EBR Systems, Inc.
Consolidated Financial Statements
June 30, 2021

EBR SYSTEMS, INC.

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors and Stockholders
of EBR Systems, Inc.
Sunnyvale, California

We have reviewed the accompanying consolidated financial statements of EBR Systems, Inc, which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of operations and comprehensive loss, stockholders' deficit, and cash flows for the six months ended June 30, 2021 and 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations, which raise substantial doubt on 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 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Report on 2020 Consolidated Balance Sheet

The 2020 consolidated financial statements were audited by us in accordance with auditing standards generally accepted in the United States of America and our audit opinion dated September 30, 2021, expressed an unmodified opinion on those consolidated financial statements. We have not performed any auditing procedures after that date.

Price Kong & Co. C.P.A's P.A.

Price, Kong, & Co., C.P.A.'s, P.A.
Phoenix, Arizona
September 30, 2021

EBR SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,566,309	$ 5,878,281
Non-trade receivable	119,472	273,304
Prepaid expenses	738,515	848,220
Other current assets	95,385	72,295
Total current assets	9,519,681	7,072,100
Property and equipment, net	1,292,764	887,341
Other non-current assets	439,880	439,202
Total assets	$ 11,252,325	$ 8,398,643
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 678,837	$ 903,720
Accrued expenses and other liabilities	2,794,266	2,099,108
Interest payable	21,750	2,665,867
Current portion of notes payable, net of deferred loan costs	2,389,152	2,431,677
Current portion of convertible notes payable, net of discounts and deferred loan costs	-	19,248,821
Total current liabilities	5,884,005	27,349,193
Interest payable, net of current portion	190,909	114,545
Notes payable, net of current portion and deferred loan costs	1,194,576	3,589,152
Convertible notes payable, net of current portion, discounts and and deferred loan costs	12,794,125	7,958,904
Derivative liabilities - fair value of warrants	2,926,000	6,852,000
Other long-term liabilities	168,900	185,428
Total liabilities	23,158,515	46,049,222
Commitments and contingencies (Note 8)		
Stockholders' deficit		
Convertible preferred stock (new series A and new series B), $0.0001 par value, 278,523,428 shares authorized, 125,874,779 shares issued and outstanding at June 30, 2021; 198,523,428 shares authorized, 84,856,456 shares issued and outstanding at December 31, 2020	12,588	8,486
Common stock, $0.0001 par value; 300,000,000 shares authorized, 13,192,904 shares issued and outstanding at June 30, 2021; 240,000,000 shares authorized, 13,190,604 issued and outstanding at December 31, 2020	1,320	1,320
Additional paid-in capital	207,960,831	166,278,889
Accumulated deficit	(219,757,200)	(203,851,437)
Accumulated other comprehensive loss	(123,729)	(87,837)
Total stockholders' deficit	(11,906,190)	(37,650,579)
Total liabilities and stockholders' equity	$ 11,252,325	$ 8,398,643

See accompanying notes to consolidated financial statements

EBR SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Six Months Ended June 30,	
	2021	**2020**
Operating expenses:		
Research and development	$ 2,958,647	$ 6,222,469
Sales and marketing	3,077,553	2,856,009
Clinical and regulatory	3,065,494	3,219,767
General and administrative	1,135,877	1,314,370
Total operating expenses	10,237,571	13,612,615
Loss from operations	(10,237,571)	(13,612,615)
Interest income	313	16,971
Interest expense	(9,107,596)	(3,433,616)
Other income	258,566	402,770
Gain on forgiveness of debt	1,242,525	-
Gain/(loss) on change in fair value of derivative liability	1,938,000	(250,636)
Loss before income taxes	(15,905,763)	(16,877,126)
Income tax benefit	-	697,609
Net loss	$ (15,905,763)	$ (16,179,517)
Other comprehensive loss:		
Foreign currency translation adjustments	(35,892)	(190,952)
Comprehensive loss:	$ (15,941,655)	$ (16,370,469)

See accompanying notes to consolidated financial statements

EBR SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Par Value	Shares	Par Value	Paid-in Capital	Deficit	Loss	Deficit
Balance at December 31, 2019	84,856,456	$ 8,486	13,120,274	$ 1,313	$ 164,297,586	$ (178,133,111)	$ -	$ (13,825,726)
Issuance of stock warrants	-	-	-	-	1,549,357	-	-	1,549,357
Exercise of stock options	-	-	70,330	7	11,246	-	-	11,253
Stock-based compensation	-	-	-	-	217,992	-	-	217,992
Net loss	-	-	-	-	-	(16,179,517)	-	(16,179,517)
Foreign currency translation adjustment	-	-	-	-	-	-	(190,952)	(190,952)
Balance at June 30, 2020	84,856,456	$ 8,486	13,190,604	$ 1,320	$ 166,076,181	$ (194,312,628)	$ (190,952)	$ (28,417,593)

	Convertible Preferred Stock		Common Stock		Additional	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Par Value	Shares	Par Value	Paid-in Capital	Deficit	Loss	Deficit
Balance at December 31, 2020	84,856,456	$ 8,486	13,190,604	$ 1,320	$ 166,278,889	$ (203,851,437)	$ (87,837)	$ (37,650,579)
Issuance of stock warrants	-	-	-	-	1,753,908	-	-	1,753,908
Exercise of stock options	-	-	2,300	-	368	-	-	368
Stock-based compensation	-	-	-	-	214,114	-	-	214,114
Derivative liabilities settled to equity	-	-	-	-	5,898,000	-	-	5,898,000
Convertible notes payable converted into equity	41,018,323	4,102	-	-	33,815,552	-	-	33,819,654
Net loss	-	-	-	-	-	(15,905,763)	-	(15,905,763)
Foreign currency translation adjustment	-	-	-	-	-	-	(35,892)	(35,892)
Balance at June 30, 2021	125,874,779	$ 12,588	13,192,904	$ 1,320	$ 207,960,831	$ (219,757,200)	$ (123,729)	$ (11,906,190)

See accompanying notes to consolidated financial statements

EBR SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2021	2020
Cash flows from operating activities:		
Net loss	$ (15,905,763)	$ (16,179,517)
Adjustment to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	144,455	124,289
Amortization of discount on notes	7,442,165	2,036,793
Amortization of deferred loan costs	26,244	76,356
Change in FV of derivative	(1,938,000)	250,636
Stock-based compensation	214,114	217,992
Convertible notes payable issued for services	33,935	32,216
Gain on forgiveness of debt	(1,242,525)	-
Loss on disposal of property and equipment	-	5,674
Remeasurement of monetary assets and liabilities	(34,797)	(189,656)
Changes in operating assets and liabilities:		
Non-trade receivable	153,832	(604,720)
Inventory	-	2,840,195
Prepaid expenses	109,705	231,198
Other assets	(23,768)	(71,188)
Accounts payable	(224,883)	(1,140,993)
Accrued expenses and other liabilities	678,630	(670,229)
Interest payable	1,293,012	907,696
Net cash used in operating activities	(9,273,644)	(12,133,258)
Cash flows from investing activities:		
Purchase of property and equipment	(550,973)	(235,833)
Net cash used in investing activities	(550,973)	(235,833)
Cash flows from financing activities:		
Repayment of notes payable	(1,200,000)	(2,000,000)
Proceeds from notes payable	-	7,242,525
Proceeds from convertible notes	13,712,277	12,458,890
Payments of deferred loan costs	-	(107,522)
Proceeds from exercise of stock options	368	11,253
Net cash provided by financing activities	12,512,645	17,605,146
Net increase in cash and cash equivalents	2,688,028	5,236,055
Cash and cash equivalents, beginning of the period	5,878,281	7,285,499
Cash and cash equivalents, end of the period	$ 8,566,309	$ 12,521,554
Supplemental disclosure of cash flow information		
Cash paid during the six month period for interest	$ 346,175	$ 412,771
Cash received from income tax benefit	$ -	$ 697,752
Non-cash financing activities		
Issuance of warrants for deferred loan costs	$ -	$ 24,499
Issuance of detachable warrants	$ 1,753,908	$ 1,524,858
Derivative liabilities settled to equity	$ 5,898,000	$ -
Convertible notes payable converted to equity	$ 33,815,552	$ -

See accompanying notes to consolidated financial statements

EBR SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Business and organization

Business overview

EBR Systems, Inc. ("EBR" or the "Company") is a research and development venture pursuing novel approaches in cardiac rhythm management. In 2015, the Company received European CE Mark approval for the world's first wireless cardiac pacing system for heart failure. In 2016, EBR announced its first commercial implants of its wireless cardiac pacing system.

The Company operates a wholly owned foreign subsidiary entity in Australia, EBR Systems (AUST) Pty. Ltd. ("EBR-AU"), which establishes clinical trials in Australia and works on intellectual property development and on Food and Drug Administration ("FDA") approval. The subsidiary was incorporated on February 23, 2017 and is currently in clinical trials.

Liquidity, risks, and financial condition

As of June 30, 2021, the Company had an accumulated deficit of $219,757,200. The Company expects to incur substantial operating losses in future periods and will require additional capital to continue developing its products and other activities. These activities have resulted in losses from operations, which are expected to continue into future years. During the six month period ended June 30, 2021, the Company incurred a net loss of $15,905,763 and had negative cash flows from operating activities of $9,273,644.

The Company will require additional financing to continue its research and development activities, conduct clinical studies, obtain regulatory approvals and fund operations. Failure to complete additional financing may adversely impact the Company's ability to achieve its intended business objectives.

Accounting standards require that management evaluate whether the Company has adequate financial resources to continue as a going concern for one year after the date that these consolidated financial statements are available to be issued. Management has determined that additional funds will be needed to continue as a going concern for the period defined in the accounting standards. Because obtaining future funding is not assured, there is substantial doubt about the Company's ability to continue as a going concern for one year after the date that these consolidated financial statements are available to be issued.

Note 2 - Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles("GAAP").

Principles of consolidation

The consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiary: EBR Systems (AUST) Pty. Ltd., incorporated in Australia. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign currency translation

The Company translates the foreign currency financial statements into US Dollars using the year or reporting period end or average exchange rates in accordance with the requirements of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") subtopic 830-10, *Foreign Currency Matters*. Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within stockholders' deficit.

In the first quarter of 2020, the Company concluded that the functional currency of EBR Systems (AUST) Pty. Ltd. changed from the U.S. dollar to the Australian dollar. The primary reason for the change in functional currency is due to a change in EBR-AU's operations whereby the majority of its operating expenses are anticipated to be in Australian dollar. The Company believes that the change in functional currency was necessary as it reflects the primary economic environment in which EBR-AU operates. The change in functional currency is accounted for prospectively from January 1, 2020, and prior year financial statements have not been restated for the change in functional currency.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Significant estimates and assumptions made by management include the estimated lives of long-lived assets, the fair value of stock-based awards issued, clinical trial accruals, and the valuation of the derivative liability.

Fair value of financial instruments

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Our financial instruments include cash equivalents, non-trade receivables, other assets, accounts payable and accrued expenses. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. The carrying amount of cash equivalents, non-trade receivables, other assets, accounts payable and accrued expenses are generally considered to be representative of their respective values because of the short-term nature of those instruments. The fair value of the Company's embedded derivative liability was valued using the Monte Carlo Simulation (Level 3).

Derivative liability

The Company's 2019 and 2021 convertible notes payable issued contain certain features that meet the definition of being embedded derivatives requiring bifurcation from the 2019 and 2021 convertible notes payable as a separate compound financial instrument. The derivative liability is initially measured at fair value on issuance and is subject to remeasurement at each reporting period with changes in fair value recognized in other income (expense) in the accompanying consolidated statements of operations and comprehensive loss.

Beneficial conversion feature

From time to time, the Company may issue convertible notes that may have conversion prices that create an embedded beneficial conversion feature pursuant to Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Subtopic 470-20, *Debt with Conversion and Other Options*. A beneficial conversion feature ("BCF") exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible is in excess of the conversion price. In accordance with this guidance, the intrinsic value of the BCF is recorded as a debt discount with a corresponding amount to common stock. The debt discount is amortized to interest expense over the life of the note using the effective interest method.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company's cash and cash equivalents are primarily held at one U.S. financial institution that management believes is of high credit quality. Such deposits may, at times, exceed federally insured limits.

Cash and cash equivalents

EBR considers all highly liquid instruments with an initial maturity date of 90 days or less when purchased to be cash equivalents. All investments are considered cash equivalents.

Non-trade receivables

Non-trade receivables are recorded for amounts due to the Company related to reimbursements of clinical trials expenses. These receivables are evaluated to determine if any reserve or allowance should be established at each reporting date. As of June 30, 2021, and December 31, 2020, the Company had $119,472 and $273,304, respectively, outstanding, all of which is deemed collectable.

Property and equipment

Property and equipment is carried at acquisition cost less accumulated depreciation. The cost of normal, recurring, or periodic repairs and maintenance activities related to property and equipment are expensed as incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives by asset classification are generally as follows:

Software/Licenses	3 years
Office Equipment	5 years
Computer Equipment	5 years
Lab Equipment	7 years
Leasehold Improvements	Lesser of 15 years or the remainder of the lease

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for potential impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that carrying value exceeds fair value. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, depending on the nature of the asset. For the six month period ended June 30, 2021 and June 30, 2020, the Company did not recognize any impairment charges associated with long-lived assets.

Revenue Recognition

To date the Company's sole product is in the late stages of FDA approval, as such no revenue has been recorded from the sale of products. Once the Company receives FDA approval, revenue from product sales will be recognized upon the transfer of control, which is generally upon shipment or delivery, depending on the delivery terms set forth in the customer contract. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments will be provided for in the period the related sale is recorded.

Research and development

Research and development costs are expensed when incurred. Research and development costs include costs of other research, engineering, and technical activities to develop a new product or service or make significant improvement to an existing product or manufacturing process. Research and development costs also include pre-approval regulatory and clinical trial expenses.

Stock-based compensation

The Company recognizes stock-based compensation expense in the accompanying consolidated statements of operations and comprehensive loss for all stock-based payments to employees, non-employees and directors. The Company records compensation expense over an award's requisite service period, or vesting period, based on the award's fair value at the date of grant. Awards generally vest over four years for employees. The Company generally uses the Black-Scholes option-pricing model to determine the fair value of each option grant as of the date of grant. The Black-Scholes option pricing model requires inputs for risk-free interest rate, dividend yield, expected stock price volatility and expected term of the options. The fair value of the options is recognized as expense on a straight-line basis over the requisite service period. The Company recognizes the impact of forfeitures on stock-based compensation expense as forfeitures occur. The Company applies the straight-line method of expense recognition to all awards with only service-based vesting conditions. See Note 7, “Stock-Based Compensation” for additional details.

Other Income

The Company periodically receives reimbursements of clinical trial expenses, which are recorded as other income in the accompanying consolidated statements of operations and comprehensive loss. During the six month period ended June 30, 2021, and June 30, 2020, the Company recorded reimbursements of $240,900 and $413,752, respectively.

Income taxes

The asset and liability approach is used for the financial reporting for income taxes. Deferred income balances reflect the effects of temporary differences between the financial reporting and income tax bases of the Company’s assets and liabilities and are measured using enacted tax rates expected to apply when taxes are actually paid or recovered. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses, or NOLs, and research and development credit carryforwards and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse.

A valuation allowance is provided against deferred tax assets if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In making such determination, the Company considers all available positive and negative evidence, including taxable income in available carryback periods, future reversals of existing taxable temporary differences, tax planning strategies, and future taxable income exclusive of reversing temporary differences and carryforwards.

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted this guidance using the modified retrospective method in the first quarter of fiscal year 2020. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, *Leas*es (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the accompanying consolidated balance sheets for all leases longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the accompanying consolidated statements of operations and comprehensive loss. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Management is currently evaluating the new standard and its possible impacts on the Company's consolidated financial statements.

Note 3 – Consolidated balance sheet components

Property and equipment, net

Property and equipment consisted of the following as of June 30, 2021, and December 31, 2020:

	June 30, 2021	December 31, 2020
Tools and lab equipment	$ 406,164	$ 384,947
Furniture and fixtures	45,976	45,976
Leasehold improvements	301,060	301,060
Computer and equipment	831,257	338,294
Production equipment	1,214,462	1,178,764
	2,798,919	2,249,041
Less accumulated depreciation and amortization	(1,506,155)	(1,361,700)
Total property and equipment, net	$ 1,292,764	$ 887,341

Depreciation and amortization expense on property and equipment was $144,455 and $124,289 for the six month period ended June 30, 2021 and June 30, 2020.

Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Accrued compensation and related liabilities	$ 1,085,753	$ 1,098,954
Accrued development expenses	963,343	755,573
Accrued other expenses	745,170	244,581
Accrued expenses and other liabilities	$ 2,794,266	$ 2,099,108

A*ccrued other long-term liabilities*

At June 30, 2021, and December 31, 2020, other long-term liabilities consisted deferred rent of $168,900 and $185,428, respectively.

Note 4 - Notes payable

Paycheck Protection Program

In April 2020, the Company received loan proceeds in the amount of $1,242,525 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amount up to 2.5 times of the average monthly payroll expense of the qualifying business. The loans and accrued interest are forgivable after the earlier of (i) 24 weeks after the loan disbursement date and (ii) December 31, 2020, as long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent and utilities, and it maintains its payroll levels.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company used the proceeds for purposes consistent with the PPP, as such, interest was not accrued for the six month period ended June 30, 2021 and June 30, 2020.

On May 20, 2021, the entire principal balance was forgiven and accounted for as a gain on extinguishment of debt during the six month period ended June 30, 2021.

Silicon Valley Bank – 2020

In March 2020, the Company entered into a loan and security agreement with Silicon Valley Bank and other lenders party thereto. The loan agreement provides for a term loan facility that includes three tranches in a principal amount of $3,000,000, which if drawn would result in an aggregate outstanding principal amount of $9,000,000. The Company used a portion of the proceeds of the initial tranche of term loans to fully repay its outstanding term loan under the 2018 loan and security agreement with Silicon Valley Bank. As of June 30, 2021, and December 31, 2020, the outstanding principal balance under the loan agreement was $3,600,000 and $4,800,000, respectively.

Interest on the term loan accrues on the principal amount outstanding at a floating per annum rate equal to the greater of 7.25% or 2.50% above the Prime Rate and is payable monthly in arrears. The Company is required to make interest only payments through from April 2020 to June 2020, thereafter, 30 monthly principal payments of $200,000 per month plus interest commencing July 2020 and continuing until the maturity of the note in December 2022.

The debt is secured against substantially all of the assets of the Company, except for the Company’s intellectual property but includes all proceeds from the sale of intellectual property.

The note payable described above was issued with fully vested detachable warrants. The note has been discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. As of June 30, 2021, and December 31, 2020, the note has been shown net of the unamortized discount of $16,272 and $21,696, respectively, on the accompanying consolidated balance sheets. Amortization of the discount was $5,424 during the six month period ended June 30, 2021 and June 30, 2020, which is included in interest expense in the accompanying consolidated statements of operations and comprehensive loss. See Note 7 for additional information regarding the warrants.

Silicon Valley Bank – 2018

In April 2018, the Company and Silicon Valley Bank, entered into a loan and security agreement to provide a term loan in the principal amount of $3,000,000. The term loan under the loan agreement was secured by substantially all of the Company's assets, other than intellectual property, but included proceeds from the sale of intellectual property. During 2020, the Company used a portion of the proceeds from the 2020 Silicon Valley Bank note payable to repay the outstanding balance. In connection with the term loan, the Company issued Silicon Valley Bank fully vested detachable warrants to purchase 234,176 shares of New Series B Convertible Preferred Stock. The note was discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. Amortization of the discount was $47,885 during the six months ended June 30, 2020, which is included in interest expense in the accompanying consolidated statements of operations and comprehensive loss.

At June 30, 2021 and December 31, 2020, notes payable consisted of the following:

	June 30, 2021	December 31, 2020
Current portion of notes payable	$ 2,400,000	$ 2,442,525
Long-term portion of notes payable	1,200,000	3,600,000
Less unamortized deferred loan costs	(16,272)	(21,696)
Notes payable, net	$ 3,583,728	$ 6,020,829

The following table presents information regarding the Company's notes payable principal repayment obligations as of June 30, 2021:

Years Ended December 31,	
2021	$ 1,200,000
2022	2,400,000
Total minimum payments	$ 3,600,000

Note 5 – Convertible Notes Payable

Convertible Note Payable – 2017

In October 2017, the Company issued a convertible promissory note for a principal amount of $9,020,589, with a maturity date of April 2028. The note has a stated interest rate of 8% per annum and is convertible into 12,445,334 common shares of EBR Systems (AUST) Pty. Ltd. Interest is only due and payable in the event the Company declares a dividend on the New Series B Convertible Preferred Stock. As no such dividends have been declared to date there has been no accrued interest recorded on this convertible note. In connection with the convertible note payable, the Company issued fully vested detachable warrants to purchase 1,950,607 shares of common stock in EBR-AU. The note was discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. As of June 30, 2021, and December 31, 2020, the convertible note has been shown net of the unamortized discount of $170,589 and $193,833, respectively. Amortization of the discount was $23,244 for the six month period ended June 30, 2021 and June 30, 2020, which is included in interest expense in the accompanying consolidated statements of operations and comprehensive loss.

A beneficial conversion feature discount of $1,240,800 was recorded at the issuance of the convertible promissory note. The beneficial conversion feature is being amortized as interest expense over the term of the convertible note payable. Amortization of the beneficial conversion feature was $59,369 during the six month period ended June 30, 2021 and June 30, 2020, which is included in interest expense in the accompanying consolidated statements of operations and comprehensive loss. As of June 30, 2021 and December 31, 2020, the unamortized beneficial conversion feature amounted to $805,644 and $864,851, respectively.

Convertible Notes Payable – 2019

In August 2019, the Company issued the first of three tranches (“tranche one”) of convertible notes payable in the amount of $12,500,000. In March 2020, the Company issued the second of three tranches (“tranche two”) of convertible notes payable in the amount of $12,458,890. In February 2021, the Company issued the third and final tranche (“tranche three”) of the convertible notes payable in the amount of $5,000,000. The convertible notes payable has a maturity date of December 2021. The notes have a stated rate of 10% per annum.

In May 2021, the convertible note holders elected to convert the aggregate principal balance and accrued interest from the tranche one, tranche two and tranche three convertible notes payable. The principal balance of $29,958,890 and accrued interest of $3,860,764 converted into 41,018,323 shares of the New Series B Convertible Preferred stock.

As part of the agreement, the Company issued fully vested detachable warrants to the tranche one, tranche two, and tranche three convertible note payable holders to purchase 4,438,437 shares, 4,423,389 shares, and 1,732,123 shares, respectively, of the New Series B Convertible Preferred stock at $0.8245 per share. The warrants have an exercise period of 10 years. The Company has classified the warrants as equity. The convertible notes have been discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. Accordingly, the fair value of the tranche one, tranche two, and tranche three warrants at the time of issuance was $1,329,621, $1,526,399, and $624,981, respectively. As of December 31, 2020, the note has been shown net of the aggregate unamortized discount of $1,417,397 on the accompanying consolidated balance sheets. Amortization of the discount was $2,042,918 and $635,376 during the six months ended June 30, 2021, and June 30, 2020, respectively, which is included in interest expense in the accompanying consolidated statements of operations and comprehensive loss. See Note 7 for additional information regarding the warrants.

In the event the Company raises $20,000,00 of equity financing, not including the conversion of the notes, then the entire principal amount and accrued interest shall be converted into the qualified financing shares at 80% of the lowest price per share paid by a third party. If a qualified financing event is not triggered, the principal amount and accrued interest shall be converted into the New Series B Convertible Preferred stock at a price per share of $0.8245. The Company analyzed the conversion feature of the agreement for derivative accounting consideration under FASB ASC Subtopic 815, *Derivatives and Hedging,* and determined that the embedded conversion features should be classified as a derivative liability because the exercise price of these convertible notes are subject to a variable conversion rate. The Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment, as such, the Company has bifurcated the conversion feature of the note and recorded a derivative liability. See Note 6 for additional information regarding the derivative liability.

The embedded derivative for the note is carried on the Company's accompanying consolidated balance sheets at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the consolidated statements of operations and comprehensive income and the associated fair value carrying amount on the accompanying consolidated balance sheets is adjusted by the change. The Company measures the fair value of the embedded derivative using the Monte Carlo simulation. The aggregate fair value of the derivative at the issuance date of tranche one, tranche two, and tranche three was $3,027,459, $5,105,000, and $984,000, respectively, which was recorded as a derivative liability and debt discount at the time of issuance. At June 30, 2021, and December 31, 2020, the unamortized debt discount was $6,260,165 and $4,173,443, respectively. Amortization of the debt discount was $1,439,801 and $2,657,450 during the six month period ended June 30, 2021 and June 30, 2020, respectively, and is recorded as interest expense in the accompanying consolidated statements of operations and comprehensive loss.

Convertible Notes Payable – 2021

In June 2021, the Company issued the first of three tranches ("tranche one") of convertible notes payable in the amount of $8,712,277. The convertible notes payable has a maturity date of December 2021. The notes have a stated rate of 10% per annum.

As part of the agreement, the Company issued fully vested detachable warrants to the tranche one convertible note payable holders to purchase 3,111,787 shares of the New Series B Convertible Preferred stock at $0.8245 per share. The warrants have an exercise period of 10 years. The Company has classified the warrants as equity. The convertible notes have been discounted using the relative fair value approach for the fair value of the warrants and the fair value of the debt. Accordingly, the fair value of the tranche one warrants at the time of issuance was $1,128,927. As of June 30, 2021, the note has been shown net of the aggregate unamortized discount of $1,128,927 on the accompanying consolidated balance sheets. See Note 7 for additional information regarding the warrants.

In the event the Company raises $40,000,00 of equity financing, not including the conversion of the notes, then the entire principal amount and accrued interest shall be converted into the qualified financing shares at 80% of the lowest price per share paid by a third party. If a qualified financing event is not triggered, the principal amount and accrued interest shall be converted into the New Series B Convertible Preferred stock at a price per share of $0.8245. The Company analyzed the conversion feature of the agreement for derivative accounting consideration under FASB ASC Subtopic 815, *Derivatives and Hedging,* and determined that the embedded conversion features should be classified as a derivative liability because the exercise price of these convertible notes are subject to a variable conversion rate. The Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment, as such, the Company has bifurcated the conversion feature of the note and recorded a derivative liability. See Note 6 for additional information regarding the derivative liability.

The embedded derivative for the note is carried on the Company's accompanying consolidated balance sheets at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the consolidated statements of operations and comprehensive income and the associated fair value carrying amount on the accompanying consolidated balance sheets is adjusted by the change. The Company measures the fair value of the embedded derivative using the Monte Carlo simulation. The aggregate fair value of the derivative at the issuance date of tranche one was $2,926,000, which was recorded as a derivative liability and debt discount at the time of issuance. At June 30, 2021, the unamortized debt discount was $2,926,000.

At June 30, 2021 and December 31, 2020, convertible notes payable consisted of the following:

	June 30, 2021	December 31, 2020
Current portion of convertible notes payable	$ -	$ 24,924,955
Long-term portion of convertible notes payable	16,927,222	9,020,589
Less unamortized discounts	(3,938,587)	(6,456,231)
Less unamortized deferred loan costs	(194,510)	(281,587)
Convertible notes payable, net	$ 12,794,125	$ 27,207,726

The following table presents information regarding the Company's convertible notes payable principal repayment obligation as of June 30, 2021:

Years Ended December 31,	
2021	$ -
2022	8,712,277
2023	-
2024	-
2025	-
Thereafter	9,020,589
Total minimum payments	$ 17,732,866

Note 6 – Derivative liabilities

The Company determined the conversion feature of the convertible notes, which contain a variable conversion rate, represented an embedded derivative since the notes were convertible into a variable number of shares upon conversion. Accordingly, the convertible notes are not considered to be conventional debt under FASB ASC Topic 815, *Derivatives and Hedging,* and the embedded conversion feature was bifurcated from the debt host and accounted for as a derivative liability.

The Company valued the derivative liability at June 30, 2021 and December 31, 2020, at $2,926,000 and $6,852,000, respectively. The Company used the Monte Carlo simulation valuation model with the following assumptions as of June 30, 2021, risk-free interest rate of 0.19% and volatility of 61.0%. The Company used the Monte Carlo simulation valuation model with the following assumptions as of December 31, 2020, risk-free interest rate of 0.10% and volatility of 63.0%.

A summary of the activity related to derivative liabilities for the six month period ended June 30, 2021 and June 30, 2020, is as follows:

Balance at January 1, 2020	$ 3,128,364
Issued during the year	5,105,000
Change in fair value recognized in operations	250,636
Balance at June 30, 2020	$ 8,484,000
Balance at January 1, 2021	$ 6,852,000
Issued during the year	3,910,000
Change in fair value recognized in operations	(1,938,000)
Derivative liabilities settled into equity	(5,898,000)
Balance at June 30, 2021	$ 2,926,000

Note 7 – Warrants

The Company follows FASB ASC Subtopic 815-40*, Contract in an Entity's Own Equity,* as it relates to outstanding warrants.

In connection with the Silicon Valley Bank note payable as discussed in Note 4, which occurred in March 2020, the Company issued a warrant to purchase 441,500 shares of common stock at an exercise price of $0.14 per share. These warrants are exercisable, in whole or in part at any time up until the expiration of the warrant agreement at March 24, 2030. The aggregate fair value attributed to these warrants was $29,831 at the grant date. These warrants are classified as equity in the accompanying consolidated balance sheets.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

Dividend yield	0.00%
Volatility	47.28%
Risk free interest rate	0.77%
Expected life	7 yrs.

In connection with the Tranche 2 of the 2019 convertible note payable as discussed in Note 5, which occurred in March 2020, the Company issued a warrant to purchase 4,423,389 shares of New Series B Convertible Preferred stock at an exercise price of $0.8245 per share. These warrants are exercisable, in whole or in part at any time up until the expiration of the warrant agreement on March 13, 2030. The aggregate fair value attributed to these warrants was $1,526,399 at the grant date. These warrants are classified as equity in the accompanying consolidated balance sheets.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

Dividend yield	0.00%
Volatility	46.35%
Risk free interest rate	0.89%
Expected life	7 yrs.

In connection with the Tranche 3 of the 2019 convertible note payable as discussed in Note 5, which occurred in February 2021, the Company issued a warrant to purchase 1,732,123 shares of New Series B Convertible Preferred stock at an exercise price of $0.8245 per share. These warrants are exercisable, in whole or in part at any time up until the expiration of the warrant agreement on February 12, 2031. The aggregate fair value attributed to these warrants was $624,981 at the grant date. These warrants are classified as equity in the accompanying consolidated balance sheets.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

Dividend yield	0.00%
Volatility	49.20%
Risk free interest rate	0.85%
Expected life	7 yrs.

In connection with the Tranche 1 of the 2021 convertible note payable as discussed in Note 5, which occurred in February 2021, the Company issued a warrant to purchase 677,639 shares of New Series B Convertible Preferred stock at an exercise price of $0.8245 per share. These warrants are exercisable, in whole or in part at any time up until the expiration of the warrant agreement on February 12, 2031. The aggregate fair value attributed to these warrants was $1,128,927 at the grant date. These warrants are classified as equity in the accompanying consolidated balance sheets.

The fair value for the warrants issued was calculated using the Black-Scholes model with the following assumptions:

Dividend yield	0.00%
Volatility	48.90%
Risk free interest rate	1.29%
Expected life	7 yrs.

Below is a summary of warrants outstanding at June 30, 2021 and December 31, 2020:

	Number of Shares	Weighted average exercise price	Weighted average remaining contractual term
Balance at January 1, 2020	4,850,327	$ 0.74	7.88
Issued	3,849,537	0.76	9.20
Exercised	-	-	-
Expired/forfeited	-	-	-
Balance at December 31, 2020	8,699,864	0.75	8.42
Issued	4,843,910	0.82	9.85
Exercised	-	-	-
Expired/forfeited	-	-	-
Balance at June 30, 2021	16,699,241	$ 0.77	8.84

Note 8 – Commitments and Contingencies

In July 2017, the Company entered a new facilities lease with an 84-month operating lease, which expires on June 30, 2024. The lease includes provisions for escalating rent payments. Rent expense is recognized straight-line over the term of the lease. The lease included an allowance for tenant improvements of $228,555, which was recorded as a lease obligation and is being amortized over the term of the lease as a reduction to rent expense. As of June 30, 2021, and December 31, 2020, the related unamortized lease incentive obligation $99,132 was $115,654.

The minimum annual operating lease commitments and future minimum payments under this lease is as follows:

Years Ended December 31,		
2021	$	178,988
2022		396,882
2023		408,786
2024		207,414
Total minimum payments	$	1,192,070

Rental expense under operating lease agreements for the six month period ended June 30, 2021 and June 30, 2020, was $206,326.

Note 9 – Convertible Preferred Stock

As of June 30, 2021 and December 31, 2020, Convertible Preferred Stock consisted of the following:

Convertible Preferred Stock	Preferred Shares Authorized	Preferred Shares Issued and Outstanding	Carrying Value & Liquidation Preferences	Shares of Common Stock Issuable Upon Conversion
New Series A	3,523,428	3,488,010	$ 2,875,864	3,488,010
New Series B	195,000,000	81,368,446	67,088,284	81,368,446
Total convertible preferred stock at December 31, 2020	198,523,428	84,856,456	$ 69,964,148	84,856,456
New Series A	3,523,428	3,488,010	2,875,864	3,488,010
New Series B	275,000,000	125,874,779	103,783,755	125,874,779
Total convertible preferred stock at June 30, 2021	278,523,428	129,362,789	160,659,620	129,362,789

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of the New Series B Convertible Preferred Stock ("New Series B") shall be entitled to receive, on a pari passu basis, prior and in preference to any distribution of any of the assets of the Company to the holders of the New Series A Convertible Preferred Stock ("New Series A") or the Common Stock by reason of their ownership of such stock, an amount equal to the sum of i) the original issue price of $0.8245 per share and ii) all declared but unpaid dividends (if any). If upon the liquidation, dissolution or winding up of the Company, the assets of the Company legally available for distribution to the holders of the New Series B stock are insufficient to permit the payment to such holders of the full amounts specified above, then the entire assets of the Company legally available for distribution shall be distributed among the holders of the New Series B stock in the full amounts they would otherwise be entitled to receive.

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of the New Series A stock shall be entitled to receive, on a pari passu basis, prior and in preference to any distribution of any of the assets of the Company to the holders of the Common Stock by reason of their ownership of such stock, an amount equal to the sum of i) the original issue price of $0.8245 per share and ii) all declared but unpaid dividends (if any). If upon the liquidation, dissolution or winding up of the Company, the assets of the Company legally available for distribution to the holders of the New Series A stock are insufficient to permit the payment to such holders of the full amounts specified above, then the entire assets of the Company legally available for distribution shall be distributed among the holders of the New Series A stock in the full amounts they would otherwise be entitled to receive.

Dividend Provisions

The holders of outstanding shares of New Series A stock and New Series B stock shall be entitled to receive dividends, when, as and if declared by the Board of Directors, out of any assets at the time legally available therefore, in preference and priority to any declaration or payment of any distribution on Common Stock in such calendar year at a rate of $0.06596 per share. The right to receive dividends on shares of preferred stock are not cumulative, and no right to dividends accrue to holders of preferred stock by reason of the fact that dividends on said shares are not declared or paid. As of June 30, 2021 and December 31, 2020, there were no cumulative dividends owed or in arrears

Conversion Rights

Each outstanding share of New Series A stock and New Series B stock is convertible into such number of shares of common stock.

Each share of convertible preferred stock shall automatically be converted into shares of common stock immediately prior to the closing of a firm commitment underwritten public offering or upon the receipt by the Company of a written request of such conversion from two-thirds of the holders of the Preferred Stock then outstanding. The conversion price of convertible preferred stock is subject to adjustments as a result of stock dividends, splits and other equity structuring transactions.

Voting Rights

The holders of each share of convertible preferred stock are entitled to the number of votes equal to the number of shares of common stock into which such share is convertible.

Note 10 – Common Stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company’s stockholders. Common stockholders are entitled to receive dividends, as may be declared by the Company’s board of directors. As of June 30, 2021 and December 31, 2020, no dividends have been declared.

As of June 30, 2021 and December 31, 2020, there were 240,000,000 shares authorized, of which 13,192,904 shares and 13,190,604 shares, respectively, were outstanding.

Additionally, the Company has reserved the following shares of common stock for issuance as follows:

Conversion of 2017 convertible notes payable	12,445,334
Conversion of 2021 convertible notes payable	10,566,740
Conversion of New Series A Preferred Stock	3,488,010
Conversion of New Series B Preferred Stock	122,386,769
Conversion of Common Stock warrants	2,392,107
Conversion of New Series A warrants	21,649
Conversion of New Series B warrants	14,285,485
2013 Equity Inventive Plan	35,897,099
Total shares of Common stock reserved for issuance	201,483,193

Note 11 – Stock-based Compensation

In June 2013, the Board of Directors and the stockholders of the Company adopted the 2013 Equity Incentive Plan. Under the 2013 Plan 36,825,412 shares of common stock are reserved. The Company may grant options to purchase common stock, stock appreciation rights, restricted stock awards and other forms of stock-based compensation. Stock options generally vest over four years and expire no later than 10 years from the date of grant. The Board of Directors has the authority to select the employees to whom options are granted and determine the terms of each option, including i) the number of shares of common stock subject to the option; ii) when the option becomes exercisable; iii) the option exercise price, which must be at least 100% of the fair market value of the common stock as of the date of grant and iv) the duration of the option, which may not exceed 10 years.

As of June 30, 2021, options to purchase a total of 31,231,210 shares of common stock remained outstanding and 4,665,889 remain available for grant under the 2013 Plan.

Stock option activity for the six month period ended June 30, 2021 was as follows:

	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
Outstanding at January 1, 2021	29,964,075	$ 0.15	
Granted	1,365,184	0.12	
Cancelled	(95,749)	0.12	
Exercised	(2,300)	0.16	
Outstanding at June 30, 2021	31,231,210	$ 0.14	7.63
Vested and expected to vest at June 30, 2021	29,964,075	$ 0.15	7.63
Exercisable at June 31, 2021	24,456,445	$ 0.15	7.39

The fair value of the options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the volatility of the Company's common stock, an assumed risk-free interest rate and expected dividends. The Company uses the simplified calculation of expected life and volatility is based on an average of the historical volatilities of the common stock of several publicly traded entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses the straight-line method for expense attribution. The weighted-average grant-date fair values of stock options granted during the six month period ended June 30, 2021, was $0.06 per share.

The following assumptions were used to calculate the grant-date fair value of employee stock options granted during the six month period ended June 30, 2021:

Expected Term (in years)	7.00
Expected Volatility	50.26% - 54.31%
Expected Dividend Yield	0.00%
Risk-Free Interest Rate	0.75% - 1.34%

The following table presents classification of stock-based compensation expense within the accompanying consolidated statements of operations and comprehensive loss:

Research and development	$	41,244
Sales and marketing		27,234
Clinical and regulatory		24,298
General and Administrative		121,338
Total	$	214,114

At June 30, 2021, there was $785,938 of unamortized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.53 years.

Note 12 – Income Taxes

The Company did not record any income tax expense during the six month period ended June 30, 2021. During the six month period ended June 30, 2020, the Company recorded an income tax benefit received from the Australian Taxation Office for the Research and Development tax incentive for $697,609. The Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets. Valuation allowances are recorded when the expected realization of the deferred tax assets does not meet a "more likely than not" criterion. Realization of the Company's deferred tax assets are dependent upon the generation of future taxable income, the amount and timing of which are uncertain.

Net operating loss carryforwards (NOLs) and tax credit carry-forwards are subject to review by the Internal Revenue Service (IRS) and may become subject to annual limitations due to ownership changes that have occurred previously or that could occur in the future under Section 382 of the Internal Revenue Code. The Company has not conducted a study to assess whether a change of control has occurred or whether there have been multiple changes of control since inception due to the significant complexity and cost associated with such a study. Any limitation may result in expiration of a portion of the NOLs or research and development tax credit carryforwards before utilization. Further, until a study is completed, and any limitation is known, no amounts are being presented as an uncertain tax position.

The Company files income tax returns in the United States, California, Georgia, Indiana, Kansas, Minnesota, Pennsylvania, South Carolina, and Texas. The Company is not currently under examination in any of these jurisdictions. The Company is subject to income tax examinations on all federal returns since the 2017 tax return.

Note 13 – Related Party Transactions

In October 2017, the Company entered into a services agreement with a stockholder of the Company. Under the terms of the agreement the stockholder of the Company agreed to provide services including: a) advising on the Australian regulatory, business and healthcare environment; b) advising on the establishment of operation in Australia; c) assisting in the recruitment of key employees; and d) supporting clinical trial operations. In lieu of payment for services received, the Company will remit 10% of the gross Australian R&D Incentive Proceeds, net of accounting fees, to the stockholder of the Company. As of June 30, 2021 and December 31, 2020, there was no outstanding liability for amounts due to the stockholder of the Company.

Note 14 – Subsequent Events

The Company has evaluated subsequent events that have occurred through September 30, 2021, which is the date that the consolidated financial statements were available to be issued and determined that there were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements except as discussed and below.

In September 2021, the Company issued a call on the second tranche of the convertible notes. The Company expects to issue convertible notes payable totaling $8,712,277 in early October 2021. As part of the second tranche the Company will issue fully vested detachable warrants to purchase 3,111,787 shares of New Series B Convertible Preferred Stock at $0.8245 per share.