

**IMRICOR MEDICAL SYSTEMS INC.**

Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years December 31, 2017 and 2016

# IMRICOR MEDICAL SYSTEMS INC.

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Imricor Medical Systems Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imricor Medical Systems Inc. as of December 31, 2017 and 2016 and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in Note 2 to the financial statements, the company's accumulated deficit and need for additional working capital raise substantial doubt about its ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from this uncertainty. Our opinion is not modified with respect to that matter.



Minneapolis, Minnesota  
May 25, 2018

**IMRICOR MEDICAL SYSTEMS INC.**  
**BALANCE SHEETS**  
December 31, 2017 and 2016

	<b>ASSETS</b>	
	2017	2016
<b>CURRENT ASSETS</b>		
Cash	\$ 1,769,080	\$ 2,089,084
Inventory	147,921	-
Prepaid expenses and other current assets	<u>258,756</u>	<u>173,155</u>
Total Current Assets	2,175,757	2,262,239
<b>PROPERTY AND EQUIPMENT, NET</b>	145,901	223,084
<b>OTHER ASSETS</b>	<u>23,733</u>	<u>23,733</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,345,391</u>	<u>\$ 2,509,056</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 213,879	\$ 134,916
Accrued expenses	145,942	161,485
Current portion of deferred revenue	465,759	321,641
Current portion of capital lease obligations	<u>8,744</u>	<u>10,306</u>
Total Current Liabilities	834,324	628,348
<b>LONG-TERM DEBT</b>		
Deferred revenue, net of current portion	3,253,936	3,127,048
Accrued interest	37,188	30,452
Convertible notes	2,325,000	1,630,000
Capital lease obligations, net of current portion	<u>3,004</u>	<u>11,748</u>
Total Liabilities	<u>6,453,452</u>	<u>5,427,596</u>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.01 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2017 and 2016	-	-
Common stock, \$0.01 par value: 65,000,000 shares authorized as of both December 31, 2017 and 2016, respectively and 41,982,813 and 36,988,222 shares issued and outstanding as of December 31, 2017 and 2016, respectively	419,828	369,882
Additional paid-in capital, common stock	20,369,729	16,465,317
Accumulated deficit	<u>(24,897,618)</u>	<u>(19,753,739)</u>
Total Stockholders' Deficit	<u>(4,108,061)</u>	<u>(2,918,540)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<u>\$ 2,345,391</u>	<u>\$ 2,509,056</u>

**IMRICOR MEDICAL SYSTEMS INC.**  
**STATEMENTS OF OPERATIONS**  
For the Years Ended December 31, 2017 and 2016

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<b>REVENUES</b>	<u>2017</u>	<u>2016</u>
Royalties and license fees	\$ 378,994	\$ 371,641
Sale of equipment and product	-	149,250
Grant income	54,546	-
Equipment rental revenue	<u>-</u>	<u>2,400</u>
Total Revenue	433,540	523,291
<b>COST OF EQUIPMENT AND PRODUCT</b>	<u>-</u>	<u>49,996</u>
<b>OPERATING EXPENSES</b>		
Sales and marketing	335,844	282,574
Research and development	3,747,791	2,921,556
General and administrative	<u>1,365,736</u>	<u>1,320,507</u>
Total Operating Expenses	<u>5,449,371</u>	<u>4,524,637</u>
Loss from Operations	<u>(5,015,831)</u>	<u>(4,051,342)</u>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	1,374	2,690
Interest expense	(126,231)	(32,079)
Other expense	<u>(3,191)</u>	<u>(4,130)</u>
Total Other Income (Expense)	<u>(128,048)</u>	<u>(33,519)</u>
<b>NET LOSS</b>	<u>\$ (5,143,879)</u>	<u>\$ (4,084,861)</u>
<b>EARNINGS PER SHARE:</b>		
Basic and diluted loss per common share	\$ (0.13)	\$ (0.11)
Basic and diluted weighted average shares outstanding	39,521,291	36,982,354

**IMRICOR MEDICAL SYSTEMS INC.**  
**STATEMENTS OF STOCKHOLDERS' DEFICIT**  
For the Years Ended December 31, 2017 and 2016

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
<b>BALANCES, December 31, 2015</b>	36,934,526	\$369,345	\$16,252,122	\$(15,668,878)	\$952,589
Stock-based compensation expense	-	-	181,156	-	181,156
Financing costs associated with Series A Financing	-	-	(6,622)	-	(6,622)
Issuance of Common Stock at \$0.73 per share for employee bonus	53,696	537	38,661	-	39,198
Net loss	-	-	-	(4,084,861)	(4,084,861)
<b>BALANCES, December 31, 2016</b>	36,988,222	369,882	16,465,317	(19,753,739)	(2,918,540)
Stock-based compensation expense	-	-	487,834	-	487,834
Exercise of warrants	1,035,792	10,358	611,117	-	621,475
Exercise of stock options	125,000	1,250	45,125	-	46,375
Issuance of Common Stock at \$0.73 per share for convertible notes and accrued interest	3,833,799	38,338	2,760,336	-	2,798,674
Net loss	-	-	-	(5,143,879)	(5,143,879)
<b>BALANCES, December 31, 2017</b>	41,982,813	\$419,828	\$20,369,729	\$(24,897,618)	\$(4,108,061)

**IMRICOR MEDICAL SYSTEMS INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (5,143,879)	\$ (4,084,861)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	100,597	109,788
Stock-based compensation expense	487,834	181,156
Accrued interest for convertible notes	125,410	30,452
Changes in assets and liabilities		
Accounts receivable	-	56,218
Inventory	(147,921)	-
Prepaid expenses and other current assets	(85,601)	(67,449)
Accounts payable	78,963	91,341
Accrued expenses	(15,543)	(6,811)
Deferred revenue	271,006	678,359
Net Cash Flows from Operating Activities	<u>(4,329,134)</u>	<u>(3,011,807)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(23,414)</u>	<u>(46,475)</u>
Net Cash Flows from Investing Activities	<u>(23,414)</u>	<u>(46,475)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of common stock warrants and options	667,850	-
Proceeds from convertible notes	3,375,000	1,630,000
Financings costs associated with Series A financing	-	(6,622)
Payments on capital lease obligations	<u>(10,306)</u>	<u>(19,253)</u>
Net Cash Flows from Financing Activities	<u>4,032,544</u>	<u>1,604,125</u>
<b>Net Change in Cash</b>	<u>(320,004)</u>	<u>(1,454,157)</u>
CASH - Beginning of Year	<u>2,089,084</u>	<u>3,543,241</u>
<b>CASH - End of Year</b>	<u>\$ 1,769,080</u>	<u>\$ 2,089,084</u>
<b>Supplemental cash flow disclosure</b>		
Cash paid for interest	<u>\$ 821</u>	<u>\$ 1,627</u>
<b>Noncash investing and financing activities</b>		
Common stock shares issued for accrued employee bonus	<u>\$ -</u>	<u>\$ 39,198</u>
Common stock shares issued for convertible notes and accrued interest	<u>\$ 2,798,674</u>	<u>\$ -</u>

**IMRICOR MEDICAL SYSTEMS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2017 and 2016

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

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*Nature of Operations and Basis of Presentation*

Imricor Medical Systems Inc. ("Imricor Medical Systems" or the "Company") was incorporated in Delaware on May 23, 2006 and is a medical device company with headquarters in Minneapolis, Minnesota. The Company is focused on the development of devices and systems that are compatible with magnetic resonance imaging (MRI). The products are designed to provide doctors the ability to perform interventional procedures while taking advantage of the superior soft tissue imaging capabilities of MRI. In addition, the Company has licensed patented technology to help make implanted medical devices compatible with MRI.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

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.

*Inventory*

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

*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, generally three to five years. 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 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. 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.

*Advertising*

Advertising costs are charged to operations when incurred. Advertising expense was \$0 for both years ended December 31, 2017 and 2016.

*Research and Development Costs*

The Company expenses research and development costs as incurred.

*Patents*

Expenditures for patent costs are charged to operations as incurred.



**IMRICOR MEDICAL SYSTEMS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2017 and 2016

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

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*Impairment of Long-Lived Assets*

The recoverability of long-lived assets is assessed periodically or whenever adverse events or changes in circumstances or business climate indicate that the expected cash flows previously anticipated warrant a reassessment. When such reassessments indicate the potential of impairment, all business factors are considered and, if the carrying value of such assets is not likely to be recovered from future undiscounted operating cash flows, they will be written down for financial reporting purposes to their fair values.

*Capital Leases*

Capital leases are recorded as assets and liabilities at the lower of the present value of the minimum lease payments at the beginning of the lease term or the fair value of the leased property at the inception date.

*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 39,521,291 and 36,982,354 for the years ended December 31, 2017 and 2016, respectively. Due to the net losses incurred, all options and warrants are antidilutive for the years ended 2016 and 2017.

*Financial Instruments*

The carrying amounts for all financial instruments approximate fair value. The carrying amounts for cash, inventory, accounts payable and accrued expenses approximate fair value because of the short maturity of 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 recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the sales price is fixed or determinable; and (3) collectability is probable. When there are additional performance requirements, revenue is recognized when all such requirements have been satisfied. Under revenue arrangements with multiple deliverables, the Company recognizes each separable deliverable as it is earned.

The Company derives its revenue from the following primary sources: (1) royalties and license fees from licensing and sale of its intellectual property to customers; (2) sales of equipment and product; (3) grant income; and (4) equipment rental revenue.

## IMRICOR MEDICAL SYSTEMS INC.

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2017 and 2016

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

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##### *Royalties and license fees*

The Company has licensed technology to four separate third parties. During the year ended December 31, 2009, the Company assigned rights to certain patent applications in exchange for a one-time payment. During the year ended December 31, 2012, the Company licensed certain intellectual property to a customer in exchange for an up front non-refundable license fee and milestone payments, which can total up to \$6,000,000. All of these milestone payments, including the non-refundable license fee, were collected prior to December 31, 2016. In addition, the agreement provides for a royalty of 3% of product sales, subject to a minimum of \$50,000 per year. During the year ended December 31, 2014, the Company licensed certain intellectual property to a customer in exchange for an up front 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, as of December 31, 2016. During the year ended December 31, 2017, the Company licensed certain intellectual property to a customer in exchange for an up front 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 for the year ended December 31, 2017. In addition, during the year ended December 31, 2017, the Company entered into an amended joint research agreement whereby the Company was paid \$100,000 for sponsorship of a clinical trial.

The clinical trial payment is for work expected to be performed during the year ended December 31, 2018 and is included in deferred revenue for the year ended December 31, 2017.

Up-front non-refundable license fees are recognized straight-line over the term of the related licensing agreement as they do not have standalone value. As a result, the Company has recorded deferred revenue on its balance sheets related to these up front payments.

Minimum royalty fees are recognized in the period earned.

Revenue related to a performance milestone is recognized upon the achievement of the milestone, as defined in the respective agreements and provided the following conditions have been met:

- The milestone payment is non-refundable;
- The milestone involved a significant degree of risk, and was not reasonably assured at the inception of the arrangement;
- Accomplishment of the milestone involved substantial effort;
- The amount of the milestone payment is commensurate with the related effort and risk; and
- A reasonable amount of time passed between the initial license payment and the first and subsequent milestone payments.

The Company recognized \$328,994 of non-refundable license fees as revenue during the year ended December 31, 2017 and is included in Royalties and license fees.

The Company recognized \$1,000,000 in milestone payments received as non-current deferred revenue during the year ended December 31, 2016 and \$321,641 of non-refundable license fees as revenue during the year ended December 31, 2016 and is included in Royalties and license fees on the statement of operations.

The Company recognized \$50,000 of royalty revenue for both years ended December 31, 2017 and 2016.

*Sale of equipment and product.* During the year ended December 31, 2016, the Company sold certain product and equipment for \$149,250. In connection with the sale, the Company was obligated to warranty the equipment for twelve months.

*Equipment rental revenue.* In connection with one of the Company's license agreements, the Company agreed to purchase a piece of equipment to be utilized as part of the development efforts. The Company maintains the equipment and the customer pays rent for its use.

## IMRICOR MEDICAL SYSTEMS INC.

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2017 and 2016

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

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*Grant revenue.* The Company was awarded a contract 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 recognized \$54,546 as grant revenue during the year ended December 31, 2017.

*Deferred revenue.* Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets, with deferred revenue to be recognized beyond one year being classified as non-current deferred revenue. As of December 31, 2017 and 2016, the Company had deferred revenue of \$3,719,695 and \$3,448,689, respectively.

*Subsequent Events.* For the year ended December 31, 2017, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through May 25, 2017.

#### *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 awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed.

#### *Estimates*

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

#### *Recent Accounting Standards*

During May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (for public entities) or December 15, 2018 (for private entities), and interim periods within annual periods beginning after December 15, 2018 (for public entities) or December 15, 2019 (for private entities). The Company may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently assessing the effect that ASU No. 2014-09 will have on its results of operations, financial position and cash flows.

During February 2016, the FASB issued 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) or December 15, 2019 (for private entities), and interim periods within fiscal years beginning after December 15, 2019 (for public entities) or December 15, 2020 (for private entities), with earlier application permitted. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently assessing the effect that ASU No. 2016-02 will have on its results of operations, financial position and cash flows.

**IMRICOR MEDICAL SYSTEMS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2017 and 2016

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

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In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016 (for public entities) or December 15, 2017 (for private entities), including interim periods within those fiscal years. The Company is evaluating the impact the adoption of this ASU will have on its financial statements.

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**NOTE 2 – Going Concern**

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The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both of the years ended December 31, 2017 and 2016, had an accumulated deficit as of December 31, 2017 and is in need of additional working capital to fund future operations. These conditions raise substantial doubt about its ability to continue as a going concern.

Even if the Company's products and technology can be commercialized, there is no assurance that they can be marketed to generate any significant sales, earnings, profits or positive cash flows. To continue in existence and expand its operations, the Company will be required to, and management plans to, raise additional working capital through an equity or debt offering and ultimately attain profitable operations. If the Company is not able to raise additional working capital, it would have a material adverse effect on the operations of the Company and continuing research and development of its product, as well as commercialization.

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**NOTE 3 – Property and Equipment**

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Property and equipment consisted of the following:

	December 31,	
	2017	2016
Office furniture and equipment	\$ 167,367	\$ 167,367
Lab and production equipment	633,719	611,848
Computer equipment	160,403	158,860
Leasehold improvements	9,431	9,431
	<u>970,920</u>	<u>947,506</u>
Less: Accumulated depreciation and amortization	(825,019)	(724,422)
	<u>\$ 145,901</u>	<u>\$ 223,084</u>

Depreciation expense was \$100,597 and \$109,788 for the years ended December 31, 2017 and 2016, respectively.

## IMRICOR MEDICAL SYSTEMS INC.

### NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2017 and 2016

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#### NOTE 4 – Convertible Notes

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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 issued to related parties. The notes bore interest at a rate of six percent annually from the date of issuance and were due on August 1, 2017. Accrued interest as of December 31, 2016 was \$30,452. During February 2017, the Company issued \$1,050,000 in additional Notes with several investors. The additional Notes bore interest at six percent. 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 7).

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 bear interest at a rate of six percent annually from the date of issuance and principal and interest become due on August 31, 2018. The Notes are automatically convertible into the next round of equity financing if at least \$5,000,000 in new funding is raised (“Qualified Financing”) prior to the maturity date. The 2017 Notes, including unpaid accrued interest, shall automatically convert at a conversion price equal to 94% of the price per share paid by investors in the Qualified Financing. In addition, upon a change in control (as defined in the agreement), the holder can elect to be repaid or convert the notes and accrued interest to common stock at \$0.73 per share. As the conversion features are contingent upon completion of a Qualified Financing or a change in control, no beneficial conversion feature has been recorded. Accrued interest as of December 31, 2017 was \$37,188. No interest was paid on the 2017 Notes during the year ended December 31, 2017.

During April 2018, the 2017 Notes and accrued interest of \$2,551,186 were converted into new unsecured convertible notes (“2018 Notes”). The Company also issued \$3,629,420 of new 2018 Notes with several current and new investors, including \$60,000 to related parties. The 2018 Notes bear interest at a rate of eight percent annually from the date of issuance until the outstanding principal is paid or converted. The 2018 Notes shall automatically convert into Conversion Shares (as defined in the 2018 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 Notes is determined by 94% of the IPO price, subject to a maximum conversion value of \$60,000,000. 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.

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#### NOTE 5 – Capital Lease Obligations

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The Company acquired various equipment during 2014 under capital leases. The cost of the equipment capitalized was \$104,017. Accumulated amortization as of December 31, 2017 and 2016 was \$79,578 and \$58,774, respectively. Amortization expense is included in general and administrative expenses on the statement of operations as depreciation expense.

The following is a schedule by year of the remaining minimum payments required under the lease as of December 31, 2017:

2018	\$ 9,097
2019	<u>3,032</u>
Total minimum lease payments	12,129
Less amount representing interest	<u>(381)</u>
Present value of minimum payments	11,748
Less current portion	<u>(8,744)</u>
Capital lease, net of current portion	<u>\$ 3,004</u>

**IMRICOR MEDICAL SYSTEMS INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2017 and 2016

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**NOTE 6 - Commitments and Contingencies**

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*Operating Lease Obligation*

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 has been extended through July 2019. The lease agreement requires the Company to pay a pro rata portion of the lessor's operating expenses. Rent expense of \$116,445 and \$113,053 was incurred for the years ended December 31, 2017 and 2016, respectively.

Future base minimum lease payments are expected to be as follows for the years ending December 31:

	<u>Total</u>
2018	\$ 119,938
2019	<u>71,173</u>
Total	<u>\$ 191,111</u>

*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 years ended December 31, 2017 and 2016.

*Employment Agreement*

The Company has an employment agreement with the CFO of the Company. The agreement requires severance of six months of current annual salary and medical insurance in the event employment is terminated without cause.

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**NOTE 7 - Stockholders' Deficit**

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*Capital Stock Authorized*

As of both December 31, 2017 and 2016, the Board of Directors of the Company had authorized 90,000,000 shares of capital stock, consisting of 65,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

During January, February and March, 2017, 1,035,792 warrants to purchase common stock were exercised at \$0.60 per share for total proceeds of \$621,475.

During May, 2017, 125,000 options to purchase common stock were exercised at \$0.371 per share for total proceeds of \$46,375.

On August 1, 2017, the Company converted Notes and accrued interest totaling \$2,798,674 into 3,833,799 shares of Common stock (see **NOTE 4**) at a price per share of \$0.73.

During January, 2016, the Company issued 53,696 shares of common stock to certain employees as payment for 30% of their 2015 bonus, which was accrued for as of December 31, 2015.

*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.

**IMRICOR MEDICAL SYSTEMS INC.****NOTES TO FINANCIAL STATEMENTS**

As of and for the years ended December 31, 2017 and 2016

**NOTE 7 - Stockholders' Deficit, (cont.)***Voting Rights*

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

*Stock Option Plans*

The Company and its stockholders adopted a stock incentive plan (the "Plan") in 2006. The Plan, as amended on January 26, 2011 by the shareholders, reserves 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 Plan were the same as the 2006 Plan. 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, 2016	8,449,433	\$ 0.42	
Exercised	(125,000)	0.37	
Cancelled	(1,690,000)	0.39	
Granted	2,544,600	0.80	
Options outstanding - December 31, 2017	9,179,033	\$ 0.53	\$2,955,304
Options exercisable - December 31, 2017	7,095,914	\$ 0.44	\$2,884,681
Weighted average fair value of options granted during the year ended December 31, 2017		\$ 0.40	
Weighted average fair value of options granted during the year ended December 31, 2016		\$ 0.38	

As of December 31, 2017, the Company had 385,067 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding was 5.37 years as of December 31, 2017.

The weighted average remaining contractual life of options exercisable was 4.22 years as of December 31, 2017.

The fair value of option awards granted in 2017 was determined using the Black-Scholes option pricing model utilizing the following assumptions:

Expected life	5 - 7 years
Volatility	50%
Risk-free interest rate	2.0%
Dividend Yield	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-

**IMRICOR MEDICAL SYSTEMS INC.**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the years ended December 31, 2017 and 2016

**NOTE 7 - Stockholders' Deficit, (cont.)**

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 stock holders 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 \$487,834 and \$181,156 for the years ended December 31, 2017 and 2016, 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 December 31, 2017, the total unrecognized compensation cost related to unvested stock options was \$873,739. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

	<u>Total</u>
2018	\$ 302,245
2019	249,625
2020	168,466
2021	153,403
Total	<u>\$ 873,739</u>

*Stock Warrants*

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

	<u>Number of Warrants</u>	<u>Weighted- Average Exercise Price</u>
Warrants outstanding - December 31, 2017	937,909	\$ 0.67
Warrants outstanding - December 31, 2016	2,965,495	\$ 0.62
Remaining weighted average contractual life in years, as of December 31, 2017		2.1

During January, February and March, 2017, 1,035,792 warrants to purchase common stock were exercised at \$0.60 per share for total proceeds of \$621,475. 991,794 warrants to purchase common stock at \$0.60 per share expired on March 1, 2017.

*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, or the expiration of certain license agreements.



**IMRICOR MEDICAL SYSTEMS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2017 and 2016

**NOTE 8 - Income Taxes**

The Company has generated both federal and state net operating losses (NOL) of approximately \$18,721,000 and federal and state research and development credit carryforwards of approximately \$1,015,000 as of December 31, 2017, which, if not used, will begin to expire in 2023. The Company believes that its ability to fully utilize the existing NOL and credit carryforwards could be restricted by changes in control that may have occurred or may occur in the future and by its ability to generate net income. The Company has not yet conducted a formal study of whether, or to what extent, past changes in control of the Company impairs its NOL and credit carryforwards because such NOL and credit carryforwards cannot be utilized until the Company achieves profitability. The Company has established a full valuation allowance as of December 31, 2017 and 2016, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

Income tax expense (benefit) consists of the following as of December 31:

	2017	2016
Current:		
Federal	\$ -	\$ -
State	-	-
	-	-
Deferred:		
Federal	996,000	(1,668,000)
State	-	-
	996,000	(1,668,000)
Deferred tax asset valuation allowance	(996,000)	1,668,000
Total provision (benefit)	\$ 0	\$ 0

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

	2017	2016
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 4,867,000	\$ 5,604,000
Research and development credit carryforwards	1,015,000	819,000
Stock-based compensation	127,000	235,000
Accrued expenses	28,000	5,000
Deferred revenue	967,000	1,345,000
Prepaid expenses and other current assets	(12,000)	(18,000)
Depreciation and amortization	1,000	(1,000)
Gross deferred tax assets (liabilities)	6,993,000	7,989,000
Less valuation allowance	(6,993,000)	(7,989,000)
Net deferred tax assets	\$ -	\$ -

The change in the valuation allowance was \$996,000 and \$1,668,000 for the years ended December 31, 2017 and 2016, respectively.

The effective tax rate for the year ended December 31, 2017 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance and non-deductible incentive stock option expense.

**IMRICOR MEDICAL SYSTEMS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the years ended December 31, 2017 and 2016

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**NOTE 8 - Income Taxes, cont.**

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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% likelihood of being realized upon ultimate settlement with the relevant tax authority. As a result, the Company has recognized a reserve of approximately \$254,000 and \$205,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2017 and 2016, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2017 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.

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. On December 22, 2017, the U.S. President signed into law the U.S. Tax Cuts and Jobs Act (the "Act"), which enacted tax law changes largely effective for tax years beginning after December 31, 2017. The Act reduces the corporate tax rate from 34% to 21%, effective January 1, 2018, for all corporations. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. The Company has revalued its deferred tax assets and liabilities as of December 22, 2017, which resulted in a reduction in net deferred tax assets of \$2,905,000, which was offset by a decrease in the valuation allowance by the same amount, and therefore the Company did not recognize any income tax expense related to the revaluation.