

ASX Announcement | 20 August 2019
Visioneering Technologies (ASX:VTI)

Appendix 4D

Atlanta, Georgia, USA August 20, 2019: 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 2019.

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, 2018 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.

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About Visioneering Technologies

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

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

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.

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.

APPENDIX 4D (RULE 4.2A)

HALF YEARLY REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(US\$ in 000's, unaudited, except account, per account and per share data)	June 2019	June 2018	up/down	% movement
Net Revenue	\$2,314	\$1,162	up	99%
Shipments to US ECPs	\$2,659	\$1,172	up	127%
Active US Accounts	1,855	1,156	up	60%
Shipments to US ECPs per Active US Account	\$1,433	\$1,014	up	41%
Loss after tax from ordinary activities attributable to members	(\$6,713)	(\$9,973)	down	-33%
Net loss after tax attributable to members	(\$6,713)	(\$9,973)	down	-33%
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	\$0.01	\$0.05		

- **Independent Review:** This report is based on the accompanying unaudited 2019 Half Year Financial Statements which have been reviewed by Grant Thornton LLP with the Report of Independent Certified Public Accountants (the “Report”) provided. The Report provided includes an emphasis of matter paragraph regarding going concern. (See note 1 to the financial statements.)
- **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 2019.
- **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 2019 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, 2019 and 2018

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, and cash flows, as of June 30, 2019 and for the six months ended June 30, 2019 and 2018, and the related notes to the 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, 2018

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, 2018, and the related statements of operations, changes in stockholders' equity, 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 18, 2019. In our opinion, the accompanying condensed balance sheet of the Company as of December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of matter regarding going concern

The accompanying condensed interim financial statements have been prepared assuming that the Company will continue as a going concern. Note 1 of the Company's audited financial statements as of and for the year ended December 31, 2018 includes a statement that substantial doubt exists about the Company's ability to continue as a going concern. Note 1 of the Company's audited financial statements also discloses the events and conditions, management's evaluation of the events and conditions, and management's plans regarding these matters. Our auditor's report on those financial statements includes an emphasis of matter paragraph referring to the matters in Note 1 of those financial statements. As indicated in Note 1 of the accompanying unaudited condensed interim financial statements as of June 30, 2019, and for the six months then ended, the Company continues to incur losses, negative cash flows from operations, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. The accompanying unaudited condensed interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Atlanta, Georgia
August 19, 2019

VISIONEERING TECHNOLOGIES, INC.

CONDENSED BALANCE SHEETS
As of June 30, 2019 and December 31, 2018
(Unaudited)

	June 2019 (in US\$000, except share data)	December 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,269	\$ 7,275
Accounts receivable	628	495
Inventory, net	1,555	2,022
Prepaid expenses and other current assets	454	276
TOTAL CURRENT ASSETS	3,906	10,068
NON-CURRENT ASSETS		
Property and equipment, net	82	110
Right of use assets, net	300	-
Intangible assets, net	160	167
Other non-current assets	194	34
TOTAL ASSETS	\$ 4,642	\$ 10,379
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 80	\$ 140
Accrued payroll	703	540
Other accrued liabilities	559	696
TOTAL CURRENT LIABILITIES	1,342	1,376
LONG-TERM LIABILITIES		
Deferred rent	-	38
Other non-current liabilities	253	-
TOTAL LIABILITIES	1,595	1,414
EQUITY		
Class A common stock, par value \$0.001 per share; 500,000,000 shares authorized, 270,841,516 shares issued and outstanding at June 30, 2019 and 248,619,294 shares issued and outstanding at December 31, 2018 (Note 15)	271	249
Class B common stock, par value \$0.001 per share; 100,000,000 shares authorized, no shares issued and outstanding at June 30, 2019 and December 31, 2018	-	-
Preferred stock, par value \$0.001 per share; 50,000,000 shares authorized, no shares issued and outstanding at June 30, 2019 and December 31, 2018	-	-
Additional paid-in capital	68,456	67,683
Accumulated deficit	(65,680)	(58,967)
TOTAL SHAREHOLDERS' EQUITY	3,047	8,965
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,642	\$ 10,379

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.

CONDENSED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 2019 and 2018
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
Net revenue	\$ 2,314	\$ 1,162
Cost of sales:		
Product costs	1,546	949
Inventory write-down and reserves	-	821
	1,546	1,770
Total cost of sales		
Gross profit	768	(608)
Expenses:		
Sales and marketing	4,735	5,623
Clinical and manufacturing	1,036	1,383
General and administrative	1,753	2,443
	7,524	9,449
Total expenses		
Operating loss	(6,756)	(10,057)
Interest income and other, net	50	84
Loss before income taxes	(6,706)	(9,973)
Income tax expense	7	-
	\$ (6,713)	\$ (9,973)
Net loss		
Net loss per share – Basic and Diluted	\$ (0.03)	\$ (0.05)
Weighted average shares outstanding – Basic and Diluted	250,952,013	197,059,682

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, 2019
(Unaudited)

	Common Stock		Paid-In Capital US\$000	Accumulated Deficit US\$000	Total US\$000
	Shares Number	Amount US\$000			
Balance at December 31, 2018	248,619,294	\$ 249	\$ 67,683	\$ (58,967)	\$ 8,965
Issuance of common stock, net of issuance costs	22,222,222	22	632	-	654
Stock-based compensation	-	-	141	-	141
Net loss	-	-	-	(6,713)	(6,713)
Balance at June 30, 2019	<u>270,841,516</u>	<u>\$ 271</u>	<u>\$ 68,456</u>	<u>\$ (65,680)</u>	<u>\$ 3,047</u>

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2019 and 2018
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
	(in US\$000)	
Cash flows from operating activities:		
Net loss	\$ (6,713)	\$ (9,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35	38
Inventory write-down and reserves	-	821
Stock-based compensation	141	120
Changes in assets and liabilities:		
Accounts receivable	(133)	(110)
Inventory	467	(810)
Prepaid expenses and other assets	(338)	27
Accounts payable	(60)	200
Accrued payroll	163	(215)
Other accrued liabilities	(222)	468
Net cash used in operating activities	(6,660)	(9,434)
Cash flows from investing activities:		
Purchases of property and equipment, net	-	(10)
Purchases of intangible assets, net	-	(41)
Net cash used in investing activities	-	(51)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs of \$38	654	-
Net cash provided by financing activities	654	-
Net (decrease) increase in cash and cash equivalents	(6,006)	(9,485)
Cash and cash equivalents, beginning of period	7,275	16,584
Cash and cash equivalents, end of period	\$ 1,269	\$ 7,099
Supplemental disclosure:		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 7	\$ -

See accompanying notes to condensed financial statements

VISIONEERING TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2019

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 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 TGA approval in early 2018, enabling us to sell our contact lenses in the US, Europe, Australia and New Zealand. All of our sales were in the United States through September 2018, at which time we began also selling in international markets.

In March 2017, we completed our Initial Public Offering ("IPO") and associated listing on the Australian Stock Exchange ("ASX"). The ASX uses an electronic system called CHESS for the clearance and settlement of trades on the ASX. The State of Delaware does not recognize the CHESS system of holding securities or electronic transfers of legal title to shares. To enable companies such as VTI to have their securities cleared and settled electronically through CHESS, depository instruments called CDIs are issued. CDIs are units of beneficial ownership in shares and are traded in a manner similar to shares of Australian companies listed on the ASX. The legal title to the shares is held by a depository, CDN, which is a wholly-owned subsidiary of the ASX, and is an approved general participant of ASX Settlement.

We currently manage warehousing and distribution of our products through a contract with a Third-Party Logistics provider (the "3PL"). The 3PL stores our inventory and ships it to our customers, which include major contact lens distributors ("Customers"). These Customers generally have non-exclusive rights to market, promote, sell and distribute our products ("Products") within specified territories, provided that Products shall be sold only to permitted eye care providers ("ECPs") and shipped only to ECPs or directly to a patient if specifically directed by the ECPs. As of June 30, 2019, VTI had entered into agreements with Customers in the US, Europe, Australia and New Zealand.

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, 2018 and related notes included in the Company's Annual Report in Appendix 4E, which was filed with the ASX on February 19, 2019. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

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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, and the fair value of share-based awards. Management bases its estimates on historical experience and other factors which it believes to be reasonable under the circumstances. Actual results may differ from these judgments.

Liquidity and Going Concern

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

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. To date, the Company has incurred recurring losses, negative cash flows from operations and has accumulated a deficit of \$65.7 million from the Company's inception through June 30, 2019. As of June 30, 2019, the Company's cash and cash equivalents were \$1.3 million. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses. As described more completely in Note 15, Subsequent Events, the Company completed a Rights Offering and a Convertible Note Issue in July 2019 through which it raised an additional \$6.8 million, net of issuance costs.

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

Fair Value of Financial Instruments

We have identified cash, accounts receivable, and accounts payable as financial instruments of the Company. Due to the short-term nature of the cash, accounts receivable, and accounts payable, we believe that the fair value of those accounts approximates their carrying values.

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*

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Other Options, for consideration of any cash conversion, equity components and beneficial conversion features.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of 90 days or less when purchased. Cash and cash equivalents were \$1.3 million as of June 30, 2019 and \$7.3 million as of December 31, 2018. At times, cash balances may exceed the Federal Deposit Insurance Corporation insurance limit.

Accounts Receivable

The carrying value of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, management considers many factors in estimating its general allowance, including historical data, experience, customer types, credit worthiness, and economic trends. We extend credit based on evaluation of a customer's financial condition and do not require collateral. From time to time, management may adjust its assumptions for anticipated changes in any of those or other factors expected to affect collectability. We charge provisions for doubtful accounts to operations at the time we determine these amounts may become uncollectible. Based on our review, we have not recorded an allowance for doubtful accounts as of June 30, 2019 or December 31, 2018.

Inventory

Inventory is stated at the lower of cost or net realizable value with cost determined under the first in, first out (FIFO) method. We regularly review our inventory quantities on hand and related cost and record a provision for any excess or obsolete inventory based on our estimated forecast of product demand and other factors. We also review our inventory value to determine if it reflects the lower of cost or net realizable value. Based on these reviews, we recorded inventory write-downs of \$0 in the six months ended June 30, 2019 and \$821,000 in the six months ended June 30, 2018. The 2018 write-down was related to launches of new products replacing older products and to excess inventory purchased prior to sufficient demand information being available. All inventory held at June 30, 2019 and December 31, 2018 consisted of finished goods.

Intangible Assets

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

Property and Equipment

We record property and equipment at cost less accumulated depreciation and expense repairs and maintenance costs as incurred. We included 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:

<u>Asset Classification</u>	<u>Estimate Useful Life</u>
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

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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 internal assessments in the six months ended June 30, 2019 or June 30, 2018.

Revenue Recognition

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

Advertising Costs

We recognize advertising costs as an expense in the period in which we incur them. We incurred advertising expense of approximately \$153,000 and \$120,000 in the six months ended June 30, 2019 and 2018, 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 \$0 and \$20,000 in the six months ended June 30, 2019 and 2018, 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 the ASC 740, *Income Taxes*, we recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. We record a

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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, 2019. Given the Company's net operating losses, all years since inception are subject to review.

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

Earnings Per Share (EPS)

We calculate basic EPS in accordance with ASC 260, *Earnings per Share*, by dividing net income or loss attributable to common stockholders by the weighted average common stock outstanding. We calculate diluted EPS in accordance with ASC 260 by adjusting weighted average common shares outstanding for the dilutive effect of common stock options, warrants, convertible preferred stock, and accrued but unpaid convertible preferred stock dividends. 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 diluted EPS because to do so would have been anti-dilutive.

Reclassifications

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

Recent Accounting Pronouncements

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

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In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. The amendments in this update require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update became effective for the Company beginning January 1, 2018. The adoption of this update did not have a significant impact on the Company's financial statements or the related disclosures.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income: Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*, to clarify the scope of Subtopic 610-20 and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20 was issued in May 2014 as part of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provided guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. The amendments in this update became effective for the Company beginning January 1, 2018. The adoption of this update did not have a significant impact on the Company's financial statements or the related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation–Stock Compensation (Topic 718): Scope of Modification Accounting*, that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The new standard became effective for the Company beginning January 1, 2018. The new guidance must be applied on a prospective basis. The adoption of this standard did not have a significant impact on the Company's financial statements or the related disclosures.

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

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

(2) REVENUErecognition

We sell our products to our Customers, including major contact lens 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 the Customers. We then reimburse the Customers for discounts they provided on our behalf to the ECPs. Each of our current contracts consist of a master service agreement combined with specific purchase orders and have a single performance obligation, as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct.

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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 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, 2019 and December 31, 2018:

	2019 US\$000	2018 US\$000
Patents	\$ 240	\$ 240
Less accumulated amortization	(80)	(73)
Intangible assets, net	\$ 160	\$ 167

Amortization expense was approximately \$7,000 and \$6,000 for the six months ending June 30, 2019 and 2018, respectively. The weighted average remaining useful life as of June 30, 2019 was 10.01 years.

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

Amortization expense for the next five years is as follows:

For the year ended December 31,	US\$000
2019	\$ 15
2020	15
2021	15
2022	15
2023	15
Thereafter	85
Total	\$ 160

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(4) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019 and December 31, 2018:

	2019 US\$000	2018 US\$000
Computer equipment and software	\$ 113	\$ 113
Office equipment	49	49
Furniture and fixtures	52	52
Leasehold improvements	12	12
Total costs	226	226
Less accumulated depreciation	(144)	(116)
Property and equipment, net	\$ 82	\$ 110

Depreciation expense was approximately \$28,000 and \$32,000 for the six months ending June 30, 2019 and 2018, respectively.

(5) SHAREHOLDERS' EQUITY

Common Stock

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

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

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

In conjunction with this Placement, the Company also is undertaking a fully underwritten, non-renounceable entitlement offer of 9 new CDIs for every 19 CDIs (representing new fully paid shares of Class A common stock) to raise \$4.0 million before issuance costs. The Company also is issuing \$3.0 million of Convertible Notes. The Company completed these transactions in July 2019. See Note 15 for further information regarding these transactions.

(6) LEASES

We evaluate all contracts to determine whether it 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.

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Lease renewal options are not recognized 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. The Company's operating lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information as of June 30, 2019 for the Company's operating lease is as follows:

	US\$000
NON-CURRENT ASSETS	
Right of use assets, net	\$ 300
Total lease assets	<u>\$ 300</u>
CURRENT LIABILITIES	
Other accrued expenses	\$ 83
NON-CURRENT LIABILITIES	
Other non-current liabilities	<u>253</u>
Total lease liabilities	<u>\$ 336</u>

The Company's operating lease cost for the six months ended June 30, 2019 was approximately \$49,000 and is included in General and administrative expenses in the Condensed Statements of Operations.

As of June 30, 2019, a schedule of maturity of lease liabilities under all operating leases is as follows:

For the year ended December 31,	US\$000
2019 (remaining)	\$ 50
2020	101
2021	105
2022	108
2023	<u>9</u>
Total	373
Less amount representing interest	<u>(37)</u>
Present value of minimum lease payments	336
Less current portion	<u>(83)</u>
Non-current portion	\$ 253

Cash paid for operating leases was approximately \$49,000 during the six months ended June 30, 2019. An insignificant amount of right of use assets were obtained in exchange for operating leases for the six months ended June 30, 2019.

As of June 30, 2019, the remaining lease term of the Company's operating lease was 3.6 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

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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. On adoption of the new lease standard, the discount rate used for the existing lease was established at January 1, 2019.

(7) CONCENTRATIONS AND CREDIT RISK

For the six months ended June 30, 2019, two Customers accounted for approximately 89.6% of our total sales. The two same Customers accounted for 82.6% of our accounts receivable as of June 30, 2019.

For the six months ended June 30, 2018, two Customers accounted for approximately 97.3% of our total sales. Three Customers, including the two noted previously, accounted for 91.9% of our accounts receivable as of December 31, 2018.

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

(8) 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 a single reporting segment.

(9) STOCK COMPENSATION PLANS

Stock-based compensation expense was \$141,366 and \$119,851 for the six months ended June 30, 2019 and 2018, respectively.

The Board adopted the 2008 Stock Incentive Plan ("Incentive Plan"), with an effective date of July 1, 2008. The Incentive Plan permits the granting and issuance of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Restricted Stock Units, and Stock Appreciation Rights. Under the Incentive Plan, 12,160,873 shares of common stock have been authorized for share-based awards. The total number of options issued and outstanding as of June 30, 2019 and December 31, 2018 was 8,571,324 and 8,571,324, respectively. The Incentive Plan is the predecessor to the 2017 Plan described below. On January 18, 2017, the Board determined that no additional stock incentives would be awarded under the 2008 Incentive Plan, but stock incentives previously granted would continue to be governed by the terms of the Incentive Plan.

The Board adopted the 2017 Equity Incentive Plan (the "2017 Plan"), with an effective date of January 18, 2017. The 2017 Plan permits the granting and issuance of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock, Stock Units, Performance Awards and Stock Appreciation Rights. The total number of shares reserved for issuance under the 2017 Plan is 11,000,000. The share reserve may be increased each year in accordance with the 2017 Plan documents. The total number of options issued and outstanding as of June 30, 2019 and December 31, 2018 was 5,796,638 and 2,758,044, respectively.

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

Additionally, we recognize stock-based compensation expense related to stock options granted to non-employees on a straight-line basis, as the stock options are earned. We issued options to non-employees,

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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. Pre-IPO, we determined the estimated fair value of common stock with the assistance of an independent valuation specialist. Post IPO, 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 six months ended June 30, 2019 and 2018 are as follows:

	2019	2018
Risk-free interest rate	2.49%	1.25%
Expected volatility	50.0%	50.0%
Expected term (years)	6.25	5
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\$	Remaining Contractual Term in Years	Number of Options	Weighted Average Grant-Date Fair Value
					Weighted Average
Outstanding at December 31, 2018	11,329,368	\$0.09	8.23	6,292,887	\$0.10
Grants	3,038,594	0.07		3,038,594	0.03
Cancellation / forfeitures	-	-		-	
Vested	-	-		(934,258)	0.13
Exercised	-	-		-	
Outstanding at June 30, 2019	<u>14,367,962</u>	<u>\$0.08</u>	<u>8.17</u>	<u>8,397,223</u>	<u>\$0.06</u>
Exercisable at June 30, 2019	<u>5,970,739</u>	<u>\$0.07</u>	<u>7.63</u>		

The intrinsic value of options unexercised as of June 30, 2019 and December 31, 2018 was approximately \$0 and \$361,000, respectively. The intrinsic value of options exercised was approximately \$24,000 in 2018. The total fair value of options vested during the six months ending June 30, 2019 was approximately \$119,000. Options cancelled in 2018 included 366,618 options remitted by optionees to satisfy the exercise price of options exercised.

As of June 30, 2019 and December 31, 2018, there was approximately \$523,000 and \$567,000, respectively, of total unrecognized compensation expense related to stock option awards under the combined plans. We expect to recognize that cost over a weighted average period of 2.86 years.

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(10) 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 \$111,000 and \$104,000 in the six months ending June 30, 2019 and 2018, respectively.

(11) 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, 2019.

(12) RELATED PARTIES

We incurred approximately \$83,000 and \$318,000 in fees and expenses for the six months ending June 30, 2019 and 2018, respectively, for clinical and regulatory consulting services provided by a company owned by one of our former officers.

(13) 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, 2019 and December 31, 2018.

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The Company's assets and liabilities measured at fair value on a recurring basis include cash equivalents of \$1.0 million as of June 30, 2019 and \$7.0 million as of December 31, 2018.

(14) 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, 2019 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 2017, and subject to examinations at various state levels between 2005 and 2017. The statute of limitations on these years will close when the NOLs expire or when the statute closes on the years in which the NOLs are utilized.

As of December 31, 2018, the Company had federal NOL carryforwards of approximately \$46.8 million and state NOL carryforwards of \$2.1 million (tax effected), that are available to reduce future income unless otherwise taxable. As of December 31, 2018, the Company has federal and state research and development ("R&D") credits of approximately \$0.9 million, that are available to reduce future federal and state income tax. We have not performed a study of our NOLs for limitations Internal Revenue Code Section 382. Due to the ownership change as a result of the IPO, our NOLs could be subject to significant annual limitations. If not utilized, the federal and state NOL carryforwards will expire at various dates between 2024 and 2037, except that \$15.6 million of NOLs originating in 2018 do not expire. The federal and state R&D credits will expire at various dates between 2021 and 2037.

(15) SUBSEQUENT EVENTS

On June 6, 2019, the Company announced that it had received commitments for new capital of up to \$7.7 million. The commitments consisted of three components, including a Placement, a Rights Offering and a Convertible Note issue.

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

The Rights Offering is a fully underwritten, non-renounceable entitlement offer of 9 new CDIs for every 19 CDIs (representing new fully paid shares of Class A common stock) to raise \$4.0 million before issuance costs. This transaction was completed on July 5, 2019. The Company received \$3.8 million net of \$0.2 million of issuance costs through the Rights Offering.

The Convertible Note Issue was conditional on the Placement and Rights Offering completing and required stockholder approval. The Company held a special meeting of stockholders on July 2, 2019 at which the

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stockholders approved the Convertible Note Issue. This transaction was completed on July 10, 2019 and the Company received \$3.0 million from the Convertible Note issue.

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

The Company evaluated the accounting and disclosures requirements for subsequent events through August 19, 2019, the issuance date of the financial statements.