ASX Announcement | 19 August 2021
Visioneering Technologies (ASX:VTI)

Appendix 4D

Atlanta, Georgia, USA August 19, 2021: US-based medical device company and producer of the NaturalVue® (etafilcon A) Multifocal 1 Day Contact Lenses **Visioneering Technologies, Inc (ASX: VTI)** (**Visioneering** or **Company**), has today released its Appendix 4D Half Yearly Report for the six months ended 30 June 2021.

The Half Yearly Report does not include all of the commentary, notes and information that are typically found in an annual financial report. Accordingly, this Half Yearly Report should be read in conjunction with Visioneering Technologies' annual report for the year ended December 31, 2020 and any public announcements made by the Company during the subsequent interim period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

Ends.

This release was authorized by the CEO, Stephen Snowdy, PhD.

For more information, please contact:

Visioneering Technologies

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About Visioneering Technologies

Visioneering Technologies Inc. (ASX:VTI) is a health care company making innovative vision care products available to patients and eye care professionals. Since its founding in 2008, Visioneering has brought together clinical, marketing, engineering, manufacturing and regulatory leaders from the healthcare industry to provide new solutions for adults and children in need of vision correction.

Headquartered in the United States, Visioneering designs, manufactures, sells and distributes contact lenses around the world. Its flagship product, NaturalVue® Multifocal contact lenses, are prescribed in the large addressable markets of nearsighted children and over-45 adults, and VTI is expanding its portfolio of technologies to address a range of other vision care needs. Since its IPO in 2017, the company has grown operations across the US and recently launched its products in Australia, New Zealand, Singapore, Hong Kong, Canada, and Europe.

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 on-going impact of COVID-19 on the trading conditions impacting VTI, the financial markets and the health services world-wide, 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.

VTI-IR-ASX51

APPENDIX 4D (RULE 4.2A)

HALF YEARLY REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(US$ in 000's, unaudited, except account, per account and per share data)	**June 2021**	**June 2020**	**Up / Down**	**% movement**
Net Revenue	$3,111	$2,034	Up	53%
Shipments to US ECPs	$3,325	$2,558	Up	30%
Cash receipts from customers	$3,193	$2,342	Up	36%
Active US Accounts	2,240	1,803	Up	24%
Shipments to US ECPs per Active US Account	$1,484	$1,419	Up	6%
Loss after tax from ordinary activities attributable to members	($4,032)	($5,169)	Down	-22%
Net loss after tax attributable to members	($1,486)	($5,174)	Down	-71%
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	$0.44	$0.09		

- **Independent Review:** This report is based on the accompanying unaudited 2021 Half Year Financial Statements which have been reviewed by Grant Thornton LLP with the Report of Independent Certified Public Accountants (the "Report") provided.
- **Changes in control over entities:** There are no entities over which control has been gained or lost during the six month period ended 30 June 2021.
- **Details of dividends and dividend reinvestment plans:** The Company does not propose to pay any dividends in relation to the period.
- **Details of associates or joint ventures:** N/A
- **Set of accounting standards used in compiling the report:** The unaudited 2021 Half Year 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.

VISIONEERING TECHNOLOGIES, INC.

CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2021 and 2020

VISIONEERING TECHNOLOGIES, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Visioneering Technologies, Inc.

We have reviewed the accompanying condensed interim financial statements of Visioneering Technologies, Inc. (a Delaware corporation) (the "Company"), which comprise the condensed balance sheet, and the related condensed statements of operations, changes in stockholders' equity (deficit), and cash flows, as of June 30, 2021 and for the six months ended June 30, 2021 and 2020, and the related notes to the condensed interim financial statements.

Management's responsibility
The Company's management is responsible for the preparation and fair presentation of the condensed interim financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's responsibility
Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion.

Conclusion
Based on our reviews, we are not aware of any material modifications that should be made to the condensed interim financial statements referred to above for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on condensed balance sheet as of December 31, 2020
We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the Company as of December 31, 2020, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements, with an emphasis of matter paragraph regarding going concern, in our

report dated February 17, 2021. In our opinion, the accompanying condensed balance sheet of the Company as of December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Atlanta, Georgia
August 19, 2021

VISIONEERING TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS
As of June 30, 2021 and December 31, 2020
(Unaudited)

	June 2021	December 2020
	(in US$000, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,078	$ 2,408
Accounts receivable	1,118	944
Inventory, net	1,054	550
Prepaid expenses and other current assets	460	523
TOTAL CURRENT ASSETS	17,710	4,425
NON-CURRENT ASSETS		
Property and equipment, net	15	23
Right of use assets, net	141	183
Intangible assets, net	170	177
Other non-current assets	184	179
TOTAL ASSETS	$ 18,220	$ 4,987
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 506	$ 330
Accrued payroll	515	115
Derivative liability	2,812	1,769
Current portion Paycheck Protection Program note payable	114	-
Other accrued liabilities	620	500
TOTAL CURRENT LIABILITIES	4,567	2,714
LONG-TERM LIABILITIES		
Convertible notes payable	2,791	2,830
Paycheck Protection Program note payable	-	1,035
Other non-current liabilities	62	113
TOTAL LIABILITIES	7,420	6,692
Commitments and contingencies (Note 13)		
EQUITY (DEFICIT)		
Class A common stock, par value $0.001 per share; 100,000,000 shares authorized, 23,635,500 shares issued and outstanding at June 30, 2021 and 9,932,776 shares issued and outstanding at December 31, 2020 (as adjusted for the 1 for 100 reverse stock split in June 2021)	24	10
Preferred stock, par value $0.001 per share; 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2021 and December 31, 2020	-	-
Additional paid-in capital	93,085	79,108
Accumulated deficit	(82,309)	(80,823)
TOTAL SHAREHOLDERS’ EQUITY (DEFICIT)	10,800	(1,705)
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY (DEFICIT)	$ 18,220	$ 4,987

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2021 and 2020
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
	(in US$000, except share and per share data)	
Net revenue	$ 3,111	$ 2,034
Cost of sales	1,794	1,221
Gross profit	1,317	813
Operating Expenses:		
Sales and marketing	2,174	3,353
Clinical and manufacturing	1,102	817
General and administrative	2,069	1,812
Total operating expenses	5,345	5,982
Operating loss	(4,028)	(5,169)
Other income and (expenses):		
Interest income and other, net	2	7
Interest expense	(160)	(166)
Gain on extinguishment of Paycheck Protection Program note payable	921	-
Gain on fair value of derivative liability	58	-
Gain on fair value of freestanding options	1,725	154
Loss before income taxes	(1,482)	(5,174)
Income tax expense	4	-
Net loss	$ (1,486)	$ (5,174)
Net loss per share – Basic and Diluted	$ (0.08)	$ (0.99)
Weighted average shares outstanding – Basic and Diluted	17,491,113	5,252,495

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2021
(Unaudited)

	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, 2020	9,932,776	$ 10	$ 79,108	$ (80,823)	$ (1,705)
Issuance of common stock, net of issuance costs:					
March 2021 placement and SPP	13,702,352	14	13,892	-	13,906
Rounding adjustments for reverse stock split	372	-	-	-	-
Stock-based compensation	-	-	85	-	85
Net loss	-	-	-	(1,486)	(1,486)
Balance at June 30, 2021	23,635,500	$ 24	$ 93,085	$ (82,309)	$ 10,800

(1) Amounts have been adjusted to reflect the one-for-one hundred reverse stock split effected in June 2021.

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2021 and 2020

	Six Months Ended June 30,	
	2021	2020
	(in US$000)	
Cash flows from operating activities:		
Net loss	$ (1,486)	$ (5,174)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15	32
(Gain) loss on fair value of derivative liability	(58)	-
(Gain) on extinguishment of Payroll Protection note payable	(921)	-
Change in fair value of freestanding options	(1.725)	(154)
Amortization of right-of-use asset	42	39
Amortization of debt discount	19	17
Stock-based compensation	85	388
Changes in assets and liabilities:		
Accounts receivable	(174)	143
Inventory	(504)	779
Prepaid expenses and other assets	62	(74)
Accounts payable	176	(94)
Accrued payroll	400	(430)
Other accrued liabilities	69	(91)
Net cash used in operating activities	(4,000)	(4,619)
Cash flows from investing activities:		
Purchases of property and equipment, net	-	(1)
Purchases of intangible assets	(4)	(10)
Net cash used in investing activities	(4)	(11)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs of $1,261 in 2021 and $575 in 2020	16,674	5,711
Issuance of note payable	-	1,035
Net cash provided by financing activities	16,674	6,746
Net increase in cash and cash equivalents	12,670	2,116
Cash and cash equivalents, beginning of period	2,408	1,919
Cash and cash equivalents, end of period	$ 15,078	$ 4,035
Supplemental disclosure:		
Cash paid for interest	$ 140	$ 166
Cash paid for taxes	$ 4	$ -
Share awards for 2019 compensation	$ -	$ 236
Issuance of freestanding options	$ 2,768	$ 700

See accompanying notes to condensed financial statements

NOTES TO CONDENSED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2021 and 2020
In US$ (Unaudited)

(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 United States ("US"), medical devices are regulated by the US 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. In 2020, we received approval to sell our contact lenses in Canada.

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 CHESS Depositary Nominees Pty Ltd 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 June 30, 2021, VTI had entered into agreements with Customers in the US, Europe, Australia, New Zealand, Hong Kong, Singapore and Canada.

Operations

To date, the Company has incurred recurring losses, negative cash flows from operations and has accumulated a deficit of $82.3 million from the Company's inception through June 30, 2021. As of June 30, 2021, the Company's cash and cash equivalents were $15.1 million. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses.

In order to meet our future working capital needs and maintain compliance with our debt covenant, we may 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. There are no guarantees regarding our ability to raise additional financing or successfully implement our revenue increase or cost reduction plans in order to ensure that we can meet our future working capital needs.

Effect of the COVID-19 Pandemic

The public health crisis caused by the COVID- 19 pandemic and the measures being taken by governments, businesses, and the public to limit the spread of COVID-19 have had, and the Company expects to continue to have, certain negative effects on, and present certain risks to, the Company's business. The Company is currently unable to fully determine the future impact on its business. The COVID-19 pandemic had an adverse impact on the Company's revenues late in the first quarter of 2020 and throughout the second quarter of 2020, when net revenue declined substantially from the first quarter. Net revenue and related metrics improved each month in the second quarter and continued to improve in the third quarter before declining again in the fourth quarter of 2020 as the virus surged in the US and abroad. Generally, net revenue and related metrics were less impacted by the virus in the first half of 2021, other than some anticipated shifting of patient visits to ECPs from the second quarter to the third quarter of 2021. The Company is monitoring the pandemic and its effect on the Company's financial position, results of operations and cash flows. Should the pandemic continue for an extended period and revenue metrics decline, the impact on the Company's operations could have an adverse effect on the Company's revenue, financial condition and cash flows.

Basis of Presentation

The Company has prepared the accompanying unaudited interim financial statements and notes in conformity with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by US GAAP for complete financial statements. In the opinion of the Company's management, the accompanying interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information. 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.

The accompanying interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2020 and related notes included in the Company's Annual Report in Appendix 4E, which was filed with the ASX on February 18, 2021. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

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 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), the Black-Scholes option valuation model to determine the fair value of the Unlisted Options and the ASX price to determine the fair value of the Listed Options (Note 7).

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 $15.1 million as of June 30, 2021 and $2.4 million as of December 31, 2020. 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 June 30, 2021 or December 31, 2020.

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 did not record any increases to inventory reserves in the six months ended June 30, 2021 or 2020. All inventory held at June 30, 2021 and December 31, 2020 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 Condensed 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 six months ended June 30, 2021 or 2020.

Revenue Recognition

We account for revenue in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606, as amended)*. 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 $230,000 and $481,000 in the six months ended June 30, 2021 and 2020, respectively, and included these expenses in Sales and marketing in the Condensed 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 $310,000 and $30,000 in the six months ended June 30, 2021 and 2020, respectively, and included them in Clinical and manufacturing in the Condensed 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 Condensed Statements of Operations. We do not believe that the amount of unrecognized tax benefits will significantly increase or decrease within 12 months of June 30, 2021. 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.

Reverse Stock Split

On June 15, 2021, the Company filed a certificate of amendment to its restated certificate of incorporation with the Secretary of State of the State of Delaware that effected a one-for-100 reverse stock split (the "Reverse Split") of its issued and outstanding shares of common stock on June 18, 2021. As a result of the Reverse Split, every 100 shares of common stock issued and outstanding were converted into one share of common stock. No fractional shares were issued in connection with the Reverse Split. Instead, the Company rounded up the number of shares issued to stockholders to the nearest whole share.

The Reverse Split did not change the par value of the common stock. The Company did reduce the number of authorized shares of common stock from 4,000,000,000 to 100,000,000 and the number of authorized shares of preferred stock from 50,000,000 to 5,000,000. The Reverse Split affected all stockholders uniformly and did not alter any stockholder's percentage interest in equity, other than for the minimal amount of rounding. All outstanding options and the conversion feature of the convertible notes have been adjusted for the Reverse Split, as required by the terms of each security. The number of shares available to be awarded under the 2017 Equity Incentive Plan also have been adjusted. The common stock began trading on the Australian Stock Exchange on a post-Reverse Split basis on June 18, 2021.

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 becomes effective for the Company on January 1, 2023. The Company does not anticipate the adoption of this ASU will have a material impact on its 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 adoption of this standard did not have a material impact on the Company's 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, 2022. The Company is currently assessing the impact of adoption of the ASU.

(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 have a single performance obligation, as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and therefore is 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 June 30, 2021 and December 31, 2020:

	2021 US$000	2020 US$000
Patents	$ 282	$ 282
Less accumulated amortization	(112)	(105)
Intangible assets, net	$ 170	$ 177

Amortization expense was approximately $7,000 and $8,000 in the six months ended June 30, 2021 and 2020, respectively. The weighted average remaining useful life of our patents as of June 30, 2021 was 9.0 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 2021 and 2020 and did not record impairment charges in the six months ended June 30, 2021 and 2020.

Amortization expense for the next five years is as follows:

For the year ended December 31,	US$000
2021 (remaining six months)	$ 8
2022	15
2023	15
2024	15
2025	15
Thereafter	102
Total	$ 170

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2021 and December 31, 2020:

	2021 US$000	2020 US$000
Computer equipment and software	$ 116	$ 116
Office equipment	49	49
Furniture and fixtures	52	52
Leasehold improvements	12	12
Total costs	229	229
Less accumulated depreciation	(214)	(206)
Property and equipment, net	$ 15	$ 23

Depreciation expense was approximately $8,000 and $24,000 for the six months ended June 30, 2021 and 2020, respectively.

(5) CONVERTIBLE NOTES PAYABLE

The following table presents a reconciliation of the beginning and ending balances for the six months ended June 30, 2021 and the year ended December 31, 2020:

	2021 US$000	2020 US$000
Balance at beginning of period	$ 2,830	$ 2,863
Conversion of convertible note to CDIs	-	(200)
Amortization of deferred financing costs	19	37
Loss (gain) on derivative liability	(58)	130
Balance at end of period	$ 2,791	$ 2,830

In July 2020, 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 $0.075AUD. The maturity date at issuance was July 11, 2021. We extended the maturity date to July 11, 2023 in January 2020. We adjusted the conversion price to $0.028 AUD in connection with the Placement completed in June 2020 (see Note 7) and to $2.80 AUD in connection with the Reverse Split (see Note 1).

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.

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.

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 is amortizing the debt discount and issuance costs over the 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. We reduced the derivative liability to $0 as of December 31, 2019. We evaluated the effect of the June 2020 change in the conversion price noted above and determined that the conversion option liability was not impacted by the change in the conversion price. The liability was $0 at the date of change in the conversion price. We increased the derivative liability to $130,000 as of December 31, 2020 and decreased the derivative liability to $72,000 as of June 30, 2021 and recorded a gain on the fair value of the derivative liability of $58,000 in the Condensed Statements of Operations for the six months ended June 30, 2021.

The Convertible Notes include covenants related to liquidity and net monthly cash flow. The Company was not in compliance with the liquidity covenant in April 2020. The majority holder of the Convertible Notes consented to the Company not meeting the liquidity covenant through the date that the Placement completed in conjunction with the Company agreeing to adjust the conversion rate for the Convertible Notes from $7.50 AUD to $2.80 AUD, provided that the majority holder participated in the Placement at a minimum subscription amount. The Placement was completed as planned and the Company returned to compliance with all covenants as of the Placement date and remained in compliance as of June 30, 2021. The convertible debt did not affect diluted earnings per share due to the Company's net loss position.

(6) 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"). The PPP is a disaster relief program in the United States that provides loans to US-based small businesses, for which some or all the loan may be forgiven. The loan proceeds may be used to pay for payroll, rent and utilities.

The PPP Loan originally was a two year note that provided a 6-month deferral period during which no principal or interest was due. Subsequently, the PPP Loan was revised to provide deferral of principal and interest for ten months or, if the Company applied for forgiveness within the first ten months, until the Company had submitted its application and the SBA completed its review of the application. The PPP Loan bears interest at 1% per annum, with equal principal and interest payments due monthly after the deferral period in amounts required to fully amortize the principal amount outstanding by the maturity date.

In 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 Company is accounting for the PPP Loan as debt and derecognized the portion of the PPP Loan that was forgiven when the SBA approved the forgiveness amount and legally released the Company from liability for that portion of the debt. The remaining balance after forgiveness is payable monthly from July 2021 through April 2022. The PPP Loan is unsecured.

(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.

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.

On June 18, 2021, the Company completed the Reverse Split (see Note 1). The following discussion reflects share issuances as adjusted by the Reverse Split.

On January 7, 2020, the Company issued 666,667 CDIs (representing the same number of shares) to complete a placement of its shares. The Company raised $1.9 million net of $0.2 million of issuance costs through the placement.

On June 3, 2020, the Company issued 3,649,336 CDIs (representing the same number of shares) to complete a placement of its shares. On June 30, 2020, the Company completed an SPP under which it issued 762,142 CDIs. The Company raised $3.8 million net of $0.4 million of issuance costs through the placement and the SPP. The Company issued each CDI issued under the placement and the SPP at a subscription price of $1.40 AUD and issued one freestanding option for every two CDIs subscribed for, with each freestanding option having an exercise price of $2.80 AUD and an expiration date of June 30, 2022. These options are unlisted (the "Unlisted Options"). The Unlisted 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. We recorded a liability of $606,000 as of June 3, 2020 for the fair value of the Unlisted Options related to the Placement and an additional $94,000 as of June 30, 2020 for the fair value of the Unlisted Options related to the SPP. The fair value of all Unlisted Options increased to $1,769,000 as of December 31, 2020 and decreased to $210,000 as of June 30, 2021. We recorded a gain on fair value of freestanding options relating to the Unlisted Options of $1,559,000 in the Condensed Statements of Operations for the six months ended June 30, 2021.

In September and October 2020, holders exercised an aggregate of 142,571 freestanding options for an exercise price of $0.3 million.

On March 22, 2021, the Company issued 13,011,765 CDIs (representing the same number of shares) to complete a placement of its shares. On April 13, 2021, the Company completed an SPP under which it issued 690,587 CDIs. The Company raised $16.7 million net of $1.3 million of issuance costs through the placement and the SPP. The Company issued each CDI issued under the placement and the SPP at a subscription price of $1.70 AUD 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. We recorded a liability of $2,628,000 as of March 22, 2021 for the fair value of the Listed Options related to the placement and an additional $140,000 as of April 13, 2021 for the fair value of the Listed Options related to the SPP for a total value on issuance of $2,768,000. The fair value of all Listed Options as of June 30, 2021 was $2,602,000. We recorded a gain on fair value of freestanding options relating to the Listed Options of $166,000 in the Condensed Statements of Operations for the six months ended June 30, 2021.

In May 2020, the stockholders approved an increase in the number of authorized shares of Class A common stock from 750,000,000 to 2,500,000,000 shares at the annual meeting of stockholders. In March 2021, the stockholders approved another increase in the number of authorized Class A common stock from 2,500,000,000 to 4,000,000,000 shares at the annual meeting of stockholders. In June 2021, in conjunction with the Reverse Split, the Company decreased the number of authorized shares of Class A common stock from 4,000,000,000 to 100,000,000 and the number of authorized shares of preferred stock from 50,000,000 to 5,000,000.

(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 $72,000 and $73,000 in the six months ended June 30, 2021 and 2020, respectively, and is included in General and administrative expenses in the Condensed Statements of Operations. These amounts include variable lease costs of $25,000 in each period.

Supplemental balance sheet information as of June 30, 2021 for the Company's operating lease is as follows:

		US$000
NON-CURRENT ASSETS		
Right of use assets, net	$	141
Total lease assets	$	141
CURRENT LIABILITIES		
Other accrued liabilities	$	100
NON-CURRENT LIABILITIES		
Other non-current liabilities		62
Total lease liabilities	$	162

As of June 30, 2021, a schedule of maturity of lease liabilities under all operating leases is as follows:

For the year ended December 31,		US$000
2021 (remaining six months)	$	53
2022		108
2023		9
Total		170
Less amount representing interest		(8)
Present value of minimum lease payments		162
Less current portion		(100)
Non-current portion	$	62

Cash paid for operating leases was approximately $24,000 and $59,000 during the six months ended June 30, 2021 and 2020, respectively.

As of June 30, 2021, the remaining lease term of the Company's operating lease was 1.6 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 six months ended June 30, 2021, two Customers accounted for approximately 85.2% of our total sales. The two same Customers accounted for 79.3% of our accounts receivable as of June 30, 2021.

For the six months ended June 30, 2020, three Customers accounted for approximately 94.5% of our total sales. Two of these same Customers accounted for 81.4% of our accounts receivable as of December 31, 2020.

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. 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.

Six Months Ended June 30, 2021 (US$000)	**North America**	**Europe/Asia-Pacific**	**Corporate Support**	**Total**
Net revenue	$ 2,919	$ 192	$ -	$ 3,111
Cost of sales	1,675	119	-	1,794
Gross profit	1,244	73	-	1,317
Sales and marketing	1,912	262	-	2,174
Clinical and manufacturing	-	-	1,102	1,102
General and administrative	-	2	2,067	2,069
Total expenses	1,912	264	3,169	5,345
Operating loss	$ (668)	$ (191)	$ (3,169)	(4,028)
Interest expense and other, net				2,546
Loss before income taxes				$ (1,482)

Six Months Ended June 30, 2020 (US$000)	**North America**	**Europe/Asia-Pacific**	**Corporate Support**	**Total**
Net revenue	$ 1,907	$ 127	$ -	$ 2,034
Cost of sales	1,146	75	-	1,221
Gross profit	761	52	-	813
Sales and marketing	3,026	327	-	3,353
Clinical and manufacturing	-	13	804	817
General and administrative	-	1	1,811	1,812
Total expenses	3,026	341	2,615	5,982
Operating loss	$ (2,265)	$ (289)	$ (2,615)	(5,169)
Interest expense and other, net				(5)
Loss before income taxes				$ (5,174)

(11) STOCK COMPENSATION PLANS

Stock-based compensation expense was approximately $85,000 and $388,000 for the six months ended June 30, 2021 and 2020, 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 June 30, 2021 and December 31, 2020 was 5,610. 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 increased from 110,000 to 2,010,000 at the Company’s Annual Meeting of Stockholders in May 2020. The share reserve may be increased each year in accordance with the 2017 Plan documents and was increased to 2,110,500 in February 2021. The total number of options issued and outstanding as of June 30, 2021 and December 31, 2020 was 923,649 and 924,649, respectively. As of June 30, 2021, there were 587,197 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 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.

There were no grants in the six months ended June 30, 2021. Assumptions for grants in the six months ended June 30, 2020 are as follows:

	2020
Risk-free interest rate	0.31-0.43%
Expected volatility	89.0%
Expected term (Six Months)	5-6.25
Dividend rate	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, 2020	930,259	$1.32	9.39	834,091	$0.81
Grants	-	-		-	-
Cancellation / forfeitures	(1,000)	1.20		(1,000)	0.80
Vested	-	-		(202,815)	0.80
Exercised	-	-		-	-
Outstanding at June 30, 2021	929,259	$1.33	8.90	630,276	$0.82
Exercisable at June 30, 2021	298,983	$1.52	8.84		

The intrinsic value of options unexercised as of June 30, 2021 and 2020 was approximately $0. The total fair value of options vested during the six months ended June 30, 2021 was approximately $162,000.

As of June 30, 2021 and December 31, 2020, there was approximately $498,000 and $581,000, 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 1.94 years.

In the six months ended June 30, 2020, the Company granted 196,763 shares in lieu of earned but unpaid short-term cash incentive for 2019 that were fully vested on the date of grant. Of these grants, 177,229 were issued to current employees under the 2017 Plan and 19,534 were issued to a former employee and were outside the 2017 Plan. The grant date fair value of the shares issued was $236,000 and was recorded as an offset to accrued payroll. In addition, the Company granted 426,904 restricted shares to employees in lieu of a portion of the employees' fixed cash remuneration for the period from April to December 2020. The restricted shares vested in equal fortnightly tranches over the period from April to December 2020. As of December 31, 2020, 422,425 of the restricted shares had vested and were no longer restricted. The remaining 4,479 restricted shares were forfeited in 2020. The grant date fair value of the restricted shares was $512,000, of which $162,000 was included in operating expenses in the June 30, 2020 Statement of Operations and the remainder was expensed in the second half of 2020.

(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 $67,000 and $91,000 in the six months ended June 30, 2021 and 2020, 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 June 30, 2021.

(14) RELATED PARTIES

We incurred approximately $25,000 and $0 in fees and expenses for the six months ended June 30, 2021 and 2020, 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 June 30, 2021 and December 31, 2020.

The Company's assets and liabilities measured at fair value on a recurring basis include cash equivalents of $15.1 million as of June 30, 2021 and $2.4 million as of December 31, 2020, the fair value of the conversion feature of the Convertible Notes of $72,000 at June 30, 2021 and $130,000 at December 31, 2020, and the fair value of freestanding options of $2,812,000 as of June 30, 2021 and $1,769,000 as of December 31, 2020. We consider the factors used in determining the fair value of our cash equivalents and Listed Options to be Level 1 inputs and the fair value of the conversion feature and Unlisted 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 six months ended June 30, 2021 and 2020:

	2021	2020
Convertible notes conversion feature	US$000	US$000
Balance at beginning of period	$ 130	$ -
Total (gains) losses – realized/unrealized	(58)	-
Balance at end of period	$ 72	$ -

Unlisted Options	2021 US$000	2020 US$000
Balance at beginning of period	$ 1,769	$ -
Call options issued with Placement and SPP, at fair value		700
Total (gains) losses – realized/unrealized	(1,559)	(154)
Balance at end of period	$ 210	$ 546

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 six months ended June 30, 2021 are as follows:

	Freestanding Options	Conversion Feature
Risk-free interest rate	-0.003%	0.25%
Expected volatility	88.0%	55.0%
Expected term (years)	1.0	2.0
Dividend rate	0.0%	0.0%
Coupon rate	N/A	10.0%
Conversion price	N/A	A$2.80
Foreign exchange rates	N/A	0.750-0.751

(16) INCOME TAXES

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

At the end of each interim period, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimate reflects, among other items, the Company's best estimate of operating results. In estimating the annual effective tax rate, the Company does not include the estimated impact of unusual and/or infrequent items, including the reversal of valuation allowances, which may cause significant variations in the customary relationship between income tax expense (benefit) and pretax income (loss) in quarterly periods. The income tax expense (benefit) for such unusual and/or infrequent items is recorded in the quarterly period such items are incurred.

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. The Company's effective tax rate for the six months ended June 30, 2021 properly excluded tax benefits associated with year-to-date pre-tax losses. 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.

(17) SUBSEQUENT EVENTS

On July 26, 2021, the Company announced that it had entered into an exclusive sales and distribution agreement with Innovatus Technology Pty Ltd for the distribution of Forge Ortho-K lenses and Bespoke™ corneal gas permeable contact lenses in the United States and Canada effective August 1, 2021.

The Company evaluated the accounting and disclosures requirements for subsequent events through August 19, 2021, the issuance date of the financial statements.