settlement conditions that are required for equity-linked contracts to qualify for scope exception, and it simplifies the diluted earnings per share calculation in certain areas. ASU 2020-06 is effective for fiscal years beginning after December 15, 2023 and should be applied on a full or modified retrospective basis, with early adoption permitted beginning on January 1, 2021. The Company has elected to early adopt ASU 2020-06 on January 1, 2022. Adoption of the ASU did not impact the Company's financial position, results of operations or cash flows upon adoption.

## NOTE 2 – Out of Period Adjustment

During the year ended December 31, 2022, an error was identified relating to financing arrangements entered into in 2019, 2020, and 2021 in connection with obtaining annual insurance contracts. The Company has corrected this immaterial error by recognizing a prepaid insurance asset and financing liability in the amount of $533,000 pertaining to the financing arrangement that existed as of December 31, 2021. Accordingly, the statements of cash flows for the year ended December 31, 2022 reflects the $533,000 cash provided from operating activities and $533,000 cash used in financing activities as a result of the out of period adjustment related to this arrangement. The Company evaluated the error both quantitatively and qualitatively and concluded that the errors are not material for any prior periods and has adjusted the amounts on a cumulative basis in 2022.

## 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, 2022 and 2021, had an accumulated deficit as of December 31, 2022 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. These financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

## NOTE 4 – Accrued Expenses

Accrued expenses consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Compensation | $ 147,453 | $ 595,942 |
| Firm inventory commitments | 194,823 | 212,931 |
| Other accruals | 582,660 | 545,555 |
| | $ 924,936 | $ 1,354,428 |

## NOTE 5 – Property and Equipment

Substantially all property and equipment is held in the U.S. as of December 31, 2022. Property and equipment consisted of the following:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Office furniture and equipment | $ 272,267 | $ 293,216 |
| Lab and production equipment | 1,754,068 | 1,525,226 |
| Computer equipment | 240,669 | 264,859 |
| MRI scanner | 1,200,000 | 1,200,000 |
| Leasehold improvements | 1,641,837 | 1,597,087 |
| | 5,108,841 | 4,880,388 |
| Less: accumulated depreciation and amortization | (2,545,485) | (1,928,464) |
| | $ 2,563,356 | $ 2,951,924 |

Depreciation expense was $712,491 and $689,114 for the years ended December 31, 2022 and 2021, respectively.

## NOTE 6 – Leases

*Operating Leases*

In March 2007, the Company entered into an operating lease agreement for its office and manufacturing space (Gateway) 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 lease was amended to increase the square footage and extend the term for five years. Upon commencement of the amended lease in March 2022, the Company recorded a right to use asset and lease liability of $570,752. As part of the amendment, the landlord also agreed to reimburse the Company for $35,041 in leasehold improvements. The Company received the reimbursement in October 2022.

The Company entered into a second operating lease agreement for office and warehouse space (Design Center) 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. 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.

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.

As the leases do not provide an implicit rate, the Company uses its 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, 2022 and 2021, the remaining lease term was 6.4 and 7.9 years, respectively, and the discount rate was 5.5%. For the year ended December 31, 2022 and 2021, the operating cash outflows from operating leases for office and manufacturing space was $227,210 and $221,136, respectively.

**NOTE 6 – Leases (cont.)**

As of December 31, 2022, maturities of the Company's operating lease liabilities are as follows:

| | 2022 |
|---|---|
| 2023 | $ 277,973 |
| 2024 | 292,571 |
| 2025 | 301,375 |
| 2026 | 310,467 |
| 2027 | 217,689 |
| 2028 and thereafter | 426,754 |
| Total lease payments | 1,826,829 |
| Less: interest | (298,866) |
| Present value of lease liabilities | 1,527,963 |
| Less: current portion | (198,073) |
| Operating lease liability, net of current portion | $ 1,329,890 |

The cost components of the Company's operating leases, which were included in General and administrative expenses on the statements of operations were as follows for the years ended December 31, 2022 and 2021:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Operating lease cost | $ 227,210 | $ 221,136 |
| Variable lease cost | 137,997 | 122,880 |
| | $ 365,207 | $ 344,016 |

*Finance Lease Liability*

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 was 36 months with a monthly rental payment of $54,865 and an implied interest rate of 21.5%. The lease originally met the requirements to be classified as a financing obligation. It was considered a failed sale leaseback arrangement as the lease agreement included an option to repurchase the related assets for $425,000 at the end of the lease term, which the Company deemed it was reasonably certain to do. On December 8, 2021, the Company executed a revised lease to extend the term of lease for an additional 24 months after the expiration of the original lease, with the Company owning the scanner outright at the conclusion of the extension term. Consequently, the lease no longer qualified as a financing obligation and was classified as a finance lease liability on the balance sheets beginning December 31, 2021. Beginning June 1, 2022, the start of the amended agreement term, the monthly rental payment is $13,342 and the implied interest rate is 7.0%.

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.

**NOTE 6 – Leases (cont.)**

As of December 31, 2022, maturities of the Company's finance lease liabilities are as follows:

| | 2022 |
|---|---|
| 2023 | $ 171,370 |
| 2024 | 67,159 |
| Total payments | 238,529 |
| Less: amount representing interest | (11,850) |
| Present value of total payments | 226,679 |
| Less: current portion | (160,680) |
| Finance lease liability, net of current portion | $ 65,999 |

*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.

**NOTE 7 – Commitments and Contingencies**

For the year ended December 31, 2022, the Company had accounts payable to three vendors that accounted for 11%, 10% and 10% of the total outstanding balance. For the year ended December 31, 2021, the Company had accounts payable to one vendor that accounted for 16% of the total outstanding balance.

*Purchase Commitments*

At December 31, 2022 and 2021, the Company had $1,294,613 and $1,195,602 in outstanding firm purchase commitments, respectively. As of December 31, 2022, payment of the purchase commitments is expected to be made within one year.

*Financing Obligation*

The Company entered into an agreement to finance a portion of an annual insurance premium for the policy period beginning August 2022. The financing obligation is to be paid in 10 monthly installments of $86,203 beginning in September 2022, and the stated interest rate is 5.91%.

*Retirement Plan*

The Company maintains retirement plans for its employees in which eligible employees can contribute a percentage of their compensation. The Company contributed $257,480 and $309,929 to these plans during the years ended December 31, 2022 and 2021, respectively.

*Employment Agreements*

The Company has employment agreements with the CEO and certain 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.

**NOTE 8 – Convertible Note with Warrant**

On December 16, 2022, the Company entered into a Securities Purchase Agreement for the issue of unsecured, unquoted convertible promissory notes, to be issued in two tranches, to raise a maximum aggregate amount of $5,000,000.

The first tranche was issued on December 23, 2022. The Company received $2,325,000 in gross proceeds from the issuance of the convertible note. The convertible note bears interest of 10% per annum, compounded annually. All or a portion of the principal is convertible into CDIs at a price of $0.2691 per share at the election of the holder following the 36 month anniversary of the closing date. All or a portion of accrued and unpaid interest is convertible into CDIs at a price of $0.2563 per share at the election of the holder during the same time frame. The maximum number of CDIs to be issued upon conversion of the principal amount and interest is no more than 12,849,949 CDIs.

The maturity date on the note is the earliest occurrence of (i) a change-in-control event, at which time the Company would be required to pay the holder the greater of 125% of the then outstanding balance plus accrued and unpaid interest or the amount the holder would receive if the principal and accrued and unpaid interest had been converted to CDIs at a conversion price equal to the variable weighted average price (“VWAP”) of the CDIs for the 10 day period ending on the change-in-control event date; or (ii) December 23, 2026, the four year anniversary of the closing date.

Also on December 23, 2022, pursuant to the Securities Purchase Agreement, the Company issued a warrant exercisable for 907,141 CDIs, with an exercise price of $0.2563 per share. The warrant expires five years after the date of issuance.

The Company accounts for its convertible promissory note under ASC 815, Derivatives and Hedging ("ASC 815"). Under 815-15-25, the election can be made at the inception of a financial instrument to account for the instrument under the fair value option under ASC 825. The Company has made such election for its convertible promissory note. Using the fair value option, the convertible promissory note is required to be recorded at its initial fair value on the date of issuance, and each balance sheet date thereafter. Changes in the estimated fair value of the note are recognized as non-cash change in the fair value of the convertible promissory note in the statements of operations.

The convertible note was recorded as a liability on the balance sheets at the date of issuance. The following table provides a summary of change in fair value of the convertible note as of December 31, 2022:

| | |
|---|---|
| Fair market value at issuance | $ 2,197,100 |
| Fair value change in convertible note | (14,200) |
| Fair market value at December 31, 2022 | $ 2,182,900 |

The fair value of the convertible note is measured in accordance with ASC 820 “Fair Value Measurement” using the “Monte Carlo Method” modeling incorporating the following inputs:

| | December 31, 2022 | December 23, 2022 |
|---|---|---|
| Expected dividend yield | 0% | 0% |
| Expected stock-price volatility | 80% | 80% |
| Risk-free interest rate | 3.90% | 4.03% |
| Stock price | $ 0.2514 | $ 0.2481 |
| Conversion price | $ 0.2691 | $ 0.2691 |

## NOTE 8 – Convertible Note with Warrant (cont.)

Significant assumptions used to determine the fair value of the convertible note include the estimated probability of a change in control event, which is based on management's expectation of future transactions, and the volatility of the stock price, which is estimated 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 due to the limited volatility history for the Company's shares relative to the term of the note.

The Company evaluated the warrant under ASC 480, "Distinguishing Liabilities from Equity" and ASC 815. The warrant does not meet the characteristics for liability classification under either provision and as such is classified as equity under ASC 815. Given that the convertible note was subject to fair value remeasurement, the fair value of the convertible note was carved out from gross proceeds and the remainder of the gross proceeds of $127,900 was allocated to warrants. The warrant was recorded as Additional paid-in capital on the balance sheets at the date of issuance. No subsequent remeasurement of the warrant is required.

The issuance costs attributable to the convertible note of $103,937 were recorded as interest expense given the fair value accounting treatment, in accordance with ASC 825-10-25-3. Issuance costs allocated to the warrant of $6,051, were recorded in Additional paid-in capital given the equity classification of the warrants.

The second tranche of the convertible promissory notes to be issued, which is subject to stockholder approval, calls for $2,675,000 of gross proceeds to be received. The second tranche is subject to the same terms as the first tranche. The Securities Purchase Agreement calls for a warrant exercisable for 1,043,699 CDIs, to be issued concurrently with the second tranche of the convertible promissory notes.

## NOTE 9 – Stockholders' Equity

*Capital Stock Authorized*

As of both December 31, 2022 and 2021, 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*

The Australian Securities Exchange ("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, depositary instruments called CHESS Depositary Interests ("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 is held by a depositary, CHESS Depositary Nominees Pty Ltd ("CDN"), which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement.

During January 2021, a total of 120,000 options to purchase common stock were exercised with a portion of the exercise via a cashless exercise. 50,000 options to purchase common stock were exercised at $0.50 per share for total proceeds of $23,384, net of expenses. In addition, 70,000 options to purchase common stock were exercised at $0.50 per share on a cashless exercise basis at a fair market value of $1.83 per share, resulting in the issuance of 50,995 shares of common stock.

During June 2021, a total of 50,625 options were exercised at $0.98 per share for total proceeds of $47,983, net of expenses.

During July 2021, a total of 33,639 options were exercised at $0.52 per share for total proceeds of $16,479, net of expenses.

**NOTE 9 – Stockholders' Equity (cont.)**

In September 2021, the Company completed an equity raise on the ASX which consisted of 16,500,000 CDIs representing the same number of shares of common stock at $1.00 Australian dollar per share for proceeds of $11,351,689, net of expenses.

In October 2021, the Company completed a security purchase plan on the ASX which consisted of 999,828 CDIs representing the same number of common stock at $1.00 Australian dollar per share for proceeds of $728,071, net of expenses.

During January 2022, a total of 59,300 options to purchase common stock were exercised at $0.52 per share for total proceeds of $29,831, net of expenses.

During May 2022, the Company issued 298,297 shares of restricted stock to its three independent board directors. See *Restricted Stock* section below for further detail.

In September 2022, the Company completed an equity raise from US investors which consisted of 7,755,391 shares of common stock at $0.26 US dollar per share for proceeds of $1,994,445, 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.

*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 stockholders, 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 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 stockholders at the Annual Meeting on May 12, 2020. On January 14, 2021, the Board of Directors approved an increase of 844,471 shares to the option pool. On April 6, 2022, the Board of Directors approved an increase of 848,695 shares to the option pool.

**NOTE 9 – Stockholders' Equity (cont.)**

Options 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. Generally, vesting terms of outstanding options range from immediate to four years. In addition, some options have been issued to the executive management team that vest upon completion of certain milestones, performance requirements, and market conditions; as of December 31, 2022, 4,506,538 of these options are issued and outstanding. For these performance-based awards, expense is recognized when it is probable the performance condition will be achieved. If at any point the Company determines that the performance condition is improbable, any previously recognized expense is reversed. Adjustments for forfeitures are recorded as the occur. 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 Option Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Options outstanding - December 31, 2021 | 11,253,506 | $ 0.81 | |
| Exercised | (59,300) | 0.52 | |
| Forfeited and expired | (2,964,528) | 0.78 | |
| Granted | 4,683,508 | 0.30 | |
| Options outstanding - December 31, 2022 | 12,913,186 | $ 0.64 | $ 7,971 |
| Options exercisable - December 31, 2022 | 6,090,036 | $ 0.66 | $ - |
| Weighted average fair value of options granted during the year ended December 31, 2022 | | $ 0.19 | |
| Weighted average fair value of options granted during the year ended December 31, 2021 | | $ 0.96 | |

As of December 31, 2022, the Company had 829,811 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 7.27 and 5.51 years, respectively, as of December 31, 2022.

The intrinsic value of options exercised during the years ended December 31, 2022 and 2021 was $16,379 and $202,923, respectively.

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

| | 2022 | 2021 |
|---|---|---|
| Expected life | 5.70 - 6.82 years | 5.57 - 6.95 years |
| Volatility | 63.58% - 64.96% | 66.16% |
| Risk-free interest rate | 2.00% - 3.01% | 1.24% |
| Dividend yield | 0% | 0% |

**NOTE 9 – Stockholders' Equity (cont.)**

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 due to the limited volatility history for the Company's shares relative to the expected life of the option awards granted. 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. The Company's policy is to account for forfeitures as they occur and records stock-based compensation expense only for those awards that are expected to vest.

Total stock-based compensation expense resulting from options is charged to the Company's statements of operations as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Cost of goods sold | $ 31,309 | $ 36,894 |
| Sales and marketing | 81,914 | 112,220 |
| Research and development | 62,913 | 233,991 |
| General and administrative | 131,207 | 766,493 |
| | $ 307,343 | $ 1,149,598 |

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, 2022, the total unrecognized compensation cost related to unvested stock options then outstanding was $2,021,199. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

| | 2022 |
|---|---|
| 2023 | $ 522,792 |
| 2024 | 290,325 |
| 2025 | 105,672 |
| 2026 | 39,422 |
| Total related to options expected to vest | 958,211 |
| Performance grants not probable of achievement | 1,062,988 |
| Total unrecognized compensation expense | $ 2,021,199 |

The performance grants not probable of achievement are generally related to the receipt of regulatory approvals or sales milestones predicated on the receipt of regulatory approvals not yet received. Under current U.S. GAAP, these milestones are generally not considered probable until the regulatory approval is obtained.

Issuance of additional options subsequent to December 31, 2022 could affect future expected amounts.

## NOTE 9 – Stockholders' Equity (cont.)

*Restricted Stock*

On May 9, 2022, the Company issued 298,297 shares of restricted stock to its three independent board directors. The restricted stock vests annually over four years on the anniversary of the grant date, provided that the participant continuously provides services to the Company through the applicable vesting date. The fair market value on the date of grant was $0.28 per share.

Total stock-based compensation expense resulting from grants of restricted stock was $13,492 for the year ended December 31, 2022. 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, 2022, the total unrecognized compensation cost related to unvested restricted stock was $70,032. Future unrecognized stock-based compensation expense is expected to be as follows for the years ended December 31 thereafter:

| | 2022 |
|---|---|
| 2023 | $ 20,867 |
| 2024 | 20,867 |
| 2025 | 20,866 |
| 2026 | 7,432 |
| Total | $ 70,032 |

*Warrant*

As part of the convertible note issuance, the Company issued a warrant to purchase CDIs which are summarized below:

| | Number of Warrants | Weighted-Average Exercise Price |
|---|---|---|
| Warrants outstanding - December 31, 2021 | - | $ - |
| Warrants issued | 907,141 | 0.2563 |
| Warrants exercised | - | - |
| Warrants expired/forfeited | - | - |
| Warrants outstanding - December 31, 2022 | 907,141 | $ 0.2563 |
| Warrants exercisable - December 31, 2022 | 907,141 | $ 0.2563 |

## NOTE 10 – Income Taxes

As of December 31, 2022, the Company had generated approximately $73,312,000 of net operating losses ("NOL") for federal tax purposes. As a result of the Tax Cuts and Jobs Act, for U.S. income tax purposes, NOLs generated prior to December 31, 2017 can still be carried forward for up to 20 years, while NOLs generated after December 31, 2017 carryforward indefinitely, but are limited to 80% utilization against taxable income. Of the total federal NOL of $73,312,000, $18,662,000 will begin to expire in 2028 and $54,650,000 will not expire but will only offset 80% of future taxable income.

**NOTE 10 – Income Taxes (cont.)**

As of December 31, 2022, the Company had also generated approximately $35,184,000 of state NOLs. The state NOLs can be carried forward for up to 15 years and are limited to 80% utilization against taxable income. The state NOLs begin to expire in 2023 if they are not used.

As of December 31, 2022, the Company had approximately $1,584,000 of federal research and development ("R&D") credit carryforwards available for federal tax purposes. As of December 31, 2022, the Company also had approximately $881,000 of state R&D credit carryforwards available for Minnesota. The federal and state R&D credits carryforwards begin to expire in 2027 and 2028, respectively, if they are not used.

Pursuant to Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), annual use of the Company's NOLs and R&D credit carryforwards may be limited if there is a cumulative change in ownership of greater than 50% within a three-year period. The amount of annual limitation is determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. If limited, the related tax assets would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance. A preliminary analysis of past and subsequent equity offerings by the Company, and other transactions that have an impact on the Company's ownership structure, concluded that the Company may have experienced one or more ownership changes under Sections 382 and 383 of the Code. As such, the Company has established a valuation allowance as the realization of its deferred tax assets have not met the more likely than not threshold requirement.

The Company conducts intensive research and experimentation activities, generating R&D tax credits for Federal and state purposes under Section 41 of the Code. The Company has not performed a formal study validating these credits claimed in the tax returns. Once a study is prepared, the amount of R&D tax credits available could vary from what was originally claimed on the tax returns.

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

| | 2022 | 2021 |
|---|---|---|
| Current: | | |
| Federal | $ - | $ - |
| State | - | - |
| | - | - |
| Deferred: | | |
| Federal | (3,961,000) | (4,310,000) |
| State | 305,000 | (1,104,000) |
| | (3,656,000) | (5,414,000) |
| Deferred tax asset valuation allowance | 3,656,000 | 5,414,000 |
| Total provision (benefit) | $ - | $ - |

## NOTE 10 – Income Taxes (cont.)

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

| | 2022 | 2021 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 18,119,000 | $ 15,481,000 |
| Research and development credit carryforwards | 2,280,000 | 1,943,000 |
| Section 174 Capitalization of R&D | 753,000 | - |
| Stock-based compensation | 294,000 | 222,000 |
| Accrued expenses | 372,000 | 363,000 |
| Deferred revenue | 111,000 | 178,000 |
| Fixed assets | 210,000 | - |
| Depreciation and amortization | - | 16,000 |
| Gross deferred tax assets | 22,139,000 | 18,203,000 |
| Valuation allowance | (21,730,000) | (18,074,000) |
| Deferred tax assets, net | 409,000 | 129,000 |
| Deferred tax liabilities: | | |
| Section 174 Amortization of R&D | 63,000 | - |
| Prepaid expenses and other assets | 303,000 | 74,000 |
| Foreign currency exchange | 40,000 | 55,000 |
| Fair value change in convertible note | 3,000 | - |
| Net deferred tax assets (liabilities) | $ - | $ - |

The change in the valuation allowance was $3,656,000 and $5,414,000 for the years ended December 31, 2022 and 2021, respectively.

The effective tax rate for the year ended December 31, 2022 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 $615,000 and $486,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2022 and 2021, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2022 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 statements of operations.

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

## NOTE 11 – Subsequent Events

For the year ended December 31, 2022, the Company evaluated, for potential recognition and disclosure, events that occurred through the date the financial statements were available for issuance, February 22, 2023.

On January 6, 2023, the Company obtained a $1.5 million loan from the Bank of North Dakota under the North Dakota Commerce Department's Innovation Technology Loan Fund ("LIFT"). The loan matures in five years and has an interest rate of 0% for the first 3 years and 2% for the next two years of the loan, with monthly interest payments due.

**NOTE 11 – Subsequent Events (cont.)**

The loan includes certain restrictions on the use of the funds. The Company may use the funding only to conduct applied research, experimentation, or operational testing within the state of North Dakota. The funds may not be used for capital or building investments or for general corporate purposes to support existing operations outside the state of North Dakota.

As of the date of these financial statements, the Company has not drawn on the loan.