



EBR SYSTEMS, INC.

**HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

This half-year financial report is to be read in conjunction with the financial report for the year ended 31 December 2023.

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EBR SYSTEMS, INC

APPENDIX 4D (RULE 4.2A.3)

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2024

REPORTING PERIOD

Report for the half-year ended 30 June 2024

All comparisons to half-year ended 30 June 2023

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	\$USD	up/down	% movement
Revenue from ordinary activities	Nil	N/A	Nil
Loss after tax from ordinary activities attributable to members	(\$20,644,691)	up	32.4%
Net loss attributable to members	(\$20,644,691)	up	32.4%

Dividend information

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

Net tangible asset backing

	30 June 2024 \$USD	30 June 2023 \$USD
Net tangible asset per share of common stock	\$0.036	\$0.150

- **Independent Auditor's Review:** This report is based on the 2024 half-year condensed consolidated financial statements which have been reviewed by Deloitte and Touche LLP with the Independent Auditor's Review Report included in the 2024 Condensed Consolidated Financial Statements.
- **Changes in control over entities:** There were no entities over which control was gained or lost during the period.
- **Details of dividends and dividend reinvestment plans:** No dividends have been declared or proposed.
- **Details of associates or joint ventures:** Not applicable
- **Set of accounting standards used in compiling the report:** The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP).
- **Details of audit disputes or audit qualification:** The condensed consolidated financial statements have been independently reviewed and a review report has been issued.

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EBR SYSTEMS, INC.

Sunnyvale, California

**CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)**

As of and for the six-month periods ended
June 30, 2024 and 2023

EBR SYSTEMS, INC.
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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Audit and Risk Committee of EBR Systems, Inc.:

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of EBR Systems, Inc. and subsidiaries (the "Company") as of June 30, 2024, and the related condensed consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the six-month periods ended June 30, 2024 and 2023, and the related notes (collectively referred to as the "interim financial information").

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

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

Report on Condensed Consolidated Balance Sheet as of December 31, 2023

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 27, 2024.

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In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

August 26, 2024

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EBR SYSTEMS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,364,623	\$ 14,578,752
Marketable securities	45,701,816	57,736,274
Non-trade receivables and unbilled reimbursements, net	410,774	230,734
Prepaid expenses	1,072,093	1,446,634
Other current assets	112,768	382,522
Total current assets	55,662,074	74,374,916
Property and equipment, net	842,448	1,088,771
Right of use operating lease asset	631,835	1,719,590
Marketable securities	-	1,125,554
Other assets	1,005,380	589,646
TOTAL ASSETS	\$ 58,141,737	\$ 78,898,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,301,207	\$ 1,856,134
Accrued expenses and other liabilities	3,474,017	4,095,347
Interest payable	223,333	224,309
Operating lease liability	547,814	250,876
Current portion of notes payable	82,029	21,496
Total current liabilities	6,628,400	6,448,162
Other liabilities	57,140	76,946
Operating lease liability	294,094	1,670,230
Notes payable, net	39,952,819	39,646,687
Total liabilities	46,932,453	47,842,025
Commitments and contingencies (Note 14)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.0001 par value; 600,000,000 shares authorized; 308,113,383 and 307,020,758 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively		
	30,812	30,703
Additional paid-in capital	343,614,526	342,721,880
Accumulated deficit	(333,304,099)	(312,659,408)
Accumulated other comprehensive income	868,045	963,277
Total stockholders' equity	11,209,284	31,056,452
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 58,141,737	\$ 78,898,477

These financial statements should be read in connection with the notes to unaudited condensed consolidated financial statements.

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EBR SYSTEMS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Operating expenses:		
Research and development	\$ 13,872,883	\$ 12,275,827
General and administrative	5,443,436	3,303,590
Total operating expenses	19,316,319	15,579,417
Loss from operations	(19,316,319)	(15,579,417)
Other (expense) income		
Interest expense	(3,034,144)	(1,464,316)
Interest income	1,698,924	1,150,982
Other income (expense)	8,843	349,040
Loss on foreign currency	(1,995)	(52,559)
Total other (expense) income	(1,328,372)	(16,853)
Loss before income taxes	(20,644,691)	(15,596,270)
Income tax expense	-	-
Net loss	<u>\$ (20,644,691)</u>	<u>\$ (15,596,270)</u>
Net loss per share attributable to common stockholders:		
Basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>
Weighted-average number of common shares outstanding:		
Basic and diluted	<u>307,762,783</u>	<u>271,113,544</u>

These financial statements should be read in connection with the notes to unaudited condensed consolidated financial statements.

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EBR SYSTEMS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Net loss	\$ (20,644,691)	\$ (15,596,270)
Other comprehensive loss		
Change in unrealized (loss) gain on marketable securities	(73,406)	83,037
Foreign currency translation adjustments	(21,826)	38,528
Total other comprehensive (loss) income	(95,232)	121,565
Comprehensive loss	\$ (20,739,923)	\$ (15,474,705)

These financial statements should be read in connection with the notes to unaudited condensed consolidated financial statements.

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EBR SYSTEMS, INC.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

Six Months Ended June 30, 2024

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par Value				
Balance at December 31, 2023	307,020,758	\$ 30,703	\$ 342,721,880	\$ (312,659,408)	\$ 963,277	\$ 31,056,452
Exercise of stock options	1,092,625	109	112,941	-	-	113,050
Stock-based compensation	-	-	779,705	-	-	779,705
Net loss	-	-	-	(20,644,691)	-	(20,644,691)
Other comprehensive loss	-	-	-	-	(95,232)	(95,232)
Balance at June 30, 2024	<u>308,113,383</u>	<u>\$ 30,812</u>	<u>\$ 343,614,526</u>	<u>\$ (333,304,099)</u>	<u>\$ 868,045</u>	<u>\$ 11,209,284</u>

Six Months Ended June 30, 2023

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par Value				
Balance at December 31, 2022	270,752,201	\$ 27,077	\$ 320,749,696	\$ (277,622,520)	\$ 794,840	\$ 43,949,093
Exercise of stock options	86,431	9	11,684	-	-	11,693
Stock-based compensation	-	-	522,171	-	-	522,171
Issuance of common stock, net of issuance costs	27,472,527	2,747	15,602,149	-	-	15,604,896
Net loss	-	-	-	(15,596,270)	-	(15,596,270)
Other comprehensive income	-	-	-	-	121,565	121,565
Balance at June 30, 2023	<u>298,311,159</u>	<u>\$ 29,833</u>	<u>\$ 336,885,700</u>	<u>\$ (293,218,790)</u>	<u>\$ 916,405</u>	<u>\$ 44,613,148</u>

These financial statements should be read in connection with the notes to unaudited condensed consolidated financial statements.

EBR SYSTEMS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (20,644,691)	\$ (15,596,270)
Adjustment to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	395,532	380,900
Amortization of deferred loan costs and discount on notes payable	306,132	166,986
Lease amortization	178,945	206,759
Stock-based compensation	779,705	522,171
Provision for doubtful accounts	-	40,485
Accretion of discount on marketable securities	(1,059,132)	(467,490)
Changes in operating assets and liabilities:		
Non-trade receivables and unbilled reimbursements	(180,302)	108,880
Prepaid expenses	374,226	864,430
Other assets	(158,778)	97,220
Accounts payable	430,902	(1,090,750)
Accrued expenses and other liabilities	(637,513)	(617,527)
Interest payable	(976)	14,069
Operating lease liability	(170,388)	(201,372)
Net cash used in operating activities	<u>(20,386,338)</u>	<u>(15,571,509)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(156,526)	(176,799)
Purchase of marketable securities	(19,979,938)	(30,250,061)
Maturities of marketable securities	33,000,000	46,500,000
Sales of marketable securities	1,125,676	87,512
Net cash provided by investing activities	<u>13,989,212</u>	<u>16,160,652</u>
Cash flows from financing activities:		
Proceeds from notes payable	82,029	20,000,000
Payments of deferred loan costs	-	(200,000)
Proceeds from exercise of stock options	113,050	11,693
Proceeds from issuance of common stock	-	16,500,210
Payment of common stock issuance costs	-	(844,172)
Net cash provided by financing activities	<u>195,079</u>	<u>35,467,731</u>
Effect of exchange rate change on cash	<u>(12,082)</u>	<u>43,880</u>
Net change in cash and cash equivalents	<u>(6,214,129)</u>	<u>36,100,754</u>
Cash and cash equivalents, beginning of the period	<u>14,578,752</u>	<u>15,456,338</u>
Cash and cash equivalents, end of the period	<u>\$ 8,364,623</u>	<u>\$ 51,557,092</u>
Supplemental disclosure of cash flow information		
Cash paid for interest expense	\$ 2,728,988	\$ 1,283,261
Cash paid for income taxes	\$ 1,625	\$ 750
Supplemental disclosure of non-cash investing activities:		
Remeasurement of lease liabilities	\$ 908,810	\$ -
Purchases of property and equipment not yet paid	\$ 19,573	\$ -
Accrued offering costs	\$ -	\$ 51,142

These financial statements should be read in connection with the notes to unaudited condensed consolidated financial statements.

EBR SYSTEMS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

Note 1 - Business and organization

Business overview

EBR Systems, Inc. and subsidiaries (collectively, “EBR”, “we”, “our” or the “Company”) is a United States-based company dedicated to the superior treatment of cardiac rhythm disease by providing physiologically effective stimulation through leadless endocardial pacing. The Company has completed its U.S. pivotal trial and is nearing completion of its modular Pre-Market Approval Application submission. The Company targets the final module submission in 2024.

The Company completed its initial public offering of CDIs (“CHESS Depository Interests”) and began trading on the Australian Securities Exchange (“ASX”) on November 24, 2021, under the symbol “EBR”.

The Company operates wholly-owned foreign subsidiary entities in Australia, EBR Systems (AUST) Pty Ltd (“EBR-AU”), and the United Kingdom, EBR Systems (UK) Limited (“EBR-UK”), which establish clinical trials in Australia and the United Kingdom, respectively, and work on intellectual property development. EBR-AU was incorporated on February 23, 2017 and EBR-UK was incorporated on July 31, 2015.

Note 2 - Summary of significant accounting policies

Basis of presentation

These condensed consolidated financial statements as of June 30, 2024, and for the six months ended June 30, 2024 and 2023 have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the year ended December 31, 2023, included in this filing.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the included disclosures are adequate, and the accompanying unaudited condensed consolidated financial statements contain all adjustments which are necessary for a fair presentation of our unaudited condensed consolidated financial position as of June 30, 2024, unaudited condensed consolidated results of operations and comprehensive loss for the six months ended June 30, 2024 and 2023, and unaudited condensed consolidated cash flows for the six months ended June 30, 2024 and 2023. The unaudited condensed consolidated results of operations for the six months ended June 30, 2024, are not necessarily indicative of the consolidated results of operations that may be expected for the year ending December 31, 2024.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Significant estimates and assumptions made by management include the fair value of stock-based awards issued, clinical trial accrual, and the valuation allowance on deferred taxes.

Reclassification

In 2024, we updated the method of presentation of our operating expenses on the statement of operations. As a result, certain amounts within operating expenses for the six months ended June 30, 2023 have been reclassified to conform to the June 30, 2024 presentation, as shown below. These reclassifications had no impact on total expenses, net loss, net loss per share attributable to common stockholders, or total stockholders’ equity.

EBR SYSTEMS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

	Six-month period ended June 30, 2023			
	Prior to reclassification	Reclassification into R&D	Reclassification into G&A	Post reclassification
Operating expenses:				
Research and development	\$ 6,666,983	\$ 5,608,844	\$ -	\$ 12,275,827
Sales and marketing	3,583,928	(3,189,181)	(394,747)	-
Clinical and regulatory	2,419,663	(2,419,663)	-	-
General and administrative	2,908,843	-	394,747	3,303,590
Total operating expenses	<u>\$ 15,579,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,579,417</u>

Fair Value Measurements

The Company measures certain assets and liabilities at fair value, which is defined as the price that would be received from the sale of an asset or paid to transfer a liability on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement guidance establishes a fair value hierarchy which requires the Company to maximize the use of observable inputs when measuring fair value. The following levels of inputs may be used to measure fair value:

- Level 1: Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2: Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs are observable in active markets are Level 2 valuation techniques.
- Level 3: Valuation techniques in which one or more significant inputs are unobservable. Such inputs reflect our estimate of assumptions that market participants would use to price an asset or liability.

Foreign currency translation

The functional currencies of our foreign subsidiaries are their local currencies. Accordingly, the Company translates the foreign currency financial statements into US Dollars using the reporting period-end or average exchange rates. Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet dates. Expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive income within stockholders' equity. Gains and losses arising from the settlement and remeasurement of monetary assets and liabilities denominated in currencies other than a subsidiary's functional currency are included in "(Loss) gain on foreign currency" in the period in which they occur.

Employee benefits

The Company maintains an employee retirement/savings plan (the "Retirement Plan") that permits participants to make tax-deferred contributions by salary reductions pursuant to Section 401(k) of the Internal Revenue Code. The Company may make discretionary contributions. For the six-month periods ended June 30, 2024, and 2023, the Company did not make any contributions.

Segment information

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the CODM. The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, management has determined that the Company operates as one operating segment that is focused exclusively on the advancement of the Company's wireless cardiac pacing system. Net assets outside of the U.S. were less than 15% of total net assets as of June 30, 2024 and December 31, 2023.

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EBR SYSTEMS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash equivalents are reported at fair value.

Marketable securities

Marketable securities, all of which are available-for-sale, consist of U.S. treasury bonds, U.S. government notes, and corporate debt securities. Marketable securities are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income, except for losses from impairments which are determined to be other-than-temporary. For the six months ended June 30, 2024 and 2023, there were no losses from impairments. Realized gains and losses and declines in value judged to be other-than-temporary are included in the determination of net loss and are included in other income and expense. Interest and dividends on available-for-sale securities are included in other income and expense. See Note 3, "Cash, cash equivalents, and marketable securities" for additional disclosure on marketable securities.

Liquidity

For the six months ended June 30, 2024, the Company incurred a net loss of \$20,644,691 and negative cash flows from operations of \$20,386,338. The Company has incurred operating losses and negative cash flows from operations since inception and anticipates such conditions to continue in the foreseeable future. As of June 30, 2024, the Company had working capital of \$49,033,674 and accumulated deficit of \$333,304,099. The Company continues to face risks similar to those of other companies of similar size in its industry, including, but not limited to the need for successful commercialization of products, the need for additional capital, or financing, to fund operating losses, protection of proprietary technology, and dependence on key individuals. The Company has funded its operations through the issuance of common stock and debt instruments, as further discussed in Note 7 and Note 9 below.

Concentration of credit risk

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

Non-trade receivables and unbilled reimbursements

Non-trade receivables are recorded for amounts due to the Company related to reimbursements of clinical trials expenses based upon contracted terms. Unbilled reimbursements represent amounts for services that have been rendered but for which reimbursements have not been billed. See Note 5, "Condensed consolidated balance sheet components" for additional information on non-trade receivables and unbilled reimbursements.

Property and equipment

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

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

Equipment	3 - 8 years
Computer software	3 years
Leasehold improvements	Lesser of 15 years or the remainder of the lease

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

EBR SYSTEMS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

For the six months ended June 30, 2024 and 2023, the Company did not recognize any impairment charges associated with long-lived assets.

Leases

At the inception of a contract, the Company determines whether the contract is or contains a lease based on all relevant facts and circumstances. Leases with a term greater than 12 months are recognized on the balance sheet date as right of use (“ROU”) assets and current and non-current lease liabilities, as applicable. The Company has elected not to recognize on the balance sheet leases with terms of 12 months or less. The Company includes lease option extensions in the assessment of the lease arrangement when it is reasonably certain the option will be exercised.

Lease liabilities and the corresponding right of use assets are recorded based on the present value of lease payments to be made over the lease term. The discount rate used to calculate the present value is the rate implicit in the lease, or if not readily determinable, the Company’s incremental borrowing rate. The Company’s incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right of use asset may be required for items such as initial direct costs or incentives received. Lease payments on operating leases are recognized on a straight-line basis over the expected term of the lease. Lease payments on financing leases are recognized using the effective interest method. See Note 6, “Leases” for additional disclosure on leases.

For all asset classes of its leases, the Company has elected to account for the lease and non-lease components together for existing classes of underlying assets.

Revenue Recognition

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

Research and development

Research and development costs are expensed when incurred. Research and development costs include operating expenses for the Company’s engineering and product management functions supporting research, new development, and related product enhancement. Additionally cost incurred in connection with preclinical development, clinical testing, costs associated with regulatory process, FDA approval, and all other costs required to develop our product candidates into commercially viable products should be included as a component of research and development expenses.

General and administrative

General and administrative includes operating expenses incurred in our executive, finance, legal, marketing and other administrative functions.

Stock-based compensation

The Company recognizes stock-based compensation expense related to employees over the requisite service period based on the grant-date fair value of the awards. The fair value of options granted is estimated using the Black-Scholes option valuation model. The Company recognizes the grant-date fair value of an award as compensation expense on a straight-line basis over the requisite service period, which typically corresponds to the vesting period for the award. The Company elects to account for forfeitures as they occur and, upon forfeiture of an award prior to vesting, the Company reverses any previously recognized compensation expense related to that award. See Note 11, “Stock-based compensation” for additional details.

Interest Income

The Company earned interest income, including accretion of discount, from investments in marketable securities of \$1,698,924 and \$1,150,982, for the six months ended June 30, 2024 and 2023, respectively.

EBR SYSTEMS, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

Other Income (Expense)

The Company periodically receives reimbursements of clinical trial expenses, which are recorded as other income in the accompanying consolidated statements of operations. Additionally, other income includes refundable tax incentives from the Australian Taxation Office. Components of Other Income were as follows for the six-month period ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Clinical trial reimbursements	\$ 8,843	\$ (17,128)
Research and development tax incentive	-	366,168
Total other income (expense)	\$ 8,843	\$ 349,040

Income taxes

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

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant unusual or infrequently occurring items that are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgement including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, and additional information becomes known, or as the tax environment changes.

Earnings per share

Basic income or loss per share is determined by dividing net income or loss by the weighted average common shares outstanding during the period. Diluted income or loss per share is determined by dividing net income by diluted weighted average shares outstanding during the period. Diluted weighted average shares reflect the dilutive effect, if any, of potential common shares. To the extent their effect is dilutive, employee equity awards and other commitments to be settled in common stock are included in the calculation of diluted income or loss per share based on the treasury stock method. Potential common shares are excluded from the calculation of dilutive weighted average shares outstanding if their effect would be anti-dilutive at the balance sheet date based on a treasury stock method or due to a net loss.

Recently issued accounting pronouncements

In March 2024, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2024-02, "*Codification Improvements-Amendments to Remove References to the Concepts Statements*". The amendments in this Update affect a variety of Topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance. This update contains amendments to the Codification that remove references to various Concepts Statements. This ASU is effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company is currently evaluating the new guidance. The adoption of ASU 2024-02 is not expected to have a material impact on the Company's condensed consolidated financial statements and related disclosures.

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In March 2024, the FASB issued ASU 2024-01, “*Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*”, which provides illustrative guidance to help entities determine whether profits interest and similar awards should be accounted for as share-based payment arrangements within the scope of ASC 718. ASU 2024-01 is effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. The Company is currently evaluating the new guidance. The adoption of ASU 2024-02 is not expected to have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, “*Improvements to Income Tax Disclosures*”. The ASU focuses on income tax disclosures around effective tax rates and cash income taxes paid. ASU 2023-09 is effective for public filers for fiscal years beginning after December 15, 2024. The Company believes the adoption of ASU 2023-09 will not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU 2023-07, *Improvements to Reportable Segment Disclosures*. This ASU improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the ASU enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss, provides new segment disclosure requirements for entities with a single reportable segment, and other disclosure requirements. This ASU is effective for interim periods with fiscal years beginning after December 15, 2024. The Company believes that adoption of ASU 2023-07 will not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In October 2023, the FASB issued ASU 2023-06, “*Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*” (“ASU 2023-06”). This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification (“Codification”). The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC’s regulations. The effective date for each amendment will be the date on which the SEC’s removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The adoption of this pronouncement is not expected to have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In August 2023, the FASB issued ASU 2023-04, “*Liabilities (Topic 405) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*”, to amend and add various SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Staff Bulletin No. 121. The Company adopted this conforming guidance upon issuance and the adoption had no material impact on the Company’s condensed consolidated financial statements and related disclosures.

In July 2023, the FASB issued ASU No. 2023-03 “*Presentation of Financial Statements (Topic 205), Income Statement – Reporting Comprehensive Income (Topic 22), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation – Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 – General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*”. The ASU 2023-03 amends or supersedes various SEC paragraphs within the Codification to conform to past SEC announcements and guidance issued by the SEC. The Company adopted this conforming guidance upon issuance and the adoption had no material impact on the Company’s condensed consolidated financial statements and related disclosures.

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Note 3 – Cash, cash equivalents, and marketable securities

Cash, cash equivalents, and marketable securities consisted of the following at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Cash and cash equivalents:		
Cash	\$ 594,821	\$ 975,310
Money market funds	7,769,802	11,615,762
US Treasury securities	-	1,987,680
Total cash and cash equivalents	\$ 8,364,623	\$ 14,578,752
Marketable securities, short-term:		
US Treasury securities	\$ 17,572,070	\$ 18,991,771
Corporate bonds	19,925,503	14,836,424
Commercial Paper	8,204,243	21,113,569
US Government Agency bonds	-	2,794,510
Total marketable securities, short-term	\$ 45,701,816	\$ 57,736,274
Marketable securities, long-term:		
Asset backed securities	\$ -	\$ 1,125,554
Total marketable securities, long-term	\$ -	\$ 1,125,554
Total cash, cash equivalents, and marketable securities	\$ 54,066,439	\$ 73,440,580

During the six-month period ended June 30, 2024, marketable securities were sold or matured for proceeds of \$34,125,676 with no gain or loss realized. During the six-month period ended June 30, 2023, marketable securities matured for proceeds of \$46,587,512 with a realized gain of \$276. See Note 4, “Fair Value Measurements” for additional information regarding the fair value of cash equivalents and marketable securities.

The following tables summarize the unrealized gains and losses related to the Company’s available-for-sale marketable securities, by major security type, as of June 30, 2024 and December 31, 2023:

	As of June 30, 2024			
	Amortized Cost	Unrealized Gains	Unrealized (losses)	Fair Value
Marketable securities				
US Treasury securities	\$ 17,583,327	\$ 342	\$ (11,599)	\$ 17,572,070
Corporate bonds	19,929,413	2,233	(6,143)	19,925,503
Commercial paper	8,209,565	-	(5,322)	8,204,243
Total marketable securities	\$ 45,722,305	\$ 2,575	\$ (23,064)	\$ 45,701,816

	As of December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized (losses)	Fair Value
Marketable securities				
US Treasury securities	\$ 18,972,928	\$ 18,843	\$ -	\$ 18,991,771
Corporate bonds	14,811,749	25,601	(926)	14,836,424
Commercial paper	21,101,403	17,445	(5,279)	21,113,569
Asset backed securities	1,126,999	-	(1,445)	1,125,554
US Government Agency bonds	2,796,078	1,297	(2,865)	2,794,510
Total marketable securities	\$ 58,809,157	\$ 63,186	\$ (10,515)	\$ 58,861,828

The following table shows the unrealized losses and fair values for those marketable securities that were in an unrealized loss position as of June 30, 2024 and December 31, 2023, aggregated by major security type and the length of time the marketable securities have been in a continuous loss position:

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	As of June 30, 2024					
	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
US Treasury Securities	\$ 14,440,436	\$ (11,599)	\$ -	\$ -	\$ 14,440,436	\$ (11,599)
Corporate bonds	14,040,466	(6,143)	-	-	14,040,466	(6,143)
Commercial paper	8,204,243	(5,322)	-	-	8,204,243	(5,322)
Total	<u>\$ 36,685,145</u>	<u>\$ (23,064)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,685,145</u>	<u>\$ (23,064)</u>

	As of December 31, 2023					
	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Corporate bonds	\$ 2,285,253	\$ (926)	\$ -	\$ -	\$ 2,285,253	\$ (926)
Commercial paper	9,439,882	(5,279)	-	-	9,439,882	(5,279)
Asset backed securities	-	-	1,125,554	(1,445)	1,125,554	(1,445)
US Government Agency bonds	1,506,668	(2,865)	-	-	1,506,668	(2,865)
Total	<u>\$ 13,231,803</u>	<u>\$ (9,070)</u>	<u>\$ 1,125,554</u>	<u>\$ (1,445)</u>	<u>\$ 14,357,357</u>	<u>\$ (10,515)</u>

All of the Company's marketable securities, totaling \$45,701,816 as of June 30, 2024 mature in less than one year.

Note 4 – Fair value measurement

Management's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of financial assets and liabilities and their placement within the fair value hierarchy, as discussed in Note 2, "Summary of significant accounting policies". At June 30, 2024 and December 31, 2023, the fair value measurement of the Company's financial assets measured on a recurring basis were as follows:

	Fair Values as of June 30, 2024			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 7,769,802	\$ -	\$ -	\$ 7,769,802
Marketable securities				
US Treasury securities	-	17,572,070	-	17,572,070
Corporate bonds	-	19,925,503	-	19,925,503
Commercial paper	-	8,204,243	-	8,204,243
Total	<u>\$ 7,769,802</u>	<u>\$ 45,701,816</u>	<u>\$ -</u>	<u>\$ 53,471,618</u>

	Fair Values as of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 11,615,762	\$ -	\$ -	\$ 11,615,762
US Treasury securities	1,987,680	-	-	1,987,680
Marketable securities				
US Treasury securities	-	18,991,771	-	18,991,771
Corporate bonds	-	14,836,424	-	14,836,424
Commercial paper	-	21,113,569	-	21,113,569
Asset backed securities	-	1,125,554	-	1,125,554
US Government Agency bonds	-	2,794,510	-	2,794,510
Total	<u>\$ 13,603,442</u>	<u>\$ 58,861,828</u>	<u>\$ -</u>	<u>\$ 72,465,270</u>

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In the Company's consolidated balance sheets, the carrying values of non-trade receivables, other assets, accounts payable and accrued expenses approximated their fair values due to the nature and relatively short maturities. The fair value of debt approximates its carrying value as it is variable rate debt or has relatively short maturities.

Note 5 – Condensed Consolidated balance sheet components

Non-trade receivables and unbilled reimbursements, net

Non-trade receivables and unbilled reimbursements includes the reimbursement of clinical trial expenses incurred, and the sale of materials to contract manufacturers. Non-trade receivables and unbilled reimbursements consisted of the following as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Non-trade receivables	\$ 417,168	\$ 237,128
Unbilled reimbursements	135,772	135,772
Non-trade receivables and unbilled services	552,940	372,900
Less: allowance for doubtful accounts	(142,166)	(142,166)
Non-trade receivables and unbilled services, net	<u>\$ 410,774</u>	<u>\$ 230,734</u>

Bad debt expense for the six-month period ended June 30, 2024 and 2023 was \$0 and \$40,485, respectively.

Property and equipment, net

Property and equipment consisted of the following as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Equipment	\$ 3,293,373	\$ 3,159,822
Computer software	574,780	574,780
Leasehold improvements	513,727	499,148
Total property and equipment	4,381,880	4,233,750
Less accumulated depreciation and amortization	(3,539,432)	(3,144,979)
Total property and equipment, net	<u>\$ 842,448</u>	<u>\$ 1,088,771</u>

Depreciation and amortization expense for the six-month periods ended June 30, 2024 and 2023 was \$395,532 and \$380,900, respectively. There were no impairments recorded during the six months ended June 30, 2024 and 2023.

Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Accrued compensation and related liabilities	\$ 2,116,099	\$ 2,324,040
Accrued development expenses	602,420	875,501
Accrued warranty reserve	749,575	826,924
Accrued other expenses	5,923	68,882
Accrued expenses and other liabilities	<u>\$ 3,474,017</u>	<u>\$ 4,095,347</u>

Note 6 – Leases

The Company has an operating lease for its corporate headquarters and laboratory space, located in Sunnyvale, California. The initial lease expired June 30, 2024, with an option to extend the lease an additional sixty-months, which was used in the calculation of the right of use asset and lease liability. The Company held no other lease agreements at December 31, 2023. In January 2024, the Company signed an addendum to the operating lease, extending the expiration of the lease through June 30, 2025, and adjusting the monthly rent from \$35,606 per month

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to \$50,000 per month. The January 2024 lease remeasurement resulted in a \$1,169,822 reduction in the right of use asset and corresponding lease liability. In March 2024, the Company signed an additional addendum to the operating lease, extending the expiration of the lease through December 31, 2025. The March 2024 lease remeasurement resulted in a \$261,012 increase in the right of use asset and corresponding lease liability. In July 2024, the Company signed an additional addendum to the operating lease, extending the expiration of the lease through December 31, 2026.

Amounts reported in the consolidated balance sheet for operating leases in which the Company is the lessee as of June 30, 2024 and December 31, 2023, were as follows:

	June 30, 2024	December 31, 2023
Right of use asset	\$ 631,835	\$ 1,719,590
Lease liability, current	547,814	250,876
Lease liability, noncurrent	294,094	1,670,230
Remaining lease term	1.50 years	5.50 years
Discount rate	10.00%	10.00%

The following table presents the components of lease costs in our statements of operations for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Operating lease costs	\$ 215,971	\$ 206,759
Variable lease costs	64,330	61,241
Total lease expense	<u>\$ 280,301</u>	<u>\$ 268,000</u>

Future lease payments for non-cancellable operating leases as of June 30, 2024, were as follows:

Years Ended December 31,	
2024	\$ 300,000
2025	600,000
Total undiscounted lease payments	900,000
Less: effects of discounting	(58,092)
Total operating lease liabilities	<u>\$ 841,908</u>

Note 7 - Notes payable

At June 30, 2024 and December 31, 2023, notes payable consisted of the following:

	June 30, 2024	December 31, 2023
Current portion of notes payable	\$ 82,029	\$ 21,496
Long-term portion of notes payable	41,800,000	41,800,000
Less: unamortized deferred loan costs	(629,648)	(734,579)
Less: unamortized discount	(1,217,533)	(1,418,734)
Notes payable, net	<u>\$ 40,034,848</u>	<u>\$ 39,668,183</u>

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The following table presents information regarding the Company's notes payable principal repayment obligations as of June 30, 2024:

Years Ended December 31,	
2024	\$ 44,743
2025	37,286
2026	-
2027	41,800,000
Total minimum payments	\$ 41,882,029

Runway Growth Finance Corp

On June 30, 2022, the Company entered into a loan and security agreement with Runway Growth Finance Corp. The debt is secured against substantially all assets of the Company, except for the Company's intellectual property but includes all proceeds from the sale of intellectual property. The loan agreement provides three term loan tranches. The Company received the initial draw of \$20,000,000 in June 2022. The Company received positive interim analysis data, sufficient to proceed with the clinical trial and premarket approval submission to the U.S. Food and Drug Administration, which allowed the Company to draw the second tranche of \$20,000,000 in June 2023. As of June 30, 2024 and December 31, 2023, the outstanding principal balance was \$41,800,000. The final tranche provides \$10,000,000 and the draw period commences on the date the Company has received approval from the FDA for the WiSE CRT System and ended June 30, 2024. The Company did not receive FDA approval by June 30, 2024, and therefore did not meet the draw requirements of the third and final tranche.

Interest on the term loan accrues on the principal amount outstanding at a floating per annum rate equal to the greater of the rate of interest noted in The Wall Street Journal Money Rates section, as the "Prime Rate" or 4.00% plus a margin of 4.9% and is payable monthly in arrears and shall be computed on the basis of a 360-day year for the actual number of days elapsed. The Company is required to make interest only payments from July 2022 to May 2027. The note payable has a maturity date of June 15, 2027, at which time any unpaid interest, outstanding principal balance, and a final payment of 4.5% of the original principal amount borrowed shall be due in full. If the Company repays the loan prior to maturity, the Company will be required to pay a prepayment fee of 0.5%-1% of the outstanding principal balance. The Company is also required to pay a 3% success fee of the funded principal amount of the term loan at the time of a liquidity event, as defined in the loan and security agreement. The success fee is enforceable within 10 years from the execution date of the agreement.

The Company has accounted for the final payment of \$1,800,000 as a discount of the note that will be amortized over the life of the loan using the effective interest method. Amortization of the discount was \$201,201 and \$88,624 for the six-month period ended June 30, 2024 and 2023, respectively. This amount was recorded as additional interest expense in the accompanying condensed consolidated statements of operations. As of June 30, 2024 and December 31, 2023, the note has been shown net of unamortized discounts of \$1,217,533 and \$1,418,734, respectively.

The Company incurred loan costs of \$998,393, which are being amortized over the life of the loan using the effective interest method. Amortization of loan costs was \$104,931 and \$78,362 for the six-month period ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and December 31, 2023, the note has been shown net of unamortized loan costs of \$629,648 and \$734,579, respectively.

The Company is subject to customary financial and reporting covenants under the loan and security agreement. As of June 30, 2024 and December 31, 2023, the Company was in compliance with all debt covenants.

Bank of America Leasing & Capital, LLC

In May 2021, the Company entered into an equipment purchase agreement for the purchase of certain software totaling \$128,974. The purchase agreement requires 30 equal payments of \$4,299 beginning December 1, 2021 through May 1, 2024. At June 30, 2024 and December 31, 2023, the outstanding principal balance was \$0 and \$21,496, respectively, and was included in the current portion of notes payable in the condensed consolidated balance sheets.

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In March 2024, the Company entered into an equipment purchase agreement for the purchase of software totaling \$82,029. The purchase agreement requires 11 equal payments of \$7,457 beginning July 1, 2024 through May 1, 2025. As of June 30, 2024, the outstanding principal balance was \$82,029 and was included in the current portion of notes payable in the condensed consolidated balance sheets.

Note 8 – Convertible preferred stock

As of June 30, 2024 and December 31, 2023, 10,000,000 shares of convertible preferred stock were authorized, of which no shares were issued or outstanding.

Note 9 – Common stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the Company's board of directors. As of June 30, 2024 and December 31, 2023, no dividends have been declared.

As of June 30, 2024 and December 31, 2023, 600,000,000 shares were authorized, of which 308,113,383 shares and 307,020,758 shares, respectively, were outstanding.

The Company completed its initial public offering and began trading on the Australian Securities Exchange ("ASX") on November 24, 2021, under the symbol "EBR". The ASX uses an electronic system called CHESSE for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHESSE system of holding securities or electronic transfers of legal title to shares. To enable companies to have their securities cleared and settled electronically through CHESSE, CHESSE 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.

In June 2023, the Company completed an offering of 27,472,527 CDIs representing the same number of common stock at \$0.91 Australian dollars per share, for proceeds of \$15,604,896, net of \$895,314 of related offering costs. In July 2023, the Company issued an additional 8,415,813 CDIs representing the same number of common stock at \$0.91 Australian dollars per share, for proceeds of \$5,010,231, net of \$104,634 of related offering costs.

Additionally, the Company has reserved the following shares of common stock for issuance as of June 30, 2024:

Conversion of Common Stock warrants	19,789,379
2013 Equity Incentive Plan	20,865,312
2021 Equity Incentive Plan	37,768,834
Outside of 2021 Equity Incentive Plan	709,633
Total shares of Common stock reserved for issuance	79,133,158

Note 10 – Warrants

Equity classified common stock warrants

The Company has issued the following warrants to purchase shares of its common stock, which are outstanding as of June 30, 2024 and December 31, 2023. These warrants are exercisable any time at the option of the holder until their expiration date.

	Number of Shares	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)
Balance at December 31, 2023	19,789,379	\$ 0.57	6.28
Issued	-	-	-
Expired/forfeited	-	-	-
Balance at June 30, 2024	19,789,379	\$ 0.57	5.78

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Note 11 – Stock-based compensation

The Company and its stockholders adopted an equity incentive plan (the “2013 Plan”) in 2013, which reserved shares of the Company’s common stock for the granting of incentive and nonqualified stock options to employees, directors, and consultants. On October 14, 2021, the Company replaced the 2013 Plan with the 2021 Plan, as the 2013 Plan was expiring. Under the 2021 Plan, 37,768,834 shares of common stock are reserved. The Company may grant options to purchase common stock, stock appreciation rights, restricted stock awards and other forms of stock-based compensation. Stock options generally vest over four years and expire no later than 10 years from the date of grant.

The Board of Directors has the authority to select the employees to whom options are granted and determine the terms of each option, including i) the number of shares of common stock subject to the option; ii) when the option becomes exercisable; iii) the option exercise price, which must be at least 100% of the fair market value of the common stock as of the date of grant and iv) the duration of the option, which may not exceed 10 years.

As of June 30, 2024, options to purchase a total of 18,378,209 shares of common stock remained outstanding and 19,390,625 shares remain available for grant under the 2021 Plan and 709,633 remained outstanding outside of the 2021 Plan. As of June 30, 2024, options to purchase a total of 20,865,312 shares of common stock remained outstanding under the 2013 Plan. As of June 30, 2024, no shares of common stock remain available for grant under the 2013 Plan.

Stock option activity for the six-month period ended June 30, 2024, was as follows:

	Shares	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)
Outstanding at December 31, 2023	38,214,582	\$ 0.31	7.09
Granted	5,136,322	0.58	
Cancelled	(2,305,125)	0.46	
Exercised	(1,092,625)	0.10	
Outstanding at June 30, 2024	<u>39,953,154</u>	<u>\$ 0.34</u>	6.92
Vested and expected to vest at June 30, 2024	39,953,154	\$ 0.34	6.92
Exercisable at June 30, 2024	25,562,473	\$ 0.23	5.74

The fair value of the options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the volatility of the Company’s common stock, an assumed risk-free interest rate and expected dividends. The Company uses the simplified calculation of expected life and volatility is based on an average of the historical volatilities of the common stock of several publicly traded entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses the straight-line method for expense attribution. The weighted-average grant-date fair values of stock options granted during the six-month periods ended June 30, 2024 and 2023, was \$0.39 per share and \$0.39 per share, respectively.

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The following assumptions were used to calculate the grant-date fair value of employee stock options granted during the six-month periods ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Expected term (in years)	7.00	7.00
Expected volatility	66.49% - 67.34%	71.34% - 72.08%
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	4.28% - 4.71%	3.38% - 3.74%

The following table presents classification of stock-based compensation expense within the accompanying consolidated statements of operations for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Research and development	\$ 328,024	\$ 295,299
General and administrative	451,681	226,872
Total	\$ 779,705	\$ 522,171

At June 30, 2024, there was \$4,740,714 of unamortized stock-based compensation cost, respectively, related to unvested stock options which is expected to be recognized over a weighted average period of 3.19 years.

Note 12 – Income taxes

During the six-month period ended June 30, 2024 and 2023, the Company does not have an income tax benefit or expense. The Company has historically incurred net operating losses and maintains a full valuation allowance against its net deferred tax assets. Valuation allowances are recorded when the expected realization of the deferred tax assets does not meet a “more likely than not” criterion. Realization of the Company’s deferred tax assets are dependent upon the generation of future taxable income, the amount and timing of which are uncertain.

The Company’s effective tax rate was 0% for the six months ended June 30, 2024 and 2023. The difference between the effective tax rate and the federal statutory rate of 21% was primarily due to the full valuation allowance recorded on the Company’s net deferred tax assets, state and foreign tax benefit, research and development tax credit, and other non-deductible expenses.

During the six months ended June 30, 2024, there were no material changes to the Company’s uncertain tax positions.

Note 13 – Net loss per share

The following tables sets forth the computation of basic and diluted net loss per share attributable to common stockholders for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Numerator – basic & diluted:		
Net loss attributable to common stockholders, basic and diluted	\$ (20,644,691)	\$ (15,596,270)
Denominator:		
Weighted-average number of shares outstanding, basic and diluted	307,762,783	271,113,544
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.07)	\$ (0.06)

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding for the periods presented as the effect would have been anti-dilutive at June 30, 2024 and 2023:

	June 30, 2024	June 30, 2023
Outstanding warrants	19,789,379	19,789,379
Outstanding stock options	39,953,154	35,379,828
Total dilutive shares	<u>59,742,533</u>	<u>55,169,207</u>

Note 14 – Commitments and contingencies

Purchase commitments

The Company purchases raw materials, manufacturing equipment, and various services from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help ensure an adequate supply of certain items, we enter into agreements with suppliers that either allow us to procure goods and services when we choose or that establish purchase requirements over the term of the agreement. In certain instances, our purchase agreements allow us to cancel, reschedule, or adjust our purchase requirements based on our business needs prior to firm orders being placed. Consequently, only a portion of our purchase commitments are firm and noncancelable. As of June 30, 2024, the Company's obligations under such arrangements were approximately \$12,500,000.

Contingencies

The Company is party to various legal proceedings from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. Management believes that the probability of a material loss with respect to any currently pending legal proceeding is remote. However, litigation is inherently uncertain, and it is not possible to definitively predict the ultimate disposition of any of these proceedings. The Company does not believe that there are any pending legal proceedings or other loss contingencies that will, either individually or in the aggregate, have a material adverse impact on the Company's condensed consolidated financial statements.

Note 15 – Subsequent Events

The Company has evaluated subsequent events that have occurred through August 26, 2024, which is the date that the condensed consolidated financial statements were available to be issued and determined that there were no subsequent events or transactions that required recognition or disclosure in the condensed consolidated financial statements except as discussed in Note 6 above.

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