APPENDIX 4E

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

31 DECEMBER 2023 RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to year ended 31 December 2022)

	$USD	up/down	% movement
Revenue from ordinary activities	$615,568	down	24.56%
Loss after tax from ordinary activities attributable to members	($22,625,902)	up	30.36%
Net loss attributable to members	($22,625,902)	up	30.36%

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 2023 $USD	31 Dec 2022 $USD
Net tangible asset per share of common stock	($0.05)	$0.05
Net tangible asset per CDI	($0.05)	$0.05

- **Annual financial results:**
  This report is based on the accompanying 2023 Financial Statements which have been audited by BDO USA LLP with the Independent Auditor's Report included in the 2023 Financial Statements.

- **Changes in control over entities:**
  There were no entities over which control has been gained or lost during 2023.

- **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 $615,568 compared to $816,011 for the prior corresponding period (“PCP”) due to decreased product sales, largely driven by fewer sales of the Company’s equipment and third-party equipment as well as fewer active sites able to perform procedures. Total product sales of $436,719 were down $210,511, or 33%, compared to the PCP.

The net loss for the year increased to $22,625,902 compared to $17,356,267 for the PCP due primarily to the change in fair value of the convertible note, derivative asset, and derivative liability, and a loss related to the capital commitment agreement. When adjusting for these items, net loss for the year was 4% less compared to the PCP.

	2023	2022
GAAP net loss	$22,625,902	$17,356,267
Less: Loss from Capital Commitment Agreement	(1,360,558)	-
Less: Change in fair value	(4,645,923)	14,200
Adjusted net loss	$16,619,421	$17,370,467

The Company had cash and cash equivalents of $831,522 at 31 December 2023 compared to $5,687,816 at 31 December 2022. Net cash flow from financing activities for the year was $8,213,659 largely comprising proceeds received from the Company’s July, August, and October placements and the second tranche of the convertible note issued to an existing US-based investor in March.

Throughout the year, the company faced sales challenges due to various factors. Some hospitals paused procedures to complete standard MRI updates required for the continued use of our products. Additionally, following Philips' decision not to commercialize their iSuite 3D mapping system, certain hospitals with Philips MRI scanners paused procedures until our NorthStar 3D mapping system becomes compatible with the Philips MRI platform, a milestone anticipated in 2024. Furthermore, constraints on MRI availability persist in sites where cardiology departments do not yet possess their own MRI equipment. However, we anticipate these challenges to gradually subside over time as MRI updates are finalized, NorthStar becomes more widely available, and more hospitals opt to invest in dedicated iCMR labs.

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, 2023 and 2022

IMRICOR MEDICAL SYSTEMS, INC.

TABLE OF CONTENTS

Tel: 612-367-3000
Fax: 612-367-3001
www.bdo.com

800 Nicollet Mall, Suite 600
Minneapolis, MN 55402

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 sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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 2 to the financial statements, the Company has suffered recurring losses and has negative cash flows from operations, has 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 2. 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.

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 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, P.C.

Minneapolis, MN
February 28, 2024

IMRICOR MEDICAL SYSTEMS, INC.
BALANCE SHEETS
As of December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 831,522	$ 5,687,816
Accounts receivable	392,557	125,544
Inventory	1,681,354	2,276,743
Prepaid expenses and other current assets	1,034,706	1,594,211
Total Current Assets	3,940,139	9,684,314
ACCOUNTS RECEIVABLE, LONG TERM	185,854	228,984
PROPERTY AND EQUIPMENT, NET	2,274,310	2,563,356
INVENTORY, LONG TERM	838,365	-
OTHER ASSETS	178,400	227,779
OPERATING LEASE RIGHT OF USE ASSETS	891,251	996,428
TOTAL ASSETS	$ 8,308,319	$ 13,700,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,104,144	$ 259,267
Accrued expenses	790,722	924,936
Current portion of promissory note	364,751	-
Current portion of contract liabilities	582,693	23,358
Current portion of operating lease liabilities	237,172	198,073
Current portion of finance lease liability	65,999	160,680
Current portion of financing obligation	422,866	508,424
Total Current Liabilities	4,568,347	2,074,738
LONG-TERM LIABILITIES		
Convertible note	8,453,300	2,182,900
Option and warrant liabilities	1,945,276	-
Promissory note, net of current portion	33,219	-
Contract liabilities, net of current portion	794,969	492,853
Operating lease liabilities, net of current portion	1,136,601	1,329,890
Finance lease liability, net of current portion	-	65,999
Other long-term liabilities	129,972	44,041
Total Liabilities	17,061,684	6,190,421
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.0001 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2023 and 2022	-	-
Common stock, $0.0001 par value: 535,000,000 shares authorized as of both December 31, 2023 and 2022 and 168,918,134 and 151,347,625 shares issued and outstanding as of December 31, 2023 and 2022, respectively	16,893	15,135
Additional paid-in capital	103,816,628	97,456,289
Accumulated deficit	(112,586,886)	(89,960,984)
Total Stockholders' Equity (Deficit)	(8,753,365)	7,510,440
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 8,308,319	$ 13,700,861

See accompanying notes to financial statements

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023 and 2022

	2023	2022
REVENUES		
Product revenue	$ 436,719	$ 647,230
Service revenue	48,849	120,835
Consulting revenue	130,000	-
Government contract revenue	-	47,946
Total Revenues	615,568	816,011
COSTS AND EXPENSES		
Cost of goods sold	1,731,407	2,342,795
Sales and marketing	2,731,756	2,804,769
Research and development	7,919,568	7,946,129
General and administrative	5,087,841	4,982,404
Total Costs and Expenses	17,470,572	18,076,097
Loss from Operations	(16,855,004)	(17,260,086)
OTHER EXPENSE		
Interest income	63,013	107,999
Government grant income	164,446	-
Foreign currency exchange loss	5,514	(17,955)
Interest expense	(47,947)	(177,917)
Fair value change of financial instruments	(4,645,923)	14,200
Loss from capital commitment agreement	(1,297,204)	-
Other Expense	(12,797)	(22,508)
Total Other Expense	(5,770,898)	(96,181)
NET LOSS	$ (22,625,902)	$ (17,356,267)
EARNINGS PER SHARE:		
Basic and diluted loss per common share	$ (0.14)	$ (0.12)
Basic and diluted weighted average shares outstanding	156,610,729	145,744,865

See accompanying notes to financial statements

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2023 and 2022

	Common Stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Paid-in Capital	Deficit	Equity (Deficit)
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
Stock-based compensation expense	-	-	538,943	-	538,943
Issuance of common stock and restricted stock, net of issuance costs of $80,931	17,570,509	1,758	4,992,836	-	4,994,594
Issuance of warrants, net of fees	-	-	828,560	-	828,560
Net loss	-	-	-	(22,625,902)	(22,625,902)
BALANCES, December 31, 2023	168,918,134	$ 16,893	$103,816,628	$(112,586,886)	$ (8,753,365)

See accompanying notes to financial statements

IMRICOR MEDICAL SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (22,625,902)	$ (17,356,267)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation	707,545	712,491
Stock-based compensation expense	538,943	320,835
Loss on disposal of property and equipment	854	509
Change in inventory reserves	375,107	682,187
Amortization of right-of-use assets	152,493	222,275
Foreign currency exchange (gain) loss	(5,514)	17,955
Issuance of promissory note for capital commitment agreement	399,660	-
Issuance of derivative liability	920,550	-
Change in fair value of convertible note	4,136,600	(14,200)
Change in fair value of derivative asset and liability	509,323	-
Amortization of issuance costs of convertible note	10,160	103,937
Changes in assets and liabilities		
Accounts receivable	(216,252)	(68,217)
Inventory	(919,453)	(444,967)
Prepaid expenses and other assets	601,773	584,527
Accounts payable	1,910,926	(404,192)
Accrued expenses	(134,214)	(476,809)
Lease liabilities	(201,506)	(221,606)
Contract liabilities	861,451	(168,679)
Net Cash Flows used in Operating Activities	(12,977,456)	(16,510,221)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(82,783)	(238,859)
Net Cash Flows used in Investing Activities	(82,783)	(238,859)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	-	29,831
Proceeds from financing obligation	598,228	839,148
Payments on financing obligation	(683,786)	(864,121)
Proceeds from convertible note and warrant	2,675,000	2,325,000
Debt issuance costs on convertible note	(10,573)	(47,749)
Proceeds from issuance of common stock, restricted stock, and warrants	5,847,517	2,016,402
Issuance costs of common stock, restricted stock, and warrants	(85,266)	(22,924)
Proceeds from promissory note	33,219	-
Payments on finance lease liability	(160,680)	(332,155)
Net Cash Flows provided by Financing Activities	8,213,659	3,943,432
Net Change in Cash	(4,846,580)	(12,805,648)
CASH - Beginning of Year	5,687,816	18,516,208
Effect of foreign currency exchange rate changes on cash	(9,714)	(22,744)
CASH - End of Year	$ 831,522	$ 5,687,816
Supplemental cash flow disclosure		
Cash paid for interest	$ 45,157	$ 73,932
Noncash investing and financing activities		
Property and equipment included in accounts payable	$ 35,200	$ 16,723
Transfer from inventory to property and equipment	$ 301,370	$ 68,850
Leasehold improvements paid by landlord	$ -	$ 35,041
Operating lease right of use assets in exchange for operating lease liability	$ 47,316	$ 570,752
Issuance costs included in accounts payable and accrued expenses	$ 3,864	$ 62,239
Settlement of promissory note with issuance of CDIs	$ 42,630	$ -

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.

Cash

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

Accounts Receivable and Customer Concentrations

Accounts receivable are unsecured, are recorded net of amounts expected for credit losses, and do not bear interest except if a revenue transaction has a significant financing component. The Company reviews the allowance for credit losses by considering factors such as historical experience, current economic conditions that may affect a customer's ability to pay, and reasonable and supportable forecasts. Payment is generally due 30 days from the invoice date. 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 credit losses was considered necessary as of December 31, 2023 or 2022.

During the year ended December 31, 2023, the Company had sales from 4 customers that accounted for 21%, 21%, 20%, and 20% of revenue and accounts receivable from 3 customers that represented 89% of the accounts receivable balance. During the year ended December 31, 2022, the Company had sales from 4 customers that accounted for 25%, 16%, 16%, and 16% of revenue and accounts receivable from 5 customers that represented 100% of the accounts receivable balance.

Accounts receivable includes unbilled receivables of $43,130 and $41,874 as of December 31, 2023 and 2022, 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 beyond twelve months from the respective balance sheet date.

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

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. Inventories are as follows:

	2023	2022
Inventory - Current Portion		
Raw materials	$ 98,169	$ 893,739
Work in process	355,504	400,058
Finished goods	1,227,681	982,946
Total Inventory - Current Portion	1,681,354	2,276,743
Inventory - Long-term	838,365	-
Total Inventory	$ 2,519,719	$ 2,276,743

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, 2023 and 2022. Management continually evaluates the likelihood of future sales based on current economic conditions, 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, 2023 will result in recognition of cost of sales based on initial inventory costs, net of reserves taken for expected realization values.

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 $41,375 for the year ended December 31, 2023, which is included in Cost of goods sold on the statements of operations. The Company had a balance of $15,541 in Accrued expenses on the balance sheets related to these commitments at December 31, 2023. For the year ended December 31, 2022, the Company recorded an expense of $113,888 related to these commitments, 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.

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

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

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 leases and financing obligations, an equity investment, and a derivative asset. The balance is made up of the following as of December 31:

	December 31, 2023	December 31, 2022
Security deposit	$ 52,597	$ 116,563
Equity investment	69,560	69,560
Derivative asset	56,243	-
Service agreement	-	41,656
	$ 178,400	$ 227,779

The equity investment made during the year ended December 31, 2021 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, 2023 and 2022.

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.

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

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 156,610,729 and 145,744,865 for the years ended December 31, 2023 and 2022, 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 and warrants 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, 2023 and 2022.

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:

	2023	2022
Exercise of stock options	22,595,981	12,913,186
Conversion of convertible notes	20,304,392	8,659,794
Exercise of warrants	5,216,158	907,141
Total	48,116,531	22,480,121

Foreign Currency Exchange Gains (Losses)

As of December 31, 2023, the Company had cash accounts denominated in Euros, accounts payable that were denominated in both Australian dollars and Euros, a promissory note denominated in Australian dollars, and accounts receivable denominated in Euros and Swiss Francs. As of December 31, 2022, the Company had cash accounts and accounts receivable that were denominated in Euros, and accounts payable denominated in Australian dollars, British pound sterling, and Euros. These assets and liabilities have been translated into US 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.

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.

Revenue is derived from both domestic and 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.

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

The following table provides revenue by country based on the location where services are provided and products are sold for more than 10% of the total revenue for the years ended December 31:

	December 31, 2023	December 31, 2022
Netherlands	$ 195,841	$ 342,810
Germany	162,966	350,522
U.S.	130,000	47,946
United Kingdom	126,761	-
Other countries	-	74,733
	$ 615,568	$ 816,011

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 the final $47,946 of the contract as revenue during the year ended December 31, 2022.

Consulting Revenue

The Company recognizes revenue for consulting over time using the “as invoiced” practical expedient.

In April 2023, the Company entered into a Statement of Work to develop a prototype version of the Company’s catheter that is compatible with a GE Healthcare MRI system. The Company recognized $130,000 as consulting revenue during the year ended December 31, 2023.

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, 2023 and 2022. 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.

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

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, 2023 and 2022, the Company had total current and long-term contract liabilities of $1,377,662 and $516,211, respectively, of which $794,969 and $492,853 was included in long-term liabilities as of December 31, 2023 and 2022, respectively. A total of $166,046 of the contract liability balance as of December 31, 2023 was also in accounts receivable on the balance sheets. The increase in contract liabilities is due to two new product contracts, one new service contract, and one new consulting contract entered into during the period in which billings were made in advance of the revenue recognition.

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

	2023	2022
Balance at the beginning of the year	$ 516,211	$ 684,890
Decrease from revenue recognized for completion of performance obligations that were included in contract liabilities at the beginning of the period included in:		
Product revenue	-	(97,842)
Service revenue	(21,406)	(73,419)
Increase for revenue deferred as the performance obligation has not been satisfied related to:		
Product revenue	768,937	-
Service revenue	58,172	2,582
Consulting revenue	55,748	-
Balance at the end of the year	$ 1,377,662	$ 516,211

Derivative Asset and Liability

The Capital Commitment Agreement ("Agreement") with GEM Global Yield LLC SCS ("GGY") (discussed further in Note 9) meets the definition of a derivative and is recorded upon issuance within other assets on the balance sheets at fair value. The derivative asset is revalued at each balance sheet date, with changes in fair value recorded on the statements of operations as other income or expense. The Company estimates the fair value of the asset using the Monte Carlo Simulation model.

Also in connection with the Agreement with GGY, the Company issued 5,700,000 options which were determined to qualify as liabilities in accordance with ASC 480-10, Distinguishing Liabilities from Equity and ASC 815-40, Derivatives and Hedging. Additionally, the Company issued warrants in connection with the equity raises in August and October 2023 (Note 10), where 2,100,568 warrants were determined to qualify as liabilities due to the exercise price being denominated in a currency other than the Company's functional currency. The result of this accounting treatment is that the options and warrants are recorded upon issuance as a liability on the balance sheets at fair value and are revalued at each balance sheet date, with the change in fair value recorded in the statements of operations as other income or expense. The Company estimates the fair value of the liability using the Black-Scholes pricing model.

See **Notes 9 and 10** for further details and assumptions used in the Black-Scholes pricing model and Monte Carlo Simulation model.

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

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 10** for further details and assumptions used in 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.

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.

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

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 following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis, based on the fair value hierarchy:

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Other Assets				
Derivative asset	$ -	$ -	$ 56,243	$ 56,243
Total Other Assets	$ -	$ -	$ 56,243	$ 56,243
Current Liabilities				
Option and warrant liability	$ -	$ -	$ 1,945,276	$ 1,945,276
Total Current Liabilities	$ -	$ -	$ 1,945,276	$ 1,945,276
Long-term Liabilities				
Convertible note	$ -	$ -	$ 8,453,300	$ 8,453,300
Total Long-term Liabilities	$ -	$ -	$ 8,453,300	$ 8,453,300

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Long-term Liabilities				
Convertible note	$ -	$ -	$ 2,182,900	$ 2,182,900
Total Long-term Liabilities	$ -	$ -	$ 2,182,900	$ 2,182,900

The convertible note (Note 7) and the derivative asset and liability (Notes 9 and 10) are recognized at fair value on a recurring basis at December 31, 2023 and 2022 and are all classified as Level 3. There have been no transfers between levels. The Company estimates the fair value of the asset or liabilities using the Monte Carlo Simulation model or Black-Scholes pricing model.

See **Notes 7, 9 and 10** for further details and assumptions used in the respective pricing model.

As of December 31, 2023 and 2022, 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. The carrying value of the promissory note (Note 8) is a reasonable approximation of fair value.

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.

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

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).

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.

As of December 31, 2022, the Company recorded ERC benefits of $474,445 in Prepaid expense and other current assets on the balance sheets. The Company collected the remaining receivable balance in 2023.

Bioscience Innovation Grant

In August 2023, the Company received a $1,158,000 grant from the North Dakota Department of Agriculture as part of the department's Bioscience Innovation Grant ("BIG") program. The grant money is obtained by submitting requests for reimbursement of specific expenses incurred to support the remaining approval process of the Company's products in the US.

The Company determined that it was eligible for reimbursement of expenses as follows:

	Total
Quarter ended September 30, 2023	$ 56,210
Quarter ended December 31, 2023	108,218
Total	$ 164,428

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

The Company has elected to account for the reimbursement 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 incurred the reimbursable 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.

As of December 31, 2023, the Company recorded BIG benefits of $164,428 in Prepaid expense and other current assets on the balance sheets and in government grant income on the statements of operations. The Company collected the full amount in January 2024.

Recently Adopted Accounting Pronouncement

Effective January 1, 2023, the Company adopted Accounting Standards Update ("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. Adoption of the ASU did not materially impact the Company's financial statements.

Recent Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. These amendments require all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this ASU to have any impact on its financial statements.

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments in ASU 2023-07 improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. This ASU is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company does not expect this ASU to have any impact on its financial position or operations but is currently assessing the impact on the financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, which requires more detailed income tax disclosures. The guidance requires entities to disclose disaggregated information about their effective tax rate reconciliation as well as expanded information on income taxes paid by jurisdiction. The disclosure requirements will be applied on a prospective basis, with the option to apply them retrospectively. The standard is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. We are evaluating the disclosure requirements related to the new standard.

NOTE 2 – 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, 2023 and 2022, had an accumulated deficit as of December 31, 2023 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 3 – Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2023	December 31, 2022
Compensation	$ 122,843	$ 147,453
Firm inventory commitments	15,541	194,823
Other accruals	652,338	582,660
	$ 790,722	$ 924,936

NOTE 4 – Property and Equipment

As of December 31, 2023, property and equipment consisted of the following:

	December 31, 2023	December 31, 2022
Office furniture and equipment	$ 272,267	$ 272,267
Lab and production equipment	2,143,096	1,754,068
Computer equipment	228,794	240,669
MRI scanner	1,200,000	1,200,000
Leasehold improvements	1,641,837	1,641,837
	5,485,994	5,108,841
Less: accumulated depreciation and amortization	(3,211,684)	(2,545,485)
	$ 2,274,310	$ 2,563,356

Depreciation expense was $707,545 and $712,491 for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 – Property and Equipment (cont.)

Property and equipment is held in the following countries as of December 31:

	December 31, 2023	December 31, 2022
U.S.	$ 1,623,999	$ 2,202,954
Foreign countries	650,311	360,402
	$ 2,274,310	$ 2,563,356

No individual country other than the U.S. accounted for more than 10% of the total net book value.

NOTE 5 – 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 of use asset and lease liability of $570,752. As part of the amendment, the landlord reimbursed 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 of 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.

The Company also entered into an operating lease for a vehicle in August 2023. The lease is set to expire in February 2027. Upon commencement of the lease, the Company recorded a right of use asset and a lease liability of $47,316.

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, 2023 and 2022, the remaining lease term on operating leases was 5.4 and 6.4 years, respectively, and the discount rate was 5.5%. For the year ended December 31, 2023 and 2022, the operating cash outflows from operating leases was $283,076 and $261,583 respectively.

NOTE 5 – Leases (cont.)

As of December 31, 2023, maturities of the Company's operating lease liabilities are as follows:

	2023
2024	$ 308,179
2025	316,983
2026	326,075
2027	220,290
2028	173,167
2029 and thereafter	253,588
Total lease payments	1,598,282
Less: interest	(224,509)
Present value of lease liabilities	1,373,773
Less: current portion	(237,172)
Operating lease liability, net of current portion	$ 1,136,601

The cost components of the Company's operating leases for office and manufacturing space, which were included in General and administrative expenses on the statements of operations were as follows for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Operating lease cost	$ 228,426	$ 227,210
Variable lease cost	142,038	137,997
	$ 370,464	$ 365,207

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%. As of December 31, 2023, the remaining payments to be made on this finance lease liability are $67,159, with $1,160 of the remaining balance representing interest. The remainder will be paid in 2024.

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. As of December 31, 2023, there are no remaining payments on this lease.

NOTE 6 – Commitments and Contingencies

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, 2023, the Company had accounts payable to three vendors that accounted for 15%, 14% and 11% of the total outstanding balance. 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.

Purchase Commitments

At December 31, 2023 and 2022, the Company had $475,800 and $1,294,613, respectively, in outstanding firm purchase commitments for raw materials inventory and prototype components used in research and development activities. As of December 31, 2023, payment of the purchase commitments are expected to be as follows:

2024	$	242,713
2025		233,087
	$	475,800

During the years ended December 31, 2023 and 2022, the Company purchased $911,475 and $800,646 respectively, under firm purchase commitments outstanding at the beginning of the respective year.

Financing Obligation

The Company entered into an agreement to finance a portion of an annual insurance premium for the policy periods beginning August 2023 and 2022. The financing obligation is to be paid in 10 monthly installments of $62,012 and $86,203 beginning in September 2023 and 2022, respectively, and the stated interest rate is 7.91% and 5.91%, respectively. The remaining balance on the financing obligation is $422,866 and $508,424 as of December 31, 2023 and 2022, respectively.

Retirement Plan

The Company maintains retirement plans for its employees in which eligible employees can contribute a percentage of their compensation. The Company contributed $243,951 and $257,480 to these plans during the years ended December 31, 2023 and 2022, 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 7 – Convertible Notes with Warrants

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.

NOTE 7 – Convertible Notes with Warrants (cont.)

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. The interest accrued during the years ending December 31, 2023 and 2022 was $233,010 and $5,096, respectively. All or a portion of the principal is convertible into CHESS Depositary Interests (“CDIs”, as described further in Note 10) 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. As of December 31, 2023, 9,568,922 CDIs would be issued if the principal and accrued interest were converted.

The second tranche was issued on March 28, 2023. The Company received $2,675,000 of gross proceeds from the issuance of the convertible note. The second tranche is subject to the same terms as the first tranche. The interest accrued during the year ending December 31, 2023 was $203,740. The maximum number of CDIs to be issued upon conversion of the principal and interest is no more than 14,784,350 CDIs. As of December 31, 2023, 10,735,470 CDIs would be issued if the principal and accrued interest were converted.

The maturity date on the notes 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) the four year anniversary of the closing date of each tranche.

On March 28, 2023 and December 23, 2022, pursuant to the Securities Purchase Agreement, the Company issued warrants exercisable for 1,043,699 and 907,141 CDIs, respectively, with an exercise price of $0.2563 per share. The warrants expire five years after the dates of issuance.

The Company accounts for its convertible promissory notes 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 notes. Using the fair value option, the convertible promissory notes are 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 notes are recognized as non-cash change in the fair value of the financial instruments in the statements of operations.

The convertible notes were recorded as a liability on the balance sheets at the dates of issuance. The following table provides a summary of change in fair value of the two tranches of the convertible notes for the year ended December 31, 2023:

	Total	Tranche 1	Tranche 2
Fair value at December 31, 2021	$ -	$ -	$ -
Fair value of additions at issuance date	-	2,197,100	-
Fair value change in convertible note	-	(14,200)	-
Fair value at December 31, 2022	$ 2,182,900	$ 2,182,900	$ -
Fair value of additions at issuance date	2,133,800	-	2,133,800
Fair value change in convertible note	4,136,600	1,781,900	2,354,700
Fair value at December 31, 2023	$ 8,453,300	$ 3,964,800	$ 4,488,500

NOTE 7 – Convertible Notes with Warrants (cont.)

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

	December 31, 2023	March 28, 2023	December 31, 2022	December 23, 2022
Expected dividend yield	0%	0%	0%	0%
Expected stock-price volatility	95.3% - 98.7%	90%	80%	80%
Risk-free interest rate	3.91% - 3.94%	3.67%	3.90%	4.03%
Stock price	$ 0.3885	$ 0.2045	$ 0.2514	$ 0.2481
Conversion price	$ 0.2691	$ 0.2691	$ 0.2691	$ 0.2691

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 both the Company's own historical volatility as well as 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 evaluated the warrants under ASC 480, "Distinguishing Liabilities from Equity" and ASC 815. The warrants do not meet the characteristics for liability classification under either provision and as such are classified as equity under ASC 815. Given that the convertible notes were subject to fair value remeasurement, the fair value of the convertible notes was carved out from gross proceeds and the remainder of the gross proceeds of the first and second tranches of $127,900 and $541,200, respectively, was allocated to warrants. The warrants were recorded as Additional paid-in capital on the balance sheets at the dates of issuance. No subsequent remeasurement of the warrants is required.

Issuance costs attributable to the second tranche of the convertible note of $10,160 were recorded as interest expense during the year ended December 31, 2023 given the fair value accounting treatment, in accordance with ASC 825-10-25-3. The issuance costs attributable to the first tranche of the convertible note of $103,937 were recorded as interest expense during the year ended December 31, 2022. Issuance costs allocated to the first and second tranches of the warrant of $6,051 and $413, respectively were recorded in Additional paid-in capital given the equity classification of the warrants.

NOTE 8 – Promissory Notes

LIFT Loan

On January 6, 2023, the Company obtained a $1,500,000 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 three years and 2% for the next two years of the loan, with monthly interest payments due. The outstanding loan balance is due at maturity on January 6, 2028. As of December 31, 2023, the Company had drawn $33,219 on the loan. The balance is included within long-term liabilities on the balance sheets.

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.

NOTE 8 – Promissory Notes

GGY Promissory Note

As part of the Agreement with GGY (discussed further in Note 9), the Company issued a promissory note in relation to its promise to pay a fee of $600,000 Australian dollars within the first year of the Agreement's term. The promissory note is revalued at each reporting date. As of December 31, 2023, the balance of the note was $364,751 and is included within current liabilities on the balance sheets. During the year ended December 31, 2023, the Company settled $66,738 Australian dollars on the promissory note by issuing 118,935 CDIs at an average price of $0.56 Australian dollars per share.

NOTE 9 – Capital Commitments

On July 6, 2023, the Company entered into a Capital Commitment Agreement ("Agreement") with GEM Global Yield LLC SCS ("GGY"), under the terms of which GGY has agreed to provide the Company with up to $30 million Australian dollars through a Security Subscription Facility (the "Facility") over a 3-year term. The Agreement allows the Company to draw down funds during the 3-year term by giving GGY 15 Australian Securities Exchange ("ASX") trading days' notice to subscribe for CDIs, subject to share lending arrangement(s) being in place. The number of CDIs which GGY may subscribe for is capped at 700% of the average daily number of CDIs traded on the ASX during the 15 trading days prior to the relevant drawdown notice, subject to certain adjustments. The subscription price of the CDIs to be issued to GGY is the higher of (i) 90% of the average closing bid price of the Company's CDIs over the 15 consecutive trading days after the Company gives the drawdown notice, subject to certain adjustments; or (ii) a fixed floor price nominated by the Company in the drawdown notice. The Company controls the timing of drawdowns under the Facility and has no minimum drawdown obligation. The issue of CDIs to GGY pursuant to any drawdown notice will also be conditional on the Company having sufficient placement capacity under ASX Listing Rules 7.1 or 7.1A (as applicable) or obtaining any requisite securityholder approval for the issue.

The issuance date fair values of the financial instruments issued in connection with the Agreement and issuance costs of $40,348 have been recorded as a loss from capital commitment agreement on the Statements of Operations. Any subsequent changes in fair value of such instruments have been recorded in fair value change of financial instruments on the Statements of Operations.

The Agreement meets the definition of a derivative in accordance with ASC 815-10-15-83 and is measured at fair value. The following table provides a summary of the change in fair value of the derivative asset for the year ended December 31, 2023:

Fair value at issuance date	$	63,354
Fair value change in derivative asset		(7,111)
Fair value at December 31, 2023	$	56,243

The derivative asset's fair value was calculated using the Monte Carlo Simulation model utilizing the following assumptions:

		December 31, 2023		July 6, 2023
Expected stock-price volatility		104.1%		92.5%
Risk-free interest rate		4.03%		4.57%
Stock price (in Australian dollars)	$	0.5700	$	0.4450

NOTE 9 – Capital Commitments (cont.)

The Company entered into a promissory note to pay GEM Yield Bahamas Limited a fee equal to two percent of the aggregate purchase price, being $600,000 Australian dollars ($399,660 US dollars at issuance date). The fee is payable, whether or not any draw down notices have been delivered, within the first year of the Agreement's term. In the event the fee is not paid in full within the first year, interest will accrue on the unpaid portion at the Mortgage Free Business Finance Rate published by Westpac Banking Corporation, compounded monthly.

In addition, pursuant to the terms of the Agreement, the Company issued options to purchase 5,700,000 CDIs with an exercise price of $0.61 Australian dollars per CDI and a 3-year term.

The following table provides a summary of the change in fair value of the options for the year ended December 31, 2023:

Fair value at issuance date	$	920,550
Fair value change in options		372,210
Fair value at December 31, 2023	$	1,292,760

The options' fair value was calculated using the Black-Scholes option pricing model utilizing the following assumptions:

	December 31, 2023		July 7, 2023	
Expected dividend yield		0%		0%
Expected stock-price volatility		104.1%		92.5%
Risk-free interest rate		3.67%		4.26%
Stock price	$	0.3830	$	0.2997
Conversion price	$	0.4172	$	0.4063

Since issuance, the Company has drawn $444,922 Australian dollars on the Facility, and $29,555,078 Australian dollars is available as of December 31, 2023.

NOTE 10 – Stockholders' Equity

Capital Stock Authorized

As of both December 31, 2023 and 2022, 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.

NOTE 10 – Stockholders' Equity (cont.)

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.

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 per share for proceeds of $1,994,445, net of expenses.

In July 2023, the Company completed an equity raise from a US investor which consisted of 2,857,143 shares of common stock at $0.35 per share for proceeds of $981,766, net of expenses. In conjunction with the equity raise, the Company issued 428,571 warrants to purchase common stock at a price of $0.60 per share. The accounting treatment of the warrants is discussed below.

In August 2023, the Company completed an equity raise with a mix of US, Australian and New Zealand investors, which consisted of 2,564,103 shares of common stock at $0.39 per share for US investors and 2,127,056 CDIs at $0.61 Australian dollars per share for Australian and New Zealand investors for proceeds of $1,816,939, net of expenses. In conjunction with the equity raise, the Company issued warrants to purchase common stock or CDIs, with 384,616 warrants to purchase common stock issued to US investors at a price of $0.60 per share and 319,068 warrants to purchase CDIs to Australian and New Zealand investors at a price of $1.00 Australian dollars per share. The accounting treatment of the warrants is discussed below.

In September and October 2023, the Company completed two draws on the GGY Facility and issued a total of 961,868 shares of common stock at an average price of $0.53 Australian dollars per share for proceeds of $257,868, net of expenses and payments on the GGY promissory note.

In October 2023, the Company completed an equity raise with a mix of US, Australian and New Zealand investors, which consisted of 1,406,250 shares of common stock at $0.32 per share for US investors and 7,126,000 CDIs at $0.50 Australian dollars per share for Australian and New Zealand investors for proceeds of $2,676,957, net of expenses. In conjunction with the equity raise, the Company issued warrants to purchase common stock or CDIs, with 351,563 warrants to purchase common stock issued to US investors at a price of $0.60 per share and 1,781,500 warrants to purchase CDIs to Australian and New Zealand investors at a price of $0.95 Australian dollars per share. The accounting treatment of the warrants is discussed below.

Dividend Rights

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

Voting Rights

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

NOTE 10 – 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 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 Stock Option Plan (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 Equity Incentive Plan (the "2019 Plan"), reserving 11,418,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options, or other stock-based awards, 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. On April 4, 2023, the Board of Directors approved an increase of 7,929,130 shares to the option pool, which was approved by the shareholders at the Annual General Meeting on May 11, 2023.

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, 2023, 9,307,365 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 they 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, 2022	12,913,186	$ 0.64	
Exercised	-	-	
Forfeited	(1,362,978)	0.48	
Expired	(1,133,407)	0.71	
Granted	6,479,180	0.19	
Options outstanding - December 31, 2023	16,895,981	$ 0.47	$ 1,575,274
Options exercisable - December 31, 2023	5,759,508	$ 0.67	$ 13,413
Weighted average fair value of options granted during the year ended December 31, 2023		$ 0.15	
Weighted average fair value of options granted during the year ended December 31, 2022		$ 0.19	

NOTE 10 – Stockholders' Equity (cont.)

As of December 31, 2023, the Company had 4,248,057 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 7.66 and 5.55 years, respectively, as of December 31, 2023.

The intrinsic value of options exercised during the years ended December 31, 2023 and 2022 was $0 and $16,379, respectively.

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

	2023	2022
Expected life	5.70 - 6.32 years	5.70 - 6.82 years
Volatility	87.40% - 94.49%	63.58% - 64.96%
Risk-free interest rate	3.45% - 4.85%	2.00% - 3.01%
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 the Company's own historical volatility as well as 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 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,	
	2023	2022
Cost of goods sold	$ 24,329	$ 31,309
Sales and marketing	79,475	81,914
Research and development	126,800	62,913
General and administrative	271,471	131,207
	$ 502,075	$ 307,343

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.

NOTE 10 – Stockholders' Equity (cont.)

As of December 31, 2023, the total unrecognized compensation cost related to unvested stock options then outstanding was $2,289,667. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

		2023
2024	$	406,297
2025		239,390
2026		61,208
2027		20,232
Total related to options expected to vest		727,127
Performance grants not probable of achievement		1,562,540
Total unrecognized compensation expense	$	2,289,667

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, 2023 could affect future expected amounts.

Restricted Stock

On May 9, 2022, the Company granted 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.

On May 12, 2023, the Company granted 528,089 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 $0.19 per share.

A summary of activity related to time-based nonvested restricted stock grants during 2023 is as follows:

	Nonvested Restricted Shares		Weighted Average Grant Date Fair Value
Outstanding as of January 1, 2023	298,297	$	0.28
Granted	528,089		0.19
Vested	(74,574)		0.28
Forfeited	-		-
Outstanding as of December 31, 2023	751,812	$	0.22

Total stock-based compensation expense resulting from grants of restricted stock was $36,868 and $13,492 for the years ended December 31, 2023 and 2022, respectively. 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.

NOTE 10 – Stockholders' Equity (cont.)

As of December 31, 2023, the total unrecognized compensation cost related to unvested restricted stock was $133,500. Future unrecognized stock-based compensation expense is expected to be as follows for the years ended December 31 thereafter:

	2023
2024	$ 46,002
2025	45,934
2026	32,499
2027	9,065
Total	$ 133,500

Warrants

As part of the convertible note issuances in 2022 and 2023 and the equity raises in 2023, the Company issued warrants to purchase common stock or CDIs which are summarized below:

	Number of Warrants	Weighted-Average Exercise Price
Warrants outstanding - December 31, 2022	907,141	$ 0.2563
Warrants issued	4,309,017	0.5201
Warrants exercised	-	-
Warrants expired/forfeited	-	-
Warrants outstanding - December 31, 2023	5,216,158	$ 0.4742
Warrants exercisable - December 31, 2023	5,216,158	$ 0.4742

The warrants issued in connection with the equity raises were evaluated under ASC 480 and ASC 815. Of the 3,235,318 warrants issued in connection with the equity raises, 2,100,568 were determined to qualify as liabilities due to the exercise price being denominated in a currency other than the Company's functional currency, while the remaining 1,164,750 do not meet the characteristics for liability classification under either provision and as such are classified as equity under ASC 815.

Issuance costs attributable to the warrants classified as a liability of $9,656 were expensed during the year ended December 31, 2023 given the fair value accounting treatment. Issuance costs allocated to the warrants classified as equity of $4,335 were recorded in Additional paid-in capital given the equity classification of the warrants.

The following table provides a summary of change in fair value of the warrants classified as a liability for the year ended December 31, 2023:

Fair value at issuance date	$ 522,514
Fair value change in options	130,002
Fair value at December 31, 2023	$ 652,516

NOTE 10 – Stockholders' Equity (cont.)

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

	December 31, 2023	October 23, 2023	August 14 and 15, 2023	July 14, 2023
Expected dividend yield	0%	0%	0%	0%
Expected stock-price volatility	86.7%	87.2%	87.3%	85.4%
Risk-free interest rate	3.96%	4.70% - 4.86%	4.19% - 4.26%	3.83%
Stock price	$ 0.3830	$ 0.2840	$0.4079 - $0.4298	$ 0.2687
Conversion price	$0.6498 - $0.6840	$0.5995 - $0.6000	$0.6000 - $0.6512	$ 0.6000

NOTE 11 – Income Taxes

As of December 31, 2023, the Company had generated approximately $79,236,000 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 $79,236,000, $18,662,000 will begin to expire in 2028 and $60,574,000 will not expire but will only offset 80% of future taxable income.

As of December 31, 2023, the Company had also generated approximately $37,135,000 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 will begin to expire in varying amounts through 2038 if they are not used.

As of December 31, 2023, the Company had approximately $1,890,000 of federal research and development ("R&D") credit carryforwards available for federal tax purposes. As of December 31, 2023, the Company also had approximately $1,004,000 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.

In assessing the realizability of deferred tax assets as of December 31, 2023 and 2022, the Company determined it is more likely than not that its net deferred tax assets will not be realized and the Company continues to maintain a valuation allowance for the full amount of the deferred tax assets.

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 sufficiently limited, the related tax assets would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance.

In 2023, the Company completed an analysis of past equity offerings, and other transactions that have an impact on the Company's ownership structure, for potential ownership changes under Sections 382 and 383 of the Code and concluded that the Company experienced ownership changes in 2009, 2011 and 2020. The analysis determined that there were limitations on the amount of pre-ownership change NOL carryforwards that can be utilized annually to offset future taxable incomes. In addition, we may experience subsequent ownership changes as a result of future equity offerings or other changes in the ownership of our stock, some of which are beyond our control. Similar provisions of state tax law may also apply to limit the use of accumulated state tax attributes.

NOTE 11 – Income Taxes (cont.)

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:

	2023	2022
Current:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred:		
Federal	(4,594,000)	(3,961,000)
State	(737,000)	305,000
	(5,331,000)	(3,656,000)
Deferred tax asset valuation allowance	5,331,000	3,656,000
Total provision (benefit)	$ -	$ -

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

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	$ 19,514,000	$ 18,119,000
Research and development credit carryforwards	2,683,000	2,280,000
Section 174 Capitalization of R&D	3,352,000	753,000
Stock-based compensation	359,000	294,000
Accrued expenses	339,000	372,000
Deferred revenue	313,000	111,000
Fixed assets	299,000	210,000
Fair value change in convertible note	1,051,000	-
Gross deferred tax assets	27,910,000	22,139,000
Valuation allowance	(27,061,000)	(21,730,000)
Deferred tax assets, net	849,000	409,000
Deferred tax liabilities:		
Section 174 Amortization of R&D	669,000	63,000
Prepaid expenses and other assets	141,000	303,000
Foreign currency exchange	39,000	40,000
Fair value change in convertible note	-	3,000
Net deferred tax assets (liabilities)	$ -	$ -

The change in the valuation allowance was $5,331,000 and $3,656,000 for the years ended December 31, 2023 and 2022, respectively.

The effective tax rate for the year ended December 31, 2023 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.

NOTE 11 – Income Taxes (cont.)

The Company has recognized a reserve of approximately $723,000 and $615,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2023 and 2022, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from 2008 through December 31, 2023 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 12 – Subsequent Events

For the year ended December 31, 2023, the Company evaluated, for potential recognition and disclosure, events that occurred through the date the financial statements were available for issuance, February 28, 2024.

February 2024 Placements and Accelerated Non-renounceable Entitlement Offer

On February 1, 2024, the Company announced that it was undertaking an institutional placement, a placement to US investors and an accelerated non-renounceable pro-rata entitlement offer ("ANREO") to raise up to $15 million Australian dollars. The offer price was set at $0.45 Australian dollars per share for non-US investors and $0.30 US dollars per share for US investors. The ANREO was available to existing securityholders to purchase 1 new CDI for every 7.5 CDIs held as of the offer record date and was split into two main components: an accelerated Institutional Entitlement Offer and a Retail Entitlement Offer.

The placements and Institutional Entitlement Offer were completed on February 5, 2024 and resulted in gross proceeds of approximately $5.3 million US dollars (using an exchange rate of $1 Australian dollar to $0.66 US dollar).

The Retail Entitlement Offer was completed on February 22, 2024 and resulted in gross proceeds of approximately $421 thousand US dollars (using an exchange rate of $1 Australian dollar to $0.66 US dollar).The Retail Entitlement Offer was not fully subscribed, leaving up to 14,378,862 shortfall CDIs available to be issued at the Company's discretion within 3 months after the closing date of the Retail Entitlement Offer. The issue price for these shortfall CDIs will be no less than $0.45 Australian dollars.