Building Momentum

MyCelx Technologies Corporation
Annual Report & Accounts 2012

MYCELX – helping solve the Oil and Gas industry's toughest problems

MyCelx is a revolutionary oil-free water technology company solving the world's toughest oil removal problems in the oil and gas industry. Our systems are based upon scientific breakthrough for a completely different approach to permanent oil removal. MyCelx created the patented MyCelx polymer using innovative molecular cohesion for removing oil from water far beyond what conventional systems have ever achieved. MyCelx systems remove oil to critically low levels in a much smaller physical footprint than conventional systems and in a virtually fail-safe process. MyCelx can achieve oil removal to less than 1 ppm (part per million) or to the discharge level desired by the end user.

MyCelx is molecular cohesion, not just filtration. It's true oil-free water technology.

Three to eight times more water than oil is produced during oil and gas production. Reuse of water, especially in water stressed regions, is part of the industry's water management and business calculations every day. MyCelx is taking oil-free water treatment to new levels, setting the standard with proven technology.

MyCelx solutions are fast, efficient, cost-effective and operator-friendly. The oil and gas industry is embracing MyCelx technology and momentum is building.

Providing the technology to sustainably reuse water or safely discharge it to the environment is the mission of MyCelx.

Highlights

Gross profit up 123% to $6.56m

Financial

- Revenues up 97% to $12.30m
- Equipment revenues (either sold or leased) up 36% to $3.11m
- Recurring revenue from consumable filtration media and service up 131% to $9.18m
- Gross profit up 123% to $6.56m
- Gross profit margin increased to 53%
- Loss before income taxes was $1.60m
- Profit before tax (PBT) positive in each of the last three months of 2012

Operational

- New contracts or extensions signed with:
  - ONGC (India's state owned oil and gas company), Saudi Basic Industries Corporation, major US-based pipeline and terminal operating company, global E&P company for offshore project in Australia; and
  - MyCelx's first contract with a major national gas producer in the UAE
- The new Middle East 'fast-to-market' lease program producing strong revenues
- New distribution and service center in Saudi Arabia and sales and engineering center in Houston
- Expanded sales and support operations in the US, Europe, Southeast Asia, South America and MENA
- Successful trials in Alberta, Saudi Arabia, Qatar, the US Rocky Mountain region and Australia

Outlook

- Growth strategy continues to be executed successfully; strongly placed to benefit from current trends
- Contracted order book of $11.28m as of 8 April 2013
- Contracted order book plus installed base of lease renewals and recurring media sales results in 80% coverage of projected revenue for 2013

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Chairman's & Chief Executive Officer's Statement

"The Company built momentum in 2012, achieving strong revenue growth of 97%."

Introduction

The Company made considerable commercial progress in 2012 as it began implementing the expansion strategy presented during the IPO in August 2011. During the year the Company leveraged its track record of success with existing customers to secure additional projects with counterparts in other regions of the world as well as contracting projects with new customers. Investment has been made in staff, infrastructure and production capabilities to support the growing business. The Company built momentum in 2012, achieving strong revenue growth of 97%.

Operational Review

During the year, the Company was active across all regions particularly in the Middle East. MyCelx received its first contract extension of the large equipment leasing program for downstream service in Saudi Arabia. This lease project served as a catalyst for an additional equipment lease for downstream use in the same petrochemical complex, evidencing the success of the new "fast to market" lease strategy.

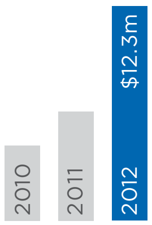
The Company also undertook its first project in the UAE, integrating a MyCelx system into key production processes. The Company invested in four MyCelx systems in order to accelerate expansion in the region by addressing demand for emergency and short lead time water treatment equipment for quick deployment. All four systems were delivered to a new customer in the Middle East and were successfully commissioned later in the year. A further three systems are in fabrication, two of which are under contract and all three are expected to be deployed in the second half of 2013. The Company's presence in the Middle East was further strengthened through the addition of an office and distribution center as well as additional professionals to accelerate project growth and lease program expansion.

Elsewhere the Company also received its first contract in India for delivery of two effluent treatment systems to Oil and Natural Gas Corporation, India's state-owned oil and gas company, for installation late Q2 2013. The Company has also seen an increase in its new business pipeline due to successful trials in Australia, the US Rocky Mountain region, Alberta, Saudi Arabia and Qatar. All of these projects have moved to the final engineering and design stage and are expected to contribute revenues during 2013.

The Company also installed two water treatment systems at a major US-based fuel oil storage terminal, which led to another contract from a major US-based pipeline and terminal operating company. On these projects the Company has made significant advances in building in automated proportional flow controls to its water treatment solutions, enabling its customers to target a specific level of oil-in-water effluent concentration irrespective of influent conditions. Both projects have further established the Company's presence in the downstream market in the U.S. and Houston in particular. The Company established an office and technology demonstration center in Houston and staff have been recruited to expedite project flow in the Gulf of Mexico and South America as well as to meet the demands of the global Engineering, Procurement and Construction companies located in Houston. Additionally, the Company expanded its London office with a new Business Development Officer focusing on Europe and Asia.

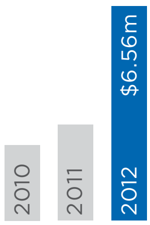
Financial

The Company continued to record a strong financial performance, with total revenues increasing by 96.5% to $12.30 million for 2012, compared to $6.26 million for 2011. Revenues continued to increase both as a result of new customer wins and increased penetration into some of the Company's largest customers. Revenues from equipment sales and leases increased by 35.8% to $3.11 million for 2012 (2011: $2.29 million), while recurring revenues from consumable filtration media and service increased



+97%

Revenue
$12.3 million (2011: $6.26 million)



+123%

Gross profit
$6.56 million (2011: $2.94 million)

by 131.2% to $9.18 million (2011: $3.97 million). Gross profit increased by 123.1% to $6.56 million in 2012, compared to $2.94 million in 2011. Gross profit margins increased in 2012 to 53.3% from 46.9% for the previous year, due to a revised pricing structure and continuous efforts to reduce third party vendor costs for both raw materials and services.

Total operating expenses for 2012 were $8.15 million. The largest component of operating expenses was Selling, General and Administrative (SG&A) expenses, which includes $4.22 million of salaries and travel. Additionally, operating expenses include non-cash stock based compensation of $852,000 and $870,000 for Research and Development.

The Company recorded a loss before tax of $1.60 million in 2012, compared to a loss before tax of $2.85 million in 2011. Basic loss per share was 15 cents, compared to basic loss per share of 30 cents for the previous year. The Company's revenue momentum resulting from investing in sales and engineering personnel as well as strategic sales and support locations is expected to carry the Company to profitability for the full year 2013.

Corporate

In January 2012, the Company appointed Swinton Griffith as a Non-Executive Director and as Chairman of the Audit Committee and member of the Compensation Committee. Mr. Griffith had a 28 year career as a Certified Public Accountant and Partner at Ernst & Young.

David Pattillo stepped down from his position as Chief Financial Officer (CFO) in May 2012. Mark Clark, who was serving in the position of Corporate Controller, assumed the CFO role.

At the forthcoming 2013 Annual Meeting, resolutions will be proposed to reappoint Tim Eggar (Chairman); John Mansfield (Non-Executive Vice Chairman); Connie Mixon (Chief Executive Officer); Mark Clark (Chief Financial Officer); Hal Alper (Chief Science Officer); Swinton Griffith (Non-Executive Director); and Brian Rochester (Non-Executive Director) as Directors of the Company.

Ian Johnson (Non-Executive Director) and Dr. Dale Threadgill (Non-Executive Director) have advised that they will not be standing for re-appointment as Directors of the Company at the Annual Meeting. On behalf of the Board, we would like to express our gratitude for their contributions to the Company through the IPO and during its subsequent development.

Summary and Outlook

We are extremely pleased with the progress the Company made in 2012. The Company experienced the benefit of recurring consumable media sales as a result of installations in late 2011 and achieved strong revenue growth with new sales and leases secured throughout the year.

The market for clean water systems is very robust as the oil and gas sector continues to seek methods and proven technology to better manage the water associated with their production and process activities to meet internal and external goals.

The Board expects the Company to meet expectations and looks forward to the future with enthusiasm and confidence.

Tim Eggar
Chairman
8 April 2013

Connie Mixon
Chief Executive Officer
8 April 2013

What we do and why we do it

MyCelx provides novel water treatment solutions that are proven to be highly efficient and cost effective

Where the industry is now – the need for water treatment

The oil and gas industry is by necessity in the water management business through the need to deal with naturally occurring water in upstream production or water needed for downstream refining processes, or the need to safely discharge water to the environment. The ability to sustainably manage the enormous volume of water from these activities is crucial to their operational performance and bottom line.

Our solutions

MyCelx provides novel water treatment solutions that are proven to be highly efficient and cost effective and have been installed successfully at the facilities of leading industry operators around the globe. The acceptance of the MyCelx solutions, as evidenced by MyCelx's 97% year-over-year revenue growth, illustrates the Company's success and momentum in an industry that is extremely thorough in evaluating and implementing changes to established practice. MyCelx provides robust technology and systems that give the industry sustainable solutions to meet pressing water management challenges. The core of the MyCelx solutions is the patented MyCelx compound which consists of a chemical polymer that is permanently infused in the consumable media. It is deployed in custom-designed equipment systems and produces treatment results which have been embraced as leading-edge by oil and gas, petrochemical and refining industry customers around the world.

Our opportunity

There are several key drivers in the oil and gas industry that present distinct opportunities for MyCelx. In water stressed regions of the world, the ability to reuse water in petrochemical or refining operations is a necessity. Secondly, deep water production technology has enabled the volume of oil and gas produced per well on a daily basis to significantly increase but with water streams that are more difficult to treat with conventional technologies. Lastly, increasingly stringent environmental regulations and the desire of the industry to reduce its environmental impact is also an important opportunity. MyCelx technology addresses these key challenges that currently exist. The MyCelx advantage is the capability to treat difficult streams at high flow rates to low level oil-in-water content for reuse or discharge. MyCelx has proven success with global operators managing these water treatment challenges and expects further success in the future.

Water reuse is critical in the Middle East and India where water scarcity is an area of national and industry focus

Our Business Model

The Company's business model is based on recurring revenue. The Company sells or leases MyCelx equipment supplied by the Company with the subsequent recurring revenue from sales of MyCelx patented consumable filtration media. The Company continues to sell consumable filtration media on a long-term, recurring basis. The media must be replaced at regular intervals based on a projected change-out schedule or earlier if operational upset conditions occur (such as an increase in hydrocarbon discharge) so that the MyCelx media is consumed faster. The Company also offers technical services on a recurring basis to end users that require it.

Our Strategy

Our strategy aligns with global trends in the oil and gas industry and with specific water treatment needs that the proprietary MyCelx technology addresses better than other existing water treatment equipment.

The efficacy of the MyCelx technology is most apparent in applications in water scarce regions where water reuse or safe discharge is tied to internal initiatives of water guardianship and operational cost savings, applications where a low level oil-in-water discharge is necessary for uninterrupted operations and in support of customer's goals to meet or exceed environmental regulations.

Water reuse is critical in the Middle East and India where water scarcity is an area of national and industry focus. Water used in processes is expensive and consequently adds to operational costs and there are ongoing initiatives to reuse water to conserve it for other uses. The Company will continue to allocate resources to fund growth in the Middle East and India where success in the petrochemical sector has provided a major source of revenue for the Company in 2012. The Company intends to leverage the success in this sector to garner projects within the petrochemical and refining complex, as well as begin to implement the process in other geographic regions. The Company believes it is providing solutions that have the possibility for broad implementation.

There are numerous opportunities in upstream water treatment and industrial water streams associated with the oil and gas industry; these include offshore deep water oil and gas production, unmanned, close-to-shore platforms, onshore oil and gas production, discharge water in the terminal and pipeline sector, and storm water run-off. The Company has an installed base for these applications which reach around the world. The technology has proven successful in the expansive produced water treatment market which resulted in multiple installations with a major exploration and production company.

Middle East strategy

The Company has remained committed to its successful strategy of focus on specific water-stressed geographic regions and applications where there is need for removal of oil to critically low levels.

Implementation of the technology in water-stressed regions such as the Middle East has been an important proving ground for MyCelx technology in process water reuse since this initiative is a major priority of the region and the petrochemical industry. MyCelx supports the end users' initiatives which improve the environment, conserve the scarce resource for other uses, and reduce the cost associated with the purchase of water for operations. The Company installed its first system in Saudi Arabia in 2008 and has since installed two more systems in two other plants and has a contract to install a second system in another location in an existing customer's plant in 2013. The importance of the continued progress with successful installations is the acceptance and momentum the Company is experiencing with the end users. The Company considers the water reuse applications in the Middle East to be high-value; the benefit to the end user is high value in terms of environmental improvement as well as operational cost savings. The Company believes integrating MyCelx water treatment systems into the plant process and operation has the potential for much broader implementation because very similar water treatment issues exist in the petrochemical sector worldwide.

How we do it continued

The success of the strategy in the Middle East has been duplicated in India

In order to support the operations in the Middle East, a technical service office and distribution center was established in Saudi Arabia in 2012 to provide ongoing services requested by the end users. Additionally, management made the decision in late 2011 to fabricate four equipment skids that could be sold or leased in the Middle East in an effort to shorten the sales cycle through operational leases. All of the skids were installed and leased in 2012 in the petrochemical plants resulting in healthy revenue gains in equipment lease and recurring media and service revenues that will continue in 2013 and beyond. The region contributed $6.8 million of MyCelx's total revenue for the year and the expectation is for continued growth by leveraging the "fast-to-market" lease program that has worked so well in the region. Additionally, the Company is planning to offer emergency response units that can be leased on a short term basis to address unexpected oily waste water problems. MyCelx technology is uniquely positioned to provide this service with small, efficient treatment skids that are easily trailer mounted.

The success of the strategy in the Middle East has been duplicated in India, another water-stressed region, where the Company will install two systems for use in the refining sector in the second quarter of 2013.

The Company expects to leverage the momentum in the Middle East, expand the existing business in other Gulf Cooperation Council ("GCC") countries, as well as other regions that face the same water scarcity issues. This will be achieved through reference sites and end users, personnel who have been hired to focus on the regional strategy, and capital dedicated to support the equipment lease and emergency response programs.

Targeted application strategy

The Company has identified specific applications in other sectors of the oil and gas industry where the ability to safely and reliably discharge water to the environment provides the end user with attractive operational benefits. Uninterrupted operations, fail-safe discharge that meets or exceeds environmental regulations, reduced maintenance down time and less waste generation, all of which are provided cost effectively by MyCelx systems. The Company installed two systems in 2012 to treat water in the terminal and pipeline sector to achieve reliable discharge to surface water. During 2012, a second project, to be installed in 2013, was sold to another pipeline company located nearby for similar application. The Company believes the terminal and pipeline sector fits well into its targeted application strategy because so many terminals are located near or on regulated bodies of water and rely on effective water treatment to operate efficiently.

MyCelx began projects in upstream onshore and offshore oil and gas production in 2007. The Company has installations in the Gulf of Mexico, one of which is Chevron's new Jack/St. Malo platform which will be installed late in 2013, as well as the US Rocky Mountain region. The Company is installing on a platform offshore of Australia in the second half of 2013, and has run successful trials in upstream production in Alberta, Qatar, and Australia. We anticipate more trials in 2013 as a result of the opening of our Houston sales, engineering and demonstration center, which is in close proximity to global oil and gas production companies and global engineering, procurement and construction companies. This center has already proven to be important to our strategy as we have made progress with contacts in South America where the Company expects to make sales in the near future.

Our targeted application strategy aims to avoid colliding with other water treatment companies over applications that can be served with lower level technology. With superior applications engineering capability, the Company identifies high value, under-served applications where the MyCelx technology provides the most cost effective and robust solutions. The oil and gas industry, well known as careful adopters of technology, are open to systems that improve operations, assist in achieving internal environmental goals and initiatives, and reduce cost.

Principal Risks and Uncertainties

The Company continues to face and address a number of risks and uncertainties, some of which are as follows:

- Should the Company require additional funds in order to carry out its strategy, there can be no assurance that the Company will be able to raise such additional capital on favorable terms or at all. The Company is managing its funds with the goal of eliminating the need for additional funding in the near future.
- The contribution of the existing executive Directors, senior management team members and certain key employees to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth. The Company continuously monitors and reviews compensation and benefits offered to its employees. The Company desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.
- The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis. The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.
- The Company relies on certain key manufacturers for the fabrication of MyCelx equipment in accordance with the specifications of the Company's customers. To attempt to manage this risk, the Company has expanded the number of manufacturers it uses that are capable of conducting manufacture on similar terms. However, any disruption in the Company's relationship with a manufacturer could affect pending orders placed with that manufacturer and result in transition costs and delays.
- The Company operates in a competitive market and it can be expected that the competition will continue and/or increase in the future both from established competitors and from new entrants to the market. The Company's competitors include companies with greater financial, technical and other resources than the Company. The Company is pursuing a growth strategy to continuously increase its financial and technical resources.
- Historically, the oil and gas industry has been subject to "boom-and-bust" cycles. Recession-induced downturns can affect the development of various oil and gas projects, particularly high-cost projects such as those relating to oil sands, deepwater offshore and liquefied natural gas. High-cost oil projects like deepwater offshore and oil sands typically depend on high oil prices. The market price of oil is affected by numerous factors which are beyond the Company's control. Should oil prices fall and remain low for a prolonged period for any reason including, for example, a lasting economic disruption in China, high cost oil projects may be scaled down, deferred or cancelled. Although the Company is focused on the oil and gas industry, it does sell into other industry sectors and is continuously developing intellectual property to commercialise new products.
- Historically, oil supply is subject to periodic disruption due to political unrest or insurrection, sabotage or terrorism, nationalist policies, accident or embargo. These events generally prove to be transient; however they can cause material reductions in production and are often difficult or impossible to predict. A disruption in oil supply can cause significant fluctuations in oil prices which, in turn, could have a material adverse effect on the Company's business. Although the Company is focused on the oil and gas industry, it does sell into other industry sectors and is continuously developing intellectual property to commercialise new products.

Board of Directors

Tim Eggar[1]

Non-Executive Chairman

Mr. Eggar joined MyCelx as Non-Executive Chairman in June 2011. Mr. Eggar was a Member of Parliament in the United Kingdom from 1979 to 1997 and served in a number of ministerial positions including Minister for Energy from 1992 to 1996. He has over 30 years of extensive international experience in the oil and gas industry including being Global Head of ABN AMRO's Global Energy Corporate Finance Group, Chief Executive Officer of Monument Oil and Gas plc, Chairman of Harrison Lovegrove, and Chairman of Indago Petroleum. He is currently Chairman of Cape plc and 3 Legs Resources plc. Mr. Eggar holds an MA from Cambridge University and is qualified as a barrister.

John Mansfield Sr.[2]

Non-Executive Vice Chairman

Mr. Mansfield co-founded the Company with Hal Alper in 1994, and was instrumental in the Company's early development, providing funding and serving as Chairman of the Board of Directors until June 2011. He has extensive experience in the oil and gas industry, having founded Mansfield Oil Company in 1957, which is today one of the largest petroleum distributors in the United States. In 2012, Mansfield Oil was ranked by Forbes Magazine as the 50th largest private company in the United States with revenues of over $6 billion. Mr. Mansfield is Connie Mixon's father.

Connie Mixon[3]

Chief Executive Officer and Director

Ms. Mixon joined MyCelx in 2004 and was responsible for rapidly developing the commercial and financial infrastructure to provide MyCelx products to a global customer base. Prior to joining MyCelx in 2004, she was Director for Global Markets for Deutsche Bank. Her career with investment banks included pioneering Deutsche Bank's institutional presence in the southern region of the US. Before her tenure at Deutsche Bank, Ms. Mixon was Vice President at Donaldson, Lufkin & Jenrette. Ms. Mixon holds an MBA from Emory University and a BA in politics from Wake Forest University. Ms. Mixon is married to Mark Mixon, the Company's Chief Business Development Officer and Senior Vice President.

Haluk (Hal) Alper[4]

President, Chief Science Officer and Director

Mr. Alper co-founded the Company with John Mansfield Sr. in 1994. An inventor of chemistries and chemical processes, he has been responsible for numerous patents, including 60 in MyCelx oil removal chemistry and related applications. He has led the research and development of the Company since inception. He has developed many products and processes currently in use in electrochemistry, polymer chemistry and environmental technology.

A published author with over fifty scientific and technical papers to his credit, Mr. Alper is a member of numerous professional societies, including NYAS (New York Academy of Sciences), AAAS (American Association for the Advancement of Science), ASNE (American Society of Naval Engineers), SNAME (Society of Naval Architects and Marine Engineers), NDIA (National Defense Industrial Association), AFS (American Filtration and Separation Society), ACS (American Chemical Society), AICHE (American Institute of Chemical Engineers), WEF (Water Environmental Federation), the Planetary Society and the National Space Society.

In addition to being a Director of the Company, Mr. Alper is co-chair of the Society of Naval Architects' and Marine Engineers' Technical and Research Committee panel (EC-3) on Oily Wastewater and Bilgewater, the principal author on the IMO Guide to Diagnosing Contaminants in Oily Bilgewater, and also serves on the ASTM committee promulgating ASTM standard for shipboard oil prevention abatement systems (OPAS). Mr. Alper is a recipient of the 2005 Ronald Reagan Gold Medal from the National Republican Congressional Committee (NRCC) for Technological Innovation, is on the editorial board of Filtration News Magazine and also serves on the technical advisory board of Environmental Protection Magazine.

Mark Clark [5]

Chief Financial Officer and Director

Mark Clark joined MyCelx in 2011 as the Corporate Controller and now serves as Chief Financial Officer. Prior to joining MyCelx, Mark was Head of Management Reporting and Financial Systems at Invesco. He served in several finance roles during his 14 year career with Invesco, including managing the global implementation of Sarbanes Oxley, the U.S. federal law that established new or enhanced standards for U.S. public company boards, management and public accounting firms. Before his tenure with Invesco, Mark was an auditor with Arthur Andersen. Mark holds a Bachelor of Business Administration from the University of Louisiana – Monroe. Mark was appointed as Chief Financial Officer, and as a Director on 11 September 2012.

Ian R. Johnson [6]

Non-Executive Director

Mr. Johnson joined the Board of MyCelx in June 2011. From 1999 until 2006, Mr. Johnson was Chief Executive Officer of Biotrace International plc, a leading provider of rapid microbiology testing systems and reagents. Biotrace became a public company in 1993 and was listed on the main market of the London Stock Exchange until its acquisition by 3M in December 2006. Mr. Johnson was the co-founder of Biotrace and, prior to becoming CEO, served as its Technical Director from 1988 to 1996, and as its Marketing and Development Director from 1996 to 1999. Since leaving Biotrace he has served as a Director of a number of companies, including Chairman of Evans Analytical Group and AOI Medical Inc., both AIM listed companies.

Mr. Johnson is currently Chairman of Finance Wales PLC, Celsis International Ltd. and Klenitise Ltd., and a Non-Executive Director of life science company, Lumora Ltd. He studied at University College Cardiff obtaining an Honours Degree and a M.Sc. by thesis in Microbiology. Mr. Johnson is a chartered biologist, a member of the Institute of Biology and the Institute of Directors and is the author of numerous publications and patents in the field of rapid microbiology.

Swinton Griffith [7]

Non-Executive Director

Mr. Griffith joined the Board of MyCelx in January 2012. He has had a 28 year career as a Certified Public Accountant at Ernst & Young, most recently holding the position of Tax Partner. During his time at Ernst & Young he advised across a range of sectors and was also responsible for tax policy implementation and quality control for the South Eastern United States. Mr. Griffith holds a Bachelor of Business Administration from Valdosta State College and a Masters of Accountancy from the University of Georgia.

Dr. Dale Threadgill [8]

Non-Executive Director

Dr. Threadgill joined the Board of MyCelx in 1998. He is currently Dean (Founding) of the College of Engineering at the University of Georgia and holds a PhD in Engineering (Agricultural) from Auburn University, specialising in irrigation systems and water quality/conservation. Dr. Threadgill also has over 30 years' experience working with inventors and intellectual property.

Brian Rochester [9]

Non-Executive Director

Mr. Rochester joined the Board of MyCelx in 1998. He is currently the Executive Vice-President of Rochester Associates, a land surveying and civil engineering firm based in Gainesville, Georgia, and has extensive experience in marketing and business development for the firm throughout the United States and internationally. Mr. Rochester is a graduate of The Citadel, Charleston, South Carolina, where he graduated with a degree in Civil Engineering in 1987.

Corporate Governance Statement

The Directors recognise the value and importance of high standards of corporate governance. The Company is incorporated in the State of Georgia, United States. There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in England under the Companies Act 2006. Whilst the Directors consider that it is appropriate to retain the majority of the usual features of a US corporation, they intend to take certain actions to meet UK standard practice adopted by companies under English law and admitted to AIM.

The Company complies with the applicable corporate governance regime in Georgia. The Company is governed by and complies with the Georgia Business Corporation Code (the "GBCC").

Board of Directors

The Board consists of six Non-Executive Directors with relevant experience to complement the three Executive Directors and to provide an independent view to the Executive Directors. The Non-Executive Directors are Tim Eggar (Chairman), John Mansfield Sr. (Founder and Non-Executive Vice Chairman), Ian Johnson, Brian Rochester, Dr. Dale Threadgill and Swinton Griffith. The three Executive Directors are Connie Mixon (Chief Executive Officer), Mark Clark (Chief Financial Officer) and Haluk Alper (President and Chief Science Officer).

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions.

The Company has established an Audit Committee, a Compensation Committee, an Executive Committee and a Nomination and Governance Committee, with formal terms of reference. The Committees carry out the following roles within the Company:

Audit Committee

The present members of the Audit Committee are Swinton Griffith (Chairman – appointed 9 January 2012) and Brian Rochester. Ian Johnson was appointed to the Committee on 30 September 2011 and acted as Interim Committee Chairman until 9 January 2012, when he stepped down from the Committee.

The role of the Committee is to consider matters relating to the appointment of the Company's auditors and their independence, and to review the integrity of the Company's financial statements, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance. The Committee also reviews and makes recommendations regarding the adequacy and effectiveness of the Company's system of internal control and compliance procedures.

The Audit Committee formally met three times in 2012.

Compensation Committee

The present members of the Compensation Committee are Ian Johnson (Chairman), Swinton Griffith and Brian Rochester.

The primary duty of the Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors, the officers and such other members of the executive management as it is designated to consider. The remuneration of the Non-Executive Directors is a matter for the Chairman and the Company's Executive Directors. No Director or officer may be involved in any decisions as to their own remuneration.

The Compensation Committee formally met three times in 2012.

Nomination and Governance Committee

The present members of the Nomination and Governance Committee are Tim Eggar (Chairman), John Mansfield, Sr. and Dr. Dale Threadgill. The Nomination and Governance Committee is responsible for identifying and nominating members of the Board, recommending Directors to be appointed to each committee of the Board and the chair of such committees and overseeing the evaluation of the Board. An evaluation of the Board and its performance was carried out internally in 2012. The evaluation took the form of interviews conducted by the Chairman with each Director, and questionnaires which also provided each Director with an opportunity to comment on Board and Committee procedures. The results were presented to the Board in January 2013.

A performance evaluation of the Chairman was carried out by the Non-Executive Directors in conjunction with the CEO.

The Nomination and Governance Committee met twice in 2012.

Executive Committee

The present members of the Executive Committee are Connie Mixon (Chairman), Tim Eggar and John Mansfield, Sr. The Executive Committee has the power to perform all functions of the Board between meetings of the full Board, except as otherwise provided by the GBCC.

Relations with Shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Company's website (www.mycelx.com). The Company also uses its website to provide information to shareholders and other interested parties, subject to applicable restrictions of United States securities laws. The Chief Financial Officer and Asst. Secretary also deals with shareholder correspondence as and when it arises. At the Company's Annual Meeting, the Chairman along with the Chief Executive Officer and other Directors are available before and after the meeting for further discussions with shareholders.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness on an ongoing basis. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's strategic objectives, and cannot provide absolute assurance against material misstatement or loss. The key risk management processes and internal control procedures include the following:

- The involvement of the Executive Directors in day-to-day operations.
- Clearly defined responsibilities and limits of authority.
- A system of financial reporting, forecasting and budgeting. Budgets are prepared annually for the business based upon a multi-year strategic plan narrowed to a current year tactical plan to take advantage of current opportunities and address near term risks. Reviews occur through the management structure culminating in a Company budget which is considered and approved by the Board. Company management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are monitored and the reasons for significant variances are reviewed.
- An ongoing process for identifying, evaluating and seeking to manage significant risks across the Company.

Mark Clark
Chief Financial Officer and Asst. Secretary
8 April 2013

Directors' Report

for the year ended 31 December 2012

Principal Activities

MyCelx Technologies Corporation ("MyCelx" or the "Company") is a clean water technology company, incorporated in the State of Georgia, United States, that provides novel water treatment solutions to the oil and gas, power, marine and heavy manufacturing sectors. MyCelx operates globally to deliver environmentally sustainable, low cost solutions to manage both produced water and downstream process water effectively.

Business Review

The information that fulfils the requirements of the business review, including details of the 2012 results, principal risks and uncertainties and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statement and the Business and Financial Review, on pages 1 to 7.

Admission to AIM

MyCelx was admitted to trading on the AIM market of the London Stock Exchange on 4 August 2011, at which time 5,787,455 new Common Shares were placed to raise gross proceeds of approximately $20 million.

Further information relating to movements on share capital is set out in Notes 10 and 11 to the financial statements on pages 30 to 33.

Dividends

The Company has never declared or paid cash dividends on its capital stock and does not intend to in the foreseeable future.

Directors

The following Directors held office throughout the year ended 31 December 2012 and up to the date of signing the financial statements except where otherwise shown.

Tim Eggar – Chairman

John Mansfield Sr. (Founder and Non-Executive Vice Chairman)

Haluk (Hal) Alper (President and Chief Science Officer)

Connie Mixon (Chief Executive Officer)

David Pattillo (Chief Financial Officer and Secretary) – Resigned 31 May 2012

Mark Clark (Chief Financial Officer and Asst. Secretary) – Appointed 11 September 2012

Brian Rochester (Non-Executive Director)

Ian Johnson (Non-Executive Director)

Dr. Dale Threadgill (Non-Executive Director)

Swinton Griffith (Non-Executive Director) – Appointed 9 January 2012

Biographical details of the Directors are shown on pages 8 to 9.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. The 2013 Annual Meeting will be held at 10:00 a.m. on 14 May 2013 at the offices of Addleshaw Goddard LLP located at Milton Gate, 60 Chiswell Street, London EC1Y 4AG, United Kingdom.

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 14 to 17. It includes details of Directors' remuneration, interests in the Common Shares of the Company and share options and restricted stock awards.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 10 to 11.

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2012 are set out in notes 10 and 11 to the financial statements. At 8 April 2013, a total of 12,936,530 Common Shares were outstanding. At 8 April 2013, the Company had received notification, or was otherwise aware, that the following are interested in more than 3% of the issued ordinary share capital:

Artemis Investment Management	16.93%
John Mansfield Sr.	12.61%
Hal Alper	9.59%
Octopus Investments	8.04%
Connie Mixon	7.42%
Majedie Asset Management	5.52%
Emerald Investment Group	5.04%
Amati Global Investors	3.68%
Don Hammond	3.54%

Directors' Responsibilities Statement

Under the GBCC, all corporate powers are exercised by or under the authority of, and the business and affairs of the corporation managed under the direction of, its board of directors, subject to any limitation set forth in the articles of incorporation. Under the GBCC, the corporation is required to prepare and disseminate to its shareholders upon request financial statements for each fiscal year. Consequently, the Company has prepared financial statements in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP").
Under the GBCC:

(1) A director shall discharge the duties of a Director, including duties as member of a committee, in a manner he or she believes in good faith to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(2) In discharging the duties of a director, a director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

(a) One or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented; or

(b) Legal counsel, public accountants, or other persons as to matters the director reasonably believes are within the person's professional or expert competence; or

(c) A committee of the board of directors of which the director is not a member if the director reasonably believes the committee merits confidence.

(3) A director is not entitled to rely if the director has knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (2) above unwarranted.

(4) A director is not liable to the corporation or its shareholders for any action taken as a director, or any failure to take any action, if the director performed the duties of the director's office in compliance with the foregoing.

Independent Auditors

Grant Thornton LLP have indicated their willingness to continue in office. A resolution concerning their reappointment will be voted on at the Annual Meeting.

Mark Clark
Chief Financial Officer and Asst. Secretary
8 April 2013

Directors' Remuneration Report

for the year ended 31 December 2012

As an AIM-listed company, MyCelx is not required to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The following disclosures are therefore made on a voluntary basis. The information is unaudited.

Remuneration Policy

The Company's remuneration policy is based on the following broad principles:

- to provide competitive remuneration packages to attract and retain quality individuals;
- to align the interests of management with the interests of shareholders; and
- to set the pay of the Executive Directors with due account taken of (i) pay and conditions throughout the Company and (ii) corporate governance best practice.

Remuneration consists of the following elements:

Base pay

Executive Directors' base pay is designed to reflect the role and responsibility of the individual within the Company. Salary levels are reviewed annually.

Annual bonus

All Executive Directors and members of senior management participate in the Company's annual bonus scheme, which is based on the achievement of individual and Company performance targets. Annual bonuses are designed to incentivise performance and reward achievement in line with the agreed corporate strategy.

Long-Term Incentives

The Compensation Committee considers that equity based long-term incentive schemes are the most effective way to align the interests of participants and shareholders.

Service Contracts

Connie Mixon

Ms. Mixon entered into an employment agreement with the Company on 29 July 2011 to serve as its Chief Executive Officer and to serve on the Board of Directors and to serve as Chair of the Executive Committee. The employment agreement provides for, among other things: (i) salary of $325,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee; (ii) grant of 163,017 options to purchase Common Shares of the Company vesting ratably over a three-year period; and (iii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Ms. Mixon upon six months' notice or by the Company upon providing for one year base salary as severance if she is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete, and nondisclosure restrictions.

David Pattillo

Mr. Pattillo entered into an employment agreement with the Company on 29 July 2011 to serve as its Senior Vice President and Chief Financial Officer and to serve on the Board at the request of the Company. The employment agreement provided for, among other things: (i) salary of $190,000; (ii) grant of 40,972 options to purchase Common Shares of the Company vesting ratably over a three-year period and a restricted stock award of 153,063 Common Shares (together with a corresponding tax payment in respect of such restricted stock); and (iii) a one-year term (automatically renewing for successive one-year periods). Mr. Pattillo stepped down from his position as CFO in May 2012 and separated from the Company as of 31 December 2012.

Mark Clark
Mr. Clark entered into an employment agreement with the Company on 11 September 2012 to serve as its Chief Financial Officer and Treasurer and to serve on the Board at the request of the Company. The employment agreement provides for, among other things: (i) salary of $190,000; (ii) grant of 90,000 options to purchase Common Shares of the Company vesting ratably over a three-year period; and (iii) a one-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Mr. Clark upon ninety days' notice or by the Company upon providing for three months' base salary as severance if he is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

Hal Alper
Mr. Alper entered into an employment agreement with the Company on 29 July 2011 to serve as its President and Chief Science Officer and to serve on the Board of Directors. The employment agreement provides for, among other things: (i) salary of $225,000 and a technology incentive bonus between $75,000 and $150,000 per year; (ii) grant of 163,017 options to purchase Common Shares vesting ratably over a three-year period; (iii) a three-year term (automatically renewing for successive one-year periods) and no termination without cause by either party; and (iv) Company ownership of intellectual property developed by Mr. Alper: (a) until 4 August 2013; or (b) that relates to the Company's principal business or the mercury filtration technology, and a Company option to purchase any intellectual property developed by Mr. Alper that is developed after 4 August 2013 and does not relate to the principal business or the mercury filtration technology. The terms of purchase are that Mr. Alper will be entitled to receive 3 per cent on gross sales of products relating to that intellectual property, 6 percent on license fees received by the Company for the license of such intellectual property and a non-refundable royalty equal to the amount of $100,000 for each new and distinct area of business covered by such intellectual property. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

All Directors are elected each year by the shareholders at the annual meeting, to serve until the next succeeding annual meeting and until their successors are elected and qualified, or until their earlier death, resignation or removal.

The Director's remuneration for 2012 was as follows:

	Salary and Director's fees $US	Benefits in kind $US	Performance related bonus $US	2012 Total $US	2011 Total $US
Non-Executive Chairman					
Tim Eggar	$57,000	–	–	$57,000	$26,778
Executive					
Connie Mixon	$331,629	$7,829	–	$339,458	$260,135
David Pattillo*	$178,115	$4,168	–	$182,283	$586,602
Mark Clark*	$173,065	$4,168	–	$177,233	$38,250
Haluk Alper	$236,081	$11,696	–	$247,777	$214,252
William Donges	$196,386	$2,261	–	$198,647	$63,765
Non-Executive					
John Mansfield Sr.	$52,000	–	–	$52,000	$29,571
Ian Johnson	$46,000	–	–	$46,000	$21,610
Brian Rochester	$40,000	–	–	$40,000	$22,747
Dr. Dale Threadgill	$40,000	–	–	$40,000	$22,747
Swinton Griffith	$46,000	–	–	$46,000	–

* David Pattillo stepped down from position as CFO in May 2012. Mark Clark named CFO in September 2012.

Benefits in kind include medical and life insurance.

Directors' Remuneration Report continued

for the year ended 31 December 2012

The interests of the Directors at 8 April 2013 in the shares of the Company, not including interests of investment funds in respect of which the Director may have a managerial interest, and with respect to which such Director disclaims beneficial ownership, were:

	Number of Common Shares	Percentage of issued share capital
Tim Eggar	29,157	0.23
Connie Mixon (note 1)	959,402	7.42
Haluk Alper	1,240,769	9.59
John Mansfield Sr. (note 2)	1,631,084	12.61
Ian Johnson	5,000	0.04
Brian Rochester (note 3)	135,986	1.05
Dr. Dale Threadgill (note 4)	287,160	2.22

(1) The aggregate number of shares shown for Ms. Mixon includes (a) 150,000 shares held by limited liability companies controlled by Ms. Mixon; and (b) 202,646 shares held by or on behalf of Ms. Mixon's children.

(2) The aggregate number of shares shown for Mr. Mansfield includes 205,082 shares held by Mansfield Holdings LLC, being limited liability company controlled by Mr. Mansfield.

(3) 135,986 Common Shares are registered in the name of Rochester Bros. Investments LLC in which Brian Rochester holds a 50 percent interest.

(4) The aggregate number of shares shown as held by Dr. Threadgill includes 6,000 shares held by his sons and 267,421 shares held by Infinity Associates LLC, being a limited liability company controlled by Dr. Threadgill.

Share Price Performance

Share Options and Restricted Stock Awards

Options and restricted stock awards for Common Shares awarded to Executive Directors under the Omnibus Performance Incentive Plan in place on 31 December 2012 were:

Option holder	Type of award	Earliest exercise date and date of vesting*	Exercise price ($US)	Number of shares
Tim Eggar	Non-Executive Director Stock Option	1 January 2015	$0.86	34,933
	Non-Executive Director Stock Option	1 January 2015	$0.86	15,526
Connie Mixon	Employee Stock Option	1 January 2012	$3.44	54,339
		1 January 2013	$3.44	54,339
		1 January 2014	$3.44	54,339
David Pattillo	Employee Stock Option	1 January 2012	$3.44	13,657
Mark Clark	Employee Stock Option	1 January 2013	$3.87	3,333
		1 January 2014	$3.87	3,333
		1 January 2015	$3.87	3,334
	Employee Stock Option	11 September 2012	$4.02	30,000
		1 September 2013	$4.02	30,000
		1 September 2014	$4.02	30,000
Hal Alper	Employee Stock Option	1 January 2012	$3.44	54,339
		1 January 2013	$3.44	54,339
		1 January 2014	$3.44	54,339
John Mansfield Sr.	Non-Executive Director Stock Option	1 January 2015	$0.86	38,814
	Non-Executive Director Stock Option	1 January 2015	$0.86	15,526
Swinton Griffith	Non-Executive Director Stock Option	9 May 2012	$3.87	8,666
		1 January 2013	$3.87	8,667
		1 January 2014	$3.87	8,667
Ian Johnson	Non-Executive Director Stock Option	1 January 2015	$0.86	22,471
	Non-Executive Director Stock Option	1 January 2015	$0.86	10,092
Brian Rochester	Non-Executive Director Stock Option	1 January 2015	$0.86	31,051
	Non-Executive Director Stock Option	1 January 2015	$0.86	10,092
Dr. Dale Threadgill	Non-Executive Director Stock Option	1 January 2015	$0.86	31,051
	Non-Executive Director Stock Option	1 January 2015	$0.86	10,092

* For Non-Executive Director Stock Options, first date permitted for exercise is shown as 1 January 2015; some or all of the options are scheduled to vest before that date

Ian Johnson
Chairman, Remuneration Committee
8 April 2013

Contents

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Grant Thornton LLP
1100 Peachtree Street NE, Suite 1200
Atlanta, GA 30309

T 404.330.2000
F 404.330.2047
www.GrantThornton.com

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of
MyCelx Technologies Corporation:

We have audited the accompanying financial statements of MyCelx Technologies Corporation (a Georgia Corporation), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MyCelx Technologies Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Atlanta, Georgia
April 8, 2013

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2012	2011
Revenue	12,297	6,257
Cost of goods sold	5,737	3,321
Gross profit	6,560	2,936
Operating expenses:		
Research and development	870	507
Selling, general and administrative	7,065	4,945
Depreciation and amortization	219	186
Total operating expenses	8,154	5,638
Operating Loss	(1,594)	(2,702)
Other expense		
Interest expense	(2)	(146)
Loss before income taxes	(1,596)	(2,848)
(Provision)/benefit for Income taxes	(380)	85
Net Loss	(1,976)	(2,763)
Loss per share – basic	(0.15)	(0.30)
Loss per share – diluted	(0.15)	(0.30)
Shares used to compute basic loss per share	12,922,873	9,177,147
Shares used to compute diluted loss per share	12,922,873	9,177,147

The accompanying notes are an integral part of the financial statements.

Balance Sheets

(USD, in thousands, except share data)

31 December:	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	9,059	15,094
Restricted Cash	100	–
Accounts receivable	2,177	1,200
Unbilled accounts receivable	449	–
Inventory – net	2,964	1,270
Prepaid expenses	295	62
Other assets	129	48
Total Current Assets	15,173	17,674
Property and equipment – net	3,832	1,063
Intangible assets – net	476	392
Total Assets	19,481	19,129
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	1,801	1,156
Payroll and accrued expenses	835	255
Deferred revenue	315	95
Capital lease obligations – current	13	21
Other current liabilities	63	–
Note payable	–	13
Total Current Liabilities	3,027	1,539
Capital lease obligations – long-term	1	13
Total Liabilities	3,028	1,552
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 12,922,873 shares issued and outstanding at 31 December 2012 and 2011	324	324
Additional paid-in capital	25,799	24,947
Accumulated deficit	(9,670)	(7,694)
Total Stockholders' Equity	16,453	17,577
Total Liabilities and Stockholders' Equity	19,481	19,129

The accompanying notes are an integral part of the financial statements.

Statements of Stockholders' Equity

(USD, in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	$	$	$	$
Balances at 31 December 2010	6,545	164	5,915	(4,931)	1,148
Issuance of warrants to shareholder	–	–	93	–	93
Issuance of warrants to consultant	–	–	116	–	116
Issuance of common stock to settle notes payable	437	11	1,489	–	1,500
Issuance of common stock, net of offering costs	5,788	145	16,367	–	16,512
Issuance of common stock to executive	153	4	305	–	309
Stock based compensation expense	–	–	662	–	662
Net loss for the period	–	–	–	(2,763)	(2,763)
Balances at 31 December 2011	12,923	324	24,947	(7,694)	17,577
Stock based compensation expense	–	–	852	–	852
Net loss for the period	–	–	–	(1,976)	(1,976)
Balances at 31 December 2012	12,923	324	25,799	(9,670)	16,453

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2012	2011
Cash flow from operating activities		
Net loss	(1,976)	(2,763)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	406	186
Noncash amortization of debt discount	–	93
Deferred income taxes	–	(85)
Stock compensation	852	1,087
Change in operating assets and liabilities:		
Accounts receivable	(977)	(880)
Unbilled accounts receivable	(449)	173
Inventory	(1,694)	(710)
Prepaid and other expenses	(351)	(65)
Employee loans and advances	37	32
Accounts payable	645	900
Payroll and accrued expenses	580	60
Deferred revenue	220	93
Other current liabilities	63	–
Net cash used in operating activities	(2,644)	(1,879)
Cash flow from investing activities		
Payments for purchases of property and equipment	(3,132)	(831)
Payments on capital lease obligations	(20)	(21)
Payments for purchases of intangible assets	(126)	(63)
Net cash used in investing activities	(3,278)	(915)
Cash flows from financing activities		
Net proceeds from stock issuance	–	16,512
Payments on notes payable	(13)	(4)
Advances from notes payable	–	17
Advances from notes payable from related party	–	1,500
Payments on line of credit	–	(314)
Increase in restricted cash	(100)	–
Net cash (used in) provided by financing activities	(113)	17,711
Net (decrease) increase in cash and cash equivalents	(6,035)	14,917
Cash and cash equivalents, beginning of year	15,094	177
Cash and cash equivalents, end of year	9,059	15,094
Supplemental disclosures of cash flow information:		
Cash payments for Interest	2	43
Supplemental disclosures of non-cash investing and financing activities		
Stock issued to pay notes payable	–	1,500
Stock warrants issued in conjunction with notes payable from related party	–	93

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

1. Nature of business and basis of presentation

Basis of presentation – These financial statements have been prepared using recognition and measurement principles of Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP").

Nature of business – MyCelx Technologies Corporation ("MyCelx" or the "Company") was incorporated in the State of Georgia on March 24, 1994. The Company provides clean water technology equipment and related services to the oil and gas, power, marine and heavy manufacturing sectors.

2. Summary of significant accounting policies

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and cash equivalents
Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

The Company maintains cash and cash equivalent balances at a financial institution in Gainesville, Georgia. At 31 December 2012 all of the Company's cash and cash equivalent balances were held in non interest-bearing transaction accounts and were fully insured.

Trade accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. The allowance for doubtful accounts was $0 for the years ended 31 December 2012 and 2011.

Inventories – Inventories consist primarily of raw materials and filter media finished goods as well as equipment to house the filter media and are stated at the lower of cost or market value. Equipment that is in the process of being constructed is also included in inventory (work-in-progress). We apply the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progess and finished products inventory includes all direct costs, such as labor and material, and those indirect costs which are related to production, such as indirect labor, rents, supplies, repairs and depreciation costs. A valuation reserve is recorded for slow moving or obsolete inventory items. The reserve is determined by item based on purchases in the recent past and/or expected future demand. At 31 December 2012 and 2011, the valuation reserve was $12,000 and $0, respectively.

Prepaid expenses and other current assets – Prepaid expenses and other current assets include non-trade receivables that are collectible in less than 12 months, security deposits on leased space and various prepaid amounts that will be charged to expenses within 12 months. Non-trade receivables that are collectible in 12 months or more are included in long-term assets.

Property and equipment – All property and equipment are valued at cost. Depreciation is computed using the straight-line method for financial reporting over the following useful lives:

Office equipment	5–10 years
Leasehold improvements	1–5 years
Manufacturing equipment	7–15 years
Research and development equipment	7–10 years
Purchased software	1–5 years
Equipment leased to customers	5–10 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalised. Expenditures for maintenance and repairs are charged to expense as incurred.

Intangible assets – Intangible assets are comprised of patents. Intangible assets are amortised over their estimated useful lives using the straight-line method.

Revenue recognition – The Company's revenue consists of media product and equipment sales. Revenues from media sales are recognised, net of sales allowances, when products are shipped and risk of loss has transferred to customers, collection is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. The Company offers customers the option to lease or purchase their equipment. Lease agreements range from one to twelve months in length and are renewed at the end of each agreement, if necessary. The lease agreements meet the criteria for classification as operating leases; accordingly, revenue on lease agreements is recognised as income over the lease term.

Revenues on long-term contracts related to construction of equipment are recognised on the percentage-of-completion basis using costs incurred compared to total estimated costs. Costs are recognised and considered for percentage completion as they are incurred in the manufacture of the equipment. Therefore, revenues may not be related to the progress billings to customers. Revenues are based on estimates, and the uncertainty inherent in estimates initially is reduced progressively as work on the contract nears completion. Revenues on short-term contracts (six months or less) are recognised on the completed contract method. A contract is considered complete when all costs except insignificant items have been incurred and delivery of equipment has ocurred.

Contract costs include all direct labor and benefits, materials unique to or installed to the project, subcontractor costs, as well as costs relative to contract performance such as travel to a customer site and shipping charges. Provision for estimated losses on uncompleted contracts is made in the period in which such losses are determined. No such provisions have been recognised as of December 31, 2012 and 2011. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognised in the period in which the revisions are determined. Actual results could vary from estimates used in the financial statements.

Unbilled accounts receivable represents revenues recognised in excess of amounts billed. Deferred revenue represents billings in excess of revenues recognised. Contract retentions are recorded as a component of accounts receivable.

Impairment of long-lived assets – The Company accounts for long-lived assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, Property, Plant and Equipment. Long-lived assets to be held and used, including property and equipment and intangible assets with definite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss, if any, is recognised for the difference between the fair value and carrying value of the assets. Impairment analyses, when performed, are based on the Company's business and technology strategy, management's views of growth rates for the Company's business, anticipated future economic and regulatory conditions, and expected technological availability. For purposes of recognition and measurement, the Company groups its long-lived assets at the lowest level for which there are identifiable cash flows, which are largely independent of the cash flows of other assets and liabilities. No impairment charges were recorded in the years ended 31 December 2012 and 2011.

Shipping and handling costs – Consistent with FASB ASC 605-45-50 Shipping and Handling Fees and Costs, the Company classifies shipping and handling amounts billed to customers as revenue, and shipping and handling costs as a component of costs of goods sold.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2012 and 2011 was approximately $870,000 and $507,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2012 and 2011 was approximately $11,000 and $35,000, respectively.

Rent expense – The Company records rent expense on a straight-line basis for operating lease agreements that contain escalating rent clauses. The deferred rent liability included in accrued expenses in the accompanying balance sheet represents the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

Income Taxes – Income taxes consist of taxes due plus deferred taxes related primarily to differences between the basis of depreciation, inventory capitalisation, and net operating losses, and timing differences of research and development tax credits for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes also are recognised for operating losses that are available to offset future taxable income and tax credits that are available to offset future federal income taxes. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realised or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company has elected to use the reduced credit method, under section 280C, for calculating federal research and development tax credits. Under this method research and development costs are expensed as incurred.

The Company recognises interest accrued related to tax in interest expense and penalties in operating expenses. During the years ended 31 December 2012 and 2011 the Company recognised no interest or penalties. The Company's tax years 2009 through 2012 remain subject to examination by federal, state and foreign income tax jurisdictions.

Earnings per share – Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options and warrants. Potentially dilutive shares are excluded from the computation if their effect is antidilutive.

Fair value of financial instruments – The Company uses the framework in ASC 820, Fair Value Measurements and Disclosures to determine the fair value of its financial assets. ASC 820 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value and expands financial statement disclosures about fair value measurements.

The Company's financial instruments that are not measured at fair value as of 31 December 2012 and 2011 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, and the note payable. The carrying values of these financial instruments approximate fair value due to the short term nature of those assets and liabilities.

Foreign Currency Transactions – From time to time the Company transacts business in foreign currencies (currencies other than the United States Dollar). These transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency transaction gains or losses are included in selling, general and administrative expenses.

Share-Based Compensation – The Company issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date is expensed, based on the company's estimate of shares that will eventually vest, on a straight-line basis over the vesting period. Fair value for the share awards representing equity interests identical to those associated with shares traded in the open market is determined using the market price at the date of grant. Fair value is measured by use of the Black Scholes valuation model.

Recently Issued Accounting Standards – Recent authoritative guidance issued by the FASB (including technical corrections to the ASC), and the American Institute of Certified Public Accountants did not or is not expected to have a material effect on the Company's financial statements.

Reclassifications – Certain reclassifications have been made to prior year's presentation to be consistent with current year presentation.

3. Accounts receivable

Accounts receivable and their respective allowance amounts as of 31 December 2012 and 2011 follow:

	31 December 2012 US$000	31 December 2011 US$000
Accounts receivable	2,177	1,200
Less: allowance for doubtful accounts	–	–
Total receivable, net	2,177	1,200

4. Inventories

Inventories consist of the following at 31 December 2012 and 2011:

	31 December 2012 US$000	31 December 2011 US$000
Raw materials	1,005	456
Work-in-progress	1,008	463
Finished goods	951	351
Total inventory	2,964	1,270

5. Property and equipment

Property and equipment consists of the following at 31 December 2012 and 2011:

	31 December 2012 US$000	31 December 2011 US$000
Office equipment	326	136
Leasehold improvements	139	58
Manufacturing equipment	416	318
Construction in progress	31	31
Research and development equipment	274	76
Purchased software	90	20
Equipment leased to customers	3,227	732
	4,503	1,371
Less: accumulated depreciation	(671)	(308)
Property and equipment – net	3,832	1,063

Depreciation expense for the years ended 31 December 2012 and 2011 was approximately $363,000 and $147,000, respectively. Depreciation expense includes depreciation on leased equipment which is included in cost of goods sold. Depreciation expense on leased equipment included in cost of goods sold for the years ended 31 December 2012 and 2011 was $187,000 and $0, respectively.

Notes to the financial statements continued

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of $28,000 in 2009 with the possibility of an additional $72,000 based on profits on the sales of a particular product. During 2010, the Company paid $22,000 based on profits on the sales of the product and paid the remaining $50,000 in 2011. The patent is amortised utilizing the straight-line method over a useful life of 17 years which represents the remaining legal life. Accumulated amortization on the patent was approximately $13,000 and $7,000 as of 31 December 2012 and 2011, respectively.

Intangible assets as of 31 December 2012 and 2011 consist of the following:

	Weighted Average Useful lives	31 December 2012 US$000	31 December 2011 US$000
Patent defense cost	15 years	706	579
Purchased patents	17 years	100	100
		806	679
Less accumulated amortization		(330)	(287)
Intangible assets – net		476	392

Approximate aggregate future amortization expense is as follows:

Year ending 31 December	
2013	$67,000
2014	55,000
2015	48,000
2016	38,000
2017	25,000

Amortization expense for the years ended 31 December 2012 and 2011 was approximately $43,000 and $39,000, respectively.

7. Income taxes

The components of income taxes shown in the consolidated statement of operations are as follows:

	31 December 2012 US$000	31 December 2011 US$000
Current:		
Federal	–	–
Foreign	380	–
State	–	–
Total current provision	380	–
Deferred:		
Federal	–	(72)
Foreign	–	–
State	–	(13)
Total deferred (benefit) provision	–	(85)
Total (benefit) provision for income taxes	380	(85)

The (benefit) provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 34%, primarily due to the effect of certain nondeductible expenses and changes in valuation allowances.

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate is as follows:

	31 December 2012	31 December 2011
Federal statutory income tax rates	34.0%	34.0%
State tax rate, net of federal benefit	.2%	.2%
Valuation allowance	(41.8%)	(34.7%)
Other	(.5%)	–
Withholding Tax	(15.7%)	3.5%
Effective income tax rate	(23.8%)	3.0%

The significant components of deferred income taxes included in the balance sheets are as follows:

	31 December 2012 US$000	31 December 2011 US$000
Deferred tax assets		
Other	29	2
Accrued liability	131	–
Charitable contributions	5	–
Research and development credits	159	167
Equity compensation	442	370
Net operating loss	2,791	2,409
Total gross deferred tax asset	3,557	2,948
Deferred tax liabilities		
Property and equipment	(454)	(366)
Other	–	(3)
Equity compensation	–	(180)
Total gross deferred tax liability	(454)	(549)
Net deferred tax asset (liability) before valuation allowance	3,103	2,399
Valuation allowance	(3,103)	(2,399)
Net deferred tax asset (liability)	–	–

Notes to the financial statements continued

7. Income taxes continued

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 31 December 2012, the Company has recorded a valuation allowance of $3.1 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realization of such deferred tax assets.

As of 31 December 2012, the Company has approximately $7.6 million of gross U.S. federal net operating loss carry forwards that will begin to expire in the 2019 tax year.

In July 2006, the Financial Accounting Standards Board issued Interpretation ASC-740-10-25, Income Taxes, an interpretation of ASC-740. The standard clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. Under ASC-740, the impact of an uncertain income tax position on the income tax return must be recognised at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. ASC-740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC-740 applies to all tax positions related to income taxes.

As a result of the adoption and implementation of ASC-740, a tax position is recognised as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognised is the largest amount of tax benefit that has a greater than 50% likelihood of being realised on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognises interest and penalties related to tax positions in income tax expense. At 31 December 2012 and 2011, there was no accrual for uncertain tax positions or related interest.

8. Line of credit

Since 2010, the Company has had a bank line of credit that allows for borrowings up to $400,000. The line of credit is revolving and is payable on demand. The balance on the line of credit at 31 December 2012 and 2011 was $0. The line of credit carries an interest rate of prime plus 0.30%. The interest rate on 31 December 2012 and 2011 was 3.55%. Interest expense related to this loan for the years ended 31 December, 2012 and 2011 was approximately $0 and $6,000, respectively.

9. Note Payable

In April 2011, the Company entered into a lending agreement with a shareholder in the original amount of $1,500,000, payable within 5 days after the Company receives at least $15,000,000 in cash proceeds from an equity offering. The note had an interest rate of 10%, and the Company issued the shareholder 50,000 warrants to purchase common stock of the Company with an exercise price of $0.01 per share. The shareholder may exercise his warrants until 3 April 2016. The note was recognised net of a discount related to the stock warrant. The balance of this note was converted to common stock in connection with the Company's public offering in August 2011. See more discussion of the public offering in Note 10. The warrants remained outstanding at 31 December 2012.

10. Public offering of common stock

Authorised Shares and Shares Issuance

On July 11, 2011 the authorised share capital of the Company was increased to 100,000,000 Common Shares at a par value of $0.025 each. On 4 August 2011 the Company issued an additional 5,787,455 shares of common stock for $3.44 per share ("the Issuance"). The Company incurred costs in the Issuance of these shares of approximately $3,475,000. The Company received net proceeds of approximately $16,512,000.

Shareholder Loan Repayment

As part of the Issuance, the note payable to a shareholder of $1,500,000 referred to in Notes 9 and 13 was paid by conversion to 437,353 shares of the Company's common stock.

11. Stock compensation

Stock Options

In July 2011, the Company's shareholders approved the Conversion Shares and the Directors' Shares, as well as the Plan Shares and Omnibus Performance Incentive Plan ("Plan"). This included the termination of all outstanding stock incentive plans, cancellation of all outstanding stock incentive agreements, and the awarding of stock incentives to Directors and certain employees and consultants. The Company established the Plan to attract and retain Directors, officers, employees and consultants. The Company reserved ten percent of the Common Shares issued and outstanding immediately following completion of the issuance of additional shares discussed in Note 10.

Upon the Issuance of these additional shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to the Chief Financial Officer. In addition, additional stock options were awarded to two employees and a Director in May and September 2012. The awards of stock options and restricted shares made upon the Issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the enlarged share capital. The total number of shares reserved for stock awards and options under this Plan is 1,272,121, with 1,256,650 shares allocated as of 31 December 2012. The shares are allocated as 269,713 shares to Non-Executive Directors and 986,937 shares to employees and executives.

The options granted to Non-Executive Directors upon the Issuance have an exercise price equal to $0.86 per share. All other options granted under the Plan upon the Issuance have an exercise price equal to $3.44 per share. Options granted in May 2012 have an exercise price equal to $3.87 per share and options granted in September 2012 have an exercise price equal to $4.02 per share. Unless otherwise agreed, all options vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.

Employee options vest over three years with a third vesting ratably each year. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors and one executive vest partially on issuance and will vest partially one to two years later. All Non-Executive Director options must be exercised during the course of the 2015 or 2016 calendar years. Vesting accelerates in the event of a change of control.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. Since we do not have a sufficient trading history from which to calculate our historical volatility, our expected volatility is based on a basket of comparable companies' historical volatility. As our initial options were granted in 2011, we do not have sufficient history of option exercise behavior from which to calculate our expected term. Accordingly, the expected terms of options are calculated based on the short-cut method commonly utilised by newly public companies. The risk free interest rate is based on a blended average yield of 2 and 5 year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2011 and 2012 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value
2011	253,805	08/05/11	0.34%	3.9 years	45.00%	$0.86	$2.63
	661,188	08/05/11	0.34%	6 years	45.00%	$3.44	$1.46
2012	26,000	05/09/12	0.42%	3.9 years	45.00%	$3.87	$1.35
	110,000	05/09/12	0.42%	6 years	45.00%	$3.87	$1.65
	90,000	09/13/12	0.42%	6 years	45.00%	$4.02	$1.71

The Company assumes a dividend yield of 0.0%.

Notes to the financial statements continued

11. Stock compensation continued

Stock Options continued

The following table summarises the Company's stock option activity for the years ended 31 December 2012 and 2011:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 1 January 2011	–			
Granted	914,993	$2.72	5.4	$1,632,842
Exercised	–			
Forfeited	(10,092)	$0.86		
Outstanding at 31 December 2011	904,901	$2.75	5.4	$1,606,300
Granted	226,000	$3.93	5.8	$370,500
Exercised	–			
Forfeited	(27,314)	$3.44		
Outstanding at 31 December 2012	1,103,587	$2.97	5.5	$1,936,921
Exercisable at 31 December 2012	337,784			

A summary of the status of unvested options as of 31 December 2012 and changes during the years ended 31 December 2012 and 2011 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 1 January 2011	–	
Granted	914,993	$1.78
Vested	(182,385)	$2.63
Forfeited	(10,092)	$2.63
Unvested at 31 December 2011	722,516	$1.78
Granted	226,000	$1.64
Vested	(337,784)	$1.70
Forfeited	(27,314)	$2.63
Unvested at 31 December 2012	583,418	$1.51

As of 31 December 2012, total unrecognised compensation cost of $480,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Restricted Share Award

On 5 August 2011, the Company issued a restrictive share award to the former Chief Financial Officer. This award consisted of 153,063 shares of Common Stock in the Company. These shares are subject to a number of restrictions and forfeiture provisions that continued for up to two to three years, based on performance, the achievement of certain financial milestones and continuity of service.

17,007 of the restricted shares granted to the former Chief Financial Officer were immediately vested without restrictions or forfeiture provisions effective at the time of the Issuance. 34,014 of the shares were subject to restrictions and forfeiture provisions that lapsed ratably each quarter over a 24 month period.

The Working Capital shares, consisting of 51,021 of the shares transferred, were subject to restrictions and forfeiture provisions that lapsed at the time the Company received $15,000,000 in cash from additional investors. The Business Goals shares, also consisting of 51,021 of the shares, were subject to restrictions and forfeiture provisions that lapsed on specific dates as the Company obtained certain prospective revenue amounts in its pipeline. Release of both the Working Capital and Business Goals shares were dependent upon the former Chief Financial Officer's continued service with the Company.

As previously discussed, the former Chief Financial Officer changed his role within the Company as of 31 May 2012 and the restricted share award was modified. As a result, all of the restrictions related to these share awards immediately lapsed resulting in $171,000 of stock based compensation expense being immediately recognised.

Stock Warrants

On 29 July 2011 the Company and one of its consultants entered into a warrant agreement for the consultant's assistance in connection with the Company's initial public offering on 4 August 2011. Pursuant to this agreement, the Company agreed to grant to the consultant a warrant to subscribe for Common Shares representing 1.5 percent of the total shares outstanding immediately following the initial public offering. The warrant vested upon the Issuance. The exercise price of the warrant is $3.44 per share. The warrant is exercisable in whole or in part at any time in the period between 5 August 2011 and 5 August 2016.

The warrant is exercisable, at the election of the consultant, without payment of the exercise price, for such number of Common Shares as is calculated in accordance with a formula set out in the warrant agreement. In summary, that formula operates by calculating the notional net gain that the shareholder would have made if it had exercised its warrant at the exercise price and then sold its shares at the current market value. The formula then uses the notional net gain to calculate such lesser number of Common Shares that the shareholder would need to acquire (at nil acquisition cost) in order to achieve the same notional net gain. In the event that the shareholder exercises the warrant (or any part of it) in this manner, the warrant is deemed to have been exercised in respect of such number of Common Shares as would have been required in order to achieve the same notional net gain had the warrant been exercised at the exercise price.

In addition, either the consultant or the Company may elect, in certain circumstances, including a merger or sale of substantially all of the assets of the Company, to receive or provide (as the case may be) a cash payment, in substitution for the warrant, calculated in accordance with a formula set out in the warrant agreement.

12. Commitments and contingencies

Operating and Capital Leases – The Company has entered into capital lease agreements for equipment through 2014. Equipment under capital leases together with accumulated depreciation at 31 December 2012 and 2011 is as follows:

	31 December 2012 US$000	31 December 2011 US$000
Office equipment	19	19
Manufacturing equipment	47	47
	66	66
Less: Accumulated depreciation	(23)	(14)
Equipment under capital leases – net	43	52

The Company entered into an operating lease for equipment in July 2011 for a six month term with monthly lease payments of $15,000. The lease was expanded in January 2012 to include additional equipment and modified to become a monthly lease that is cancellable at any time by return of the equipment. The Company utilised the equipment each month in 2012 and made monthly payments of $30,000.

The Company entered into an operating lease for a commercial building in Gainesville, Georgia on 1 July 2006. The lease was amended on 19 August 2009. The amended lease commenced December 2009, with monthly payments of approximately $6,000 through June 2011. The lease was amended on 22 March 2011 to extend the term through June of 2013 with monthly payments of approximately $6,000 beginning in July 2011. The amendment also grants a three-year option through June 2016 with monthly payments ranging from approximately $6,000 to $7,000. The Company has not yet determined whether it will execute the option.

Notes to the financial statements continued

12. Commitments and contingencies continued

The Company entered into an operating lease for additional warehouse space in Gainesville, Georgia on 1 March 2012. The lease was amended on 19 July 2012 to include additional space. The lease is for a period of three years with monthly payments of approximately $3,800.

The Company entered into an operating lease for warehouse and office space in Jubail Industrial City, Kingdom of Saudi Arabia, in May 2012. The lease is for a period of one year at an annual rate of $67,800 and includes an option to renew for a period of one year.

In June 2012, the Company entered into an operating lease for an apartment in Jubail Industrial City, Kingdom of Saudi Arabia, to accommodate Company employees visiting the Jubail Industrial City office. The lease is for a period of one year at an annual rate of $36,000. The lease includes an option to renew for a period of one year or less.

The Company entered into an operating lease for office space in London, United Kingdom in September 2012. The lease is for a period of one year at an annual rate of $33,000.

The Company entered into an operating lease for a commercial building on 11 September 2012 in Houston, Texas. The lease commenced October 2012, with monthly payments of approximately $6,500 through January 2018.

Future minimum lease payments under the capital and operating leases, together with the present value of minimum lease payments as of 31 December 2012 are as follows:

Year Ending 31 December	Capital Leases US$000	Operating Leases US$000
2013	14	181
2014	1	121
2015	–	91
2016	–	86
2017	–	89
2018	–	8
Thereafter	–	–
Total future lease payments	15	576
Less amount representing interest	(1)	
Net capital lease liability	14	
Less current portion	(13)	
Total long-term portion of capital lease obligations	1	

Rent expense for the years ended 31 December 2012 and 2011 was approximately $243,000 and $76,000, respectively.

State Sales Tax

The Company has determined that it has a liability for state sales tax resulting from activities in states where it does not currently collect sales tax from customers and remit to taxing authorities. The ultimate amount due will depend on a number of factors, including the jurisdictional tax rates, the amount of sales to customers who already paid the tax or are exempt, and any penalties and interest. The Company recorded a liability of $120,000 in accrued expenses on the accompanying balance sheet to cover estimated potential exposure relating to the sales tax that should have been collected from its customers and remitted to tax jurisdictions. The Company is in the process of filing voluntary disclosure agreements with state and local taxing authorities.

13. Related party transactions

The Company has held a patent rights purchase agreement since 2009 with a shareholder as described in Note 6.

During 2010, the Company advanced funds in the amount of approximately $33,000 to a shareholder to be repaid over the course of three years. The balance outstanding at 31 December 2012 and 2011 was approximately $5,000 and $14,000, respectively.

In April 2011, the Company entered into a borrowing agreement with a shareholder in the original amount of $1,500,000, payable within 5 days after the Company receives at least $15,000,000 in cash proceeds from an equity offering. The note has a stated interest rate of 10%, and the Company issued the shareholder 50,000 warrants to purchase common stock of the Company, as further described in Note 9. The note is recognised net of a discount related to the stock warrant. The effective interest rate relating to this note is 17% with consideration of the discount on the issuance of the note. The note was repaid at the time of the public offering of stock in August 2011.

14. Concentrations

At 31 December 2012, three customers represented 41%, 28% and 20%, respectively, of accounts receivable. During the year ended 31 December 2012, the Company received 45% and 6%, respectively, of its gross revenue from two customers.

At 31 December 2011, three customers represented 42%, 18% and 13%, respectively, of accounts receivable. During the year ended 31 December 2011, the Company received 16%, 13% and 13%, respectively, of its gross revenue from three customers.

15. Subsequent Events

Management has evaluated subsequent events through 8 April 2013, the date the financial statements were available to be issued, and no events have occurred which require further disclosure.

Forward Looking Statements

This Annual Report contains certain statements that are or may be "forward-looking statements". These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import. All the statements other than statements of historical facts included in this Annual Report, including, without limitation, those regarding MyCelx's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to MyCelx's products and services) are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and therefore undue reliance should not be placed on such forward-looking statements. There are a number of factors that could cause the actual results, performance or achievements of MyCelx to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding MyCelx's present and future business strategies and the environment in which MyCelx will operate in the future and such assumptions may or may not prove to be correct. Forward-looking statements speak only as at the date they are made. Neither MyCelx nor any other person undertakes any obligation (other than, in the case of MyCelx, pursuant to the AIM Rules for Companies) to update publicly any of the information contained in this Annual Report, including any forward-looking statements, in the light of new information, change in circumstances or future events.

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www.fulton-design.co.uk

North America
Corporate
2420 Meadowbrook Parkway
Duluth, Georgia 30096
USA
+ 1 770 534 3118

Houston, Texas
19416 Park Row
Suite 190
Houston, Texas 77084
USA
+1 281 829 4700

Europe
17 Dartmouth Street
St. James's Park
London, SW1H 9BL
United Kingdom
+44 203 195 1390

Middle East
Road 118
Plot No. 2592
Support Industrial Area
Al-Jubail Industrial City 31961
Kingdom of Saudi Arabia

MYCELX

www.mycelx.com