

IMRICOR MEDICAL SYSTEMS, INC.

HALF-YEAR INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020

PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

This half-year financial report is to be read in conjunction with the financial report for the year ended 31 December 2019.

IMRICOR MEDICAL SYSTEMS, INC.

APPENDIX 4D (RULE 4.2A.3)

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

REPORTING PERIOD

Report for the half-year ended 30 June 2020

All comparisons to half-year ended 30 June 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$USD	up/down	% movement
Revenue from ordinary activities	277,532	up	408.8%
Profit (loss) after tax from ordinary activities attributable to members	(\$5,361,755)	down	77.8%
Net profit (loss) attributable to members	(\$5,797,548)	down	14.8%

Dividend information

	Amount per security \$USD	Franked amount per security \$USD	Tax rate for franking credit
Interim dividend	Nil	Nil	N/A
Previous corresponding dividend	Nil	Nil	N/A

Net tangible asset backing

	30 June 2020 \$USD	30 June 2019 \$USD
Net tangible asset per share of common stock	\$0.18	\$0.15

- **Independent Audit Review:** This report is based on the consolidated 2020 Half-Year Financial Statements which have been reviewed by Baker Tilly US, LLP (formerly Baker Tilly Virchow Krause, LLP) with the Independent Auditor's Review Report included in the 2020 Consolidated Half-Year Financial Statements.
- **Changes in control over entities:** There were no entities over which control was gained or lost during the period.
- **Details of dividends and dividend reinvestment plans:** No dividends have been declared or proposed.
- **Details of associates or joint ventures:** Not applicable
- **Set of accounting standards use in compiling the report:** The unaudited consolidated financial statement have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).
- **Details of audit disputes or audit qualification:** Not applicable

IMRICOR MEDICAL SYSTEMS INC.

Minneapolis, Minnesota

For the Six Months Ended June 30, 2020 and 2019

IMRICOR MEDICAL SYSTEMS INC.

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INDEPENDENT AUDITORS' REVIEW REPORT

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, 2020, and the related condensed statements of operations, stockholders' equity (deficit), and cash flows, for the six months ended June 30, 2020 and 2019, 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.

Auditors' responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States 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 reviews, 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, 2019

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, 2019, and the related statements of operations, stockholders' equity (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, in our report dated February 19, 2020. In our opinion, the accompanying condensed balance sheet of the Company as of December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter Regarding Going Concern

The accompanying condensed interim financial statements have been prepared assuming the company will continue as a going concern. As discussed in Note 2 to the condensed interim 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 condensed interim financial statements. The condensed interim financial statements do not include any adjustments that might result from this uncertainty. Our opinion is not modified with respect to that matter.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
August 24, 2020

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED BALANCE SHEETS
As of June 30, 2020 and December 31, 2019

ASSETS		
	(Unaudited) June 30, 2020	(Audited) December 31, 2019
CURRENT ASSETS		
Cash	\$ 11,425,317	\$ 5,048,893
Accounts receivable	71,955	256,294
Inventory	2,263,560	1,220,616
Other current assets	360,280	287,787
Total Current Assets	14,121,112	6,813,590
ACCOUNTS RECEIVABLE-LONG TERM	277,070	277,070
PROPERTY AND EQUIPMENT, NET	3,216,365	2,285,390
OTHER ASSETS	224,320	192,174
OPERATING LEASE RIGHT OF USE ASSETS	859,504	453,305
PREPAID SERVICE AGREEMENT	354,166	500,000
TOTAL ASSETS	<u>\$ 19,052,537</u>	<u>\$ 10,521,529</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 621,779	\$ 540,980
Accrued expenses	548,829	367,497
Current portion of contract liabilities	7,279	14,557
Current portion of operating lease liabilities	180,662	118,843
Current portion of finance lease liability	8,650	8,420
Current portion of financing obligation	416,123	374,023
Total Current Liabilities	1,783,322	1,424,320
LONG-TERM LIABILITIES		
Contract liabilities, net of current portion	492,853	592,853
Operating lease liabilities, net of current portion	1,265,892	330,803
Finance lease liability, net of current portion	23,777	28,160
Financing obligation, net of current portion	892,828	1,111,976
Total Liabilities	4,458,672	3,488,112
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.0001 par value:		
25,000,000 shares authorized and 0 shares outstanding as of both June 30, 2020 and December 31, 2019	-	-
Common stock, \$0.0001 par value:		
535,000,000 shares authorized as of both June 30, 2020 and December 31, 2019 and 112,495,351 and 92,682,535 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	11,250	9,268
Additional paid-in capital	60,805,867	47,449,853
Accumulated deficit	(46,223,252)	(40,425,704)
Total Stockholders' Equity	14,593,865	7,033,417
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 19,052,537</u>	<u>\$ 10,521,529</u>

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2020 and 2019 (Unaudited)

	Six Months ended June 30,	
	2020	2019
REVENUES		
Product revenue	\$ 170,254	\$ -
Service revenue	7,278	-
Consulting revenue	100,000	-
Contract revenue	-	54,543
Total Revenue	277,532	54,543
EXPENSES		
Cost of goods sold	367,274	-
Sales and marketing	702,912	249,341
Research and development	2,433,410	1,768,213
General and administrative	2,135,691	1,053,071
Total Expenses	5,639,287	3,070,625
Loss from Operations	(5,361,755)	(3,016,082)
OTHER INCOME (EXPENSE)		
Interest income	2,377	2,833
Foreign currency exchange loss	(264,693)	(3,028)
Interest expense	(159,213)	(604,608)
Down round expense (NOTE 6)	-	(1,419,300)
Other income (expense)	(14,264)	(9,883)
Total Other Expense	(435,793)	(2,033,986)
NET LOSS	<u>\$ (5,797,548)</u>	<u>\$ (5,050,068)</u>
EARNINGS PER SHARE:		
Basic and diluted loss per common share	\$ (0.06)	\$ (0.11)
Basic and diluted weighted average shares outstanding	103,583,187	43,965,403

IMRICOR MEDICAL SYSTEMS INC.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2020 and 2019 (Unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
BALANCES, December 31, 2019	92,682,535	\$ 9,268	\$47,449,853	\$(40,425,704)	\$ 7,033,417
Stock-based compensation expense	-	-	365,150	-	365,150
Issuance of common stock, net of issuance costs paid in cash of \$753,305	12,083,333	1,208	12,652,013	-	12,653,221
Exercise of warrants	406,849	41	296,959	-	297,000
Exercise of stock options	125,000	13	42,612	-	42,625
Issuance of royalty conversion shares	7,197,634	720	(720)	-	-
Net loss	-	-	-	(5,797,548)	(5,797,548)
BALANCES, June 30, 2020	<u>112,495,351</u>	<u>\$ 11,250</u>	<u>\$60,805,867</u>	<u>\$(40,223,252)</u>	<u>\$ 14,593,865</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, 2020 and 2019 (Unaudited)

	Six months ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (5,797,548)	\$ (5,050,068)
Net loss		
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	228,154	63,762
Stock-based compensation expense	365,150	206,002
Amortization of debt issuance costs	-	69,617
Accrued interest for convertible notes	-	430,740
Down round expense	-	1,419,300
Foreign currency exchange gain	264,692	(4,212)
Changes in assets and liabilities		
Accounts receivable	184,339	15,201
Inventory	(1,042,944)	(162,196)
Other assets	68,516	(193,738)
Accounts payable	(81,862)	51,031
Accrued expenses	181,332	108,516
Contract liabilities	(107,278)	-
Net Cash Flows from Operating Activities	<u>(5,737,449)</u>	<u>(3,046,045)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of security deposit	(32,146)	-
Purchases of property and equipment	(403,074)	(33,336)
Net Cash Flows from Investing Activities	<u>(435,220)</u>	<u>(33,336)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of common stock warrants and options	339,625	175,550
Proceeds from issuance of common stock, net	12,653,221	-
Proceeds from convertible notes	-	1,745,932
Proceeds from financing obligation	-	1,370,840
Payments on finance lease liability	(4,153)	(3,004)
Payments on financing obligation	(177,048)	(54,866)
Net Cash Flows from Financing Activities	<u>12,811,645</u>	<u>3,234,452</u>
Net Change in Cash	6,638,976	155,071
Cash - beginning of period	5,048,893	1,588,348
Effect of foreign currency exchange rate changes on cash	(262,552)	-
Cash - end of period	<u>\$ 11,425,317</u>	<u>\$ 1,743,419</u>
Supplemental cash flow disclosure		
Cash paid for interest	<u>\$ 159,064</u>	<u>\$ 28</u>
Noncash investing and financing activities		
Prepaid financing fees included in accounts payable	<u>\$ -</u>	<u>\$ 262,681</u>
Property and equipment included in accounts payable	<u>\$ 160,521</u>	<u>\$ -</u>
Security deposit obtained through financing obligation	<u>\$ -</u>	<u>\$ 329,160</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Imricor Medical Systems, Inc. ("Imricor" and the "Company") is a U.S.-based medical device company that seeks to address the current issues with traditional x-ray-guided ablation procedures through the development of 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. 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. Historically, Imricor generated revenue from licensing some of its IP for use in implantable devices and performing contract research, but expects to generate most of its future revenue from the sale of the MRI-compatible products it has developed for use in cardiac catheter ablation procedures (comprising single-use consumables and capital goods). On January 13, 2016, Imricor obtained CE mark approval to place one of its key products, the Advantage-MR EP Recorder/Stimulator System, on the market in the European Union. On January 23, 2020, the Company obtained CE mark approval for its other key products, the Vision-MR Ablation Catheter (with an indication for treating type I atrial flutter) and the Vision-MR Dispersive Electrode.

The Company has prepared the accompanying unaudited condensed 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 condensed interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's condensed interim financial information.

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

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, which continues to spread throughout the world and has resulted in travel restrictions, quarantines, "stay-at-home" and "shelter-in-place" orders, business limitations and shut downs. For the first six months of 2020, the Company's revenue was negatively impacted by the COVID-19 pandemic as hospital restrictions banned outside personnel and postponed most elective procedures. While some restrictions on certain procedures have been lifted in parts of Europe and we recently began procedures in these countries, we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, impact on our customers and our vendors, for an indefinite period of time. Our future results of operations and liquidity could be adversely impacted by delays in payments from customers, supply chain disruptions, and uncertain demand.

We have implemented several steps in response to COVID-19 including restricting all unnecessary travel, working from home when possible, social distancing and masking and adopting more stringent cleaning procedures in our facilities.

We will continue to monitor the situation and take further actions that we determine are in the best interest of our stakeholders.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

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

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 3**). 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, 2020 or December 31, 2019.

Accounts receivable includes unbilled receivables of \$39,470 as of June 30, 2020 and December 31, 2019 which represents the current portion of minimum royalties due to the Company. The long-term accounts receivable relates to minimum royalties due to the Company beyond twelve months from the respective balance sheet date. See **NOTE 3**.

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. Inventories are as follows as of June 30, 2020 and December 31, 2019:

	2020	2019
Raw Materials	\$ 1,286,991	\$ 822,217
Work in Process	144,449	65,765
Finished Goods	897,354	409,544
Less: obsolescence reserve	(65,234)	(76,910)
	<u>\$ 2,263,560</u>	<u>\$ 1,220,616</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

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

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	Lesser of useful life or lease term

The Company reviews property and equipment and right of use assets 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 or right of use assets.

Research and Development Costs

The Company expenses research and development costs as incurred.

Other Assets

Other assets on the balance sheets include security deposits related to the Company's operating leases and financing obligation.

Patents

Expenditures for patent costs are charged to operations as incurred.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

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

Income Taxes

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

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

Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 103,583,187 and 43,965,403 for the six months ended June 30, 2020 and 2019, 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. The effects of including incremental shares associated with options 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, 2020.

Foreign currency exchange gains (losses)

As of June 30, 2020 and December 31, 2019, the Company had various transactions in foreign currency, including accounts payable for certain expenses to Australian vendors that are denominated in Australian dollars, accounts receivable denominated in Euros, and cash accounts denominated in both Australian dollars and Euros. These assets and 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 these instruments.

Revenue Recognition

The Company recognizes revenue for product sales when its customers obtain control of the products, which occurs at a point in time, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods. Control is transferred to customers when title to the goods and risk of loss transfers, which was upon shipment for products sales recognized during the six-month periods ended June 30, 2020 and 2019.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

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

The Company's product sales contain a single performance obligation and the transaction price is based on invoice price as there is no variable consideration impacting the transaction price.

Sales tax and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue. Product sales include shipment and handling fees charged to customers. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

Revenue from service contracts is recognized over the contract period on a straight-line basis.

Previously, the Company has generated 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, 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 INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 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).

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

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

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 using 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. See **NOTE 9** 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.

NOTE 2 – Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both six month periods ended June 30, 2020 and 2019, had an accumulated deficit as of June 30, 2020 and is in need of additional working capital to fund future operations. These conditions raise substantial doubt about its ability to continue as a going concern for twelve months from the report date.

To continue in existence and expand its operations, the Company will be required to, and management plans to, raise additional working capital through an equity or debt offering and ultimately attain profitable operations. If the Company is not able to raise additional working capital, it would have a material adverse effect on the operations of the Company and continuing research and development of its product, as well as commercialization.

NOTE 3 – Revenue Recognition

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. All of the revenue has been recognized in prior periods. In addition, the agreement provides for a royalty of 3% of product sales, subject to a minimum of \$50,000 per year.

The net present value of the remaining minimum royalty payment to be received, less the portion which represents future interest income within 12 months is included in Accounts Receivable and the amounts expected to be received, less the portion which represents future interest income 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.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 3 – Revenue Recognition (cont.)

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.

\$373,333 is included in long-term contract liabilities as of June 30, 2020 and December 31, 2019. The customer sold the portion of the business which held this license in May 2018. The license has been assigned to the purchaser. The project is still on hold with no plans to work on final development during the next 12 months, and therefore, the contract liability is included in long-term liabilities.

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 two milestone payments totaling \$500,000 were collected during the year 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. The agreement was again amended in October 2019 to extend the timelines to June 30, 2020. The agreement may be further extended and if so, revenue will be recognized upon completion of each remaining milestone. No revenue was recognized related to this contract during the six months ended June 30, 2020 or 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 recognized revenue for this contract over time using the “as invoiced” practical expedient. The Company recognized \$54,543 as revenue during the six months ended June 30, 2019. The Company cancelled the contract in February 2020 to allow the Company to focus its engineering resources on the development of its core pipeline products.

Consulting Revenue

In June 2015, the Company entered into a Joint Research Agreement. The Agreement was amended in August 2017 whereby the Company received an upfront payment of \$100,000 to cover costs incurred in the course of providing certain services, which had been included in Contract liabilities-net of current portion. The agreement was to terminate upon the earlier of completion of the project or five years. The project was not completed and has terminated. Therefore, \$100,000 has been recognized as Consulting revenue for the six months ended June 30, 2020.

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, 2020 and December 31, 2019, the Company had contract liabilities of \$500,132 and \$607,410, respectively.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 4 – Property and Equipment

Property and equipment consisted of the following:

	June 30, 2020	December 31, 2019
Office furniture and equipment	\$ 303,561	\$ 186,030
Lab and production equipment	1,364,150	1,099,744
Computer equipment	244,229	194,890
MRI scanner	1,200,000	1,200,000
Leasehold improvements	1,451,805	723,952
Total costs	4,563,745	3,404,616
Less: Accumulated depreciation and amortization	(1,347,380)	(1,119,226)
Property and equipment, net	<u>\$ 3,216,365</u>	<u>\$ 2,285,390</u>

Depreciation expense was \$228,154 and \$63,762 for the six months ended June 30, 2020 and 2019, respectively.

NOTE 5 – Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2020	December 31, 2019
Compensation	\$ 493,526	\$ 228,888
Other accruals	55,303	138,609
Total accrued expenses	<u>\$ 548,829</u>	<u>\$ 367,497</u>

NOTE 6 – Convertible Notes

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.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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NOTE 6 – Convertible Notes, (cont.)

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 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, 2020 and December 31, 2019. The prepaid service agreement to be amortized within one year is included in Prepaid expenses and other current assets and the amount to be recognized beyond one year is included as Prepaid service agreement in other long-term assets. As of June 30, 2020 and 2019, the Company's balance in the Prepaid service agreement was \$479,166 and \$500,000, respectively. During the six months ended June 30, 2020, the Company recorded \$20,834 in expense which is included in research and development expenses. In connection with the 2018 Notes, the Company incurred debt issuance costs of \$278,007, of which \$228,660 were settled with the issuance of additional 2018 Notes. These debt issuance costs were being amortized straight-line over the expected maturity date and recognized as interest expense. The remaining unamortized balance was expensed upon the Company's completion of its Initial Public Offering ("IPO") and associated listing on the Australian Securities Exchange ("ASX") on August 26, 2019. The 2018 Notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal was converted.

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 notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal was converted.

The 2018 and 2019 Notes and accrued interest totaling \$12,533,764 automatically converted into 29,217,437 Conversion Shares immediately prior to, and contingent upon, the allotment of CHESS Depositary Interests (CDIs) as a result of the IPO. The number of Conversion Shares issued upon conversion of the 2018 and 2019 Notes was 75% of the IPO share price of \$0.5654 per share. The Company recorded \$430,740 in accrued interest expense for the six months ended June 30, 2019 related to the 2018 and 2019 Notes.

During 2016 and 2017, the Company issued \$2,680,000 in unsecured convertible notes ("Notes") with several equity investors including \$100,000 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. In August 2017, the Company converted the Notes and accrued interest totaling \$2,798,674 into 3,833,799 shares of Common stock. 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 by the subsequent investors. The 2017 Notes (described below) met the definition of a Qualified Financing and therefore, the Company was 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 was \$1,419,300 which was 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. The Down round liability was remeasured to the final fair value when the Company completed its IPO.

Interest expense for the six months ended June 30, 2019 was \$430,740 including \$68,450 to related parties.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 7 – Leases

Operating Leases

In March 2007, the Company entered into an operating lease agreement for its office and manufacturing 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 was originally set to expire in March 2026. In February 2020, this lease was amended to include an expansion of space and an increase to the term through May 2030. 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.

On January 1, 2019, the Company recorded a \$220,000 right to use asset and lease liability associated with these leases. 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. The remaining consideration associated with the Company's office and warehouse space lease has been reallocated and the lease liability remeasured as the amended lease provided for additional space and the lease term has been extended. In addition, the landlord agreed to pay \$593,534 in leasehold improvements. Upon commencement of the lease in June 2020, the Company recorded \$593,534 in leasehold improvements, a \$606,277 right to use asset, and a \$1,201,811 lease liability.

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, 2020 and December 31, 2019, the remaining lease term was 8.8 and 4.5 years and discount rate was 5.5% and 8.0%, respectively. For the six months ended June 30, 2020 and 2019, the operating cash outflows from our operating lease for office and manufacturing space was \$86,561 and \$75,780, respectively.

As of June 30, 2020, maturities of our operating lease liabilities are as follows:

2020	\$	130,232
2021		262,522
2022		236,191
2023		148,966
2024		153,437
2025 and thereafter		914,449
Total payments		1,845,797
Less amount representing interest		(399,243)
Total present value of total payments		1,446,554
Less current portion		(180,662)
Operating lease liability, net of current portion	\$	<u>1,265,892</u>

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

	2020	2019
Operating lease cost	\$ 86,561	\$ 75,780
Variable least cost	52,749	38,120
Total	<u>\$ 139,310</u>	<u>\$ 113,900</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 7 – Leases, (cont.)

Finance Lease Liability

In December 2019, the Company entered into a \$36,580 finance lease agreement for certain equipment. The Company traded in fully depreciated equipment worth \$26,250. The total equipment value of \$62,380 is included in property and equipment. The interest rate implied in the finance lease is 5.4% and the term of the lease is four years.

The Company's remaining payments under the terms of the finance lease are as follows as of June 30, 2020:

2020	\$	5,094
2021		10,188
2022		10,188
2023		10,188
Total payments		<u>35,658</u>
Less amount representing interest		<u>(3,231)</u>
Total present value of total payments		32,427
Less current portion		<u>(8,650)</u>
Finance lease liability, net of current portion	\$	<u>23,777</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. 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, but rather is accounted for as a financing obligation. The MRI scanner is included in property and equipment and the Service Agreement is included as Prepaid Service Agreement. 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, 2020:

2020	\$	329,190
2021		658,380
2022		274,325
Expected buy out at end of lease term		<u>425,000</u>
Total payments		1,686,895
Less amount representing interest		<u>(377,944)</u>
Total present value of total payments		1,308,951
Less current portion		<u>(416,123)</u>
Financing obligation, net of current portion	\$	<u>892,828</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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NOTE 8 - Commitments and Contingencies

Vendor concentration

Certain components and products that meet the Company's requirements are available only from a single supplier or a limited number of suppliers. The inability to obtain components and products as required, or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company believes that it will be able to source alternative suppliers or materials if required to do so.

For the six month period ended June 30, 2020, the Company had accounts payable to one vendor that accounted for 11% of the total outstanding balance.

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 contributed a safe harbor match of \$74,628 during the six months ended June 30, 2020. The Company did not make any contributions for the six months ended June 30, 2019.

Employment Agreements

The Company has employment agreements with the CEO and senior executives of the Company. The agreements require severance of twelve and six months, respectively, of current annual salary and medical insurance in the event employment is terminated without cause, respectively.

NOTE 9 - Stockholders' Equity

Capital Stock Authorized

As of June 30, 2020 and December 31, 2019, the Board of Directors of the Company had authorized 560,000,000 shares of capital stock, consisting of 535,000,000 shares of common stock and 25,000,000 shares of preferred stock.

Common Stock

On February 20, 2020, the Company completed an equity raise on the Australian Securities Exchange (ASX) per CHESS Depositary Interest (CDI). The equity capital raise consisted of 12,083,333 CDIs representing the same number of shares of common stock at \$1.68 Australian dollars per share for proceeds of \$12,653,221, net of expenses.

The ASX uses an electronic system called CHESS for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHESS system of holding securities or electronic transfers of legal title to shares. To enable companies to have their securities cleared and settled electronically through CHESS, depository instruments called CDIs are issued. CDIs are units of beneficial ownership in shares and are traded in a manner similar to shares of Australian companies listed on the ASX. The legal title to the shares are held by a depository, CDN, which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement.

During April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$297,000. The intrinsic value was \$46,121.

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 9 - Stockholders' Equity, (cont.)

During April 2020, a total of 125,000 options were exercised at \$0.34 per share for total proceeds of \$42,625. The intrinsic value was \$31,096.

In February 2007, the Company issued rights to 7,200,000 shares of common stock (as adjusted for a subsequent stock split) 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. The number of shares to be issued was to be reduced for the value of any royalties paid. In April 2020, the agreements related to these rights expired and the Company issued 7,197,634 shares of common stock. The number of shares issued was reduced by 2,366 to reflect the value of royalties paid. The value of the shares was recorded as an expense upon issuance, which was when the liability was fixed and determinable.

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 INTERIM FINANCIAL STATEMENTS

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NOTE 9 - Stockholders' Equity, (cont.)

Stock Option Plans

The Company and its stockholders adopted a stock incentive plan (the "2006 Plan") in 2006. The 2006 Plan, as amended on January 26, 2011 by the 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 is being 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"). On April 20, 2020, the Board of Directors approved an increase of 3,470,925 shares to the option pool, which was approved by the shareholders at the Annual Meeting on May 12, 2020. Prior to the Company's offering on the ASX, the Board of Directors determined the exercise price of all options, with the exercise price of incentive options not less than the fair value of the common stock at the date of grant. Options granted after completion of the offering on the ASX are granted at a price equal to the closing sale price of a CDI as of the date of grant, converted from Australian dollars to US dollars using the prevailing exchange rate. Generally, vesting terms of outstanding options range from immediate to four years. In addition, some options issued to the executive management team vest upon completion of certain milestones, performance requirements, and market conditions. 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	
Regranted	5,462,600	0.52	
Options outstanding – June 30, 2019	<u>7,264,233</u>	<u>\$ 0.53</u>	<u>\$ 86,162</u>
Options exercisable – June 30, 2019	<u>1,771,223</u>	<u>\$ 0.56</u>	<u>\$ 86,162</u>
	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Options outstanding - December 31, 2019	8,064,933	\$ 0.58	
Exercised	(125,000)	0.34	
Cancelled	(131,100)	0.40	
Granted	2,337,994	0.88	
Options outstanding – June 30, 2020	<u>10,146,827</u>	<u>\$ 0.66</u>	<u>\$ 3,751,173</u>
Options exercisable – June 30, 2020	<u>3,786,000</u>	<u>\$ 0.55</u>	<u>\$ 1,810,209</u>

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NOTE 9 - Stockholders' Equity, (cont.)

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, 2020 and 2019.

As of June 30, 2020, the Company had 2,753,198 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding was 8.29 years as of June 30, 2020.

The weighted average remaining contractual life of options exercisable was 6.77 years as of June 30, 2020.

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, 2020	Six-month Period ended June 30, 2019
Expected life	5.5-7 years	6-7 years
Volatility	68.28%	50%
Risk-free interest rate	2.5%	2.83%
Dividend Yield	0%	0%
Weighted average fair value of options granted	\$0.59	\$0.10

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 \$365,150 and \$206,002 for the six months ended June 30, 2020 and 2019, 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, 2020, the total unrecognized compensation cost related to unvested stock options was \$2,453,952. Future unrecognized stock-based compensation expense is expected to be as follows for the six months ended December 31, 2020 and the years ended December 31 thereafter:

	Total
2020	\$ 479,081
2021	797,715
2022	602,757
2023	460,468
2024	113,931
Total	<u>\$ 2,453,952</u>

IMRICOR MEDICAL SYSTEMS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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NOTE 9 - Stockholders' Equity (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	787,909	\$ 0.73
Remaining weighted average contractual life in years, as of June 30, 2019		.8

	Number of Warrants	Weighted- Average Exercise Price
Warrants outstanding - December 31, 2019	787,909	\$ 0.73
Warrants cancelled	(381,060)	0.73
Warrants exercised	(406,849)	0.73
Warrants outstanding – June 30, 2020	-	\$ -

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 April 2020, 406,849 warrants to purchase common stock were exercised at \$0.73 per share for total proceeds of \$297,000 and the remaining 381,060 warrants were cancelled.

NOTE 10 – Fair Value

The Company's financial instruments measured at fair value consist of the down round liability (See **NOTE 6**).

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 6**, 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.

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As of June 30, 2020 and December 31, 2019 and for the six-months ended June 30, 2020 and 2019

NOTE 11 - 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, 2020 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 \$30,847,000 and federal and state research and development credit carryforwards of approximately \$1,685,000 as of December 31, 2019, 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, 2020 and December 31, 2019, 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, 2020 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 12 – Subsequent Events

For the six months ended June 30, 2020, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through August 24, 2020.