ASX Announcement | 29 February 2024
Visioneering Technologies (ASX:VTI)

Visioneering Announces Record 2023 Annual Results

Visioneering Technologies, Inc. (ASX: VTI) (‘**Visioneering**‘, ‘VTI’, or ‘**the Company**’) producer of the NaturalVue® Multifocal 1 Day Contact Lenses, today released its Appendix 4E Full Year Final Results for the fiscal year ended 31 December 2023.

VTI CEO and Executive Director Dr. Juan Carlos Aragón said: “I was excited in early October 2023 when I joined VTI, but during past few months I’m even more enthusiastic and motivated by the opportunities we have in the United States and as we expand our business internationally. The one-year interim results of the PROTECT Clinical Trial were as encouraging as expected and have led to increased interest from potential strategic and commercial partners from within the global vision care space. The PROTECT Clinical Trial is a significant undertaking for VTI, and the results to date certainly justify the investment and effort that it requires. Part of our strategic plan includes expanding the reach of NaturalVue products to more international markets. We recently added distributors in Belgium and Vietnam and are in discussions for additional markets in Europe, the Middle East, Latin America, and Asia, including China. The positive results of the PROTECT Clinical Trial, and the strengthening of our leadership team, have solidified the interest of potential partners in working with VTI.”

Dr. Aragón added, “VTI delivered record results in fiscal 2023 for multiple key metrics, while lowering net cash used in operating activities by 40% over the prior year. These results included:

- Record net revenue of $8.7 million for the year;
- Net cash used in operating activities of $3.6 million for the year, a 40% improvement from 2022;
- Improved gross margin to 55% in 2023, up from 46% in 2022;
- Converted the remaining Convertible Notes, eliminating all Company debt; and
- Raised $1.6 million through a Rights Offering and Director Placement in 2023.”

The Company had $3.0 million in cash and cash equivalents at the end of 2023. Based on management’s forecasted net cash use in 2024, the Company plans to explore additional financing during 2024, as necessary, to support its long-term strategic plan.

Ends.

This release was authorized by the CEO, Dr. Juan Carlos Aragón.

For more information, please contact:

Company	*Investor and media relations*
Brian Lane COO & CFO Visioneering Technologies, Inc. Email: blane@vtivision.com	Haley Chartres H^CK Tel: +61 423 139 163 Email: haley@hck.digital

About VTI:

Visioneering Technologies Inc. (ASX:VTI) is an innovative eye care company committed to redefining vision. A pioneer in presbyopia and myopia management, VTI merges advanced engineering with a relentless drive to achieve superior results for patients and practitioners. VTI's flagship product is the NaturalVue® (etafilcon A) Multifocal 1-Day Contact Lens, an extended depth of focus lens that is one of the most significant innovations in the eye care industry in more than 20 years. For more information, please visit www.vtivision.com or call +1 844-884-5367, ext. 104.

Foreign ownership restrictions:

VTI's CHESS Depositary Interests (**CDIs**) are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (**Securities Act**) for offers which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. As a result of relying on the Regulation S exemption, the CDIs are 'restricted securities' under Rule 144 of the Securities Act. This means that you are unable to sell the CDIs into the US or to a US person for the foreseeable future except in very limited circumstances after the expiration of a restricted period, unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. To enforce the above transfer restrictions, all CDIs issued bear a 'FOR US' designation on the Australian Securities Exchange (**ASX**). This designation restricts any CDIs from being sold on ASX to US persons. However, you are still able to freely transfer your CDIs on ASX to any person other than a US person. In addition, hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

Forward-Looking Statements

This announcement contains or may contain forward-looking statements that are based on management's beliefs, assumptions and expectations and on information currently available to management.

All statements that address operating performance, events, or developments that we expect or anticipate will occur in the future are forward-looking statements. These include, without limitation, U.S. commercial market acceptance and U.S. sales of our product, as well as our expectations with respect to our ability to develop and commercialize new products.

Given the current uncertainties regarding the ongoing impact of COVID-19 on the trading conditions impacting VTI, the financial markets, and the health services worldwide, there can be no assurance that future developments will be in accordance with VTI's expectations or that the effect of future developments on VTI will be those anticipated.

Management believes that these forward-looking statements are reasonable when made. You should not place undue reliance on forward-looking statements because they speak only as of the date when made. VTI does not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. VTI may not actually achieve the plans, projections or expectations disclosed in forward-looking statements. Actual results, developments, or events could differ materially from those disclosed in the forward-looking statements.

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APPENDIX 4E (RULE 4.3A)

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023 (previous corresponding period 31 DECEMBER 2022)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(US$ in 000's, except per share data)	2023	2022	up/down	% movement
Revenue from ordinary activities	$8,670	$7,285	up	19%
Net cash (used in) operating activities	($3,599)	($5,983)	down	(40)%
Loss after tax from ordinary activities attributable to members	($3,451)	($5,854)	down	(41)%
Net loss for the period attributable to members	($3,451)	($5,854)	down	(41)%
Dividend per security	Nil	Nil		
Franked amount of dividends per security	Nil	Nil		
Net tangible asset backing per CHESS Depository Interest / Share of Class A common stock	$0.104	$0.190		

- **Annual financial results:** This report is based on the accompanying 2023 consolidated financial statements which have been audited by Grant Thornton LLP. Our audited financial statements contain an independent audit report that includes an unmodified opinion.
- **Changes in control over entities:** There are no entities over which control has been gained or lost during 2023.
- **Details of dividends and dividend reinvestment plans:** No dividends have been declared or proposed.
- **Details of associates or joint ventures:** N/A
- **Set of accounting standards used in compiling the report**: The audited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (US GAAP) and are denominated in U.S. dollars.
- **Details of audit disputes or audit qualification:** None.
- **A commentary on the results for the period (US$ in 000's except per share data):** The net loss for the year decreased to $3,451 compared to $5,854 for the previous corresponding period. Operating loss improved to a loss of $3,990 in 2023 from a loss of $5,797 in 2022. Basic and Diluted net loss per share was ($0.10) and ($0.23) for the years ended 31 December 2023 and 2022, respectively.
  - Net revenue increased to a record $8,670 in 2023 from $7,285 in 2022, an increase of 19%.
  - Cost of Sales decreased to $3,910, or 45.1% of net revenue in 2023 from $3,969, or 54.5% of net revenue in 2022. The improvement was due to lower per unit costs for product sold, minor price increases implemented at the beginning of FY'23 and in mid-2022, and a continuing shift toward sales of the new product launched in the fourth quarter of 2021, which generates higher gross profit than the Company's other products. In addition, shipping costs declined throughout

2022 and continued to decline in 2023, thereby lowering overall inventory costs. Gross margin improved to 54.9% in 2023 from 45.5% in 2022.

- Total Operating Expenses decreased to $8,750 in 2023 from $9,113 in 2022, primarily due to decreased sales and marketing and clinical expenses partially offset by an increase in general and administrative expenses. This decrease was due to lower second year costs associated with the PROTECT Clinical Trial (PROgressive Myopia Treatment Evaluation for NaturalVue Multifocal Contact Lens Trial). The PROTECT Clinical Trial is a multi-center, randomized, double masked clinical trial with participating investigators in Canada, the United States, Hong Kong, and Singapore.
- Operating loss improved to a loss of $3,990 in 2023 from a loss of $5,797 in 2022 due to higher net revenue, improved gross margins, and lower operating expenses.
- Total Interest income and other, net increased to $471 from $73 due to an increase in interest rates and investment in marketable securities, as well as research and development credits received in 2023.
- Interest expense decreased to $83 in 2023 from $296 in 2022 due to $1,680 of the Convertible Notes issued in July 2019 being converted to shares in October 2022 and a decrease in the interest rate on the remaining $1,120 of Convertible Notes from 10% to 8% per annum, followed by a conversion of the remaining $1,120 of the Convertible Notes in November 2023 that eliminated all Company debt.
- Gain (loss) on fair value of derivative liability increased to $99 from $(97) for the previous period due to the change in fair value of the derivative liability associated with the Convertible Notes. With the conversion of the remaining debt in November 2023, the derivative liability was $0 at 31 December 2023.
- Gain on fair value of freestanding options decreased to $56 from $269 for the previous period due to the change in the fair value of the derivative liability associated with the freestanding options issued in June 2020 and March 2021. The options expire on 28 February 2024, and the fair value of the options was $0 at 31 December 2023.
- The Company had cash and cash equivalents of $2,999 as of 31 December 2023.
- The Company operated in two reportable segments during the period, including North America and Europe/Asia-Pacific.
- There were no returns to shareholders or share buy backs.

VISIONEERING TECHNOLOGIES, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

VISIONEERING TECHNOLOGIES, INC.

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GRANT THORNTON LLP
1100 Peachtree Street NE, Suite 1400
Atlanta, GA 30309

D +1 404 330 2000
F +1 404 330 2047

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Visioneering Technologies, Inc.

Opinion

We have audited the financial statements of Visioneering Technologies, Inc. (a Delaware corporation) (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Atlanta, Georgia
February 28, 2024

VISIONEERING TECHNOLOGIES, INC.

BALANCE SHEETS
As of December 31, 2023 and 2022

	December 2023	December 2022
	(in US$000, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,999	$ 3,117
Marketable securities	-	1,838
Accounts receivable, net	966	726
Inventory, net	2,161	1,857
Prepaid expenses and other current assets	1,041	957
TOTAL CURRENT ASSETS	7,167	8,495
NON-CURRENT ASSETS		
Right of use assets, net	182	255
Intangible assets, net	289	147
Other non-current assets	8	210
TOTAL ASSETS	$ 7,646	$ 9,107
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 493	$ 356
Accrued payroll	610	181
Derivative liability	-	56
Other accrued liabilities	653	798
TOTAL CURRENT LIABILITIES	1,756	1,391
LONG-TERM LIABILITIES		
Convertible notes payable	-	1,209
Other non-current liabilities	132	213
TOTAL LIABILITIES	1,888	2,813
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Class A common stock, par value $0.001 per share; 100,000,000 shares authorized, 52,378,773 shares issued and outstanding at December 31, 2023 and 31,329,103 shares issued and outstanding at December 31, 2022	52	31
Preferred stock, par value $0.001 per share; 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2023 and December 31, 2022	-	-
Additional paid-in capital	98,168	95,274
Accumulated deficit	(92,462)	(89,011)
TOTAL SHAREHOLDERS' EQUITY	5,758	6,294
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 7,646	$ 9,107

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023 and 2022

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(in US$000, except share and per share data)	
Net revenue	$ 8,670	$ 7,285
Cost of sales	3,910	3,969
Gross profit	4,760	3,316
Operating expenses:		
Sales and marketing	3,592	3,639
Clinical and manufacturing	2,184	3,049
General and administrative	2,974	2,425
Total operating expenses	8,750	9,113
Operating loss	(3,990)	(5,797)
Other income and (expenses):		
Interest income and other, net	471	73
Interest expense	(83)	(296)
Gain (loss) on fair value of derivative liability	99	(97)
Gain on fair value of freestanding options	56	269
Loss before income taxes	(3,447)	(5,848)
Income tax expense	4	6
Net loss	$ (3,451)	$ (5,854)
Net loss per share – Basic and Diluted	$ (0.10)	$ (0.23)
Weighted average shares outstanding – Basic and Diluted	34,851,715	25,440,773

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Number of Shares (1)	Amount US$000	US$000	US$000	US$000
Balance at December 31, 2021	23,635,500	$ 24	$ 93,178	$ (83,157)	$ 10,045
Issuance of common stock for convertible debt	6,727,609	6	1,674	-	1,680
Share awards for 2021 compensation	559,203	1	188	-	189
Share awards for 2022 compensation	406,791	-	138	-	138
Stock-based Compensation	-	-	96	-	96
Net loss	-	-	-	(5,854)	(5,854)
Balance at December 31, 2022	31,329,103	$ 31	$ 95,274	$ (89,011)	$ 6,294
Issuance of common stock for convertible debt	7,954,545	8	1,112	-	1,120
November 2023 rights offering and director placement	12,707,009	13	1,630	-	1,643
Share awards for 2022 compensation	388,116	-	52	-	52
Stock-based Compensation	-	-	100	-	100
Net loss	-	-	-	(3,451)	(3,451)
Balance at December 31, 2023	52,378,773	$ 52	$ 98,168	$ (92,462)	$ 5,758

See accompanying notes to financial statements

VISIONEERING TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(in US$000)	
Cash flows from operating activities:		
Net loss	$ (3,451)	$ (5,854)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27	24
(Gain) loss on fair value of derivative liability	(99)	97
Change in fair value of freestanding options	(56)	(269)
Amortization of right-of-use asset	73	90
Amortization of debt discount	10	51
Stock-based compensation	100	234
Changes in assets and liabilities:		
Accounts receivable	(240)	183
Inventory	(304)	(449)
Prepaid expenses and other assets	(52)	246
Accounts payable	137	(187)
Accrued payroll	481	(214)
Other accrued liabilities	(225)	65
Net cash used in operating activities	(3,599)	(5,983)
Cash flows from investing activities:		
Purchases of marketable securities	(293)	(9,548)
Sale of marketable securities	2,131	7,710
Purchases of intangible assets	-	(4)
Net cash provided by (used in) investing activities	1,838	(1,842)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs of $141	1,643	-
Payment of note payable	-	(43)
Net cash provided by (used in) financing activities	1,643	(43)
Net decrease in cash and cash equivalents	(118)	(7,868)
Cash and cash equivalents, beginning of period	3,117	10,985
Cash and cash equivalents, end of period	$ 2,999	$ 3,117
Supplemental disclosure:		
Cash paid for interest	$ 67	$ 279
Cash paid for taxes	$ 4	$ 6
Share awards for compensation	$ 52	$ 326
Conversion of debt to equity	$ 1,120	$ 1,680
Lease liability and right-of-use asset	$ 0	$ 247

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 Alpharetta, Georgia, VTI is a medical device company that designs, manufactures, sells and distributes contact lenses. Our flagship product is the NaturalVue® (etafilcon A) Enhanced Multifocal 1 Day Contact Lens for children with Myopia (nearsightedness) and adults with Presbyopia (the progressive loss of the ability to see near that occurs in middle age). Within the United States ("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 United States ("US"), Europe, Australia, and New Zealand. We received approval to sell our contact lenses in Hong Kong and Singapore in 2019, in Canada in 2020, and in Malaysia in 2022.

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 the Clearing House Electronic Sub register System ("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 CHESS Depositary Interest ("CDI"s) 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, CHESS Depositary Nominees Pry Ltd. ("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 professionals ("ECPs") and shipped only to ECPs or directly to a patient, if specifically directed by the ECPs. As of December 31, 2023, VTI had entered into agreements with Customers in the US, Europe, Australia, New Zealand, Hong Kong, Singapore, Canada, Malaysia and Vietnam.

Liquidity

The accompanying financial statements have been prepared on a going concern basis, in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. To date, the Company has incurred recurring losses, negative cash flows from operations and has accumulated a deficit of $92.5 million from the Company's inception through December 31, 2023. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue, maintain or increase profit margins, and contain its expenses.

To meet its working capital needs through the next twelve months, the Company has received a commitment from its largest shareholder confirming its intent and ability to provide financial support to the Company in the form of additional capital or debt financing to support the necessary liquidity for a year and a day from the date of the financial statements. In addition, the Company is focused on successfully implementing measures to increase revenue and contain costs, or to complete an accretive partnering transaction to ensure that it can meet its working capital needs for a full year from the date of issuance of these financial statements.

As a result, management concluded that substantial doubt has been alleviated about the Company's ability to continue as a going concern for a period of one year after the issuance of these financial statements.

Basis *of Presentation*

The Company has prepared the accompanying financial statements and notes in conformity with 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 except share and per share data.

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.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents and current assets and current liabilities approximate their fair value because of their short maturities. The weighted average interest rate of the Company's convertible debt approximated the rate at which the Company could obtain alternative financing; therefore, the carrying amount of the convertible debt approximated fair value. The Company used 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 6), and the ASX price to determine the fair value of the Listed Options (Note 8).

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 $3.0 million as of December 31, 2023 and $3.1 million as of December 31, 2022. At times, cash balances may exceed the Federal Deposit Insurance Corporation insurance limit.

Marketable Securities

The Company determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. All of the Company's marketable securities are considered available-for-sale securities and carried at estimated fair values and reported in marketable securities. Unrealized gains and losses on available-for-sale securities, if any, are excluded from net income and reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. On sale or change in classification, any gains or losses reported in accumulated other comprehensive income (loss) are reclassified to profit or loss. Interest income and other, net, includes interest, dividends, amortization of purchase premiums and discounts, realized gains and losses on sales of securities and other-than-temporary declines in the fair value of securities, if any. The cost of securities sold is based on the specific identification method. The Company regularly reviews all of its investments for other-than-temporary declines in fair value. The Company's review includes consideration of the cause of the impairment, including the creditworthiness of the security issuers, the number of securities in an unrealized loss position, the severity and duration of the unrealized losses, whether the Company has the intent to sell the securities or whether it is more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis. When the Company determines that the decline in fair value of an investment is below its accounting basis and this decline is other-than-temporary, it reduces the carrying value of the security it holds and records a loss for the amount of such decline.

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 allowance, including historical and future 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, including the implementation of ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326),* we have not recorded an allowance for doubtful accounts as of December 31, 2023 or 2022.

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 an increase of $50,000 to inventory reserves in the year ended December 31, 2022, and applied approximately $9,000 against the reserve for expired product in the year ended December 31, 2023. The inventory reserve was $41,000 and $50,000 at December 31, 2023 and 2022, respectively. All inventory held at December 31, 2023 and 2022 consisted of purchased finished goods.

Prepaid Expenses and Other Current Assets

Included in prepaid expenses and other current assets are approximately $500,000 of refunds due to the Company relating to the Employee Retention Tax Credit program established under the CARES Act in the U.S. The Company received notices from the Internal Revenue Service indicating that the credits were approved and that the Company should receive the refunds. The timing of receipt of the refunds is uncertain.

Intangible Assets

Intangible assets consist 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 for the years ended December 31, 2023 or 2022.

Revenue Recognition

We account for revenue in accordance with ASC 606, *Revenue from Contracts with Customers.* 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 $163,000 in 2023 and $227,000 in 2022 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 $602,000 in 2023 and $1.3 million in 2022 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 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, 2023. 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 shareholders 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.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This ASU replaces the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. The standard became effective for the Company on January 1, 2023. The adoption of this ASU did not have a material impact on the financial statements.

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This standard simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The standard requires entities to provide expanded disclosures about the terms and features of convertible instruments and amends certain guidance in ASC 260 on the computation of EPS for convertible instruments and contracts on an entity's own equity. The standard becomes effective for the Company on January 1, 2024. The Company does not believe the adoption of this ASU will have a material impact on the 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 consists of a master service agreement combined with specific purchase orders and each product is a performance obligation, as the promise to transfer the individual goods is separately identifiable from other promises in the contracts and therefore is 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. We exclude from revenues taxes collected from Customers relating to product sales and remitted to governmental authorities.

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, but typically do not provide cash refunds. We receive payments from our Customers based on billing schedules established in each contract that 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) MARKETABLE SECURITIES

The following table is a summary of available-for-sale securities recorded in marketable securities in the Company's Consolidated Balance Sheets as of December 31, 2022. The Company did not hold any marketable securities as of December 31, 2023.

2022 (US$000)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated Fair Value
Municipal debt securities	$ 1,838	$ -	$ -	$ 1,838

All marketable securities had a contractual maturity of one year or less as of December 31, 2022. In addition to its marketable securities, the Company held money market funds of $1.7 million and $3.0 million recorded in Cash and Cash Equivalents in the Company's Consolidated Balance Sheet as of December 31, 2023 and 2022, respectively, as they are readily convertible to cash and are subject to an insignificant risk of changes in value.

(4) INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31, 2023 and 2022:

	2023 US$000	2022 US$000
Patents	$ 451	$ 282
Less accumulated amortization	(162)	(135)
Intangible assets, net	$ 289	$ 147

Amortization expense was approximately $27,000 in 2023 and $15,000 in 2022. The weighted average remaining useful life of our patents as of December 31, 2023 was 9.6 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 2023 and 2022 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
2024	$ 26
2025	26
2026	26
2027	26
2028	26
Thereafter	159
Total	$ 289

(5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2023 and 2022:

	2023 US$000	2022 US$000
Computer equipment and software	$ 116	$ 116
Office equipment	9	49
Furniture and fixtures	52	52
Leasehold improvements	-	12
Total costs	177	229
Less accumulated depreciation	(177)	(229)
Property and equipment, net	$ -	$ -

Depreciation expense was approximately $0 in 2023 and $9,000 in 2022.

(6) CONVERTIBLE NOTES PAYABLE

Convertible notes payable consisted of the following at December 31, 2023 and 2022:

	2023 US$000	2022 US$000
Face value of Convertible Notes	$ -	$ 1,120
Unamortized deferred financing costs	-	(10)
Derivative liability	-	99
Balance at end of period	$ -	$ 1,209

The following table presents a reconciliation of the beginning and ending balances of Convertible notes payable for the years ended December 31, 2023 and 2022:

	2023 US$000	2022 US$000
Balance at January 1,	$ 1,209	$ 2,741
Conversion of Convertible Notes to CDIs	(1,120)	(1,680)
Amortization of deferred financing costs	10	51
(Gain) loss on fair value of derivative liability	(99)	97
Balance at December 31,	$ -	$ 1,209

In July 2019, the Company entered into Note Purchase Agreements ("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 were convertible at the election of the Note holder at any time before the maturity date to CDIs at a conversion price per CDI of $0.075 AUD. The maturity date at issuance was July 11, 2021. We extended the maturity date to July 11, 2023 in January 2020. Further, in June 2020 we adjusted the conversion price to $0.028 AUD in connection with a sale of newly issued securities to professional and sophisticated investors and to $2.80 AUD in connection with a 1:100 reverse split effective in June 2021.

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 the conversion price. The Convertible Notes contain a prepayment penalty of 2% of the face value of the note if paid prior to the maturity date and require Note holder approval for early redemption.

In October 2020, a Note holder converted $200,000 face value of Convertible Notes and accrued interest and received 101,520 CDIs in the conversion.

In October 2022, the stockholders approved an agreement between the Company and the holders of the Convertible Notes to amend the terms of the Convertible Notes such that sixty percent (60%) of the notes totaling $1.7 million were converted to 6,727,609 CDIs at a conversion price of $0.39 AUD. The remaining forty percent (40%) of the notes were amended to set the conversion price at $0.60 AUD, reduce the interest rate from 10% per annum to 8% per annum, and extend the maturity date to June 30, 2024. Interest expense related to the convertible notes was approximately $83,000 in 2023 and $296,000 in 2022, which includes amortization of deferred financing costs.

In November 2023, the stockholders approved an agreement between the Company and the holders of the Convertible Notes to amend the terms of the Convertible Notes such that the remaining notes totaling $1.1 million were converted to 7,954,545 CDIs at a conversion price of $0.22 AUD.

The conversion feature is considered to be an embedded derivative that is not considered clearly and closely related to the debt host and therefore 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 as well as approximately $36,000 of debt issuance costs. The Company amortized the debt discount and issuance costs over the amended four-year term of the Convertible Notes. We adjust the conversion option liability to market at each reporting period based on many factors, including changes in the share price. The derivative liability was $130,000 as of December 31, 2020. We decreased the liability to $2,000 as of December 31, 2021 and recorded a gain on the fair value of the derivative liability of $128,000 in 2021. We increased the liability to $99,000 as of December 31, 2022 and recorded a loss on the fair value of the derivative liability of $97,000 in 2022.

In conjunction with the conversion of 60% of the Convertible Notes and the extension of the maturity date for the remaining Convertible Notes, we expensed 60% of the remaining debt discount and issuance costs and extended the amortization period for the remaining 40% of the costs. We decreased the liability to $0 as of the 2023 conversion date and recorded a gain on the fair value of the derivative liability of $99,000 in 2023. In conjunction with the conversion of the remaining Convertible Notes, we expensed the remaining debt discount and issuance costs.

The Convertible Notes include covenants related to liquidity and net monthly cash flow. The Company was in compliance with all covenants throughout 2023 and 2022. The convertible debt did not affect diluted earnings per share due to the Company's net loss position.

(7) PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

On April 24, 2020, the Company received a loan under the Paycheck Protection Program ("PPP") administered by the US Small Business Administration ("SBA") in the amount of $1,035,115 ("PPP Loan").

During January 2021, the Company applied for forgiveness of approximately $921,000 of the PPP Loan. In June 2021, the SBA approved the Company's request and granted the forgiveness, leaving a remaining balance of approximately $114,000. The remaining balance was payable in monthly installments from July 2021 through April 2022, at which time the balance was paid in full.

(8) 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.

Since its initial public offering in March 2017, the Company has raised additional capital through several means. A placement is the sale of newly issued securities to professional and sophisticated investors, or institutional investors. A security purchase plan ("SPP") is the sale of newly issued securities to retail investors, or non-institutional holders, and is limited by ASX regulations to $30,000 AUD per investor. A rights offering is the sale of newly issued securities to existing shareholders on a pro rata basis in proportion to their existing holdings.

In April 2021, the Company completed a capital raise and issued one freestanding option for every two CDIs subscribed for, with each freestanding option having an exercise price of $3.00 AUD and an expiration date of February 28, 2024. These options are listed on the ASX (the "Listed Options"). The Listed Options are call options that are not considered clearly and closely related to the Company's shares and must be accounted for separate from equity. The fair value of all Listed Options as of December 31, 2023 and December 31, 2022 was $0 and $56,000, respectively. We recorded a gain on fair value of freestanding options relating to the

Listed Options in the Statements of Operations of $56,000 and $269,000 in the year ended June 2023 and 2022, respectively.

In December 2023, the Company raised $1,643,000, net of $141,000 of issuance costs, in a placement to its Directors and a rights offering and shortfall facility under which it issued 12,710,009 CDIs (representing the same number of shares).

(9) 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 one 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 $130,000 in 2023 and $152,000 in 2022 and is included in General and administrative expenses in the Statements of Operations. These amounts include variable lease costs of $46,000 in 2023 and $54,000 in 2022.

Supplemental balance sheet information as of December 31, 2023 for the Company's operating lease is as follows:

	2023		2022	
	US$000		US$000	
NON-CURRENT ASSETS				
Right of use assets, net	$	182	$	255
Total lease assets	$	182	$	255
CURRENT LIABILITIES				
Other accrued liabilities	$	81	$	44
NON-CURRENT LIABILITIES				
Other non-current liabilities		132		213
Total lease liabilities	$	213	$	257

As of December 31, 2023, a schedule of maturity of lease liabilities under all operating leases is as follows:

For the year ended December 31,	US$000
2024	95
2025	98
2026	42
Total	235
Less amount representing interest	(22)
Present value of minimum lease payments	213
Less current portion	(81)
Non-current portion	$ 132

Cash paid for operating leases was approximately $81,000 during 2023.

As of December 31, 2023, the remaining lease term of the Company's expiring operating lease was 2.4 years. The discount rate used to determine the lease liabilities was 8%. 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.

(10) CONCENTRATIONS AND CREDIT RISK

For the year ended December 31, 2023, three Customers accounted for approximately 87.9% of our total sales. The three same Customers accounted for 81.4% of our accounts receivable as of December 31, 2023.

For the year ended December 31, 2022, three Customers accounted for approximately 89.7% of our total sales. The three same Customers accounted for 76.2% of our accounts receivable as of December 31, 2022.

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

(11) 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. We present our operations through two reportable segments:

North America includes our current operations in the US and 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.

2023 (US$000)	**North America**	**Europe/Asia-Pacific**	**Corporate Support**	**Total**
Net revenue	$ 8,074	$ 596	$ -	$ 8,670
Cost of sales	3,521	389	-	3,910
Gross profit	4,553	207	-	4,760
Sales and marketing	3,472	120	-	3,592
Clinical and manufacturing	-	20	2,164	2,184
General and administrative	-	-	2,974	2,974
Total expenses	3,472	140	5,138	8,750
Operating income (loss)	$ 1,081	$ 67	$ (5,138)	(3,990)
Interest income and other, net				543
Loss before income taxes				$ (3,447)

2022 (US$000)	**North America**	**Europe/Asia-Pacific**	**Corporate Support**	**Total**
Net revenue	$ 6,772	$ 513	$ -	$ 7,285
Cost of sales	3,627	342	-	3,969
Gross profit	3,145	171	-	3,316
Sales and marketing	3,526	113	-	3,639
Clinical and manufacturing	-	-	3,049	3,049
General and administrative	-	-	2,425	2,425
Total expenses	3,526	113	5,474	9,113
Operating loss	$ (381)	$ 58	$ (5,474)	(5,797)
Interest expense and other, net				(51)
Loss before income taxes				$ (5,848)

(12) STOCK COMPENSATION PLANS

Stock-based compensation expense was approximately $100,000 and $96,000 for the years ended December 31, 2023 and 2022, 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 were authorized for share-based awards. The total number of options issued and outstanding as of December 31, 2023 and 2022 was 5,610 in both years. 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 was 2,010,000 as of December 31, 2020, was increased to 3,610,500 at the Company's Annual Meeting of Stockholders in June 2022, was increased by a vote of the Board of Directors to 3,791,025 in February 2023, and was increased to 5,291,025 at a Special Meeting of Stockholders in November 2023. 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, 2023 and December 31, 2022 was 964,493 and 789,493, respectively. In addition, a total of 2,705,315 stock awards have been granted under the 2017 Plan through December 31, 2023. As of December 31, 2023, there were 1,621,217 awards available for grant under the 2017 Plan.

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 some 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 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, 2023 and 2022 are as follows:

	2023	2022
Risk-free interest rate	4.39%	2.41-3.27%
Expected volatility	71.0%	39.0-120.28%
Expected term (years)	5.50	6.25
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, 2022	795,103	$0.90	8.48	574,706	$0.46
Grants	190,000	0.14		190,000	0.14
Cancellation / forfeitures	(15,000)	0.95		(12,250)	0.35
Vested	-	-		(186,753)	0.58
Exercised	-	-		-	-
Outstanding at December 31, 2023	970,103	$0.75	7.94	565,703	$0.51
Exercisable at December 31, 2023	404,400	$1.10	7.15		

The intrinsic value of options unexercised was approximately $5,000 and $1,000 as of December 31, 2023 and December 31, 2022, respectively. The total fair value of options vested during the year ending December 31, 2023 was approximately $108,000.

As of December 31, 2023 and 2022, there was approximately $135,000 and $220,000, 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 1.24 years.

In the year ended December 31, 2023, the Company granted 388,116 shares that were fully vested on the date of grant and issued to current employees under the 2017 Plan as additional compensation. The grant date fair value of the shares issued was $52,000. In addition, the Company granted 326,539 restricted shares to employees under the Company's 2022 Long-Term Incentive Plan. The shares vest over four years. The grant date fair value of the restricted shares was $44,000.

(13) 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 $118,000 and $120,000 in the years ending December 31, 2023 and 2022, respectively.

(14) 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, 2023.

(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, 2023 and 2022.

The Company's assets and liabilities measured at fair value on a recurring basis include marketable securities of $0 as of December 31, 2023 and $1.8 million as of December 31, 2022, the fair value of the conversion feature of the Convertible Notes and the fair value of freestanding options. We consider the factors used in determining the fair value of our cash equivalents and marketable securities to be Level 1 inputs and the fair value of the conversion feature and Freestanding Options to be Level 3 inputs.

For Level 3 instruments carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents a reconciliation of the beginning and ending balances for the years ended December 31, 2023 and 2022:

	2023 US$000	2022 US$000
Convertible notes conversion feature		
Balance at January 1,	$ 99	$ 2
Total losses (gains)– realized/unrealized	(99)	97
Balance at December 31,	$ -	$ 99
Freestanding options		
Balance at January 1,	$ 56	$ 325
Total gains – realized/unrealized	(56)	(269)
Balance at December 31,	$ -	$ 56

The unrealized gains and losses for assets within the Level 3 category presented in the tables above include changes in fair value that are attributable to both observable and unobservable inputs.

Assumptions for valuations in the year ended December 31, 2023 are as follows:

	Freestanding Options	Conversion Feature
Risk-free interest rate	3.377-4.376%	4.57-5.40%
Expected volatility	97.3-122.0%	52.0-66.0%
Expected term (years)	0.7-1.2	1.00-1.50
Dividend rate	0.0%	0.0%
Coupon rate	N/A	8.0%
Conversion price	N/A	A$0.60
Foreign exchange rates	N/A	0.662-0.689

(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:

	2023 US$000	2022 US$000
Current expense		
Federal	$ -	$ -
State	4	6
Total current income tax expense	4	6
Deferred expense (benefit)		
Federal	(899)	(1,384)
State	(223)	33
Total deferred income tax benefit	(1,122)	(1,351)
Valuation allowance	1,122	1,351
Deferred income tax expense (benefit)	-	-
Total income tax expense	$ 4	$ 6

The following summarizes the Company's valuation allowance:

	2023 US$000	2022 US$000
Beginning of year	$ (21,732)	$ (20,381)
Income tax provision	(1,122)	(1,351)
End of year	$ (22,854)	$ (21,732)

Net deferred tax assets and liabilities are as follows:

	2023 US$000	2022 US$000
Deferred tax assets		
Net operating loss (NOL) carryforwards	$ 21,305	$ 20,295
R&D tax credits	950	784
Capitalized R&D costs	624	674
Inventory	10	-
Other deferred tax assets	43	62
Valuation allowance	(22,854)	(21,732)
Total deferred tax assets	$ 78	$ 83
Deferred tax liabilities		
Amortization	$ (78)	$ (83)
Total deferred tax liabilities	(78)	(83)
Net deferred income tax assets	$ -	$ -

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

	2023		2022	
	US$000	Percent	US$000	Percent
Federal tax benefit at statutory rate	$ (725)	21.0%	$ (1,229)	21.0%
State tax expense, net of federal benefit	(218)	6.3%	38	-0.7%
Permanent items and other	(163)	4.7%	(98)	1.7%
Gain on fair value of freestanding options	(12)	0.3%	(56)	1.0%
Change in valuation allowance	1,122	-32.5%	1,351	-23.1%
Total tax expense	$ 4	-0.1%	$ 6	-0.1%

As of December 31, 2023, the Company had federal NOL carryforwards of approximately $82.3 million and state NOL carryforwards of $100.5 million ($4.0 million tax effected), that are available to reduce future income unless otherwise taxable. As of December 31, 2023, the Company has federal and state research and development ("R&D") credits of approximately $900,000, that are available to reduce future federal and state income tax. We have not performed a study of our NOLs for limitations required by the 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 $50.9 million of NOLs originating since 2018 do not expire. The federal and state R&D credits will expire at various dates between 2023 and 2037.

(17) SUBSEQUENT EVENTS

The Company evaluated the accounting and disclosures requirements for subsequent events through February 28, 2024, the issuance date of the financial statements. On February 1, 2024, an investor purchased 704,226 CDIs (representing the same number of shares) through the shortfall facility (see Note 8) for $100,000. The shortfall facility closed on February 6, 2024, with no additional issuances. No additional events have occurred that would require adjustments to our disclosures in the consolidated financial statements.