Visioneering Technologies, Inc.(ASX:VTI)

2019 Annual Report

Visioneering Technologies, Inc.

Redefining Vision

Visioneering Technologies Inc. (ASX: VTI) is an innovative eye care company committed to redefining vision. Since its founding in 2008, Visioneering has brought together clinical, marketing, engineering, manufacturing and regulatory leaders from top vision care businesses to provide new solutions for presbyopia, myopia and astigmatism.

Headquartered in the US, Visioneering designs, manufactures, sells and distributes contact lenses. Its flagship product is the NaturalVue® Multifocal contact lens, and Visioneering has expanded its portfolio of technologies to address a range of eye care issues. The company has grown operations across the United States, Australia and Europe and is expanding into Asia with a focus on markets with high rates of myopia.

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To Our Shareholders

Visioneering Technologies, Inc. (VTI, Visioneering or the Company) was incorporated in 2008 and has progressed from an idea for a revolutionary contact lens to a global contact lens company. In three short years since its IPO in 2017, VTI has achieved major milestone after major milestone, including:

- Built from scratch what we think is one of the best contact lens sales forces in the industry
- Released data compiled by Eye Care Professionals showing a 90+% decrease in the rate of worsening of nearsightedness in children wearing our contact lenses
- Earned regulatory clearances or registrations in Europe, Australia, New Zealand, Hong Kong and Singapore, with Canada expected soon
- Launched two new products: NaturalVue EnHAnced Sphere and NaturalVue Multifocal Plus Powers
- Grew sales from US$200K in 2016 to US$5.7M in 2019
- Initiated sales on 4 continents and in 9 countries
- Licensed our NaturalVue MF contact lenses to a major global contact lens player, Menicon Co. LTD, for private label sale in Europe
- Built an international reputation as a leader in the fight against nearsightedness in children

VTI designs and markets contact lenses. Our flagship product, the NaturalVue® Multifocal (etafilcon A) 1 Day Contact Lens (NaturalVue MF), is used by two very large global patient populations that have complex and poorly addressed vision needs. The first patient population is that of children who have blurry distance vision (“nearsightedness” or “myopia”) which progressively worsens through their childhood and adolescence, a condition called myopia progression. The second population is composed of persons over the age of 40-45 who have myopia and also are losing their ability to see near objects, a condition called presbyopia. Eye Care Professionals (ECPs) use the same NaturalVue MF contact lens to treat both of these populations, slowing the progression of myopia in children and providing middle-age and older adults with simultaneous correction of near and distance vision. This versatility is a worldwide competitive advantage.

Together, myopia in children and presbyopia represent approximately US$5B of addressable market opportunity in the United States. In Asia, where in some countries up to 80-90% of children suffer from myopia, the addressable market for NaturalVue MF in treating myopia progression in children is billions of dollars, with China alone representing approximately US$8-11B of addressable market and no widely accepted solutions available. As the degree of nearsightedness correlates to one’s lifetime risk of blindness and other debilating eye diseases, treatments for myopia progression in children are in demand.

2019 – A year of building an international foundation for growth

Visioneering started 2019 with sales in the United States, Australia, New Zealand, Norway, Sweden, and Denmark. We expanded our global reach in the first half of the year by launching in the largest European contact lens market, the United Kingdom. In the second half of the year, we generated our first sales in Asia, selling to patients in Hong Kong. We also received medical device registration for Singapore and completed our first sales in that market in January 2020. We expect our next international sales milestone to be in Canada, where we plan to launch in the first half of 2020.

Our entries into Hong Kong and Singapore are especially exciting to us given the high rates of myopia in some Asian countries as noted above. While we have achieved very positive early momentum in Hong Kong and Singapore, increasing the scale of penetration in these regions will require partnership with organizations that already have in place sales staff and distribution logistics. We are in active discussions with companies that are very strong in this regard and expect to enter into an agreement with at least one of them in the coming year.

Validation of our market and product: Strategic partnership with a global player

In September 2019, we announced a non-exclusive agreement with the large multi-national contact lens company Menicon Co. LTD. Under the agreement, VTI will supply our NaturalVue Multifocal contact lenses to Menicon, who will market and sell the lenses in Europe as “Menicon Bloom Day” for myopia progression control in children. We shipped approximately US$476,000 of product to Menicon in December 2019 under this agreement. Menicon introduced the Menicon Bloom™ Myopia Control Management System in 2019, which will include our product as Menicon Bloom Day and Menicon's own Orthokeratology product as Menicon Bloom Night. The two products are each suited for differing segments of the paediatric myopia population, and the competitive differentiator of Menicon's myopia control management system in the market is that both component products are specifically approved for myopia progression control.

Menicon is a well-respected global leader in the contact lens industry that is dedicated to the fight against the myopia epidemic. Their selection of our product in the Menicon Bloom Myopia Control Management System is a major validation of the safety, efficacy and reputation of the NaturalVue Multifocal contact lens. We expect that Menicon will begin marketing and selling the Menicon Bloom Myopia Control Management System in late March 2020 in a few markets and will expand to additional markets in Europe during the year.

New Products – Looking Forward

Investors will recall that VTI has two products in our development pipeline, the NaturalVue Toric and the NaturalVue Multifocal Toric. Toric optics correct for an abnormality in the cornea called astigmatism, while multifocal optics, such as that contained in the NaturalVue MF, correct for presbyopia in adults and reduce the rate of myopia progression in the case of children. We have not yet finalized our development plans for the NaturalVue Toric, opting instead to focus initially on NaturalVue Multifocal Toric development. We have completed nearly all of our testing and validation for the NaturalVue Multifocal Toric product and expect to launch the product in mid-year 2020. The product is unique in that it will be the first daily disposable multifocal toric soft contact lens for which an ECP can maintain a full set of trial lenses in their office. This benefit, which is born of the combination of unique optics of NaturalVue MF and our manufacturer's toric lens, enables a practitioner to sell the product during the patient's visit, saving valuable time for both the patient and the ECP. By combining this superior availability of a toric lens with the visual acuity of our NaturalVue Multifocal, we believe the NaturalVue Multifocal Toric will gain quick acceptance by ECPs and patients alike.

VTI is also considering selling some other companies' products through our US-based sales force. While early in our consideration, utilizing some of our sales capacity to carry complementary products from other companies may accelerate our path to profitability. VTI will continue to analyze these opportunities and may enter exploratory agreements over the next couple of quarters.

Financial Highlights for the year ended 31 December 2019

2019 was not only a success in building international infrastructure to turn VTI into a multinational player in the contact lens industry, but we also performed well in our current markets. Net Revenue in 2019 was US$5.7M versus 2018 Net Revenue of US$3.3M, an increase of 74%. Cash receipts from customers were US$6.0M in 2019 compared to US$3.4M in 2018, an increase of 76%, while net cash used in operating activities for 2019 was US$12.7M versus US$15.5M for 2018, reflecting higher net revenue and gross profit and lower operating expenses in 2019.

Visioneering also saw improvement in other metrics in 2019. The number of accounts in the US selling our products at the end of 2019 was 1,997, an increase of 34% over the 1,489 we had at the end of 2018. Our Repeat Customer percent (a quarterly metric) averaged 95.1% over the four quarters of 2019, as compared to 90.0% over the four quarters of 2018. We believe the growth in the number of and revenue from these accounts and the high and growing retention rate reflect the quality and value of our products to practitioners and patients.

Gross profit is also an important measure of our progress. Gross profit increased from an adjusted 22.5% in 2018 (excluding an inventory write-down) to 34.4% in 2019. We forecast that our gross profit will continue to improve in 2020 as we sell through higher cost inventories and as we achieve cost savings on future purchases of lenses from our manufacturer.

To Our Shareholders (continued)

2019’s growth occurred against a backdrop of our US sales force shrinking in size due to normal performance-related attrition. With the cash constraints we experienced in 2019, we were very selective in replacing personnel to counteract the attrition, resulting in a net shrinkage of the sales force. VTI plans to reverse this shrinkage when we have sufficient financing in place, bringing the number of territories in the US back up to 25 from a low of 19 territories in 2019.

Financing

VTI ended 2019 with cash and cash equivalents of US$1.9M. We raised an additional US$1.9M through a Placement that we completed on January 7, 2020. We expect our current cash to be sufficient to fund operations through approximately May 2020 if no changes are made to our current operational scale, slightly longer than previously anticipated. We are in discussions with investors to raise additional capital and expect to complete the process by mid-April 2020. Investors should note that this is later than the end-of-February timing previously contemplated.

The Road Forward

We started 2019 with plans to expand our international presence, innovate new products, grow our product offerings and manage the company as efficiently as possible, all while increasing revenue. We launched in the United Kingdom and entered Asia with our first sales in Hong Kong, expanding our global reach. We formed a strategic partnership with Menicon, a well-respected global contact lens company, under which they will expand our reach throughout Europe. We also furthered the development of the NaturalVue Multifocal Toric contact lens and expect to launch it in mid-year 2020.

2020 holds great promise for VTI. With additional capital, we plan to grow our US and international markets, launch the NaturalVue Multifocal Toric and enter new markets. We are focused on the near-term launching in Canada and potentially other parts of Asia and on developing new partnerships to accelerate our sales momentum, both inside and outside of the United States.

Sincerely,

Stephen Snowdy, PhD
Chief Executive Officer and Executive Director

Directors

Dr. Stephen Snowdy
Chief Executive Officer and Executive Director

(See Senior Leadership Team on page 8)

Ms. Christine Van Heek
Interim Chairman of the Board and Non-executive Director
Member of the Nomination and Remuneration Committee and Audit and Risk Committee

Ms. Van Heek is Managing Partner at Bio Point Group, LLC, a US-based life sciences consulting group. She currently serves as a director of Concert Pharmaceuticals, Inc., a NASDAQ-listed biotechnology company and previously sat on the board of Affymax, Inc., a NASDAQ-listed biopharmaceutical company, from 2007-2014. From 1991 to 2003, Ms. Van Heek held various positions at Genzyme Corporation, a biotechnology company acquired by Sanofi S.A., including Officer and President of the Therapeutics Division; General Manager of the Renal Division; and Vice President of Global Marketing. While at Genzyme, Ms. Van Heek built and managed the worldwide commercial organisation for the Therapeutics and Renal Divisions, and led the launches of five global products.

Ms. Van Heek received a Bachelor of Science in Nursing from the University of Iowa and a Master of Business Administration from Lindenwood University, St. Charles, Missouri.

Ms. Zita Peach
Non-executive Director
Chair of the Nomination and Remuneration Committee and member of the Audit and Risk Committee

Ms. Peach has more than 30 years of commercial experience in the pharmaceutical, biotechnology, medical device and healthcare sectors. She has held senior positions in marketing, product and technology commercialisation, business development, licensing, and mergers and acquisitions. Ms. Peach's previous executive roles include Managing Director for Australia and New Zealand, and Executive Vice President for South Asia Pacific, at Fresenius Kabi, a leading provider of pharmaceutical products and medical devices to hospitals. She also served as Vice President of Business Development at CSL Limited (ASX: CSL).

Ms. Peach currently sits on the boards of ASX-listed Starpharma Holdings Limited (ASX: SPL); Monash IVF Group Limited (ASX: MVF); and Pacific Smiles Group Limited (ASX: PSQ). She also holds board positions with Hudson Institute of Medical Research and Haemokinesis Pty Ltd.

Ms. Peach received a Bachelor of Science from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Marketing Institute.

Mr. Tom Dooley
Non-executive Director
Member of the Nomination and Remuneration Committee

Mr. Dooley brings deep executive-level experience and knowledge to the VTI board, acquired through his 27 years of senior business leadership roles in healthcare and ophthalmology. He recently served as President of Alcon Japan LTD, where he was responsible for 1,300 employees and over US$1B in annual sales of Alcon Laboratories' products, including medical devices, pharmaceuticals, and contact lens care products. Prior to moving to Japan, he served as Alcon's Country Manager in Australia and New Zealand. In addition to his role with VTI, Mr. Dooley is an independent Director for Ocular Science, Inc., an innovative biotech company based in Manhattan Beach, CA.

Mr. Dooley holds a Bachelor of Science in Agricultural Economics from Purdue University.

Directors (continued)

Ms. Jean Franchi
Non-executive Director
Chair of the Audit and Risk Committee

Ms. Franchi is a highly regarded business leader with over 20 years of experience in building and leading senior corporate and divisional financial teams from the research and development stage through product launch and commercial operations. Her experience spans both the public and private pharmaceutical, biotech, and diagnostics sectors. Ms. Franchi is currently the Chief Financial Officer of Replimune Group Inc (NASDAQ: REPL), a NASDAQ-listed biotechnology company developing oncolytic immuno-gene therapies for the treatment of cancer.

Prior to Replimune, Ms. Franchi served as the Chief Financial Officer of Merrimack Pharmaceuticals, Dimension Therapeutics and Good Start Genetics. Ms. Franchi also spent 16 years at Genzyme Corporation, a US-based biotechnology company now owned by Sanofi S.A., where she was instrumental in preparing the company for its transition from early market introductions to becoming the industry leader in rare disease drug development and commercialization. Prior to Genzyme, Ms. Franchi worked in accounting, finance, and sales operations for two diagnostic companies: bioMérieux, Inc., and API, a former division of American Home Products (now Pfizer).

Ms. Franchi holds a Bachelor of Business Administration from Hofstra University, New York.

Dr. David J. Mazzo, PhD
Incoming Chairman of the Board and Non-executive Director

On 2 March 2020, the Company announced that it appointed Dr. David J. Mazzo, Ph.D. to its Board of Directors and as Chairman of the Board.

Dr. Mazzo is a highly accomplished and experienced life sciences executive and board director with almost 40 years of experience in managing medical device and pharmaceutical companies. Dr. Mazzo currently is President and CEO and Executive Director of Caladrius Biosciences, Inc. (NASDAQ:CLBS). Dr. Mazzo also serves on the Boards of Eyepoint Pharmaceuticals, Inc. (NASDAQ:EYPT) and Seneca Biopharmaceuticals, Inc. (NASDAQ:SNCA). Previously, Dr. Mazzo served as CEO and Executive Director of Regado Biosciences, Inc., where, among other accomplishments, he led Regado's IPO on NASDAQ. Prior to leading Regado, Dr. Mazzo was CEO and Executive Director of Aeterna Zentaris, a public pharmaceutical company (NASDAQ:AEZS, TSX:AEZS), and of Chugai Pharma USA, LLC, the U.S. subsidiary of Chugai Pharmaceuticals Co. Ltd. of Japan (TYO:4519), a member of the Roche group (SWX:RO). Dr. Mazzo has also had a distinguished international career leading pharmaceutical development for Rhone-Poulenc Rorer and Hoechst Marion Roussel before culminating in his position as Senior Vice President of Development Operations for Schering-Plough Research Institute.

Dr. Mazzo's academic training and early career were in analytical chemistry. He received his Ph.D. degree in Analytical Chemistry from the University of Massachusetts Amherst, and completed a research fellowship at the Ecole Polytechnique Federale de Lausanne in Switzerland. He earned a BA in the Honors program (interdisciplinary humanities) and a BS in chemistry at Villanova University.

Senior Leadership Team

Dr. Stephen Snowdy
Chief Executive Officer and Executive Director

Dr. Snowdy is a scientist, serial entrepreneur, and medical venture capitalist with 17 years of experience in life science investing and executive management. He previously served as CEO at Abby Med LLC, a start-up pharmaceutical company dedicated to the development of a novel class of cancer drugs, was Chairman/CEO of Calosyn Pharma, Inc., a Phase 2 osteoarthritis company, and was a partner for several years at a top-tier medical venture capital firm.

Dr. Snowdy serves as a visiting instructor at Columbia University, Emory University, and others, where he teaches faculty and students medical entrepreneurship.

Dr. Snowdy simultaneously earned a PhD in Neurobiology and an MBA from the University of North Carolina. He studied Chemical Engineering and Chemistry at the University of Florida, where he also completed two years of post-baccalaureate study in cardiopharmacology. His academic training followed service in the United States Navy Special Forces.

Mr. Brian Lane
Chief Financial Officer

Mr. Lane has more than 30 years of experience in financial operations and management. Prior to joining VTI, he served as CFO of Onepath, a private equity-owned services firm that designs, deploys and supports technology. Previously, he was Controller of PRGX Global (PRGX), a NASDAQ-listed global recovery audit and business analytics firm, and held senior financial positions at several other companies in the financial services, franchise and manufacturing industries. Mr. Lane began his career with Ernst & Young, LLP. Mr. Lane earned his Bachelor of Business Administration from the University of Georgia, where he graduated Magna Cum Laude, and is a Certified Public Accountant (CPA).

Mr. Tony Sommer, Jr.
Senior Vice President, Sales and Marketing

An organizational and commercial leader, and a decorated combat veteran, Mr. Sommer brings to VTI over 20 years' experience in sales and marketing management. He has held senior sales and marketing positions in the OTC and eyecare industries, and led marketing and sales teams at Meda Pharmaceuticals, CIBA Vision (Novartis) and Bausch & Lomb, where he was the Head of Sales for their US Vision Care division. Mr. Sommer received an MBA from Oklahoma City University and a BS in International Affairs from the United States Air Force Academy.

Dr. Peg Achenbach
Vice President, Professional Affairs and Clinical Science

Dr. Achenbach's professional career includes 16 years of private practice specializing in contact lenses and low vision. Additionally, she has been involved in research and drug development in oncology, HIV, dermatology and nutritional supplements as a co-founder of a biotech company. She has worked in the vision care industry with Bausch & Lomb, Johnson & Johnson Vision Care, SynergEyes, Contamac, Euclid and Visionary Optics. For 12 years, Dr. Achenbach included a Low Vision service in her practice and was a member of the New Jersey Commission for the Blind and Visually Impaired.

She is a member of the Association for Research in Vision and Ophthalmology (ARVO), the British Contact Lens Association (BCLA), the International Association of Contact Lens Educators (IACLE), the American Optometric Association (AOA) and is a Fellow of the American Academy of Optometry (FAAO). Dr. Achenbach obtained her undergraduate degree in Aeronautics from the University of North Dakota and her degree in Optometry from Pacific University College of Optometry.

Remuneration Report (Unaudited)

Directors and Committees

Mr. Fred Schwarzer served as Chairman of the Board until his resignation that was effective December 31, 2019. The composition of the Board during the financial year ended December 31, 2019 and the length of service of each Director is as follows:

Name	Position	Date appointed	Independent Yes/No	Audit & Risk Committee	Nomination & Remuneration Committee
Fred Schwarzer	Chairman (non-executive)	November 25, 2008	No	No	Yes
Stephen Snowdy	Director (executive)	November 25, 2008	No	No	No
Tom Dooley	Director (non-executive)	May 1, 2017	Yes	No	Yes
Jean Franchi	Director (non-executive)	December 19, 2017	Yes	Chair	No
Zita Peach	Director (non-executive)	February 14, 2017	Yes	Yes	Chair
Christine Van Heek	Director (non-executive)	November 25, 2008	Yes	Yes	Yes

The following table shows the number of meetings of the Board, the Audit & Risk Committee and the Nomination & Remuneration Committee, and the number of those meetings attended by each Director during the year ended December 31, 2019:

Name	Board meetings	Audit & Risk Committee meetings	Nomination & Remuneration Committee meetings
Fred Schwarzer	8 of 9	–	2 of 2
Stephen Snowdy	9 of 9	–	–
Tom Dooley	9 of 9	–	1 of 2
Jean Franchi	8 of 9	4 of 4	–
Zita Peach	9 of 9	4 of 4	2 of 2
Christine Van Heek	7 of 9	4 of 4	2 of 2

Further Remuneration Information

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 executive director (Dr. Stephen Snowdy) and other senior executives.

In addition to the remuneration described below, Directors and senior executives may be reimbursed for travel and other expenses incurred in attending to the Company's affairs.

Non-executive Directors

Under the ASX Listing Rules, the total amount paid to all non-executive Directors for the services must not exceed the amount fixed by Visioneering Technologies in a general meeting. This amount has been fixed at US$500,000 per financial year.

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 the highest caliber with relevant professional expertise and reflect the demands that are made on, the responsibilities of and the liabilities assumed by the non-executive Directors, while incurring a cost that is acceptable to stockholders.

Remuneration Report (Unaudited) (Continued)

The current remuneration for independent non-executive Directors is US$60,000 per annum plus another US$7,000 per annum for Committee Chairs and US$3,000 for Committee members other than Chairs (in each case, plus statutory superannuation where applicable). The former Chairman, Mr. Fred Schwarzer, received no remuneration in 2019.

Senior executives (including the executive Director)

The Company's approach to remuneration is framed by the strategic directions and operational demands of the business, the international marketplace in which the business operates and high standards of governance. The executive remuneration strategy includes a mix of competitive fixed remuneration, short-term incentives in the form of cash bonuses and longer-term incentives in the form of grants under the Company's 2017 Equity Incentive Plan.

Setting and reviewing remuneration of senior executives

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 scale.

The Remuneration and Nomination Committee, with the Board, actively reviews the Company's remuneration structure and benchmarks the proportion of fixed remuneration, short-term incentives and long-term incentives against relevant comparators to ensure the policy objectives are met and are in line with good corporate practice for a company of Visioneering's size, industry and stage of development. Remuneration levels are considered annually through the remuneration review, which considers industry benchmarks in Australia and the United States and the performance of the Company and individual. Other factors taken into account in determining remuneration include a demonstrated record of performance and the Company's ability to pay. In the case of executives, the CEO provides recommendations to the committee. The committee obtained remuneration benchmarking with reference to industry peers, together with, where appropriate, other benchmarking reports that apply to specific positions in 2017 and updated these analyses in 2018 through internal means.

The Board believes that equity-based remuneration is an effective way to attract, retain and motivate key employees. When used appropriately, it can provide a vehicle for linking executive pay to a company's performance, thereby aligning the interests of executives with those of stockholders. Tying a portion of an executive's remuneration to the performance of the Company provides an incentive to maximize stock value by those in the best position to realize that value.

Fixed component

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

Short-term incentives component

The Company allocates cash bonuses linked to internal key performance indicators that primarily are based on revenue and other financial targets.

Long-term incentives component

The Company rewards executives for their contribution to the creation of stockholder value over the longer term through the 2017 Equity Incentive Plan (2017 Plan) and the issue of incentive stock options under the 2017 Plan. The Company awards long-term incentive stock options based on performance against Key Performance Indicators that the Company expects will contribute to shareholder value over a longer period of time than the goals set for short-term incentives, for example regulatory approvals and product development milestones. Stock options awarded under long-term incentive milestones vest over 4 years based on continuity of service (but subject to acceleration in limited circumstances, including termination without cause and a change in the control of the Company).

Remuneration Report (Unaudited) (Continued)

The 2017 Plan replaced a 2008 Equity Incentive Plan (2008 Plan) from the time of the Company's initial public offering and listing on the ASX in March 2017. The 2008 Plan operates in substantially the same way as described above (although following the adoption of the 2017 Plan, no new grants are being made under the 2008 Plan).

The rules of both plans were released to the ASX on March 27, 2017 and copies are available from the "All Announcements" section of the Company's investor website at www.vtivisioninvestors.com.

The Board administers both the 2017 Plan and 2008 Plan based on the recommendations of the Nomination and Remuneration Committee. Key performance indicators for grants of long-term incentives in 2019 included capital raises, new product launches and new geographic market entries.

In addition to awards of long-term incentives in 2019, the Board approved other stock option awards in 2019 to senior executives and managers, excluding the Chief Executive Officer. These awards were designed primarily to counteract the ownership dilution experienced by management resulting from recent capital raises and are listed as "Non-LTI Grants of options to acquire Shares" in the Summary table below.

Summary table

The remuneration of senior executives in respect of the financial year ended December 31, 2019 (including remuneration yet to be paid) is summarized below. Awards under the short-term incentive plan were based on attainment of 67.3%. Awards under the long-terim incentive plan were based on attainment of 74%. The options to be granted under the long-term incentive plan for the Chief Executive Officer must be approved by stockholders at the 2020 Annual General Meeting (AGM). In addition, the remaining options available for grant in the 2017 Plan are not sufficient to satisfy the long-term incentive grants listed below. The Company will request stockholder approval of an increase in the number of options available for grant in the 2017 Plan at the 2020 AGM.

Senior executive	Base Salary	Short-term incentive	Long-term incentive
Stephen Snowdy	$382,572	$116,408	10,343,182 in options to acquire Shares (subject to stockholder approval).
Brian Lane	$258,077	$69,992	5,247,273 in options to acquire Shares 2,253,246 Non-LTI Grants of options to acquire Shares.
Tony Sommer	$249,341	$67,300	5,045,455 in options to acquire Shares. 1,356,578 Non-LTI Grants of options to acquire Shares.
Peg Achenbach	$200,000	$33,650	4,036,364 in options to acquire Shares. 799,174 Non-LTI Grants of options to acquire Shares.

Corporate Governance

Good corporate governance is one of the foundational business practices of Visioneering Technologies, Inc. Details of the Company's corporate governance policies and procedures, including information about Board Committees and Corporate Charters, can be found on VTI's investor website under the Corporate Governance section:

https://vtivisioninvestors.com/documents/

Other Security Holder Information

Introduction

The Company has CHESS Depository Interests (CDIs) quoted on the Australian Securities Exchange (ASX) trading under the ASX code VTI. Each CDI represents an interest in one share of the Class A common stock of the Company (Share). The Company's securities are not quoted on any other exchange.

Except as otherwise noted below, the information below was applicable as at February 13, 2020. To avoid double-counting, the holdings of Shares by CHESS Depository Nominees Pty Limited (underpinning the CDIs on issue) have been disregarded in the presentation of the information below.

Top 20 Holders of CDIs and Shares

Rank	Name	Number	% of Issued Capital
1	UBS Nominees Pty Ltd	66,719,614	14.32%
2	CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	39,115,210	8.40%
3	Mr Paul Cozzi	33,572,710	7.21%
4	Brispot Nominees Pty Ltd <House Head Nominee A/C>	32,482,178	6.97%
5	Citicorp Nominees Pty Limited <Domestic Hin A/C>	31,676,439	6.80%
6	Charter Life Sciences II LP	25,418,127	5.46%
7	CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	23,611,829	5.07%
8	HSBC Custody Nominees (Australia) Limited	21,366,378	4.59%
9	Memphis Biomed Ventures II LP	14,935,585	3.21%
10	CLS II Annex Fund LLC	14,615,508	3.14%
11	Merrill Lynch (Australia) Nominees Pty Limited	13,932,258	2.99%
12	Charter Life Sciences (Ohio) II LP	10,531,117	2.26%
13	Dr Raoul Pope	10,200,000	2.19%
14	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	7,805,348	1.68%
15	Ack Pty Ltd <Markoff Super No 2 A/C>	7,482,880	1.61%
16	Dr Michael Siew-Foo Poon	5,812,193	1.25%
17	Dr Russell Kay Hancock	5,000,001	1.07%
18	Dr Paul Joseph Cozzi	4,444,445	0.95%
19	Brindle Holdings Pty Ltd <O'Connor S/F A/C>	4,000,000	0.86%
20	Podesta Family Group Pty Ltd <Podesta Family Group A/C>	2,380,953	0.51%
	Top 20 holders	**375,102,773**	**80.53%**
	Remaining holders	**90,699,046**	**19.47%**
	Total	**465,801,819**	**100.00%**

Other Security Holder Information (Continued)

Distribution of CDIs and Shares

Range	Total holders	Number	% of Issued Capital
1 – 1,000	20	5,462	0.00%
1,001 – 5,000	48	153,825	0.03%
5,001 – 10,000	54	424,372	0.09%
10,001 – 100,000	340	14,848,356	3.19%
100,001 – 999,999,999	220	450,369,804	96.69%
Total	**682**	**465,801,819**	**100.00%**

There are 145 investors holding less than a marketable parcel of CDIs or Shares, based on a minimum A$500.00 parcel at A$0.038 per CDI or Share (close of trade price on February 13, 2020).

Substantial Security Holders

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

Security Holder	Number of equity securities[1]	Voting power (%)
Thorney Investment Group	70,649,514 CDIs	15.17%
Regal Funds Management Pty Limited	64,626,403 CDIs	13.87%
Charter Life Sciences II, L.P., Charter Life Sciences (Ohio) II, L.P. And CLS II Annex Fund, LLC	50,564,752 Shares	10.86%
Mr Paul Cozzi	38,017,155 CDIs	8.16%

[1] One share is equal to one CDI.

Options (not listed on ASX)

There are a total of 19,553,028 options on issue as at February 13, 2020, all of which were issued under the Company's 2017 Equity Incentive Plan or the 2008 Stock Incentive Plan. There are 17 holders of options in the Company.

Range	Total holders	Number	% of Options
1 – 1,000	1	500	0.00%
1,001 – 5,000	1	2,500	0.01%
5,001 – 10,000	0	0	0.00%
10,001 – 100,000	5	425,000	2.18%
100,001 – 999,999,999	10	19,125,028	97.81%
Total	**17**	**19,553,028**	**100.00%**

Other Security Holder Information (Continued)

Convertible Notes (not listed on ASX)

There are a total of US$3 million of Convertible Notes that the Company issued in July 2019. These notes are convertible at the election of the Note holder at any time before the maturity date of 11 July 2023 to CDIs at a conversion price per CDI of $0.075AUD. There are 10 holders of Convertible Notes. TIGA Trading Pty Ltd is the largest holder of the Convertible Notes, holding 2,000,000 Convertible Notes.

Range	Total holders	% of Convertible Notes
1 – 1,000	0	0.00%
1,001 – 5,000	0	0.00%
5,001 – 10,000	2	0.50%
10,001 – 100,000	3	7.00%
100,001 – 999,999,999	5	92.50%
Total	**10**	**100.00%**

Securities Subject to Escrow

The last day of escrow period for all Shares/CDIs and Options was March 27, 2019. No securities were subject to escrow after that date.

Required Statements

The Company is incorporated in the State of Delaware in the United States of America and is not subject to Chapters 6, 6A, 6B and 6C of the *Corporations Act 2001* (Cth) dealing with the acquisition of shares, including provisions that relate to substantial holdings and takeovers.

Under the Delaware General Corporation Law, shares generally are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or by-laws, or by an agreement signed with the holders of the shares at issue. The Company's amended and restated certificate of incorporation and amended and restated 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 that 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 resale 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 ASX. This designation restricts any CDIs from being sold on ASX to US persons. However, you still may freely transfer your CDIs on ASX to any person other than a US person. In addition, hedging transactions regarding the CDIs may only be conducted in accordance with the Securities Act.

The Company currently is not operating an on-market buy-back of the Company's securities and no securities were purchased on-market during the reporting period ending December 31, 2019.

From the time of the Company's admission to the ASX until December 31, 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.

The Company's Australian Company Secretary is Julian Rocket.

Other Security Holder Information (Continued)

Voting Rights

Every holder of common stock present in person or by proxy is entitled to one vote for each Share held on the record date for the meeting on all matters submitted to a vote of Stockholders. Options and Convertible Notes 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 ASX, the holder would need to convert the Shares back to CDIs. In order to vote in person, the conversion from CDIs to Shares must be completed before the record date for the meeting. For information on the process of 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.

VISIONEERING TECHNOLOGIES, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2019 and 2018

VISIONEERING TECHNOLOGIES, INC.

CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Visioneering Technologies, Inc.

We have audited the accompanying financial statements of Visioneering Technologies, Inc. (a Delaware corporation), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in shareholders' equity, 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Visioneering Technologies, Inc. as of December 31, 2019 and 2018, and the results of its operations and its 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 that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses, negative cash flows from operations, has an accumulated deficit of $71.6 million as of December 31, 2019, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Atlanta, Georgia
February 12, 2020

VISIONEERING TECHNOLOGIES, INC.

BALANCE SHEETS
As of December 31, 2019 and 2018

		December 2019		December 2018
		(in US$000, except share data)		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	1,919	$	7,275
Accounts receivable		835		495
Inventory, net		2,211		2,022
Prepaid expenses and other current assets		195		276
TOTAL CURRENT ASSETS		5,160		10,068
NON-CURRENT ASSETS				
Property and equipment, net		57		110
Right of use assets, net		262		-
Intangible assets, net		153		167
Other non-current assets		198		34
TOTAL ASSETS	$	5,830	$	10,379
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$	279	$	140
Accrued payroll		839		540
Other accrued liabilities		659		696
TOTAL CURRENT LIABILITIES		1,777		1,376
LONG-TERM LIABILITIES				
Deferred rent		-		38
Convertible notes payable		2,863		-
Other non-current liabilities		208		-
TOTAL LIABILITIES		4,848		1,414
Commitments and contingencies (Note 13)				
EQUITY				
Class A common stock, par value $0.001 per share; 750,000,000 shares authorized, 399,135,152 shares issued and outstanding at December 31, 2019 and 248,619,294 shares issued and outstanding at December 31, 2018 (Note 17)		399		249
Preferred stock, par value $0.001 per share; 50,000,000 shares authorized, no shares issued and outstanding at December 31, 2019 and December 31, 2018		-		-
Additional paid-in capital		72,167		67,683
Accumulated deficit		(71,584)		(58,967)
TOTAL SHAREHOLDERS’ EQUITY		982		8,965
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	5,830	$	10,379

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2019 and 2018

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in US$000, except share and per share data)	
Net revenue	$ 5,722	$ 3,294
Cost of sales:		
Product costs	3,753	2,552
Inventory write-down and reserves	-	821
Total cost of sales	3,753	3,373
Gross profit (loss)	1,969	(79)
Expenses:		
Sales and marketing	9,147	10,135
Clinical and manufacturing	2,092	2,617
General and administrative	3,387	4,084
Total expenses	14,626	16,836
Operating loss	(12,657)	(16,915)
Other income and (expenses):		
Interest income and other, net	90	180
Interest expense	(164)	-
Gain on fair value of derivative liability	123	-
Loss before income taxes	(12,608)	(16,735)
Income tax expense	9	-
Net loss	$ (12,617)	$ (16,735)
Net loss per share – Basic and Diluted	$ (0.04)	$ (0.08)
Weighted average shares outstanding – Basic and Diluted	324,246,597	215,817,597

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2019 and 2018

	Common Stock Shares Number	Common Stock Amount US$000	Paid-In Capital US$000	Accumulated Deficit US$000	Total US$000
Balance at December 31, 2017	196,989,356	$ 197	$ 61,221	$ (42,232)	$ 19,186
Issuance of common stock Placement and SPP, net of issuance costs	51,113,328	51	6,193	-	6,244
Stock option exercises	447,320	1	10	-	11
Stock based compensation	69,290	-	259	-	259
Net loss	-	-	-	(16,735)	(16,735)
Balance at December 31, 2018	248,619,294	249	67,683	(58,967)	8,965
Issuance of common stock, net of issuance costs	150,515,858	150	4,182	-	4,332
Stock-based compensation	-	-	302	-	302
Net loss	-	-	-	(12,617)	(12,617)
Balance at December 31, 2019	399,135,152	$ 399	$ 72,167	$ (71,584)	$ 982

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(in US$000)	
Cash flows from operating activities:		
Net loss	$ (12,617)	$ (16,735)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	68	76
Change in fair value of derivative liability	(123)	-
Amortization of debt discount	22	-
Inventory write-down and reserves	-	821
Stock-based compensation	302	259
Changes in assets and liabilities:		
Accounts receivable	(340)	(253)
Inventory	(189)	(95)
Prepaid expenses and other assets	(83)	335
Accounts payable	139	(24)
Accrued payroll	299	(254)
Other accrued liabilities	(129)	323
Net cash used in operating activities	(12,651)	(15,547)
Cash flows from investing activities:		
Purchases of property and equipment, net	(1)	(10)
Purchases of intangible assets, net	-	(7)
Net cash used in investing activities	(1)	(17)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs of $365 in 2019 and $491 in 2018	4,332	6,244
Issuance of convertible debt, net of deferred financing costs of $36	2,964	-
Proceeds from stock option exercises	-	11
Net cash provided by financing activities	7,296	6,255
Net decrease in cash and cash equivalents	(5,356)	(9,309)
Cash and cash equivalents, beginning of period	7,275	16,584
Cash and cash equivalents, end of period	$ 1,919	$ 7,275
Supplemental disclosure:		
Cash paid for interest	$ 164	$ -
Cash paid for taxes	$ 9	$ -

See accompanying notes to financial statements

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Visioneering Technologies, Inc. ("VTI", "we", "us", "our" or the "Company") was incorporated as a Delaware corporation on October 23, 2008. Headquartered in Atlanta, Georgia, VTI is a medical device company that designs, manufactures, sells and distributes contact lenses. Our flagship product is the NaturalVue® (etafilcon A) Multifocal 1 Day Contact Lens for adults with Presbyopia (the progressive loss of ability to see near that occurs in middle age) and children with Myopia (nearsightedness). Within the US, medical devices are regulated by the U.S. Food and Drug Administration ("FDA"), under the Federal Food, Drug, and Cosmetic Act of 1938. We obtained FDA clearance for our NaturalVue contact lenses in late 2014 and received the CE Mark, as well as Australian Therapeutic Goods Administration ("TGA") approval in early 2018, enabling us to sell our contact lenses in the US, Europe, Australia and New Zealand. In 2019, we received approval to sell our contact lenses in Hong Kong and Singapore. All of our sales were in the United States through September 2018, at which time we began also selling in international markets.

In March 2017, we completed our Initial Public Offering ("IPO") and associated listing on the Australian Stock 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 such as VTI 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 is held by a depository, CDN, which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement.

We currently manage warehousing and distribution of our products through a contract with a Third-Party Logistics provider (the "3PL"). The 3PL stores our inventory and ships it to our customers, which include major contact lens distributors ("Customers"). These Customers generally have non-exclusive rights to market, promote, sell and distribute our products ("Products") within specified territories, provided that Products shall be sold only to permitted eye care providers ("ECPs") and shipped only to ECPs or directly to a patient if specifically directed by the ECPs. As of December 31, 2019, VTI had entered into agreements with Customers in the US, Europe, Australia and New Zealand. Our Customer in New Zealand also services ECPs in Hong Kong and Singapore.

Basis of Presentation

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"). Any reference in these notes to applicable guidance is meant to refer to the authoritative US GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASUs") of the Financial Accounting Standards Board ("FASB"). Unless otherwise noted, all amounts are presented in US dollars and balances presented within tables are in thousands.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Examples of estimates which require management's judgment include the collectability of accounts receivable, reserve for excess or obsolete inventory, potential impairment of long-lived assets, valuation allowance for deferred tax assets, the fair value of derivatives, and the fair value of share-based awards. Management bases its estimates on historical experience and other factors which it believes to be reasonable under the circumstances. Actual results may differ from these judgments.

Liquidity and Going Concern

Under ASC 205-40, *Presentation of Financial Statements – Going Concern*, the Company shall evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation includes a review of the qualitative and quantitative factors, including the effect of potential mitigating effects of management planning, as discussed in ASC 205-40.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. To date, the Company has incurred recurring losses, negative cash flows from operations and has accumulated a deficit of $71.6 million from the Company's inception through December 31, 2019. As of December 31, 2019, the Company's cash and cash equivalents were $1.9 million. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses. As described more completely in Note 17, Subsequent Events, the Company completed a Placement in January 2020 through which it raised an additional $1.9 million, net of issuance costs.

In order to meet our working capital needs through the next twelve months, we will need to raise additional debt or equity financing. We historically have been able to raise additional capital through issuance of equity and/or debt financing. We have a plan in place to reduce spending in the absence of further capital being raised to satisfy our obligations due within one year from the date of issuance of these financial statements. Despite these factors, there can be no guarantees regarding our ability to raise additional financing or successfully implement our cost reduction plans in order to ensure that we can meet our working capital needs for a full year from the date of issuance of these financial statements. Accordingly, management has concluded that there is substantial doubt about the Company's ability to continue as a going concern within one year after these financial statements are issued.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents and current assets and liabilities approximate their fair value because of their short maturities. The weighted average interest rate of the Company's convertible debt approximates the rate at which the Company could obtain alternative financing; therefore, the carrying amount of the convertible debt approximates fair value. The Company uses a binomial lattice model and assumptions that consider, among other variables, the fair value of the underlying stock, risk-free interest rate, volatility, expected life and dividend rates in estimating fair value for the conversion feature of the Convertible Notes (Note 5).

Embedded Conversion, Redemption and Preference Features

We evaluate convertible debt and preferred stock instruments under ASC 480, *Distinguishing Liabilities from Equity*, to determine the appropriate classification of the host instrument. We evaluate embedded conversion, redemption and preference features within those instruments under ASC 815, *Derivatives and Hedging*, to determine whether the feature should be bifurcated from the host contract and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, we evaluate the instrument under ASC 470-20, *Debt with Conversion and Other Options*, for consideration of any cash conversion, equity components and beneficial conversion features.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of 90 days or less when purchased. Cash and cash equivalents were $1.9 million as of December 31, 2019 and $7.3 million as of December 31, 2018. At times, cash balances may exceed the Federal Deposit Insurance Corporation insurance limit.

Accounts Receivable

The carrying value of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, management considers many factors in estimating its general allowance, including historical data, experience, customer types, credit worthiness, and economic trends. We extend credit based on evaluation of a customer's financial condition and do not require collateral. From time to time, management may adjust its assumptions for anticipated changes in any of those or other factors expected to affect collectability. We charge provisions for doubtful accounts to operations at the time we determine these amounts may become uncollectible. Based on our review, we have not recorded an allowance for doubtful accounts as of December 31, 2019 or 2018.

Inventory

Inventory is stated at the lower of cost or net realizable value with cost determined under the first in, first out (FIFO) method. We regularly review our inventory quantities on hand and related cost and record a provision for any excess or obsolete inventory based on our estimated forecast of product demand and other factors. We also review our inventory value to determine if it reflects the lower of cost or net realizable value. Based on these reviews, we recorded inventory write-downs of $0 in the year ended December 31, 2019 and $821,000 in the year ended December 31, 2018. The 2018 write-down was related to launches of new products replacing older products and to excess inventory purchased prior to sufficient demand information being available. All inventory held at December 31, 2019 and 2018 consisted of finished goods.

Intangible Assets

Intangible assets are comprised of patents. We capitalize legal costs and other similar fees to obtain and register patents and expense all other costs to internally develop the patents as incurred. We amortize patents over a 15-year period.

Property and Equipment

We record property and equipment at cost less accumulated depreciation and expense repairs and maintenance costs as incurred. We include depreciation expense in General and administrative expense in the Statements of Operations.

We compute depreciation expense using the straight-line method over the following useful lives:

Asset Classification	Estimate Useful Life
Computer equipment and software	3 years
Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Lesser of 5 years or life of the lease

Impairment of Long-lived Assets

We test long-lived assets for recoverability whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Factors that we consider in deciding when to perform an impairment review include, but are not limited to, significant underperformance of the business in relation to expectations, significant negative industry or economic trends and significant changes or planned changes in the use of the assets. If we perform an impairment review to evaluate a long-lived asset for recoverability, we compare forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. We would recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. We would base the impairment loss on the excess carrying value of the impaired asset over its fair value. No impairment charges were necessary based on our assessments in the years ended December 31, 2019 or 2018.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606, as amended)*, guidance on recognizing revenue from contracts with customers. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the new revenue standard using a modified retrospective basis on January 1, 2018 to all contracts that were not completed. The adoption of this guidance had no impact on the amount and timing of revenue recognized, therefore, we did not record any adjustments to our financial statements upon adoption. See Note 2, Revenue Recognition, for additional details on the application of this guidance.

Advertising Costs

We recognize advertising costs as an expense in the period in which we incur them. We incurred advertising expense of approximately $309,000 in 2019 and $306,000 in 2018 and included these expenses in Sales and marketing in the Statements of Operations.

Research and Development Costs

We expense research and development costs in the period in which we incur them. Research and development expenses consist of wages, benefits, and other operational costs related to our engineering, regulatory, and quality departments, clinical and nonclinical studies, materials and supplies, and third-party costs for contracted services. We incurred research and development costs of approximately $38,000 and $20,000 in 2019 and 2018, respectively and included them in Clinical and manufacturing in the Statements of Operations.

Stock-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments, including stock options and restricted stock awards, based on the grant date fair value of the award and recognize such costs as compensation expense on a straight-line basis over the period the employee is required to provide service in exchange for the award, usually the vesting period.

Income Taxes

In accordance with the ASC 740, *Income Taxes*, we recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. We record a valuation allowance against our net deferred tax asset to reduce the net carrying value to an amount that is more likely than not to be realized.

We consider income tax positions for uncertainty in accordance with ASC 740-10. We believe that our income tax filing position and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position; therefore, we have not recorded any ASC 740-10 liabilities for uncertain tax positions. We will recognize accrued interest and penalties related to unrecognized tax benefits, if any, as interest expense and income tax expense, respectively, in the Statements of Operations. We do not believe that the amount of unrecognized tax benefits will significantly increase or decrease within 12 months of December 31, 2019. Given the Company's net operating losses, all years since inception are subject to review.

Significant management judgment is involved in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. Due to uncertainties with respect to realization of deferred tax assets as a result of the Company's history of operating losses, we have established a valuation allowance against the net deferred tax asset balance. We based the valuation allowance on our estimates of taxable income in the jurisdictions in which the Company operates and the period over which deferred tax assets will be recoverable. If actual results differ from these estimates or we adjust these estimates in future periods, a change in the valuation allowance may be needed, which could materially impact our financial position and results of operations.

Earnings Per Share (EPS)

We calculate basic EPS in accordance with ASC 260, *Earnings per Share*, by dividing net income or loss attributable to common stockholders by the weighted average common stock outstanding. We calculate diluted EPS in accordance with ASC 260 by adjusting weighted average common shares outstanding for the dilutive effect of common stock options, warrants, and convertible debt. In periods where a net loss is recorded, we give no effect to potentially dilutive securities, since the effect would be anti-dilutive. We did not include the common stock equivalents of the Company's stock options in the computation of dilutive EPS because to do so would have been anti-dilutive.

Reclassifications

Certain amounts in 2018 have been reclassified to conform with current year presentation. The reclassification had no impact on earnings, liquidity or cash flows.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires that organizations that lease assets recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases. The ASU affects the presentation of lease related expenses on the income statement and statement of cash flows and increases the required disclosures related to leases. This ASU was effective for the Company beginning January 1, 2019, with early adoption permitted. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842):* Targeted Improvements. The amendments provide organizations with an additional (and optional) transition method to adopt the new leases standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with Topic 840, Leases. The Company used the optional transition method to adopt ASC 842 on January 1, 2019, at which time we recorded the following approximate amounts effective January 1, 2019: a lease liability of $375,000, a right to use asset of $337,000 and a reduction of deferred rent of $38,000.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. This ASU addresses narrow issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments in Part I of this Update are effective for the Company beginning January 1, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption of this standard on its financial statements. The amendments in Part II of this Update do not have an accounting effect.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718)*: Improvements to Nonemployee Share-Based Payment Accounting. The amendments expand the scope of ASU 718 to include share-based payments issued to nonemployees for goods or services, thereby substantially aligning the accounting for share-based payments to nonemployees and employees. The amendments are effective starting in the first quarter of 2019. The adoption of these provisions did not have a material impact on the Company's financial statements.

In December 2019, the FASB issued ASU No. 2019-12*, Income Taxes (Topic 740*): Simplifying the Accounting for Income Taxes. This ASU removes certain exceptions to the general principles and simplifies areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The guidance is effective for reporting periods beginning after December 15, 2020, including interim reporting periods within those fiscal years. The Company is evaluating the impact of the adoption of this standard on its financial statements.

(2) REVENUE RECOGNITION

We sell our products to our Customers, primarily including major contact lens manufacturers and distributors. In addition to distribution agreements with Customers, we enter into arrangements with ECPs that provide for privately negotiated discounts with respect to their purchase of our products from our Customers. We then reimburse the Customers for discounts they provided on our behalf to the ECPs. Each of our current contracts consist of a master service agreement combined with specific purchase orders and have a single performance obligation, as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct.

Currently, we derive all revenue from product sales. We recognize revenues from product sales at a point in time when the Customer obtains control, typically upon shipment to the Customer. We accrue for fulfillment costs when we recognize the related revenue. Taxes collected from Customers relating to product sales and remitted to governmental authorities are excluded from revenues.

We record revenues from product sales at the net sales price (transaction price), which includes estimates of variable consideration related to discounts to distributors and ECPs; product returns; and patient-level rebates relating to sales of our products. We base these reserves on estimates of the amounts earned or to be claimed on the related sales. Our estimates take into consideration historical experience, current contractual requirements, specific known market events and trends, industry data, and Customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract. The amount of variable consideration included in the net sales price is limited to the amount that is probable not to result in a significant reversal in the amount of the cumulative revenue recognized in a future period. If actual results vary, we may adjust these estimates, which could impact earnings in the period of adjustment.

We will exchange returned product with replacement inventory, and typically do not provide cash refunds. We receive payments from our Customers based on billing schedules established in each contract and generally range between 30 to 90 days. We record amounts as accounts receivable when our right to consideration is unconditional. We do not assess whether a contract has a significant financing component if we expect that the Customer will pay for the product in one year or less of receiving those products.

(3) INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31, 2019 and 2018:

	2019 US$000		2018 US$000	
Patents	$	240	$	240
Less accumulated amortization		(87)		(73)
Intangible assets, net	$	153	$	167

Amortization expense was approximately $14,000 in each of 2019 and 2018, respectively. The weighted average remaining useful life of our patents as of December 31, 2019 was 9.55 years.

We capitalize patent costs and amortize them over their estimated economic lives and perform impairment testing when qualitative factors indicate that the assets may be impaired. We identified no indications of impairment for capitalized patent costs during 2019 and 2018 and did not record impairment charges in those years.

Amortization expense for the next five years is as follows:

For the year ended December 31,	US$000	
2020	$	16
2021		12
2022		12
2023		12
2024		12
Thereafter		89
Total	$	153

(4) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019 US$000		2018 US$000	
Computer equipment and software	$	114	$	113
Office equipment		49		49
Furniture and fixtures		52		52
Leasehold improvements		12		12
Total costs		227		226
Less accumulated depreciation		(170)		(116)
Property and equipment, net	$	57	$	110

Depreciation expense was approximately $54,000 and $62,000 in 2019 and 2018, respectively.

(5) CONVERTIBLE NOTES PAYABLE

In July 2019, the Company entered into a Note Purchase Agreement ("Convertible Notes") with Investors raising proceeds of $3.0 million before issuance costs. The Convertible Notes were issued at face value of $1 per Note and are convertible at the election of the Note holder at any time before the maturity date to CDIs at a conversion price per CDI of $0.075AUD. The maturity date at issuance was July 11, 2021. The maturity date was extended to July 11, 2023 in January 2020 (See Note 17).

The Convertible Notes bear interest at 10% per annum with interest payable quarterly in arrears. If an event of default occurs, the rate of interest will increase to 12% until such default is cured by the Company or waived by the majority of the Note holders. The Company or Note holder may elect to satisfy the whole or part of an interest payment by issuance of CDIs subject to consent of the other party. The issue price of each CDI under this clause will be the greater of the amount equal to 90% of the average volume weighted average price for the five trading days immediately preceding the date of the election notice or $0.075 AUD.

The Convertible Notes contain a prepayment penalty of 4% of the face value of the note if paid with in 12 months of issuance and 2% of the face value of the note if paid after the first anniversary date of issuance. The Convertible Notes are secured by substantially all of our assets.

The conversion feature is considered to be an embedded derivative that is not considered clearly and closely related to the debt host and results in an embedded derivative that must be bifurcated and accounted for separately from the debt host. The Company recorded a debt discount and a conversion option liability of approximately $123,000 for the fair value of the conversion feature at issuance. The Company is amortizing the debt discount over the four-year term of the Convertible Notes. We reduced the derivative liability to $0 as of December 31, 2019 as a result of many factors, including a decrease in the share price, and recorded this reduction as a gain on fair value of derivative liability of $123,000 in the 2019 Statement of Operations.

The Convertible Note includes covenants related to liquidity and net monthly cashflow. The Company has complied with all covenants from the issuance of the Convertible Notes through December 31, 2019.

The convertible debt did not affect diluted earnings per share due to the Company's net loss position.

(6) NON-CASH ACTIVITIES

In 2018, optionees exercised options to purchase 652,250 shares, and redeemed 366,618 stock options to satisfy the exercise price of stock options exercised resulting in a net issuance of 285,632 shares.

(7) SHAREHOLDERS' EQUITY

Common Stock

Each holder of a share of common stock is entitled to one vote per share held. The holders of shares of common stock are entitled to dividends as declared by the Board of Directors ("Board") of the Company.

On August 21, 2018, the Company issued 49,200,000 CDIs (representing the same number of shares) to complete a Placement of its shares. On September 12, 2018, the Company completed a Security Purchase Plan ("SPP") under which it issued 1,913,328 CDIs. The Company raised $6.2 million net of $0.5 million of issuance costs through the Placement and the SPP.

On June 12, 2019, the Company issued 22,222,222 CDIs (representing the same number of shares) to complete a Placement of its shares. The Company raised $0.7 million net of less than $0.1 million of issuance costs through the Placement.

In July 2019 the Company issued 128,293,636 CDIs (representing the same number of shares) to complete a Rights Offering of its shares. The Company raised $3.8 million net of $0.2 million of issuance costs through the Rights Offering.

In July 2019, the stockholders also approved an increase in the number of authorized Class A common stock from 500,000,000 to 750,000,000 shares at the special meeting of stockholders.

(8) LEASES

We evaluate all contracts to determine whether the contract is or contains a lease at inception. We review contracts for options to extend, terminate or purchase any right of use assets and non-lease components and account for these, as applicable, at inception of the contract. We elected the transition package of three practical expedients permitted within the standard. In accordance with the package of practical expedients, we did not reassess initial direct costs, lease classification, or whether contracts contain or are leases. We made an accounting policy election not to recognize right of use assets and liabilities for leases with a term of 12 months or less, or those that do not meet the Company's capitalization threshold, unless the leases include options to renew or purchase the underlying asset that is reasonably certain to be exercised. We recognize lease costs associated with those leases as incurred. We have chosen the practical expedient that allows entities to combine lease and non-lease components as a single lease component.

We do not recognize lease renewal options as part of the lease liability until we determine it is reasonably certain we will exercise any applicable renewal options. We have determined it is not reasonably certain we will exercise any applicable renewal options. The useful lives of leased assets as well as leasehold improvements, if any, are limited by the expected lease term.

The Company's operating lease activities currently consist of a lease for office space. The lease includes an option to renew for a period of from one to five years. The exercise of the lease renewal option is at the Company's sole discretion. The Company's operating lease agreement includes variable lease costs that are based on common area maintenance and property taxes. We expense these payments as incurred and include them in rent expense. The Company's operating lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Rent expense was approximately $156,000 in 2019 and $157,000 in 2018 and is included in General and administrative expenses in the Statements of Operations. These amounts include variable lease costs of $57,000 in 2019 and $63,000 in 2018.

Supplemental balance sheet information as of December 31, 2019 for the Company's operating lease is as follows:

		US$000
NON-CURRENT ASSETS		
Right of use assets, net	$	262
Total lease assets	$	262
CURRENT LIABILITIES		
Other accrued liabilities	$	87
NON-CURRENT LIABILITIES		
Other non-current liabilities		208
Total lease liabilities	$	295

As of December 31, 2019, a schedule of maturity of lease liabilities under all operating leases is as follows:

For the year ended December 31,		US$000
2020	$	101
2021		105
2022		108
2023		9
Total		323
Less amount representing interest		(28)
Present value of minimum lease payments		295
Less current portion		(87)
Non-current portion	$	208

Cash paid for operating leases was approximately $99,000 during 2019.

As of December 31, 2019, the remaining lease term of the Company's operating lease was 3.1 years. The discount rate used to determine the lease liabilities was 6%. When available, the Company uses the rate implicit in the lease or sublease to discount lease payments to present value; however, the Company's lease does not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow, on a collateralized basis and over a similar term, an amount equal to the lease payments in a similar economic environment. The discount rate used for the existing lease was established on adoption of the new lease standard at January 1, 2019.

(9) CONCENTRATIONS AND CREDIT RISK

For the year ended December 31, 2019, two Customers accounted for approximately 82.1% of our total sales. The two same Customers accounted for 77.8% of our accounts receivable as of December 31, 2019.

For the year ended December 31, 2018, two Customers accounted for approximately 92.5% of our total sales. Three Customers, including the two noted previously, accounted for 91.9% of our accounts receivable as of December 31, 2018.

We rely on a single manufacturer for production of our contact lenses.

(10) SEGMENT INFORMATION

The Company's chief operating decision maker is the Chief Executive Officer ("CEO"). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed and organized based upon geography. In 2018, our international operations were not significant, and we reported our operations as one segment. Our international operations grew significantly in 2019 and we now present our operations through two reportable segments:

North America includes our current operations in the US and will include our operations in Canada once we receive our registration and begin operations in Canada.

Europe / Asia-Pacific includes our operations outside of North America.

We record expenses directly attributable to these geographic segments in the segment results and include expenses not specifically attributable to the geographic segments in Corporate Support. These unallocated expenses include the majority of our clinical, manufacturing, general and administrative expenses for which we consider the expenses to benefit the Company as a whole. The Company does not report balance sheet information by segment because it is not reviewed by the Company's chief operating decision maker. We do not have any inter-segment revenue.

2019	North America	Europe/Asia-Pacific	Corporate Support	Total
Net revenue	$ 5,085	$ 637	$ -	$ 5,722
Cost of sales	3,316	437	-	3,753
Gross profit	1,769	200	-	1,969
Sales and marketing	8,181	966	-	9,147
Clinical and manufacturing	-	78	2,014	2,092
General and administrative	-	13	3,374	3,387
Total expenses	8,181	1,057	5,338	14,626
Operating loss	$ (6,412)	$ (857)	$ (5,388)	(12,657)
Interest income and other, net				49
Loss before income taxes				$ (12,608)

2018	North America	Europe/Asia-Pacific	Corporate Support	Total
Net revenue	$ 3,222	$ 72	$ -	$ 3,294
Cost of sales	2,499	53	821	3,373
Gross profit	723	19	(821)	(79)
Sales and marketing	10,025	110	-	-
Clinical and manufacturing	-	-	2,617	-
General and administrative	-	-	4,084	16,836
Total expenses	10,025	110	6,701	16,836
Operating loss	$ (9,302)	$ (91)	$ (7,533)	(16,915)
Interest income and other, net				180
Loss before income taxes				$ (16,735)

(11) STOCK COMPENSATION PLANS

Stock-based compensation expense was approximately $302,000 and $259,000 for the years ended December 31, 2019 and 2018, respectively.

The Board adopted the 2008 Stock Incentive Plan ("Incentive Plan"), with an effective date of July 1, 2008. The Incentive Plan permits the granting and issuance of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Restricted Stock Units, and Stock Appreciation Rights. Under the Incentive Plan, 12,160,873 shares of common stock have been authorized for share-based awards. The total number of options issued and outstanding as of December 31, 2019 and 2018 was 8,571,324. The Incentive Plan is the predecessor to the 2017 Plan described below. On January 18, 2017, the Board determined that no additional stock incentives would be awarded under the 2008 Incentive Plan, but stock incentives previously granted would continue to be governed by the terms of the Incentive Plan.

The Board adopted the 2017 Equity Incentive Plan (the "2017 Plan"), with an effective date of January 18, 2017. The 2017 Plan permits the granting and issuance of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock, Stock Units, Performance Awards and Stock Appreciation Rights. The total number of shares reserved for issuance under the 2017 Plan is 11,000,000. The share reserve may be increased each year in accordance with the 2017 Plan documents. The total number of options issued and outstanding as of December 31, 2019 and December 31, 2018 was 10,981,704 and 2,758,044, respectively.

For both the Incentive Plan and the 2017 Plan (together, the "Plans"), the Board determines vesting terms and exercise price of options and defines them in a stock incentive agreement for each grant. Options generally vest over a one to four-year period from date of grant, with a few grants being vested immediately upon issuance. Stock options issued to employees, directors, and consultants expire 10 years from the date of grant. Vested and unexercised shares are cancelled three months after termination, and unvested awards are canceled on the date of termination of employment and become available for future grants. Upon the exercise of stock options, the Company may issue the required shares out of authorized but unissued common stock.

Additionally, we recognize stock-based compensation expense related to stock options granted to non-employees on a straight-line basis, as the stock options are earned. We issued options to non-employees, which generally vest ratably over the time period we expect to receive services from the non-employee. We believe that the fair value of the stock options is more reliably measurable than the fair value of the services received.

We estimate the grant date fair value of each option award on the date of grant using a Black-Scholes option pricing model that uses certain assumptions. We use the ASX stock price to determine fair value of the stock on the date of grant. We base expected volatilities on historical volatility of certain comparable companies over similar expected terms, as determined by the Company. We derive the expected term of options granted using the simplified method, which is the average of the contractual term and the vesting period. We intend to use the simplified method for the foreseeable future until more detailed information about exercise behavior will be more widely available. We base the risk-free rate for periods within the expected term of the option on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is zero as there are no payments of dividends made or expected. These factors could change in the future, which would affect the stock-based compensation expense for future option grants.

Assumptions for grants in the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Risk-free interest rate	1.82-2.49%	1.25%
Expected volatility	50.0%	50.0%
Expected term (years)	5-6.25	6
Dividend rate	0.0%	0.0%

A summary of stock option activity under the Plans is as follows:

	Total Options Outstanding			Nonvested Options	
	Number of Options	Weighted Average Exercise Price US$	Weighted Average Remaining Contractual Term in Years	Number of Options	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2018	11,329,368	$0.09	8.23	6,292,887	$0.10
Grants	8,223,660	0.05		8,223,660	0.03
Cancellation / forfeitures	-	-		-	-
Vested	-	-		(2,456,984)	0.11
Exercised	-	-		-	-
Outstanding at December 31, 2019	19,553,028	$0.07	8.16	12,059,563	$0.05
Exercisable at December 31, 2019	7,493,465	$0.08	6.82		

The weighted average grant date fair value of options granted during the year was $0.05 in 2019 and $0.06 in 2018. The intrinsic value of options unexercised as of December 31, 2019 and 2018 was approximately $0 and $361,000, respectively. The intrinsic value of options exercised was approximately $24,000 in 2018. The total fair value of options vested during the year ending December 31, 2019 was approximately $271,000. Options cancelled in 2018 included 366,618 options remitted by optionees to satisfy the exercise price of options exercised.

As of December 31, 2019 and 2018, there was approximately $482,000 and $567,000, respectively, of total unrecognized compensation expense related to stock option awards under the combined plans. We expect to recognize that cost over a weighted average period of 1.44 years.

(12) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement plan ("401(k) Plan") for the benefit of eligible employees, as defined. Each participant may elect to contribute to the 401(k) Plan each year up to the maximum amount allowed by law, subject to certain Internal Revenue Service limitations. The Company makes matching contributions up to 100% of the participant's election not to exceed 4% of the participant's compensation. The Company contributed approximately $228,000 and $213,000 in the years ending December 31, 2019 and 2018, respectively.

(13) COMMITMENTS AND CONTINGENCIES

The Company may be subject to legal proceedings and claims, which may arise, in the ordinary course of its business. No such matters presently exist, and management is not aware of any such matters which may arise in the future.

In addition, the Company warrants to customers that its products operate substantially in accordance with the product's specifications. Historically, we have not incurred any significant costs related to product warranties and expect none in the future, and as such have not recorded any accruals for product warranty costs as of December 31, 2019.

(14) RELATED PARTIES

We incurred approximately $99,000 and $560,000 in fees and expenses for the years ending December 31, 2019 and 2018, respectively, for clinical and regulatory consulting services provided by a company owned by one of our former officers.

(15) FAIR VALUE

The Company applies ASC 820, *Fair Value Measurements*, in determining the fair value of certain assets and liabilities. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, we use various valuation approaches. The hierarchy of those valuation approaches is broken down into three levels based on the reliability of inputs as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

There have been no changes in the methodologies used as of December 31, 2019 and 2018.

The Company's assets and liabilities measured at fair value on a recurring basis include cash equivalents of $1.7 million as of December 31, 2019 and $7.0 million as of December 31, 2018 and the fair value of the conversion feature of the Convertible Notes of $0 at December 31, 2019. We consider the factors used in determining the fair value of our cash equivalents to be Level 1 inputs and the fair value of the conversion feature to be Level 3 inputs.

(16) INCOME TAXES

The Company is a C-Corporation for U.S. federal income tax purposes.

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. Income tax positions are considered for uncertainty in accordance with ASC 740-10. Tax years remain subject to examination at the U.S. federal level between 2010 and 2018, and subject to examinations at various state levels between 2008 and 2018.

The provision for income taxes consists of the following components:

	2019 US$000	2018 US$000
Current expense		
Federal	$ -	$ -
State	9	-
Total current income tax expense	9	-
Deferred expense (benefit)		
Federal	(2,616)	(3,302)
State	(718)	(1,107)
Total deferred income tax expense (benefit)	(3,334)	(4,409)
Valuation allowance	3,334	4,409
Deferred income tax expense (benefit)	-	-
Total income tax expense	$ 9	$ -

The following summarizes the Company's valuation allowance

	2019 US$000	2018 US$000
Beginning of year	$ (12,976)	$ (8,567)
Income tax provision	(3,334)	(4,409)
End of year	$ (16,310)	$ (12,976)

Net deferred tax assets and liabilities are as follows:

	2019		2018	
Deferred tax assets	US$000		US$000	
NOL carryforwards	$	15,192	$	11,882
R&D tax credits		1,029		915
Inventory		37		223
Other deferred tax assets		139		39
Valuation allowance		(16,310)		(12,976)
Total deferred tax assets	$	87	$	83
Deferred tax liabilities				
Amortization	$	(87)	$	(83)
Total deferred tax liabilities		(87)		(83)
Net deferred income tax assets	$	-	$	-

A reconciliation from the federal statutory rate to the total provision for income taxes is as follows:

	2019			2018		
	US$000		Percent	US$000		Percent
Federal tax benefit at statutory rate	$	(2,650)	21.0%	$	(3,514)	21.0%
State tax expense, net of federal benefit		(718)	5.7%		(1,107)	6.6%
Permanent items and other		34	-0.3%		212	-1.3%
Change in valuation allowance		3,334	-26.4%		4,409	-26.4%
Total tax expense	$	-	0.0%	$	-	0.0%

As of December 31, 2019, the Company had federal NOL carryforwards of approximately $59.5 million and state NOL carryforwards of $2.7 million (tax effected), that are available to reduce future income unless otherwise taxable. As of December 31, 2019, the Company has federal and state research and development ("R&D") credits of approximately $1.0 million, that are available to reduce future federal and state income tax. We have not performed a study of our NOLs for limitations Internal Revenue Code Section 382. Due to the ownership change as a result of the IPO, our NOLs could be subject to significant annual limitations. If not utilized, the federal and state NOL carryforwards will expire at various dates between 2024 and 2037, except that $28.1 million of NOLs originating in 2018 and 2019 do not expire. The federal and state R&D credits will expire at various dates between 2021 and 2037.

(17) SUBSEQUENT EVENTS

On January 7, 2020, the Company issued 66,666,667 CDIs (representing the same number of shares) to complete a Placement of its shares. The Company raised $1.9 million net of $0.1 million of issuance costs through the Placement. Upon completion of this Placement, the maturity date of the Convertible Notes was extended to July 11, 2023. All other terms of the Convertible Notes remain unchanged.

The Company evaluated the accounting and disclosures requirements for subsequent events through February 12, 2020, the issuance date of the financial statements.

Corporate Directory

Board of Directors

Dr. Stephen Snowdy, CEO and Executive Director
Ms. Christine Van Heek, Interim Chairman and Non-executive Director
Ms. Zita Peach, Non-executive Director
Mr. Tom Dooley, Non-executive Director
Ms. Jean Franchi, Non-executive Director
Mr. Fred Schwarzer, former Chairman
Dr. David J. Mazzo, Chairman and Non-Executive Director (appointed 2 March 2020)

Management Team

Dr. Stephen Snowdy, CEO and Executive Director
Mr. Brian Lane, Chief Financial Officer
Mr. Tony Sommer, Jr, Senior Vice President, Sales & Marketing
Dr. Peg Achenbach, Vice President, Professional Affairs and Clinical Science

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