

IMRICOR MEDICAL SYSTEMS INC.

Minneapolis, Minnesota

For the Six Months Ended June 30, 2019 and 2018

IMRICOR MEDICAL SYSTEMS INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed interim financial statements of Imricor Medical Systems, Inc. (the Company), which comprise the condensed balance sheet as of June 30, 2019, and the related condensed statements of operations, changes in stockholders' deficit, and cash flows, for the six months ended June 30, 2019 and 2018, and the related notes to the condensed interim financial statements.

Management's responsibility

The Company's management is responsible for the preparation and fair presentation of the condensed interim financial statements in accordance with accounting principles generally accepted in the United States of America; 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 accounting principles generally accepted in the United States of America.

Auditor's 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 statements. 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 condensed interim financial statements referred to above for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on condensed balance sheet as of December 31, 2018

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the Company as of December 31, 2018, and the related statements of operations, changes in stockholders' deficit, and cash flows for the year then ended (not presented herein); and we expressed an unqualified audit opinion on those audited financial statements, with an emphasis of matter paragraph regarding going concern and emphasis of matter paragraph regarding the change in account principle for adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, in our report dated February 19, 2019. In our opinion, the accompanying condensed balance sheet of the Company as of December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 27, 2019

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED BALANCE SHEETS
As of June 30, 2019 and December 31, 2018

ASSETS		
	(Unaudited) June 30, 2019	(Audited) December 31, 2018
CURRENT ASSETS		
Cash	\$ 1,743,419	\$ 1,588,348
Accounts receivable	40,655	55,856
Inventory	536,512	374,316
Prepaid expenses and other current assets	42,972	67,405
Total Current Assets	2,363,558	2,085,925
ACCOUNTS RECEIVABLE-LONG TERM	316,540	316,540
PROPERTY AND EQUIPMENT, NET	2,084,676	2,115,102
OTHER ASSETS	1,016,808	211,375
OPERATING LEASE RIGHT OF USE ASSETS	509,818	-
PREPAID SERVICE AGREEMENT	500,000	500,000
TOTAL ASSETS	<u>\$ 6,791,400</u>	<u>\$ 5,228,942</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 588,026	\$ 274,314
Accrued expenses	258,542	150,026
Current portion of operating lease liabilities	113,793	-
Current portion of finance lease liability	-	3,004
Current portion of financing obligation	336,183	-
Total Current Liabilities	1,296,544	427,344
LONG-TERM LIABILITIES		
Contract liabilities	592,853	592,853
Accrued interest	936,887	506,147
Convertible notes, net of discount	11,407,946	9,596,609
Down round liability	1,419,300	-
Operating lease liabilities, net of current portion	391,446	-
Financing obligation, net of current portion	1,308,951	-
Total Liabilities	17,353,927	11,122,953
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.01 par value:		
25,000,000 shares authorized and 0 shares outstanding as of both June 30, 2019 and December 31, 2018	-	-
Common stock, \$0.01 par value:		
120,000,000 shares authorized as of both June 30, 2019 and December 31, 2018 and 44,344,351 and 42,002,813 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	443,443	420,028
Additional paid-in capital, common stock	21,175,826	20,817,689
Accumulated deficit	(32,181,796)	(27,131,728)
Total Stockholders' Deficit	<u>(10,562,527)</u>	<u>(5,894,011)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 6,791,400</u>	<u>\$ 5,228,942</u>

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

	Six Months ended June 30,	
	2019	2018
REVENUES		
Royalties and license fees	\$ -	\$ 522,802
Contract revenue	54,543	163,638
Total Revenue	54,543	686,440
OPERATING EXPENSES		
Sales and marketing	249,341	373,043
Research and development	1,768,213	1,747,441
General and administrative	1,053,071	786,663
Total Operating Expenses	3,070,625	2,907,147
Loss from Operations	(3,016,082)	(2,220,707)
OTHER INCOME (EXPENSE)		
Interest income	2,833	1,025
Interest expense	(604,608)	(340,563)
Down round expense (NOTE 9)	(1,419,300)	-
Other income (expense)	(12,911)	58,097
Total Other Income (Expense)	(2,033,986)	(281,441)
NET LOSS	<u>\$ (5,050,068)</u>	<u>\$ (2,502,148)</u>
EARNINGS PER SHARE:		
Basic and diluted loss per common share	\$ (0.11)	\$ (0.06)
Basic and diluted weighted average shares outstanding	43,965,403	41,992,426

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
BALANCES, December 31, 2017	41,982,813	\$ 419,828	\$20,369,729	\$(24,897,618)	\$ (4,108,061)
Cumulative effect of adopting ASC 606 (Note 2)	-	-	-	3,214,372	3,214,372
BALANCES, January 1, 2018	41,982,813	419,828	20,369,729	(21,683,246)	(893,689)
Stock-based compensation expense	-	-	153,446	-	153,446
Exercise of stock options	20,000	200	10,840	-	11,040
Net loss	-	-	-	(2,502,148)	(2,502,148)
BALANCES, June 30, 2018	<u>42,002,813</u>	<u>\$ 420,028</u>	<u>\$20,534,015</u>	<u>\$(24,185,394)</u>	<u>\$ (3,231,351)</u>
BALANCES, December 31, 2018	42,002,813	\$ 420,028	\$20,817,689	\$(27,131,728)	\$ (5,894,011)
Stock-based compensation expense	-	-	206,002	-	206,002
Exercise of warrants	150,000	1,500	49,650	-	51,150
Exercise of stock options	2,191,538	21,915	102,485	-	124,400
Net loss	-	-	-	(5,050,068)	(5,050,068)
BALANCES, June 30, 2019	<u>44,344,351</u>	<u>\$ 443,443</u>	<u>\$21,175,826</u>	<u>\$(32,181,796)</u>	<u>\$ (10,562,527)</u>

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

	Six months ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (5,050,068)	\$ (2,502,148)
Net loss		
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	63,762	36,487
Stock-based compensation expense	206,002	153,446
Amortization of debt issuance costs	69,617	34,345
Accrued interest for convertible notes	430,740	152,621
Beneficial conversion feature from conversion of 2017 notes	-	153,071
Down round expense	1,419,300	-
Foreign currency exchange gain	(4,212)	(60,848)
Changes in assets and liabilities		
Accounts receivable	15,201	(128,387)
Inventory	(162,196)	(45,419)
Prepaid expenses and other assets	(193,738)	186,179
Accounts payable	51,031	(138,119)
Accrued liabilities	108,516	91,388
Deferred revenue	-	(272,802)
Net Cash Flows from Operating Activities	(3,046,045)	(2,340,186)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(33,336)	(27,889)
Net Cash Flows from Investing Activities	(33,336)	(27,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of common stock warrants and options	175,550	11,040
Proceeds from convertible notes	1,745,932	3,500,761
Proceeds from financing obligation	1,370,840	-
Payments on finance lease liability	(3,004)	(4,322)
Payments on financing obligation	(54,866)	-
Debt issuance costs associated with convertible notes	-	(46,102)
Net Cash Flows from Financing Activities	3,234,452	3,461,377
Net increase in cash	155,071	1,093,302
Cash, beginning of period	1,588,348	1,769,080
Cash, end of period	\$ 1,743,419	\$ 2,862,382
Supplemental cash flow disclosure		
Cash paid for interest	\$ 28	\$ 226
Noncash investing and financing activities		
2018 Convertible notes issued in exchange for 2017 Notes and accrued interest	\$ -	\$ 2,551,186
Convertible notes issued in exchange for debt issuance costs	\$ -	\$ 228,660
Prepaid financing fees included in accounts payable	\$ 262,681	\$ 55,995
Security deposit obtained through financing obligation	\$ 329,160	\$ -

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Imricor Medical Systems, Inc. ("Imricor") is a U.S.-based medical device company that seeks to address the current issues with traditional x-ray-guided ablation procedures through the development of MRI-guided technology. Incorporated in the State of Delaware in 2006, the Company's principal focus is the design, manufacturing, sale and distribution of MRI-compatible products for cardiac catheter ablation procedures. Imricor's unique technology utilizes an intellectual property (IP) portfolio that includes technology developed in-house, as well as IP originating from Johns Hopkins University and Koninklijke Philips N.V. The Company is headquartered in Burnsville, Minnesota, where it has development and manufacturing facilities. Imricor is a pioneer and leader in developing MRI-compatible products for cardiac catheter ablation procedures and believes it will be the first company in the world to bring commercially viable and safe MRI-compatible products to the cardiac catheter ablation market. The Company's primary product offering, the Vision-MR Ablation Catheter is specifically designed to work under real-time MRI guidance, with the intent of enabling higher success rates along with a faster and safer treatment compared to conventional procedures using x-ray guided catheters. Imricor currently generates income from licensing some of its IP for use in implantable devices and performing contract research, but expects to generate most of its future income from the sale of the MRI-compatible products it has developed for use in cardiac catheter ablation procedures (comprising single-use consumables and capital goods). Imricor has 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, and is in the final stages of the CE mark approval process 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 unaudited interim financial statements and notes in conformity with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by US GAAP for complete financial statements. In the opinion of the Company's management, the accompanying interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information.

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

Cash

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

Accounts Receivable

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

Accounts receivable includes unbilled receivables of \$40,655 as of June 30, 2019 and December 31, 2018 which represents the current portion of minimum royalties due to the Company during the year ended

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

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

December 31, 2019. The long-term accounts receivable relates to minimum royalties due to the Company beyond twelve months from the respective balance sheet date. See **NOTE 2**.

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. The Company has determined no allowance for excess or obsolete inventory is required as of June 30, 2019 and December 31, 2018. Inventories are as follows as of June 30, 2019 and December 31, 2018:

	2019	2018
Raw Materials	\$ 470,133	\$ 320,847
Work in Process	45,688	32,778
Finish Goods	20,691	20,691
	<u>\$ 536,512</u>	<u>\$ 374,316</u>

Property and Equipment

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

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

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

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the impairment tests indicate that the carrying value of the asset, or asset group, is greater than the expected undiscounted cash flows to be generated by such asset or asset group, further analysis is performed to determine the fair value of the asset or asset group. To the extent the fair value of the asset or asset group is less than its carrying value, an impairment loss is recognized equal to the amount the fair value of the asset or asset group exceeds its carrying amount. 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.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

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

Research and Development Costs

The Company expenses research and development costs as incurred.

Other Assets

Other assets on the balance sheet include primarily prepaid financing fees related to the Company's equity raise (**NOTE 11**) and security deposits related to the Company's operating leases and financing obligation. The portion of other assets related to prepaid financing fees will be reclassified to equity when the equity financing is completed.

Patents

Expenditures for patent costs are charged to operations as incurred.

Income Taxes

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

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

Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 43,965,403 and 41,992,426 for the six months ended June 30, 2019 and 2018, respectively.

Dilutive net income (loss) per share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. The effects of including incremental shares associated with convertible notes, the down round liability, options, warrants and unvested royalty conversion rights are anti-dilutive due to the net loss incurred and are not included in the diluted weighted average number of shares of common stock outstanding for the six months ended June 30, 2019 and 2018, respectively.

Foreign currency exchange gains (losses)

The Company has received some convertible note investments (see **NOTE 5**) from Australian investors and has accounts payable for certain expenses to Australian vendors that are denominated in Australian dollars. These liabilities have been translated into U.S. dollars at period-end exchange rates. Foreign currency exchange gains and losses are included in the statements of operations within other income (expense).

Financial Instruments

The carrying amounts for all financial instruments approximate fair value. The carrying amounts for cash, accounts payable and accrued expenses approximate fair value because of the short maturity of

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

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

these instruments. The fair value of the convertible notes approximates carrying value and has been estimated based on discounted cash flows using interest rates being offered for similar debt having the same or similar maturities and collateral requirements.

Revenue Recognition

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

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

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

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

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

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

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

Licenses of Intellectual Property

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

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

Milestone Payments

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

Royalties

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

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and non-employee directors and consultants in its statements of operations based on their fair values at the date of grant based on the Black-Scholes pricing model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period for all awards, net of an estimated forfeiture rate, resulting in the recognition of compensation expense for only those shares expected to vest. Compensation expense is recognized for all

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

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

awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. See **NOTE 8** for further details and assumptions regarding the Black-Scholes pricing model.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Standards

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

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 2 – Revenue Recognition

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

Impact of Adoption

As a result of adopting ASC 606, the Company recognized an adjustment to reduce the accumulated deficit by \$3,214,372 mainly related to accelerating revenue related to minimum royalties and license and development arrangements where the Company has fulfilled their performance obligations as of December 31, 2017.

Royalties and License Fees

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

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

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

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

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

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in an allocation of the upfront payment to the first and third milestones on a relative standalone value basis. No allocation of the upfront payment was made to the second milestone, given the Company's position that this development program has been effectively cancelled. The Company has estimated that 72% of the third milestone was completed prior to January 1, 2018. As a result of the adoption of ASC 606, the remaining contract liability associated with the first milestone and 72% of the contract liability associated with the third milestone was eliminated. \$373,333, which represents 28% of the third milestone as well as the relative portion of the upfront payment, is included in long-term contract liabilities as of December 31, 2018 and June 30, 2019. The customer

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 2 – Revenue Recognition (cont.)

sold the portion of the business which held this license in May 2018. The license has been assigned to the purchaser. The project is still on hold with no plans to work on final development during the next 12 months, and therefore, the contract liability is included in long-term liabilities.

In November 2017, the Company licensed certain intellectual property to a customer in exchange for an upfront non-refundable license fee and milestone payments, which can total up to \$2,250,000. The non-refundable license fee of \$500,000 was collected in November 2017 and the first milestone payment of \$250,000 was collected during the six months ended June 30, 2018.

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

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in a change in recognition of the upfront payment from over the life of the license to over the period of expected performance. The Company recognized \$197,802 in license fees during the six months ended June 30, 2018 related to a portion of the upfront non-refundable license fee which was being recognized as the Company completes their performance obligation, which had been estimated to occur during the thirteen months beginning December 2017 through December 2018.

In addition, during the six months ended June 30, 2018, the Company recognized \$325,000 related to the achievement of the first two milestones which was recognized over time as the performance obligation was fulfilled, subject to constraint.

As of December 31, 2018, the Company determined that it would not be able to fulfill the remaining two milestones in the timeframe as outlined in the agreement and the Company was in negotiations with the customer to amend the agreement to change the dates for completion of the remaining milestones. Consequently, as of December 31, 2018, the Company had completed all of its performance obligations related to the milestones probable of completion. Therefore, the Company recognized the remaining upfront non-refundable license fee of \$263,736 during the six months ended December 31, 2018. The agreement was amended in March, 2019. The timelines for the two remaining milestones were extended through the year ended December 31, 2019 and will be recognized as income upon completion of each remaining milestone. No revenue was recognized related to this contract during the six months ended June 30, 2019.

Government Contract Revenue

The Company was awarded a contract with the government on September 26, 2017 for up to \$2,402,951 to develop a Magnetic Resonance Imaging (MRI) compatible injection catheter for MRI-guided procedures. The Company recognizes revenue for this contract over time using the “as invoiced” practical expedient. There was no change in the pattern of revenue recognition under ASC 606 for this contract. The Company recognized \$54,543 and \$163,638 as revenue during the six months ended June 30, 2019 and 2018, respectively.

Contract Liabilities

Amounts received prior to satisfying the above revenue recognition criteria are recorded as contract liabilities in the accompanying balance sheets, with the contract liabilities to be recognized beyond one year being classified as non-current contract liabilities. As of June 30, 2019 and December 31, 2018, the Company had contract liabilities of \$592,853.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 3 – Liquidity

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 six months ended June 30, 2019 and 2018 and had an accumulated deficit as of June 30, 2019. As of June 30, 2019, the Company's cash balance was \$1.7 million. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses.

Based upon the commitments received in contemplation of the Company's Initial Public Offering ("IPO") and associated listing on the Australian Securities Exchange ("ASX"), (see **NOTE 11**), the Company believes that it will have sufficient working capital to operate for at least the next twelve months beyond August 27, 2019.

NOTE 4 – Property and Equipment

Property and equipment consisted of the following:

	June 30, 2019	December 31, 2018
Office furniture and equipment	\$ 179,133	\$ 179,133
Lab and production equipment	776,313	742,977
Computer equipment	178,259	178,259
MRI scanner	1,200,000	1,200,000
Leasehold improvements	717,283	717,283
Total costs	3,050,988	3,017,652
Less: Accumulated depreciation and amortization	(966,312)	(902,550)
Property and equipment, net	<u>\$ 2,084,676</u>	<u>\$ 2,115,102</u>

Depreciation expense was \$63,762 and \$36,487 for the six months ended June 30, 2019 and 2018, respectively.

NOTE 5 – Convertible Notes

On August 25 and November 4, 2016, the Company issued \$1,630,000 in unsecured convertible notes ("Notes") with several equity investors including \$100,000 to related parties. During February 2017, the Company issued \$1,050,000 in additional Notes with several investors. The Notes bore interest at a rate of six percent annually from the date of issuance and were due on August 1, 2017. In August 2017, the Company converted the Notes and accrued interest totaling \$2,798,674 into 3,833,799 shares of Common stock (see **NOTE 8**). In the event the Company issued securities within the 180-day period immediately following the conversion of the Notes ("Qualified Financing"), the Noteholders were to receive additional shares of Common stock such that total shares issued would be based upon a price that was 94% of the price paid the subsequent investors. The 2017 Notes (described below) met the definition of a Qualified Financing and therefore, the Company is required to issue additional shares based on the IPO pricing. As of June 30, 2019, the Company estimated that the fair value of the potential additional shares to be issued upon the completion of the Company's IPO is \$1,419,300 and is included as "Down round expense" in the Statement of Operations for the six months ended June 30, 2019, and as a down round liability in the Balance Sheet as of June 30, 2019, based upon the estimated IPO price and the probability of the IPO occurring (which are considered Level 3 inputs) as of June 30, 2019 (See **NOTE 11**). The fair value of this Down round liability as of December 31, 2018 was immaterial. The Down round liability will be remeasured to the final fair value when the shares are issued and the remaining expense will be recorded at that time.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 5 – Convertible Notes, (cont.)

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

During April 2018, the 2017 Notes and accrued interest of \$2,398,115 were converted, with a six percent discount of \$153,071, into \$2,551,186 in new unsecured convertible notes (“2018 Notes”), of which \$967,686 was to related parties. The Company also issued \$7,379,420 of new 2018 Notes with several current and new investors, including \$260,000 to related parties. In connection with the issuance of the 2018 Notes, a strategic investor invested \$3,400,000 (during the six months ended December 31, 2018) consisting of \$1,000,000 in cash, and \$2,400,000 of in-kind contribution. The in-kind contribution includes \$1,200,000 for an MRI scanner, \$500,000 for a four-year prepaid service agreement on the MRI scanner, and \$700,000 in a leasehold improvement allowance to build out space to house the MRI scanner. The MRI scanner and leasehold improvements are included in property and equipment as of both June 30, 2019 and December 31, 2018. The prepaid service agreement is included in other long-term assets. In connection with the 2018 Notes, the Company incurred total debt issuance costs of \$278,007 (\$274,762 incurred during the six months ended June 30, 2018), of which \$228,660 were settled with the issuance of additional 2018 Notes. These debt issuance costs are being amortized straight-line over the expected maturity date and are recognized as interest expense.

On February 4, April 3 and April 4, 2019, the Company issued \$1,745,932 in additional convertible notes, (“2019 Notes”), respectively, including \$662,506 to related parties.

The 2018 and 2019 Notes bear interest at a rate of eight percent annually from the date of issuance until the outstanding principal is paid or converted. These Notes shall automatically convert into Conversion Shares (as defined in the 2018 and 2019 Notes) immediately prior to, and contingent upon, the allotment of CHESS Depositary Interests (CDIs) as a result of an Australian Initial Public Offering (IPO). The number of Conversion Shares to be issued upon conversion of the 2018 and 2019 Notes is 75% of the IPO price. The Company recorded \$430,740 in accrued interest expense for the six months ended June 30, 2019 related to the 2018 and 2019 Notes. The Company recorded \$305,692 in interest expense for the six months ended June 30, 2018, related to the 2017 and 2018 Notes, of which \$153,071 represents the six percent discount related to the 2017 Note conversion, and \$35,926 of additional accrued interest converted. If the 2018 Notes are not converted as a result of an Australian IPO, the principal balance, along with accrued interest and an additional 15% of the total unpaid balance will be due 24 months from the initial closing of the 2018 Notes. As of June 30, 2019 and December 31, 2018, the contingent interest is \$1,867,389 and \$1,541,520, respectively. The Company has determined that it is not probable that the potential contingent interest will be incurred and therefore, no amount has been accrued or expensed.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 5 – Convertible Notes, (cont.)

The following table summarizes the Convertible notes, discount and accrued interest at:

	June 30, 2019	December 31, 2018
Convertible notes-related parties	\$ 1,890,192	\$ 1,227,686
Convertible notes-all other	9,622,181	8,542,967
Total Convertible notes	11,512,373	9,770,653
Debt discount	(104,427)	(174,044)
	<u>\$ 11,407,946</u>	<u>\$ 9,596,609</u>
Accrued interest-related parties	\$ 137,294	\$ 68,844
Accrued interest-all other	799,593	437,303
Total Accrued interest	<u>\$ 936,887</u>	<u>\$ 506,147</u>

Interest expense for the six months ended is as follows:

	June 30, 2019	June 30, 2018
Convertible notes-related parties	\$ 68,450	\$ 91,333
Convertible notes-all other	362,290	214,359
Total convertible notes	<u>\$ 430,740</u>	<u>\$ 305,692</u>

NOTE 6 – Leases

Capital Lease obligations (prior to adoption of ASC 842)

The Company acquired various equipment during 2014 under capital leases. The cost of the equipment capitalized was \$104,017. Accumulated amortization as of June 30, 2019 and December 31, 2018 was \$104,017 and \$100,381, respectively. Amortization expense is included in general and administrative expenses on the statement of operations as depreciation expense. The lease terminated in April 2019.

Operating Leases

In March 2007, the Company entered into an operating lease agreement for its office space which was originally set to expire in July 2014. The lease was extended through July 2019. In June 2019, the lease was extended through October 2022. The Company entered into a second operating lease agreement for office and warehouse space in August 2018 which commenced on January 1, 2019 and expires in March 2026. Neither lease includes renewal or extension rights. Both lease agreements require the Company to pay a pro rata portion of the lessor's actual operating expenses which are considered variable lease costs as the expenses are trued up on an annual basis. Rent expense of \$84,175 was incurred for the six months ended June 30, 2018.

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

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 6 – Leases, (cont.)

As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. As of June 30, 2019, the remaining lease term was 4.5 years and discount rate was 8.0%. For the six months ended June 30, 2019, the operating cash outflows from our operating lease for office and manufacturing space was \$68,394.

As of June 30, 2019, maturities of our operating lease liabilities are as follows:

2019	\$	74,812
2020		150,453
2021		151,305
2022		121,662
2023		31,008
2024 and thereafter		74,778
Total lease payments		604,018
Less interest		(98,779)
Present value of lease liabilities	\$	<u>505,239</u>

The cost components of the Company's operating leases were as follows for the six months ended June 30, 2019:

Operating lease cost	\$	75,780
Variable lease cost		<u>38,120</u>
Total		<u>\$ 113,900</u>

Financing Obligation

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

The Company's remaining payments under the terms of the financing obligation are as follows as of June 30, 2019:

2019	\$	329,190
2020		658,380
2021		658,380
2022		274,325
Expected buy out at end of lease term		<u>425,000</u>
Total payments		2,345,275
Less amount representing interest		<u>(700,141)</u>
Total present value of total payments		1,645,134
Less current portion		<u>(336,183)</u>
Financing obligation, net of current portion	\$	<u><u>1,308,951</u></u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 7 - Commitments and Contingencies

Retirement Plan

The Company maintains a 401(k)-retirement plan for its employees in which eligible employees can contribute a percentage of their compensation. The Company may also make discretionary contributions. The Company did not make any contributions for the six months ended June 30, 2019 and 2018.

Employment Agreements

The Company has an employment agreement with the CEO and CFO of the Company. The agreements require severance of twelve and six months of current annual salary and medical insurance in the event employment is terminated without cause, respectively. The Company also has an employment agreement with its Director of sales which requires twelve months of current annual base salary in the event employment is terminated without cause.

NOTE 8 - Stockholders' Deficit

Capital Stock Authorized

As of June 30, 2019 and December 31, 2018, the Board of Directors of the Company had authorized 145,000,000 shares of capital stock, consisting of 120,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

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

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

Dividend Rights

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

Voting Rights

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

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 8 - Stockholders' Deficit, (cont.)

Stock Option Plans

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

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

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Options outstanding - December 31, 2018	9,935,833	\$ 0.56	
Exercised	(2,400,000)	0.10	
Cancelled	(271,600)	0.72	
Cancelled and regranted	(5,462,600)	0.76	
Granted	5,462,600	0.52	
Options outstanding – June 30, 2019	7,264,233	\$ 0.53	\$ 86,162
Options exercisable – June 30, 2019	1,771,223	\$ 0.56	\$ 86,162

The aggregate intrinsic value is calculated as the difference between the weighted average exercise price of the underlying awards and the Company's estimated fair value of its common stock as of June 30, 2019.

As of June 30, 2019, the Company had 2,379,867 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding was 8.13 years as of June 30, 2019.

The weighted average remaining contractual life of options exercisable was 3.24 years as of June 30, 2019.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 8 - Stockholders' Deficit, (cont.)

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

	Six-month Period ended June 30, 2019	Six-month Period ended June 30, 2018
Expected life	6-7 years	7 years
Volatility	50%	48.12%
Risk-free interest rate	2.83%	2.83%
Dividend Yield	0%	0%

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

Total stock-based compensation expense resulting from options granted was \$206,002 and \$153,446 for the six months ended June 30, 2019 and 2018, 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.

As of June 30, 2019, the total unrecognized compensation cost related to unvested stock options was \$1,216,687. Future unrecognized stock-based compensation expense is expected to be as follows for the years ending December 31:

	Total
2019	\$ 245,613
2020	490,746
2021	329,840
2022	129,822
2023	20,666
Total	<u>\$ 1,216,687</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 8 - Stockholders' Deficit (cont.)

Stock Warrants

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

	Number of Warrants	Weighted- Average Exercise Price
Warrants outstanding - December 31, 2018	937,909	\$ 0.67
Warrants exercised	(150,000)	0.34
Warrants outstanding – June 30, 2019	<u>787,909</u>	<u>\$ 0.73</u>
Remaining weighted average contractual life in years, as of June 30, 2019		.8

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

Royalty Conversion Rights

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

NOTE 9 – Fair Value

The Company's financial instruments measured at fair value consist of the down round liability (See **NOTE 5**).

Pursuant to the requirements of ASC Topic 820 "*Fair Value Measurement*," the Company's liability measured at fair value on a recurring basis is classified and disclosed in one of the following three categories:

- *Level 1* - Financial instruments with unadjusted quoted prices listed on active market exchanges.
- *Level 2* - Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over the counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- *Level 3* - Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The fair value of the Company's down round liability, as described in **NOTE 5**, as of June 30, 2019, was estimated to be \$1,419,300 and is included as "Down round expense" in the Statement of Operations for the six months ended June 30, 2019, and as a down round liability in the Balance Sheet, based upon the estimated IPO price and the probability of the IPO occurring (which are considered Level 3 inputs). Changes to any of the inputs may result in significantly higher or lower fair value measurements.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS For the Six Months Ended June 30, 2019

NOTE 10 - Income Taxes

At the end of each interim period, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimate reflects, among other items, the Company's best estimate of operating results. In estimating the annual effective tax rate, the Company does not include the estimated impact of unusual and/or infrequent items, including the reversal of valuation allowances, which may cause significant variations in the customary relationship between income tax expense (benefit) and pretax income (loss) in interim periods. The income tax expense (benefit) for such unusual and/or infrequent items is recorded in the interim period such items are incurred.

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. The Company's effective tax rate for the six months ended June 30, 2019 properly excluded tax benefits associated with year-to-date pre-tax losses due to the full valuation allowance recorded.

The Company has generated both federal and state net operating losses (NOL) of approximately \$23,369,000 and federal and state research and development credit carryforwards of approximately \$1,460,000 as of December 31, 2018, which, if not used, will begin to expire in 2023. The Company believes that its ability to fully utilize the existing NOL and credit carryforwards could be restricted by changes in control that may have occurred or may occur in the future and by its ability to generate net income. The Company has not yet conducted a formal study of whether, or to what extent, past changes in control of the Company impairs its NOL and credit carryforwards because such NOL and credit carryforwards cannot be utilized until the Company achieves profitability. The Company has established a full valuation allowance as of June 30, 2019 and December 31, 2018, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

The tax years from inception through June 30, 2019 remain subject to examination by all major taxing authorities due to the net operating loss carryovers. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense in the Company's statement of operations.

NOTE 11 – Subsequent Event

On August 26, 2019, the Company received commitments from sophisticated and professional investors to subscribe for an equity capital raise consisting of 14,578,313 CDIs representing the same number of shares of Class A common stock totaling \$8,242,520. In a concurrent US Private Placement, the Company has commitments from certain current and new US investors for an additional capital raise consisting of 1,084,337 common shares of stock totaling \$613,080. The Company expects the settlement of these equity raises to occur on August 29, 2019.

In connection with the equity raise, the 2018 and 2019 Notes and accrued interest of \$12,533,764 converted into a total of 29,557,372 CDIs or shares of common stock. In addition, 3,187,375 shares of common stock will be issued to 2016 Noteholders in connection with the down round liability (see **NOTE 5**).

For the six months ended June 30, 2019, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through August 27, 2019.