imricor

Imricor Medical Systems, Inc (ASX:IMR).
(ARBN 633 106 019)

2019 ANNUAL REPORT

IMRICOR MEDICAL SYSTEMS, INC.

Imricor Medical Systems, Inc. (ASX:IMR) is a pioneer and leader in developing innovative MRI-compatible medical devices which can be used to carry out MRI-guided cardiac catheter ablation procedures. Imricor is the first company in the world to bring commercially viable and safe MRI-compatible products to the cardiac catheter ablation market.

Headquartered in the United States, Imricor seeks to make a meaningful impact on patients, healthcare professionals and healthcare facilities around the world by increasing the success rates and bringing down the overall costs of cardiac catheter ablation procedures.

ABOUT THIS REPORT

Imricor Medical Systems, Inc. listed on the Australian Securities Exchange (ASX) and commenced trading on 30 August 2019. References to "Imricor" or "the Company" in this Annual Report are references to Imricor Medical Systems, Inc. The information contained in this report reflects the results for Imricor for the year ended 31 December 2019.

AGM DETAILS

Imricor will hold its Annual Meeting of Stockholders on Wednesday, 13 May 2020 at 9:00am, Sydney time (Tuesday 12 May 2020 at 6:00pm US Central Daylight Time). Due to restrictions on travel and public gatherings associated with the COVID-19 pandemic, this meeting will be held as a virtual meeting. Stockholders are encouraged to watch and participate in this meeting via the online platform using a computer at https://web.lumiagm.com or a mobile device using the Lumi AGM app which can be downloaded from the Apple App Store or Google Play Store.

Further details are provided to stockholders in Imricor's Notice of Annual Meeting.

KEY ACHIEVEMENTS SINCE IPO

CE MARK APPROVAL RECEIVED

for Vision-MR Ablation Catheter & Vision-MR Dispersive Electrode

KEY LAB OPERATIONAL

at Dresden Heart Center also providing training to future sites

PROCEDURES UNDERTAKEN

are delivering excellent outcomes for physicians & patients

ACTIVE CATHETER IMAGING ACHIEVED

reducing reliance on third party 3D mapping systems

EXPANDED WORKFORCE

by 18 FTEs including hires from high calibre organisations

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CHAIR'S MESSAGE

Dear fellow Stockholders,

On behalf of the Board, I am pleased to provide you with Imricor's Annual Report for 2019, our first as a company listed on the Australian Securities Exchange (ASX).

Imricor's journey throughout 2019 and during the early part of 2020 has been transformative. In August last year we commenced trading on the ASX, after a successful IPO which raised A$13 million in capital. This has provided us with the funding required to begin the execution of our growth strategy, and importantly, commence the commercialisation phase of our journey in 2020.

ACHIEVING PRODUCT COMMERCIALISATION

Our key focus in 2019 was the pursuit of CE mark approval to enable us to market and sell our Vision-MR Ablation Catheter and Vision-MR Dispersive Electrode throughout the European Union. While we expected to receive this approval during the third quarter of 2019, substantial delays occurred associated with increased workload and resource strain experienced by Imricor's notified body, TÜV SÜD.

However, we did not stand still during this period and over the course of the year continued to build a solid pipeline of clinical sites for the establishment of iCMR labs and the sale of our products. Growing support and awareness across the medical community was driven by our sales and marketing efforts and engagement with key opinion leaders in the electrophysiology field. This was further strengthened by our collaborative relationship with leading MRI vendors.

Pleasingly, considering the absence of CE mark approval, we concluded 2019 with agreements for the sale of our products in place across four sites, a further five sites with facilities in place to commence procedures pending final documentation, and discussions across an additional six sites well progressed.

We established warehouse and logistics facilities in Europe, building inventory to ensure timely distribution of our products once CE mark approval was received.

With CE mark approval finally received on 23 January 2020, we were able to swiftly move to the execution of a commercial launch, with the first procedures using our products performed at the Dresden Heart Centre in late January. This was a tremendous milestone for Imricor, marking the first iCMR ablations anywhere in the world to be performed with market-approved devices.

The Dresden Heart Centre has been established as a training Centre of Excellence, supporting our roll out of clinical sites throughout Europe during the year ahead.

BUILDING THE TEAM

Our workforce continued to expand throughout 2019 and we were fortunate to welcome a number of talented individuals from high calibre organisations within the medical technology sector to the Imricor team. In particular we focused on expanding capability across sales and marketing to ensure ongoing growth in our pipeline of clinical sites and to provide on ground support for sites once operational. Further, our manufacturing and assembly team was significantly expanded, supporting growth in production to facilitate product roll out following CE mark approval.

ACTIVE CATHETER IMAGING

During the latter part of 2019, our engineers and scientists developed a new imaging technique which we call Active Catheter Imaging. This technique uses native MR imaging to easily identify the Vision-MR Ablation Catheter. The use of this technique opens the door for more clinical sites to commence atrial flutter ablations guided by real time MRI, without dependency on mapping system software or active tracking.

Active Catheter Imaging has proven highly effective in the procedures undertaken at the Dresden Heart Centre. Feedback from physicians performing these procedures has been excellent, with anecdotal outcomes supporting reduced atrial flutter procedure times compared to traditional procedures under x-ray guidance.

PRODUCT DEVELOPMENT PIPELINE

Our research and development pipeline focusses on the expansion of Imricor's range of products for use in MR guided cardiac catheter ablation procedures. Development, along with our regulatory strategy, is well advanced on our diagnostic catheter. This product, a scaled down version of our ablation catheter, will be targeted for release during the middle part of 2021, pending CE mark approval.

We are currently in the prototype phase for our steerable sheath and transseptal needle which, in the future, will enable access to the left side of the heart via the intra-atrial septum. At this stage we are developing our regulatory strategy and aim to have these products ready for clinical trial during 2021. The delivery of these products is critical to expanding indications for our ablation catheter to procedures in the left side of the heart, including atrial fibrillation and ventricular tachycardia.

LOOKING TO THE YEAR AHEAD

During the early part of 2020 our focus has been on the execution of a controlled product launch throughout Europe. We have continued to work closely with the initial sites we targeted to be ordering Imricor's products during the first half of the year, with start up activities ready to commence at three medical facilities in the Netherlands and Germany.

We will continue to pursue growth through expansion both within Europe, where we have CE mark approval, and to other geographic locations. In Australia, we are assessing several local agents to facilitate TGA approval and a detailed strategy to support this process is currently being planned. Our strategy on FDA approval in the United States is well progressed and we are targeting discussions with the FDA in the coming months with the aim of undertaking an IDE clinical trial during 2021-2022.

As discussed above, our product development pipeline will support expanding indications, providing us with significant growth opportunities, and remains a key focus for the year ahead.

MAINTAINING A STRONG FINANCIAL POSITION

In February 2020, we successfully completed an institutional placement to new and existing investors, raising A$20.3 million to further support our commercialisation plans and growth initiatives. This has positioned the Company with a robust balance sheet and a pro-forma cash position at 31 December 2019 of US$17.9 million.

RESPONDING TO COVID-19

As the situation associated with COVID-19 pandemic has evolved, our first priority has been the health and welfare of the Imricor team, their families and the broader communities in which they live. We have implemented a number of changes to the way we work, including the establishment of two separate clean rooms at our manufacturing facility and encouraging and supporting our employees to work from home as much as possible.

At this time, we have experienced some delay in start-up activities due to hospital bans on outside personnel and have observed a lower rate of procedures across the broader cardiac catheter ablation market. However, we expect that the backlog of procedures that is currently building will result in an increased need for Imricor's consumable products once targeted sites are operational.

Our financial position is strong, with many opportunities available to implement cash conservation initiatives should disruptions occur over a longer period of time. We will continue to monitor potential impacts from COVID-19 on the business and keep our stockholders informed as appropriate.

After over a decade of effort, my greatest personal reward has been seeing Imricor's products at work, delivering meaningful improvements in people's lives. The Imricor team has brought to market something that many considered to be impossible and something that we think will change the world of interventional medicine. I am privileged to be surrounded by a talented team who are passionate about achieving great outcomes for patients and their healthcare professionals. I thank our team for their dedication and determination.

On behalf of the Board, I would like to thank our stockholders for their ongoing support and look forward to sharing the next exciting phase of the Imricor journey with you.

Yours sincerely,

Steve Wedan
Chair

BOARD OF DIRECTORS

Director	Summary
	**Steve Wedan** **President and Chief Executive Officer, and Chair** Joined Board in May 2006 Mr Wedan co-founded the Company in 2006 and has served as CEO since that time. Mr Wedan is responsible for the overall management and strategic direction of the Company. Mr Wedan has over 29 years of experience in the medical device industry including design engineering of MRI and ultrasound systems for GE Healthcare, as well as Vice President and Chief Technology Officer for Applied Biometrics Inc. Immediately prior to co-founding Imricor, Mr Wedan founded and operated a technical consulting company, Wedan Technologies Inc., from 2000-2006. Mr Wedan is a member of various international standards committees in the fields of MRI safety and the compatibility of implanted and interventional products in MRI. Mr Wedan currently serves on the boards of Medical Device Research Forum and Water Rescue Innovations, Inc. Mr Wedan holds a Bachelor of Science in Electrical Engineering from Michigan Technological University (summa cum laude), and a Master of Science in Electrical Engineering from Marquette University.
	**Mark Tibbles** **Non-executive Director** Chair of the Nomination and Remuneration Committee Lead Independent Director Member of the Audit and Risk Committee Joined Board in September 2014 Mr Tibbles is an entrepreneur, business owner, company director and active venture investor in and advisor to technology, life science and medical device companies. Mr Tibbles is currently the Managing Director of Strategic Stage Ventures, LLC and an owner and managing member of STEM Fuse, LLC one of the largest providers of digital K-12 STEM curriculum in the U.S. Prior to his current roles, Mr Tibbles was an owner and member of Intuitive Technology Group until it was sold in 2017. Mr Tibbles was also President and founder of PRC Consulting, Inc., a company specialising in the management and implementation of IT projects for Fortune 1000 companies, from 1998 until 2013, when PRC was sold. Mr Tibbles currently serves as an independent director of OMEDZA.com, Inc. Mr Tibbles holds a Bachelor of Arts from Oral Roberts University.

Director	Summary
	**Doris Engibous** **Non-executive Director** Member of the Audit and Risk Committee Member of the Nomination and Remuneration Committee Joined Board in April 2019 Ms Engibous has over 40 years of experience in the medical device industry. From 2004 to 2010, she served as President and CEO of Hemosphere Inc., an early commercialisation stage medical technology company, before it was acquired by CryoLife Inc. (NYSE: CRY). Prior to 2004, Ms Engibous held various roles with Nellcor (a business of Tyco Healthcare Group/Tyco International Ltd., now Covidien/Medtronic, NYSE: MDT) for 17 years, including serving as President from 2000 to 2003. From 2004 to 2018, Ms Engibous served as an independent non-executive director of Nasdaq-listed, Natus Medical Incorporated. Ms Engibous currently serves as a director of GI Supply, Inc., a family-owned medical technology company, a role she has held since 2014. She has also served as its Chair since 2016. She is also a director of IRIDEX Corporation (NASDAQ:IRIX). Ms Engibous holds a Bachelor of Science in Chemical Engineering from the University of Michigan.
	**Peter McGregor** **Non-executive Director** Chair of the Audit and Risk Committee Member of the Nomination and Remuneration Committee Joined Board in May 2019 Mr McGregor has over 30 years' experience in senior finance and management roles, including having been a partner in the investment banking firm of Goldman Sachs JBWere and a managing director in the institutional banking & markets division of Commonwealth Bank of Australia. He is also a former Chief Financial Officer of the ASX50 transport company, Asciano Limited (ASX: AIO), and Chief Operating Officer of ASX listed Australian Infrastructure Fund Limited (ASX: AIX). Mr McGregor is an experienced company director and currently serves as a director of Pivotal Systems Corporation (ASX: PVS). Mr McGregor holds a Bachelor of Commerce from the University of Melbourne, is a member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

MANAGEMENT TEAM

Executive	Summary
	**Steve Wedan** **President and Chief Executive Officer, and Chair** Refer to page 4.
	**Lori Milbrandt** **Vice President of Finance and Chief Financial Officer** Ms Milbrandt has served as the Company's Chief Financial Officer since 2007, initially on a contract basis and since May 2018, as a full-time employee of Imricor. Ms Milbrandt has over 30 years of accounting, finance, and HR experience. Prior to transitioning to the role of CFO on a full-time basis, Ms Milbrandt was a contract CFO for several medical device companies. Ms Milbrandt has previously held management positions with companies including Microvena, ev3, and DiaSorin (FKA Incster) and spent the first seven years of her career with KPMG. Ms Milbrandt holds a Bachelor of Business Administration from the University of Wisconsin-Eau Claire and a Master of Business Administration (Finance) from the University of St. Thomas.
	**Gregg Stenzel** **Vice President of Operations** Mr Stenzel joined Imricor in 2007 and is responsible for operations and leading the development of initial manufacturing strategies, including personnel, facilities and outsourcing. Mr Stenzel has over 20 years of medical device experience and brings a breadth of knowledge in new product development, supply chain management, quality/regulatory systems, and customer support. Prior to joining the Company, Mr Stenzel was the Manager of Instrument Technical Operations at Beckman Coulter, Inc., a leading manufacturer of In Vitro Diagnostic Systems. Mr Stenzel holds a Bachelor of Science in Electrical Engineering from the University of Wisconsin-Madison and a Master of Business Administration from the University of Minnesota-Carlson School of Business.

Executive	Summary
	**Dan Sunnarborg** **Vice President of Engineering** Mr Sunnarborg joined Imricor in 2007 and is responsible for all hardware and software development activities at the Company, including platform development, system control, image processing, user interface, and outsource partnerships. Mr Sunnarborg has more than 20 years of engineering experience in fields such as medical devices, telecommunications, defense, and consumer electronics. Mr Sunnarborg has also held various design software engineering positions and has led development groups for more than 15 years. Mr Sunnarborg holds a Bachelor of Science in Engineering Physics from North Dakota State University and a Master of Science in Electrical Engineering from Marquette University.
	**Jennifer Weisz** **Vice President of Regulatory and Quality** Ms Weisz joined Imricor in 2012 and commenced her current role in 2018. Ms Weisz is responsible for implementing and managing the Company's regulatory strategy and quality system. Ms Weisz has over 19 years of experience in the medical device industry, including product development, clinical evidence development, quality system implementation, and regulatory strategy development and implementation. Prior to joining the Company, Ms Weisz was a member of the Medtronic Global Clinical Operations Quality team. Ms Weisz holds a Bachelor of Science in Electrical Engineering from North Dakota State University and a Master of Science in Technical Management from the University of St. Thomas.
	**Tom Lloyd** **Vice President of Clinical Research** Mr Lloyd commenced his current role at Imricor in 2012 and is responsible for leading preclinical and clinical studies, managing intellectual property, and developing new technologies. Mr Lloyd began his career at the Company in 2007 as a radio-frequency engineer and is the lead inventor on many of the Company's patents. Mr Lloyd has over 13 years of medical device design experience primarily focused on interactions between implanted devices and the electromagnetic fields associated with MRI. Mr Lloyd holds a Bachelor and Master of Science in Electrical Engineering from Iowa State University.

MANAGEMENT TEAM (CONT)

Executive	Summary
	**Greg Englehardt** **Director of Sales** Mr Englehardt joined Imricor in 2018 and is responsible for developing and managing the Company's global sales strategies and performance. Mr Englehardt has 18 years of experience working in the medical device industry with 16 years of sales leadership experience. Prior to joining the Company, Mr Englehardt served as Regional Business Director at Medtronic from 2011 to 2018. Before joining Medtronic, he worked at NeuroMetrix from 2004 until 2011, where he was promoted to multiple sales and leadership roles including Director of Global Business Development/ Sales and National Director of Sales. Mr Englehardt also served as a combat medic in the U.S. army and holds a Bachelor of Science in Nursing from Louisiana State University.
	**Nick Twohy** **Director of Marketing** Mr Twohy joined Imricor in 2019 and is responsible for global portfolio management, including the product roadmap, product management, marketing teams and communications. Mr Twohy has over 20 years of experience in the medical devices industry. Most recently he worked as the International Marketing Director for Medtronic in the Cardiac Resynchronisation Therapies business. There he led business planning and execution for the International markets. Prior to that role, Mr Twohy led multiple product launches at Medtronic including various launches in the CareLink remote monitoring business, and in the Cardiac Rhythm Management business where he led the US launch of the Revo MRI pacemaker system. Mr Twohy holds a Bachelor of Arts from Hamline University and a Master of Business Administration from the University of St. Thomas.

OPERATING AND FINANCIAL REVIEW

OVERVIEW

Imricor is a US-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. The Company's principal focus is the design, manufacturing, sale and distribution of MRI-compatible products for cardiac catheter ablation procedures.

Imricor is a pioneer and leader in developing MRI-compatible products for cardiac catheter ablation procedures and in early 2020, brought the first commercially viable and safe MRI-compatible products to the cardiac catheter ablation market.

In January 2020, Imricor obtained CE mark approval for its key consumable products, the Vision-MR Ablation Catheter (with an indication for treating type 1 atrial flutter) and the Vision-MR Dispersive Electrode. The Vision-MR Ablation Catheter is the Company's prime product offering, 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. The Company also has approval for the sale of its capital product, the Advantage-MR EP Recorder/ Stimulator System in the European Union.

Imricor is in the early stage of commencing the sale of its capital and consumable products to hospitals and clinics for use in Interventional Cardiac Magnetic Resonance Imaging (iCRM) labs, in which ablation procedures using the Vision-MR Ablation Catheter can be performed. The installation of iCMR labs is driven primarily by MRI equipment vendors working collaboratively with Imricor. These vendors help to target certain sites and support the design and construction of iCMR labs for those sites.

Imricor has joint development agreements with two leading, global MRI vendors and is working towards agreements with these vendors in relation to the sale and marketing of Imricor's products.

The Company also performs contract research on and licences some of its IP for use in other MRI compatible devices. Moving forward, Imricor expects its primary revenue source to be from the sale of its capital and consumable products. Sales revenue will depend on the number of established clinical sites and the procedure volume at each of those sites, as well as the types of arrhythmias the products are used to treat.

BUSINESS STRATEGY AND OPPORTUNITIES

Imricor's products are designed to operate in a global cardiac catheter ablation market which is expected to increase to US$4.37 billion in 2021 from $US3.03 billion in 2016; growth by a CAGR of 7.6%. The global growth is underpinned by several favourable drivers, including rising incidences of cardiac disease due to changing demographic trends, a shift towards minimally invasive procedures and cost savings that have been associated with catheter ablation as a treatment method for certain arrhythmias.

Following receipt of CE mark approval for the Vision-MR Ablation Catheter, Imricor has commenced a controlled release of its key products, initially targeting clinical sites in the Netherlands, Austria, Germany and Switzerland. Imricor aims to then expand its focus to Australia (if and when Australian regulatory approval is obtained), France, Hungary and the United Kingdom. This second phase will be followed by the Czech Republic, Italy, Spain, Sweden and other EU countries.

The timing of these phases will depend on a number of factors such as the level of adoption in each preceding phase and when greater growth opportunities are identified in each phase.

These countries have been selected based on a number of factors, including Imricor's ability to obtain regulatory approval, reimbursement structures, standard timelines for receiving customer payments and the number of existing ablation centres in those countries. Within each targeted country, Imricor will first target ablation centres which historically have carried out larger volumes of procedures. Imricor believes targeting locations which are geographically proximate to existing clinical sites may also promote growth.

Imricor is also in the early stages of pursuing regulatory approval to sell its keys products in Australia and the United States and may in the future, pursue regulatory approvals in other jurisdictions.

In conjunction with organic growth across existing products, the Company has identified or is targeting growth through expansion in its product line, providing the opportunity for Imricor's products to be used across a broader range of MR interventional procedures. The Company therefore intends to pursue regulatory approval for its products with expanded indications (ie. for treating arrhythmias other than typical atrial flutter).

OPERATING AND FINANCIAL REVIEW (CONT)

MATERIAL BUSINESS RISKS

The material business risks faced by the Company that have the potential to impact the financial prospects of the Company include:

- *Regulatory risk*: The sale of Imricor's products requires regulatory approval in each relevant jurisdiction. The Company is not assured of receiving future regulatory clearances for its existing products outside of the European Union or approvals for expanding indications or additional products currently in Imricor's product pipeline.
- *Market adoption risk*: The ability of Imricor to generate revenue is dependent on hospitals and clinics with ablation centres in markets where it obtains the required regulatory approval establishing an iCMR lab and adopting Imricor's MRI-compatible technology for cardiac catheter ablation procedures. While Imricor works collaboratively with leading MRI vendors to drive lab adoption, there can be no guarantee of the outcome.
- *Integration with third party mapping systems*: Active MR Tracking and 3D mapping are required for several expanded indications Imricor is targeting in the future, such as the treatment of atrial fibrillation and ventricular tachycardia. Imricor's ablation system is designed to work with third-party 3D mapping systems developed by leading MRI vendors which have Active Tracking functionality. In order to be made commercially available, these 3D mapping systems require certain approvals (CE mark or local ethics committee approval) which have not yet been obtained.

Beyond these risks, the Company maintains general risk exposure associated with market competition, employee capability and intellectual property as well as potential financial capacity constraints within the healthcare sector.

FINANCIAL PERFORMANCE

During 2019, the Company generated revenue of US$0.640 million from the sale of Imricor's Advantage-MR EP Recorder/ Stimulator systems and a contract with NIH for the development of an injection catheter for chemoablation. Revenue from the sale of Imricor's consumable products commenced in January 2020, following receipt of CE mark approval for these products.

For the year ended 31 December 2019, Imricor reported a net loss of US$13.294 million (FY18 US$5.448 million). This net loss increased on the prior year primarily due to non-cash interest and note conversion-related charges as part of the Company's IPO that are non-recurring. Operating costs increased to US$7.187 million from US$5.820 million in the year due to higher expenses associated with staffing expansion as well as the incremental costs of being a public company.

FINANCIAL POSITION

For the 12-month period to 31 December 2019, Imricor's net cash outflow from operations was US$6.628 million. Net cash outflows from investing activities of US$0.529 million included US$0.365 million for the purchase of property and equipment. Net cash inflows from financial activities of US$10.5 million were predominantly associated with Imricor's IPO completed during the year.

Imricor maintained a cash balance of US$5.049 million at 31 December 2019.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

Imricor is a US-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.

The principal activities of Imricor during the course of the year were to design, manufacture and sell MRI-compatible products for cardiac catheter ablation procedures to treat arrhythmias. There were no significant changes in the nature of the activities of the Company during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 August 2019, Imricor successfully listed its CHESS Depositary Interests (CDIs) on the ASX following the issue of 14,578,313 new CDIs over shares of Class A common stock (Shares) at an issue price of A$0.83 per CDI to raise A$12.1 million. Concurrently, the Company raised gross proceeds of approximately A$900,000 through a US private placement and the issue of 1,084,337 Shares (equivalent to the same number of CDIs) at an issue price of A$0.83 per Share.

The capital raised under the above offers provided Imricor with additional funding to execute its growth strategy, including:

- The commercial launch of Imricor's key products in the European Union;
- Growth in sales, marketing and manufacturing capabilities to support commercialisation in the European Union;
- Progressing regulatory approvals for the Australian and US markets;
- Continuing to develop the Company's line extensions and additional products; and
- Funding general working capital requirements.

There were no other significant changes in the state of affairs of the Company during the year.

OPERATING AND FINANCIAL REVIEW

The operating and financial review is set out on pages 9 to 10 of this Annual Report.

DIRECTORS QUALIFICATIONS AND EXPERIENCE

The Directors of Imricor at any time during or since the end of the financial year are:

Director	Appointed
Steve Wedan	May 2006
Mark Tibbles	September 2014
Doris Engibous	April 2019
Peter McGregor	May 2019

The specific duties, qualifications and experience of each Director are set out on pages 4 to 5 of this Annual Report.

COMPANY SECRETARY

Mr Kobe Li was appointed as the Australian company secretary and local agent in April 2019. Mr Li provides company secretarial and corporate governance consulting services to ASX listed companies. Mr Li has previously worked at the ASX Listings Compliance team for eight years as a Senior Adviser. Mr Li is a member of the Governance Institute of Australia.

DIRECTORS' REPORT (CONT)

DIRECTORS MEETINGS

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board		Audit & Risk Committee		Nomination & Remuneration Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Steve Wedan	1	1	-	-	-	-
Mark Tibbles	1	1	1	1	1	1
Doris Engibous	1	1	1	1	1	1
Peter McGregor	1	1	1	1	1	1

Note: the above information is based on meeting attendance since listing on the ASX in August 2019. Mr Wedan is an invitee and attends the Audit & Risk Committee and Nomination & Remuneration Committee meetings.

DIRECTORS' INTERESTS

In this section, reference is made to Share ownership. The instruments registered for trade on the Australian Securities Exchange are CHESS Depositary Interests (CDIs). One CDI is equivalent to one Share.

The relevant interest of each Director in the Shares and stock options of Imricor, as notified by the Directors to the Australian Securities Exchange (ASX) in accordance with ASX Listing Rule 3.19A.2, at the date of this report is as follows:

Director	Number of Shares	Number of Options
Steve Wedan	4,424,733	1,260,800
Mark Tibbles	4,581,878	414,900
Doris Engibous	Nil	135,000
Peter McGregor	Nil	135,000

DIRECTORS' DIRECTORSHIPS IN OTHER LISTED ENTITIES

Please refer to the Board of Directors section on pages 4 and 5.

DIVIDENDS

No dividends were paid or declared by Imricor during the year.

SUBSEQUENT EVENTS

On 23 January 2020, Imricor obtained CE mark approval to place its key consumable products, the Vision-MR Ablation Catheter and Vision-MR Dispersive Electrode on the market in the European Union. Following this, the first procedures using Imricor's products were performed at the Dresden Heart Centre.

On 21 February 2020, the Company completed an institutional placement, raising A$20.3 million to further support Imricor's growth strategy.

LIKELY DEVELOPMENTS

Imricor will continue to pursue its growth strategy and importantly, following receipt of CE mark approval for its Vision-MR Ablation Catheter, has commenced the commercial launch of its approved products in the European Union.

Currently, Imricor is experiencing delays in the establishment of clinical sites in which its products can be used to perform cardiac catheter ablation procedures, due to hospital restrictions on external personnel and elective procedures during the COVID-19 pandemic. Timing of the establishment of clinical sites and ordering of Imricor's products is at this point difficult to determine due to these hospital restrictions.

Further information about likely developments in the operations of Imricor and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION

Imricor is not subject to any significant environmental regulation under United States legislation.

INDEMNITIES AND INSURANCE OF OFFICERS

As permitted under Delaware law, Imricor indemnifies its Directors and certain officers and is permitted to indemnify employees for certain events or occurrences that happen by reason of their relationship with, or position held at, Imricor. The Company's Certificate of Incorporation and Bylaws provide for the indemnification of its Directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law.

Imricor has entered into indemnification agreements with its Directors and certain officers to this effect, including advancement of expenses incurred in legal proceedings to which the Director or officer was, or is threatened to be made, a party by reason of the fact that such Director or officer is or was a Director, officer, employee or agent of Imricor, provided that such a Director or officer acted in good faith and in a matter that the Director or officer reasonably believed to be in, or not opposed to, the Company's best interests. At present, there is no pending litigation or proceedings involving a Director or officer for which indemnification is sought, nor is the Company aware of any threatened litigation that may result in claims for indemnification.

Imricor maintains insurance policies that indemnify the Company's Directors and officers against various liabilities that might be incurred by any Director or officer in his or her capacity as such. The premium paid has not been disclosed as it is subject to confidentiality provisions under the insurance policy.

CORPORATE GOVERNANCE

Imricor's Corporate Governance Statement is available on the Imricor website at https://imricor.com/corporate-governance/.

NON-AUDIT SERVICES

During the year, the Company's auditor Baker Tilly Virchow Krause, LLP performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Public Company Accounting Oversight Board (United States) ('PCAOB') for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principals relating to auditor independence as set out in PCAOB Rule 3520, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor, Baker Tilly Virchow Krause, LLP for audit and non-audit services provided during the year are set out below:

	2019 US$
Fees paid for non-audit services:	
Taxation services	7,645

DIRECTORS' REPORT (CONT)

JURISDICTION OF INCORPORATION

Imricor is a company incorporated in the State of Delaware in the United States and registered in Australia as a foreign company. As a foreign company registered in Australia, Imricor is subject to different reporting and regulatory regimes than Australian public companies.

PRESENTATION CURRENCY

The functional and presentation currency of the Company is United States Dollars (US Dollars). The financial report is presented in US Dollars with all references to dollars, cents or $'s in these financial statements presented in US currency, unless otherwise stated.

DIRECTORS' AUTHORISATION

This Directors' Report is made out in accordance with a resolution of the Directors.

Steve Wedan
Chair

REMUNERATION REPORT

Imricor is a Delaware domiciled company that is listed on the Australian Securities Exchange and as such is subject to remuneration disclosure requirements that that are suitable for reporting in both Australia and the United States. This remuneration report forms part of the Directors' Report and has been prepared using the requirements of section 300A of the *Australian Corporations Act 2001* (Cth) as a proxy to determine the contents that the Board has chosen to report.

The Report details the remuneration arrangements for Imricor's key management personnel (KMP):

- Non-Executive Directors (NEDs);
- President and Chief Executive Officer (CEO), Steve Wedan; and
- Chief Financial Officer (CFO), Lori Milbrandt.

KMP are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company.

ROLE OF THE BOARD AND NOMINATION AND REMUNERATION COMMITTEE

The Board and its Nomination and Remuneration Committee are responsible for reviewing and approving remuneration and incentive policies and practices. The Company has a clear distinction between the structure of Non-Executive Directors' remuneration and that of the President and CEO, Steve Wedan and CFO, Lori Milbrandt.

The Nomination and Remuneration Committee:

- Establishes processes for the identification of suitable candidates for appointment to the Board;
- Establishes processes for reviewing the performance of individual Directors, the Board as a whole, and Board committees;
- Determines executive remuneration policy and Non-Executive Director remuneration policy;
- Reviews all equity-based incentive plans and makes recommendations to the Board regarding their adoption and implementation; and
- Ensures that the remuneration policies of Imricor are balanced and do not reward behaviour that is inconsistent with its values.

The Nomination and Remuneration Committee comprises three Non-Executive Directors: Mark Tibbles (Chair), Doris Engibous and Peter McGregor.

The Nomination and Remuneration Committee has a formal charter which can be viewed on the Company's website https://imricor.com/corporate-governance/.

USE OF EXTERNAL REMUNERATION ADVISORS

From time to time the Nomination and Remuneration Committee may, at its discretion, appoint external advisors or instruct management to compile information as an input to decision making.

During the year the Committee appointed 21-Group to provide remuneration benchmarking services used in determining the remuneration framework for 2020. These services were provided to the Nomination and Remuneration Committee free from any undue influence by management. The total amount paid to 21-Group in 2019 was US$13,500.

PRINCIPLES OF COMPENSATION

Imricor's remuneration framework is designed to support and reinforce its principal strategic objectives. The purpose is to create a reward and incentive framework that produces remuneration outcomes that are aligned to corporate financial and operational performance, as well as the interest of stockholders, having regard to high standards of corporate governance.

The Company aims to reward executives with a level and mix of remuneration appropriate to their position, experience and responsibilities, while being market competitive and enabling the Company to structure awards that may conserve cash reserves due to the Company's current stage of development.

REMUNERATION REPORT (CONT)

2019 REMUNERATION STRUCTURE

Imricor's executive compensation packages include a mix of fixed and variable compensation, and short and long-term performance-based incentives.

FIXED COMPONENT

The Company aims to provide a competitive base salary with reference to the role, market and experience of the individual. The performance of the Company and the individual are considered during the annual remuneration review.

SHORT-TERM INCENTIVE COMPONENT

The Company allocates cash bonuses linked to annual performance targets determined by the Board. These targets are established to promote and reward outstanding performance, beyond what is expected in the ordinary course of business. The target STI opportunity is set as a percentage of fixed remuneration. For 2019 the maximum target opportunity was 45% for the President and CEO, Steve Wedan and 30% for the CFO, Lori Milbrandt.

Performance targets determined by the Board in relation to 2019, were based on Imricor receiving CE mark approval for its core products and were therefore focused on early commercialisation outcomes, including sales revenue, the number of clinical sites established, and the number of clinical cases performed. Significant delays in receiving CE mark approval occurred in 2019 associated with increased workload and resource strain experienced by Imricor's notified body, TÜV SÜD. As such the Board exercised discretion in granting short-term incentives for 2019 in recognition of the achievements delivered by the management team during the year, including the Company's successful IPO.

LONG-TERM INCENTIVES COMPONENT

Imricor's 2019 Equity Incentive Plan (2019 Plan) provides equity-based compensation for individuals that is linked to service, the growth and profitability of the Company and increases in stockholder value. The 2019 Plan is designed to align the interests of management with its stockholders, while maintaining a total remuneration opportunity that enables the Company to retain, attract and motivate qualified and high-performing executives.

Options granted under the 2019 Plan during the year had time-based vesting conditions only. Further options were granted in 2020, or in the case of the CEO are proposed to be granted, in relation to 2019 remuneration that incorporate both time-based and performance-based vesting conditions. All vesting is subject to continuous service and options expire 10 years following the grant date.

The 2019 Plan replaced the 2016 Stock Option Plan, with the Company ceasing to grant new awards under the 2016 Plan in February 2019. The predecessor to the 2016 Plan was the 2006 Plan. The rules of all plans were released to the ASX on 30 August 2019 and copies are available on the ASX Announcements section of the Company's website https://imricor.com/investors/.

OTHER BENEFITS

Certain other benefits are afforded to the executives including medical insurance, life and disability insurance, health savings and flexible spending account, and participation in the Company's 401(k) Plan. Since listing on the ASX, the Company matches 50% of employee contributions made to the 401(k) Plan to a maximum of 4% of the employee's annual income.

SHARE OPTIONS

OPTIONS GRANTED

The following options were granted post the Company's IPO and prior to 31 December 2019:

- 460,000 options with exercise price of US$0.75, expiring 17 December 2029

UNISSUED SHARES

At the date of this report, unissued Shares under option are:

Expiry date	Exercise price US$	Number of Shares
20 May 2020	0.341	100,000
20 July 2020	0.341	50,000
10 August 2020	0.500	98,333
28 October 2020	0.500	25,000
26 January 2021	0.500	200,000
21 March 2022	0.600	505,000
17 June 2023	0.600	60,000
19 May 2024	0.600	60,000
15 July 2025	0.730	124,000
15 March 2029	0.520	5,456,500
30 August 2029	0.980	770,000
17 December 2029	0.750	460,000
6 January 2030	0.800	497,714
18 January 2030	0.800	25,000
20 February 2030	1.140	125,000

The options (with the exception of those expiring on 6 January 2030) are subject to time-based vesting and have been issued under one of the 2006 Plan, 2016 Plan or 2019 Plan as discussed above. The options expiring on 6 January 2030 are subject to time-based and performance-based vesting and have been issued under the 2019 Plan.

These options do not entitle the holder to participate in any share issue of the Company.

SHARES ISSUED ON EXERCISE OF OPTIONS

Post IPO through 31 December 2019 the Company issued Shares as a result of the exercise of options as follows (there are no amounts unpaid on the Shares issued):

Number of Shares	Amount paid on each Share
90,000	US$0.341

REMUNERATION REPORT (CONT)

EXECUTIVE REMUNERATION DURING THE YEAR

The remuneration of key management personnel in respect of the financial year ended 31 December 2019 (including remuneration yet to be paid) is summarised below. The options to be granted under the long-term incentive plan for the CEO in relation to 2019 remuneration must be approved by stockholders at the 2020 Annual Meeting of Stockholders (AGM).

Executive	Base salary	Short-term Incentive[1]	Long-term incentive
Steve Wedan President and CEO	US$349,333	US$60,784 17% of base salary	200,000 options granted on 30 August 2019 at an exercise price of US$0.98[2] Options to the value of US$69,867 to be granted following stockholder approval[3,5]
Lori Milbrandt CFO	US$283,333	US$56,667 20% of base salary	200,000 options granted on 30 August 2019 at an exercise price of US$0.98[2] 150,000 options granted on 17 December 2019 at an exercise price of US$0.75[4] 134,920 options granted on 6 January 2020 at an exercise price of US$0.80[5]

1. Determined at the discretion of the Board as discussed above and paid in January 2020.
2. Granted on the successful completion of the Company's IPO, vesting over four years with 25% vesting on the first anniversary of grant date and the remainder in equal monthly instalments over the following 36 months.
3. Options value determined based on 20% of base salary for 2019, subject to stockholder approval at Imricor's 2020 AGM. As set out in the Company's Notice of Meeting, the number of options granted will be determined by reference to the Black Scholes value of an option at the date they are granted. The exercise price of the options will be equal to the closing sale price of the Company's CDI on the trading day prior to grant date, converted from Australian dollars to US dollars using the prevailing exchange rate. Vesting conditions are set out in footnote 5 below.
4. Granted by the Board in recognition of outstanding service with immediate vesting.
5. Granted in relation to 2019 remuneration subject to the vesting conditions set out below:

Tranche	Percentage of 2019 Options	Vesting Conditions
1	50%	Options will vest over a four year period, with 25% vesting on each anniversary of the grant date.
2	30%	Options will vest based on absolute total stockholder return (TSR) over a three year period commencing on the grant date. TSR growth will be calculated using the volume weighted average market price of the CDIs (in Australian dollars) for the five trading days prior to: (a) the grant date (to calculate the baseline price); and (b) the three year anniversary of the grant date (to calculate TSR at the vesting date). Vesting will occur in accordance with the following table:

TSR Growth Rate	Percentage Vesting
Below 8%	0%
8% to <20%	25+6.5*(TSR Rate - 8))%
20% or greater	100%

3	10%	Options will vest upon the approval of the Therapeutic Goods Administration of the Company's first device in Australia on or prior to the expiration of the Options.
4	10%	Options will vest upon the approval of the US Food and Drug Administration of the Company's first device in the US on or prior to the expiration of the Options.

NON-EXECUTIVE DIRECTORS

Under Imricor's Bylaws, the Directors decide the total amount paid to all Directors for their services as a Director of Imricor. However, under the ASX Listing Rules, the total amount paid to all Directors (excluding the salary of any executive Director) for their services must not exceed in aggregate in any financial year, the amount fixed by Imricor in a general meeting. This amount has been fixed at US$400,000.

The Board seeks to set Non-Executive Directors' fees at a level that provides the Company with the ability to attract and retain Non-Executive Directors of high calibre with relevant professional expertise and reflects the demands that are made on, and the responsibilities of, the Non-Executive Directors, while incurring a cost that is acceptable to stockholders. As Imricor's operations are in the initial stages of commercialisation, the Company has structured Non-Executive Director fees to include both cash remuneration and options in order to maintain appropriate remuneration structures and preserve cash flow. Options issued to Non-Executive Directors do not have performance hurdles attached.

Fees paid by Imricor to its Non-Executive Directors are US$60,000 per annum. In the case of the Australian Non-Executive Director, this amount is inclusive of statutory superannuation.

In addition, each Chair of a Board committee receives an annual fee of US$10,000 (inclusive of statutory superannuation, if applicable) for his/her services as Chair of that committee. During the 2019 financial year, directors did not receive additional fees for being a member of a Board committee. The Chair, Mr Steve Wedan, receives no remuneration in his capacity as a Director.

The remuneration of Non-Executive Directors in respect of the financial year ended 31 December 2019 is summarised below:

Non-Executive Director	Cash fees	Options Granted[6]
Peter McGregor	US$17,500	135,000
Doris Engibous	US$15,000	135,000
Mark Tibbles	US$17,500	100,000

6. Following Imricor's IPO in August 2019, each Non-Executive Director received a grant of options under Imricor's 2019 Plan. These options vest over four years with 25% vesting on the first anniversary of grant date and the remainder in equal monthly instalments over the following 36 months.

IMRICOR MEDICAL SYSTEMS INC.

Minneapolis, Minnesota

Including Independent Auditors' Report

As of and for the years December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, and the related statements of operations, stockholders' equity (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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018 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 3 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 3 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
February 19, 2020

BALANCE SHEETS

AS OF DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash	$ 5,048,893	$ 1,588,348
Accounts receivable	256,294	55,856
Inventory	1,220,616	374,316
Prepaid expenses and other current assets	287,787	67,405
Total Current Assets	6,813,590	2,085,925
ACCOUNTS RECEIVABLE-LONG TERM	277,070	316,540
PROPERTY AND EQUIPMENT, NET	2,285,390	2,115,102
OTHER ASSETS	192,174	211,375
OPERATING LEASE RIGHT OF USE ASSETS	453,305	-
PREPAID SERVICE AGREEMENT	500,000	500,000
TOTAL ASSETS	$ 10,521,529	$ 5,228,942

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES		
Accounts payable	$ 540,980	$ 274,314
Accrued expenses	367,497	150,026
Current portion of contract liabilities	14,557	-
Current portion of operating lease liabilities	118,843	-
Current portion of finance lease liability	8,420	3,004
Current portion of financing obligation	374,023	-
Total Current Liabilities	1,424,320	427,344
LONG-TERM LIABILITIES		
Contract liabilities, net of current portion	592,853	592,853
Accrued interest	-	506,147
Convertible notes, net of discount	-	9,596,609
Operating lease liabilities, net of current portion	330,803	-
Finance lease liability, net of current portion	28,160	-
Financing obligation, net of current portion	1,111,976	-
Total Liabilities	3,488,112	11,122,953
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $0.0001 par value: 25,000,000 shares authorized and 0 shares outstanding as of both December 31, 2019 and 2018	-	-
Common stock, $0.0001 and $0.01 par value as of December 31, 2019 and 2018, respectively: 535,000,000 and 120,000,000 shares authorized as of December 31, 2019 and 2018, respectively and 92,682,535 and 44,002,813 shares issued and outstanding as of December 31, 2019 and 2018, respectively	9,268	420,028
Additional paid-in capital, common stock	47,449,853	20,817,689
Accumulated deficit	(40,425,704)	(27,131,728)
Total Stockholders' Equity (Deficit)	7,033,417	(5,894,011)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 10,521,529	$ 5,228,942

See accompanying notes to financial statements

STATEMENTS OF OPERATIONS

AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Product sales	$ 376,321	$ -
Royalties and license fees	-	811,538
Contract revenue	263,383	190,911
Total Revenue	639,704	1,002,449
COSTS AND EXPENSES		
Cost of goods sold	377,365	-
Sales and marketing	573,058	703,532
Research and development	3,601,203	3,526,193
General and administrative	2,635,453	1,589,962
Total Operating Expenses	7,187,079	5,819,687
Loss from Operations	(6,547,375)	(4,817,238)
OTHER INCOME (EXPENSE)		
Interest income	13,856	13,009
Foreign currency exchange gain	216,139	158,257
Down round expense (**NOTE 5**)	(1,802,129)	-
Beneficial conversion feature expense (**NOTE 5**)	(4,129,856)	-
Interest expense	(1,030,732)	(799,760)
Other expense	(13,879)	(2,750)
Total Other Income (Expense)	(6,746,601)	(631,244)
NET LOSS	$ (13,293,976)	$ (5,448,482)
EARNINGS PER SHARE:		
Basic and diluted loss per common share	$ (0.22)	$ (0.13)
Basic and diluted weighted average shares outstanding	60,526,541	41,997,662

See accompanying notes to financial statements

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

AS OF DECEMBER 31, 2019 AND 2018

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
BALANCES, December 31, 2017	41,982,813	$419,828	$20,369,729	$(24,897,618)	$(4,108,061)
Cumulative effect of adopting ASC 606 (Note 2)	-	-	-	3,214,372	3,214,372
BALANCES, January 1, 2018	41,982,813	419,828	20,369,729	(21,683,246)	(893,689)
Stock-based compensation expense	-	-	437,120	-	437,120
Exercise of stock options	20,000	200	10,840	-	11,040
Net loss	-	-	-	(5,448,482)	(5,448,482)
BALANCES, December 31, 2018	42,002,813	420,028	20,817,689	(27,131,728)	(5,894,011)
Stock-based compensation expense	-	-	533,110	-	533,110
Exercise of warrants	150,000	1,500	49,650	-	51,150
Exercise of stock options	2,281,538	21,924	133,166	-	155,090
Change in par value from $0.01 to $0.0001	-	(439,009)	439,009	-	-
Issuance of common stock for convertible notes and accrued interest	29,217,437	2,922	12,530,842	-	12,533,764
Issuance of common stock, net of issuance costs paid in cash of $1,752,176	15,662,650	1,566	7,014,739	-	7,016,305
Issuance of common stock for services related to equity financing	180,722	18	(18)	-	-
Issuance of down round common stock	3,187,375	319	1,801,810	-	1,802,129
Beneficial conversion feature of convertible notes	-	-	4,129,856	-	4,129,856
Net loss	-	-	-	(13,293,976)	(13,293,976)
BALANCES, December 31, 2019	92,682,535	$9,268	$47,449,853	$(40,425,704)	$7,033,417

STATEMENTS OF CASH FLOWS

AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (13,293,976)	$ (5,448,482
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	257,300	77,531
Stock-based compensation expense	533,110	437,120
Gain on disposal of property and equipment	(26,250)	-
Amortization of debt issuance costs	174,044	103,963
Accrued interest	578,295	542,073
Beneficial conversion feature expense	4,129,856	153,071
Down round expense	1,802,129	-
Foreign currency exchange gain	(216,139)	(158,257)
Changes in assets and liabilities		
Accounts receivable	(160,968)	26,673
Inventory	(846,300)	(226,395)
Prepaid expenses and other assets	(40,260)	7,570
Accounts payable	249,138	58,740
Accrued expenses	217,471	4,084
Contract liabilities	14,557	(311,539)
Net Cash Flows from Operating Activities	(6,627,993)	(4,733,848)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of security deposit	(164,580)	(3,861)
Purchases of property and equipment	(364,758)	(146,732)
Net Cash Flows from Investing Activities	(529,338)	(150,593)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of options and warrants	206,240	11,040
Proceeds from convertible notes	1,745,932	4,750,760
Proceeds from financing obligation	1,700,000	-
Payments on financing obligation	(214,001)	-
Debt issuance costs associated with convertible notes	-	(49,347)
Proceeds from issuance of common stock, net	7,016,305	-
Payments on finance lease liability	(3,004)	(8,744)
Net Cash Flows from Financing Activities	10,451,472	4,703,709
Net Change in Cash	3,294,141	(180,732)
CASH - Beginning of Year	1,588,348	1,769,080
Effect of foreign currency exchange rate changes on cash	166,404	-
CASH - End of Year	$ 5,048,893	$ 1,588,348
Supplemental cash flow disclosure		
Cash paid for interest	$ 278,393	$ 353
Noncash investing and financing activities		
2018 Convertible notes issued in exchange for 2017 Notes and accrued interest	$ -	$ 2,551,186
Convertible notes issued in exchange for debt issuance costs	$ -	$ 228,660
Service agreement received in exchange for convertible notes	$ -	$ 500,000
Property and equipment received in exchange for convertible notes	$ -	$ 1,900,000
Common stock issued for 2019 and 2018 Notes and accrued interest	$ 12,533,764	$ -

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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. Imricor is a pioneer and leader in developing MRI-compatible products for cardiac catheter ablation procedures and will be the first company in the world to bring commercially viable and safe MRI-compatible products to the cardiac catheter ablation market. The Company's primary product offering, the Vision-MR Ablation Catheter is specifically designed to work under real-time MRI guidance, with the intent of enabling higher success rates along with a faster and safer treatment compared to conventional procedures using x-ray guided catheters. Historically, Imricor generated income from licensing some of its IP for use in implantable devices and performing contract research, but expects to generate most of its future income from the sale of the MRI-compatible products it has developed for use in cardiac catheter ablation procedures (comprising single-use consumables and capital goods). On January 13, 2016, Imricor obtained CE mark approval to place one of its key products, the Advantage-MR EP Recorder/Stimulator System, on the market in the European Union. On January 23, 2020, the Company obtained CE mark approval for its other key products, the Vision-MR Ablation Catheter (with an indication for treating type I atrial flutter) and the Vision-MR Dispersive Electrode.

The Company has prepared the accompanying financial statements and notes in conformity with accounting principles generally accepted in the United States of America (US GAAP).

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

Cash

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

Accounts Receivable

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

Accounts receivable includes unbilled receivables of $39,470 and $40,655 as of December 31, 2019 and 2018, respectively, which represents the current portion of minimum royalties due to the Company during the years ended December 31, 2020 and 2019. The long-term accounts receivable relates to minimum royalties due to the Company for years ending after December 31, 2020 (see **NOTE 2)**.

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Inventory

Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out ("FIFO") method. The establishment of allowances for excess and obsolete inventories is based on historical usage and estimated exposure on specific inventory items. The Company has reserved $76,910 and $0 as an allowance for excess or obsolete inventory as of December 31, 2019 and 2018, respectively. Inventories are as follows as of December 31, 2019 and December 31, 2018:

	December 31,	
	2019	2018
Raw materials	$ 822,217	$ 320,847
Work in process	65,765	32,778
Finish goods	409,544	20,691
Less: obsolescence reserve	(76,910)	-
	$ 1,220,616	$ 374,316

Property and Equipment

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

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

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

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the impairment tests indicate that the carrying value of the asset, or asset group, is greater than the expected undiscounted cash flows to be generated by such asset or asset group, further analysis is performed to determine the fair value of the asset or asset group. To the extent the fair value of the asset or asset group is less than its carrying value, an impairment loss is recognized equal to the amount the carrying value of the asset or asset group exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or asset groups, or by discounting estimated future cash flows from such assets or asset groups using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets or asset groups, and accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. To date, the Company has not recognized any impairment loss for property and equipment.

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

Research and Development Costs

The Company expenses research and development costs as incurred.

Other Assets

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

Patents

Expenditures for patent costs are charged to operations as incurred.

Income Taxes

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

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

Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average shares outstanding during the reporting period. The weighted average common shares outstanding were 60,526,541 and 41,977,662 for the years ended December 31, 2019 and 2018, respectively.

Dilutive net income (loss) per share assumes the exercise and issuance of all potential common stock equivalents in computing the weighted-average number of common shares outstanding, unless their effect is antidilutive. The effects of including incremental shares associated with convertible notes, 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 years ending December 31, 2019 and 2018.

Foreign currency exchange gains (losses)

During the years ended December 31, 2019 and 2018, the Company had various transactions in foreign currency, including convertible note investments from Australian investors (see **NOTE 5**) denominated in Australian dollars, 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 year-end exchange rates. Foreign currency exchange gains and losses are included in the statements of operations within other income (expense).

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification, Topic 606, Revenue from Contracts with Customers (ASC 606), which the Company adopted effective January 1, 2018. 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 year ended December 31, 2019.

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 net sales. Product sales include shipment and handling fees charged to customers. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

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

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

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

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Royalties

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

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and non-employee directors and consultants in its statements of operations based on their fair values at the date of grant based on the Black-Scholes pricing model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period for all awards, net of an estimated forfeiture rate, resulting in the recognition of compensation expense for only those shares expected to vest. Compensation expense is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. See **NOTE 8** for further details and assumptions regarding the Black-Scholes pricing model.

Estimates

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

Subsequent Events

For the year ended December 31, 2019, the Company evaluated, for potential recognition and disclosure, events that occurred prior to the issuance of the financial statements through February 19, 2020.

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

Recent Accounting Standards

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

NOTE 2 – Revenue Recognition

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

Impact of Adoption

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

Royalties and License Fees

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

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

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 2 – Revenue Recognition (cont.)

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

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

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

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities (formerly deferred revenue) and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in an allocation of the upfront payment to the first and third milestones on a relative standalone value basis. No allocation of the upfront payment was made to the second milestone, given the Company's position that this development program has been effectively cancelled. The Company has estimated that 72% of the third milestone was completed prior to January 1, 2018. As a result of the adoption of ASC 606, the remaining contract liability associated with the first milestone and 72% of the contract liability associated with the third milestone was eliminated. $373,333, which represents 28% of the third milestone as well as the relative portion of the upfront payment, is included in long-term contract liabilities as of December 31, 2019 and 2018. 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 Company determined that the promises pursuant to the agreement were not distinct from one another, as the license has limited value without the remaining obligations.

Prior to the adoption of ASC 606, a portion of the initial upfront payment was included in contract liabilities and was being recognized as revenue over the life of the license. The adoption of ASC 606 resulted in a change in recognition of the upfront payment from over the life of the license to over the period of expected performance. As of December 31, 2018, the Company determined that it would not be able to fulfill the remaining two milestones in the timeframe as outlined in the agreement. The Company was in negotiations with the customer to amend the agreement to change the dates for completion of the remaining milestones. However, as of December 31, 2018, the Company had completed all of its performance obligations related to the milestone's probable of completion. Consequently, the Company recognized the remaining upfront non-refundable license fee of $461,538 during the year ended December 31, 2018. In addition, during the year ended December 31, 2018, the Company recognized $350,000 related to the achievement of the first two milestones which was recognized over time as the performance obligation was fulfilled, subject to constraint.

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 and revenue will be recognized upon completion of each remaining milestone. No revenue was recognized related to this contract during the year ended December 31, 2019.

NOTE 2 – Revenue Recognition (cont.)

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. There was no change in the pattern of revenue recognition under ASC 606 for this contract. The Company recognized $263,383 and $190,911 as revenue during the years ended December 31, 2019 and 2018, respectively. The Company cancelled the contract in December 2019 to allow engineering resources to focus on the development of its core pipeline products.

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 December 31, 2019, and 2018, the Company had contract liabilities of $607,410 and $592,853, respectively.

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

	2019	2018
Balance at the beginning of the year	$ 592,853	$ 3,719,695
Decrease a result of cumulative catch-up arising from the adoption of ASC 606	-	(2,815,303)
Decrease from revenue recognized for completion of performance obligations that was included in contract liabilities at the beginning of the period	-	(311,539)
Cash received in advance for service contract	14,557	-
Balance at the end of the year	$ 607,410	$ 592,853

The cumulative effect of the changes made to our balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

	Balance as of December 31, 2017	Adjustment	Balance as of January 1, 2018
CURRENT ASSETS			
Accounts receivable	$ -	$ 41,874	$ 41,874
Total Current Assets	2,175,757	41,874	2,217,631
ACCOUNTS RECEIVABLE-LONG TERM	-	357,195	357,195
TOTAL ASSETS	$ 2,345,391	$ 399,069	$ 2,744,460
CURRENT LIABILITIES			
Current portion of contract liabilities	$ 465,759	$ (154,220)	$ 311,539
Total Current Liabilities	834,324	(154,220)	680,104
LONG-TERM LIABILITIES			
Contract liabilities, net current portion	3,253,936	(2,661,083)	592,853
Total Liabilities	6,453,452	(2,815,303)	3,638,149
STOCKHOLDERS' DEFICIT			
Accumulated deficit	(24,897,618)	3,214,372	(21,683,246)
Total Stockholders' Deficit	(4,108,061)	3,214,372	(893,689)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,345,391	$ 399,069	$ 2,744,460

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 3 – Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company incurred losses from operations and negative cash flows from operations for both of the years ended December 31, 2019 and 2018, had an accumulated deficit as of December 31, 2019 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 4 – Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2019	2018
Office furniture and equipment	$ 186,030	$ 179,133
Lab and production equipment	1,099,744	742,977
Computer equipment	194,890	178,259
MRI scanner	1,200,000	1,200,000
Leasehold improvements	723,952	717,283
	3,404,616	3,017,652
Less: Accumulated depreciation and amortization	(1,119,226)	(902,550)
	$ 2,285,390	$ 2,115,102

Depreciation expense was $257,300 and $77,531 for the years ended December 31, 2019 and 2018, respectively. The MRI scanner and leasehold improvements related to new space for the MRI scanner were placed in service in May 2019, which is when depreciation began on those assets.

NOTE 5 – 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.

NOTE 5 – 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 included $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 for the MRI scanner. The MRI scanner and leasehold improvements are included in property and equipment as of both December 31, 2019 and 2018. The prepaid service agreement is included in other long-term assets. 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 Australian Initial Public Offering (IPO). The 2018 Notes bore interest at a rate of eight percent compounded annually from the date of issuance until the outstanding principal is paid or 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, (see **NOTE 8**). 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 $578,295 in interest expense related to the 2018 and 2019 Notes for the year ended December 31, 2019. The Company recorded $695,144 in interest expense for the year ended December 31, 2018 related to the 2017 and 2018 Notes, of which $153,071 represented the six percent discount related to the 2017 Note conversion, and $35,926 of additional accrued interest converted, both of which were included in the convertible debt balance and $506,147 which is included in accrued interest as of December 31, 2018.

A beneficial conversion feature expense of $4,129,856 was recorded upon completion of the Company's IPO and is included as "beneficial conversion feature expense" in the Statement of Operations for the year ended December 31, 2019.

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 above) met the definition of a Qualified Financing. Consequently, in connection with the IPO, the Company issued 3,187,375 additional shares such that the total shares received was based upon an adjusted purchase price of $0.3986 per share in 2019. The fair value of the additional shares issued was $1,802,129 and is included as "Down round expense" in the Statement of Operations for the year ended December 31, 2019 (See **NOTE 8**). The fair value of this Down round liability as of December 31, 2018 was immaterial.

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 5 – Convertible Notes (cont.)

The following table summarizes the Convertible notes, discount and interest as of December 31, 2018:

Convertible notes-related parties	$ 1,227,686
Convertible notes-all other	8,542,967
Total Convertible notes	9,770,653
Debt discount	(174,044)
Convertible notes, net of discount	$ 9,596,609
Accrued interest-related parties	$ 68,844
Accrued interest-all other	437,303
Total Accrued interest	$ 506,147

Interest expense is as follows:

	December 31, 2019	December 31, 2018
Convertible notes-related parties	$ 93,721	$ 140,580
Convertible notes-all other	484,574	554,564
Total convertible notes	$ 578,295	$ 695,144

NOTE 6 – Leases

Operating Leases

In March 2007, the Company entered into an operating lease agreement for its office space which was originally set to expire in July 2014. The lease was extended through July 2019. In June 2019, the lease was extended through October 2022. The Company entered into a second operating lease agreement for office and warehouse space in August 2018 which commenced on January 1, 2019 and expires in March 2026. Neither lease includes renewal or extension rights. Both lease agreements require the Company to pay a pro rata portion of the lessor's actual operating expenses which are considered variable lease costs as the expenses are trued up on an annual basis. Rent expense of $120,234 was incurred for the year ended December 31, 2018.

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

As our operating 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 December 31, 2019, the remaining lease term was 4.0 years and discount rate was 8.0%. For the year ended December 31, 2019, the operating cash outflows from our operating leases for office and manufacturing space was $144,195.

NOTE 6 – Leases (cont.)

As of December 31, 2019, maturities of our operating lease liabilities are as follows:

2020	$ 150,453
2021	151,305
2022	121,662
2023	31,008
2024	32,664
2025 and thereafter	42,113
Total lease payments	529,205
Less interest	(79,559)
Present value of lease liabilities	$ 449,646

The cost components of the Company's operating leases were as follows for the year ended December 31, 2019:

Operating lease cost	$ 154,687
Variable lease cost	73,375
Total	$ 228,062

Finance Lease Liability

Prior to the adoption of ASC 842, the Company acquired various equipment during 2014 under capital leases. The cost of the equipment capitalized was $104,017. Accumulated amortization as of December 31, 2019 and 2018 was $104,017 and $100,381, respectively. Amortization expense is included in general and administrative expenses on the statement of operations as depreciation expense. The lease terminated in April 2019.

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 December 31, 2019:

2020	$ 10,188
2021	10,188
2022	10,188
2023	10,188
Total payments	40,752
Less amount representing interest	(4,172)
Total present value of total payments	36,580
Less current portion	(8,420)
Finance lease liability, net of current portion	$ 28,160

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 6 – Leases (cont.)

Financing Obligation

On June 1, 2019, the Company entered into a sale leaseback agreement for the purchase of its MRI scanner ($1,200,000) and related Service Agreement ($500,000). The term of the lease is 36 months with a monthly rental payment of $54,865. Based on ASC 842, the lease meets the requirements to be classified as a finance lease. Therefore, the agreement is considered a failed sale leaseback arrangement and is not accounted for as a lease under ASC 842, but rather is accounted for as a financing obligation. The 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 MRI scanner is included in property and equipment and the Service Agreement is in Long-term assets. 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 December 31, 2019:

2020	$ 658,380
2021	658,380
2022	274,325
Expected buy out at end of lease term	425,000
Total payments	2,016,085
Less amount representing interest	(530,086)
Total present value of total payments	1,485,999
Less current portion	(374,023)
Financing obligation, net of current portion	$ 1,111,976

NOTE 7 - Commitments and Contingencies

Retirement Plan

The Company maintains a 401(k) retirement plan for its employees in which eligible employees can contribute a percentage of their compensation. The Company may also make discretionary contributions. The Company contributed $22,770 during the year ended December 31, 2019. The Company did not make any contributions for the year ended December 31, 2018.

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 8 - Stockholders' Equity (Deficit)

Capital Stock Authorized

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

Common Stock

During April 2018, 20,000 options to purchase common stock were exercised at $0.552 per share for total proceeds of $11,040.

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.

On August 29, 2019, the Company completed its Initial Public Offering and associated listing on the Australian Securities Exchange (ASX). 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. The equity capital raise consisted of 14,578,313 CDIs representing the same number of shares of common stock at $0.83 Australian dollars per share and 1,084,337 common shares at $0.5654 US dollars per share in a concurrent US Private Placement, for total proceeds of $7,016,305, net of expenses.

180,722 CDIs were issued in exchange for services related to the Company's equity financing. 3,187,375 shares of common were issued to Noteholders in connection with the down round liability (see **NOTE 5**).

In December 2019, 90,000 options to purchase common stock were exercised at $0.341 per share for total proceeds of $30,690.

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.

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 - Stockholders' Equity (Deficit) (cont.)

Stock Option Plans

The Company and its stockholders adopted a stock incentive plan (the "2006 Plan") in 2006. The 2006 Plan, as amended on January 26, 2011 by the shareholders, reserved 10,918,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On May 22, 2016, the Company replaced the 2006 Plan with the 2016 Plan, as the 2006 Plan was expiring. The terms of the 2016 Plan were the same as the 2006 Plan. In August 2018, the Board of Directors approved an increase of 500,000 shares to the option pool. On February 14, 2019, the Board of Directors terminated the 2016 Plan and approved the 2019 Plan, reserving 11,418,500 shares of the Company's common stock for the granting of incentive and nonqualified stock options to employees, directors and consultants. On February 14, 2019, the Board of Directors also authorized the Company to offer to current employees, directors and consultants an option to exchange certain previously issued options for repriced options with additional vesting requirements ranging from two to four years. As a result, 5,462,600 incentive and nonqualified stock options were cancelled and reissued on March 15, 2019 resulting in incremental value of $563,546 which will be expensed over the revised vesting terms. On June 4, 2019, the Board of Directors approved an increase of 2,000,000 shares to the option pool and provided that on the first day of each of the Company's fiscal years during the term of this 2019 Plan beginning in 2020, the number of shares of Common Stock available for issuance from time to time under this 2019 Plan will be increased by an amount equal to the less of (i) five percent (5%) of the aggregate number of shares reserved under this Plan on the last day of the immediately preceding fiscal year, and (ii) such number of shares determined by the Board (the "Annual Increase"). Prior to the Company's offering on the ASX, the Board of Directors determined 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. 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. Vesting terms of outstanding options range from immediate to four years. In no event are the options exercisable for more than ten years after the date of grant. The Company issues new shares of common stock when stock options are exercised.

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

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Options outstanding - December 31, 2018	9,935,833	$ 0.56	
Exercised	(2,490,000)	0.11	
Cancelled	(610,900)	0.72	
Cancelled and regranted	(5,462,600)	0.76	
Regranted	5,462,600	0.52	
Granted	1,230,000	0.89	
Options outstanding – December 31, 2019	8,064,933	$ 0.58	$ 2,175,380
Options exercisable – December 31, 2019	1,522,333	$ 0.56	$ 423,860
Weighted average fair value of options granted during the year ended December 31, 2019		$ 0.46	
Weighted average fair value of options granted during the year ended December 31, 2018		$ 0.43	

As of December 31, 2019, the Company had 1,489,167 shares available for grant under the Plan.

The weighted average remaining contractual life of options outstanding and exercisable was 8.10 and 2.96 years, respectively, as of December 31, 2019.

The intrinsic value of options exercised during the years ended December 31, 2019 and 2018 was $1,059,729 and $5,960,
respectively.

NOTE 8 - Stockholders' Equity (Deficit) (cont.)

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

	2019	2018
Expected life	5 - 7 years	5 - 7 years
Volatility	48.12%	48.12%
Risk-free interest rate	2.50%-2.83%	2.83%
Dividend Yield	0%	0%

The Company reviews its current assumptions on a periodic basis and adjusts them as necessary to determine the option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is based on an evaluation of historic expected lives from the Company's stock option grants. Volatility is based on historic volatilities of traded shares from a selected publicly traded peer group, believed to be comparable after consideration of size, maturity, profitability, growth, risk and return on investment. The Company did not use its own historical volatility as the majority of stock option grants were issued prior to or in connection with the IPO and the Company has limited volatility history. 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 $533,110 and $437,120 for the years ended December 31, 2019 and 2018, respectively, and charged to the Company's Statement of Operations as follows:

	December 31,	
	2019	2018
Sales and marketing	$ 26,798	$ 200,557
Research and development	184,991	208,232
General and administrative	321,321	28,331
	$ 533,110	$ 437,120

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, 2019, the total unrecognized compensation cost related to unvested stock options was $1,446,089. Future stock-based compensation expense is expected to be as follows for the years ending December 31:

	Total
2020	$ 614,908
2021	454,462
2022	259,504
2023	117,215
Total	$ 1,446.089

NOTES TO FINANCIAL STATEMENTS (CONT)

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE 8 - Stockholders' Equity (Deficit) (cont.)

Stock Warrants

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

	Number of Warrants	Weighted- Average Exercise Price
Warrants outstanding – December 31, 2018	937,909	$ 0.67
Warants exercised	(150,000)	0.34
Warrants outstanding – December 31, 2019	787,909	$ 0.73
Remaining weighted average contractual life in years, as of December 31, 2019		0.33

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

Royalty Conversion Rights

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

NOTE 9 - Income Taxes

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 December 31, 2019 and 2018, that offsets the net tax benefits associated with the NOL and credit carryforwards since realization of these tax benefits is not more likely than not.

Income tax expense (benefit) consists of the following for the year ended December 31:

	2019	2018
Current:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred:		
Federal	(1,936,000)	(590,000)
State	-	-
	(1,936,000)	(590,000)
Deferred tax asset valuation allowance	1,936,000	590,000
Total provision (benefit)	$ -	$ -

NOTE 9 - Income Taxes (cont.)

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

	2019	2018
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 8,020,000	$ 6,086,000
Research and development credit carryforwards	1,348,000	1,168,000
Stock-based compensation	154,000	138,000
Accrued expenses	5,000	136,000
Deferred revenue	158,000	154,000
Prepaid expenses and other assets	(130,000)	(104,000)
Foreign currency exchange	(43,000)	-
Depreciation and amortization	7,000	5,000
Gross deferred tax assets (liabilities)	9,519,000	7,583,000
Less valuation allowance	(9,519,000)	(7,583,000)
Net deferred tax assets	$ -	$ -

The change in the valuation allowance was $1,936,000 and $590,000 for the years ended December 31, 2019 and 2018, respectively.

The effective tax rate for the year ended December 31, 2019 differs from the federal and state statutory tax rates mainly due to the change in full valuation allowance, non-deductible down round expense and beneficial conversion feature expense, incentive stock option expense, and research and development credits.

The Company has recognized a reserve of approximately $337,000 and $292,000 for uncertain tax positions which was recorded directly against the valuation allowance as of December 31, 2019 and 2018, respectively. If recognized, these benefits would favorably impact the effective tax rate.

The tax years from inception through December 31, 2019 remain subject to examination by all major taxing authorities due to the net operating loss carryovers. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense in the Company's Statement of Operations.

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future.

ADDITIONAL STOCKHOLDER INFORMATION

The Company has CHESS Depositary Interests (**CDIs**) quoted on the Australian Securities Exchange (**ASX**) trading under the ASX code IMR. Each CDI represents an interest in one share of Class A common stock of the Company (**Share**). Legal title to the Shares underlying the CDIs is held by CHESS Depositary Nominees Pty Ltd (CDN), a wholly owned subsidiary of the ASX. The Company's securities are not quoted on any other exchange.

All information provided below is current as at 6 April 2020, except as otherwise stated. To avoid double-counting, the holding of Shares by CHESS Depositary Nominees Pty Limited (underpinning the CDIs on issue) have been disregarded in the presentation of the information below, unless otherwise stated.

SHARE CAPITAL

Type of Security	Number of Securities
Total number of issued shares[1]	104,765,868
Total number of issued CDIs	39,931,218

1. Includes shares held by CHESS Depositary Nominees Pty Limited (39,931,218).

TOP 20 HOLDERS OF CDIS AND SHARES COMBINED

Rank	Name	Number	% of issued capital
1	JP Morgan Nominees Australia Pty Limited	10,850,748	10.36
2	Mr Warren G Herreid II & KAHR Foundation	10,496,447	10.02
3	Siemens Medical Solutions	8,384,150	8.00
4	HSBC Custody Nominees (Australia) Limited	5,712,660	5.45
5	Mark Tibbles	4,581,878	4.37
6	Steven R Wedan	4,424,733	4.22
7	Merrill Lynch (Australia) Nominees Pty Limited	3,144,565	3.00
8	CS Third Nominees Pty Limited	3,134,989	3.00
9	National Nominees Limited	2,010,099	1.92
10	Bauer Private Equity Fund VI LLC	1,696,555	1.62
11	Albert C Lardo and Jennifer S Lardo	1,440,000	1.37
12	Pensco Trust Company LLC CUST FBO David Cartwright IRA	867,896	0.83
13	Pensco Trust Company LLC CUST FBO Thomas Tulp IRA	786,225	0.75
14	HSBC Custody Nominees (Australia) Limited – A/C 2	729,239	0.70
15	Citicorp Nominees Pty Limited	683,699	0.65
16	James Dobchuk	657,809	0.63
17	Ramsey & Co FBO Gerald P Floden IRA	608,681	0.58
18	Beverly A Mancl Revocable Trust Dated December 11 1995	551,438	0.53
19	Fulong Sun	537,364	0.51
20	Western Funds Management Pty Ltd	537,364	0.51
	Top 20 holders	**61,836,539**	**59.02**
	Remaining holders	**42,929,329**	**40.98**
	Total	**104,765,868**	**100.00**

SUBSTANTIAL HOLDERS

The names of substantial holders in the Company and their respective holdings of equity securities (to the best of the Company's knowledge) are as follows:

Name	Number of equity securities	% voting
Warren G. Herreid II & KAHR Foundation	10,494,488	10.02
Siemens Medical Solutions USA, Inc.	8,761,342	8.00
Regal Funds Management Pty Ltd	6,310,277	6.02

DISTRIBUTION OF CDIS AND SHARES

Range	Number	% of issued capital	No. of holders
1 – 1,000	55,187	0.05	84
1,001 – 5,000	334,100	0.32	121
5,001 – 10,000	430,772	0.41	56
10,001 – 100,000	8,330,274	7.95	188
100,001 and over	95,615,535	91.27	146
Total	**104,765,868**	**100**	**595**

DISTRIBUTION OF OPTIONS

Range	Number	% of issued capital	No. of holders
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	45,400	0.53	5
10,001 – 100,000	781,133	9.13	16
100,001 and over	7,730,014	90.34	16
Total	**8,556,547**	**100**	**37**

Note: 125,000 options were exercised on 13 April 2020 and are not included in the above table.

DISTRIBUTION OF WARRANTS

Range	Number	% of issued capital	No. of holders
1 – 1,000	-	-	-
1,001 – 5,000	10,960	1.39	4
5,001 – 10,000	36,985	4.69	5
10,001 – 100,000	465,992	59.14	21
100,001 and over	273,972	34.77	2
Total	**787,909**	**100**	**32**

At 6 April 2020 there are 34 investors holding less than a marketable parcel of CDIs or Shares, based on a minimum A$500 parcel at A$0.84 per CDI or Share (close of trade price on 6 April 2020).

ADDITIONAL STOCKHOLDER INFORMATION (CONT)

SECURITIES SUBJECT TO ESCROW AT 6 APRIL 2020

Last day of escrow	ASX imposed Or Voluntary	Number of escrowed Shares/CDIs	Number of escrowed Options/Warrants
29 May 2020	Voluntary	8,290,582	-
29 August 2020	ASX Imposed and voluntary	9,550,584	-
29 November 2020	Voluntary	7,915,004	-
29 August 2021	ASX Imposed and voluntary	12,413,848	2,665,500 Options 273,972 Warrants

Note: the above table discloses the net effect of number of securities to be released from escrow including overlap between ASX imposed and voluntary escrows.

REQUIRED STATEMENTS

- There is no current on-market buy-back of the Company's securities.
- The Company is incorporated in the state of Delaware in the United States of America.
- The Company is not subject to Chapters 6, 6A, 6B and 6C of the *Corporations Act 2001* (Cth) dealing with the acquisition of shares (ie, substantial holdings and takeovers).
- The Company's securities are not quoted on any exchange other than the ASX.
- The Company's Australian Company Secretary is Mr Kobe Li.
- Under the Delaware General Corporation Law, shares are generally freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or bylaws, or by an agreement signed with the holders of the shares at issue. The Company's amended and restated certificate of incorporation and by-laws do not impose any specific restrictions on transfer. The Company's CDIs were issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. As a result of relying on the Regulation S exemption, the CDIs are 'restricted securities' under Rule 144 of the Securities Act. This means that you are unable to sell the CDIs into the US or to a US person for the foreseeable future except in very limited circumstances after the expiration of a restricted period, unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. To enforce the above transfer restrictions, all CDIs issued bear a 'FOR US' designation on the Australian Securities Exchange (ASX). This designation restricts any CDIs from being sold on the ASX to US persons. However, you are still able to freely transfer your CDIs on the ASX to any person other than a US person. In addition, hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.
- From the time of the Company's admission to the ASX until 31 December 2019, the Company has used the cash and assets in a form readily convertible to cash, that it had at the time of admission, in a way that is consistent with its business objectives at that time.
- As described in section 9.3 of the Company's replacement prospectus dated 14 August 2019, the Company is party to certain royalty agreements with each of Dr. Henry Halperin and Dr. Ronald Berger entered into in 2007. Under the royalty agreements, Imricor must pay a royalty to each of Dr. Halperin and Dr. Berger equal to 2% and 1% respectively, of the gross revenues and fees received by the Company from the sale of Imricor's products relating to the Company's licence agreement with Johns Hopkins University. In 2009, the parties agreed to the conversion of the royalties into a calculable number of Shares. Accordingly, up to 4,800,000 Shares may be issued to Dr Halperin and up to 2,400,000 Shares may be issued to Dr Berger (i.e. a total of up to 7,200,000 Shares) (**Royalty Shares**) upon the earlier of: (i) the acquisition of the Company, (ii) the expiration of the licence with Johns Hopkins University (which expired on 12 April 2020), (iii) the completion of an initial public offering of the Company's securities pursuant to registration statement in the United States, and (iv) mutual agreement to the conversion. The number of Royalty Shares will decrease as royalties are paid by Imricor in cash.

  No Royalty Shares were issued during the 2019 financial year or as at 6 April 2020. As the Company's licence with Johns Hopkins University expired on 12 April 2020, the Company expects to issue the Royalty Shares shortly. The number of Royalty Shares issued will be slightly less than the maximum numbers set out above due to a small cash royalty paid by Imricor to Dr Halperin and Dr Berger.

VOTING RIGHTS

Every holder of Shares present in person or by proxy is entitled one vote for each Share held on the record date for the meeting on all matters submitted to a vote of stockholders. Options and Warrants do not carry a right to vote.

CDI holders may attend and vote at the Company's general meetings. The Company must allow CDI holders to attend any meeting of stockholders unless relevant US law at the time of the meeting prevents CDI holders from attending those meetings.

In order to vote at such meetings, CDI holders may:

- instruct CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI holders with the notice of meeting or proxy statement for the meeting and this must be completed and returned to the CDI Registry before the meeting.
- inform the Company that they wish to nominate themselves or another person to be appointed as CDN's proxy for the purposes of attending and voting at the general meeting: or
- convert their CDIs into a holding of Shares and vote these at the meeting. Afterwards, if the former CDI holder wishes to sell their investment on the ASX, the holder would need to convert the Shares back to CDIs. In order to vote in person, the conversion of CDIs to Shares must be completed before the record date for the meeting. For information on the process for converting CDIs to common stock, please contact the CDI registry.

One of the above steps must be undertaken before CDI holders can vote at stockholder meetings. CDI voting instruction forms and details of these alternatives will be included in each notice of meeting or proxy statement sent to CDI holders.

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Mark Tibbles (Non-executive Director)

Doris Engibous (Non-executive Director)

Peter McGregor (Non-executive Director)

Local Agent & Company Secretary

Kobe Li

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