



# Building global presence

MyCelx Technologies Corporation  
**Annual Report & Accounts 2013**





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

MyCelx is a revolutionary clean water technology company solving the toughest water treatment problems in the oil and gas industry. Our systems are based upon scientific breakthrough for a completely different approach to permanently removing oil from water. MyCelx created the patented MyCelx polymer using innovative molecular cohesion removing oil from water with operational and performance benefits 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, resulting in true oil-free water.

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 deploying MyCelx technology and systems resulting in building global presence and vast opportunity.

Reducing the environmental impact of industry through science and technology is the mission of MyCelx.



# Highlights

## Record profit to date

### Financial

- Record profit to date both at the PBT and gross profit levels
  - Gross profit increased 84.8% to \$12.2m (2012: \$6.6m)
  - Profit before tax was \$1.3m (2012: Loss before tax was \$1.6m)
- Revenues increased 74.0% to \$21.4m (2012: \$12.3m)
  - Equipment revenues (either sold or leased) increased 148.4% to \$7.7m (2012: \$3.1m)
  - Recurring revenue from consumable filtration media and service increased 48.9% to \$13.7m (2012: \$9.2m)
- Gross profit margin increased to 56.9% (2012: 53.3%)
- Basic earnings per share of 4 cents (2012: Basic loss per share of 15 cents)
- Line of credit of \$5m established for the expansion of the fast-to-market lease program

### Operational

- Several new contracts, contract extensions and purchase orders
  - SABIC: two contract extensions and a new project
  - Albania and Canada: produced water treatment systems
  - Gulf of Mexico: two new leases
- Seven installations completed in the second half of 2013
- Multiple successful trials in Canada, Saudi Arabia and the Gulf of Mexico
- Live demonstration facility in Houston added eight project opportunities to the sales pipeline
- Received a filter replacement order for proprietary mercury removal from gas condensate application
- Successfully moved corporate office and manufacturing operations to Duluth, Georgia securing a scalable manufacturing platform

### Post period end events

- New contracts and extensions with SABIC, a new customer in Saudi Arabia and the Company's first contract in Kuwait, with a state-owned petrochemical company worth a total of \$9m (included in contracted order book)

### Outlook

- Contracted order book of \$13.9m at 4 April 2014 (8 April 2013: \$11.3m), \$13.7m of which is expected to be recognised in 2014
- Contracted order book plus installed base of lease renewals and recurring media sales results in 64% of coverage of projected revenue for 2014 (at 4 April 2014)

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# Chairman's & Chief Executive Officer's Statement

## The Company expanded its commercial success globally in 2013 and this was reflected in an excellent financial performance over the year

### Introduction

The Company expanded its commercial success globally in 2013 and this was reflected in an excellent financial performance over the year. MyCelx systems were installed in three new geographic regions, whilst the installed base at established customer sites in the Middle East was also increased. During the year the Company also utilised its Houston demonstration center to rapidly add new opportunities in the Gulf of Mexico to the sales pipeline. The addition of professional engineering staff to execute delivery and installation of seven systems in H2 of 2013 will ensure timely prosecution of future pipeline opportunities. The Company leveraged its new manufacturing facility to increase media production to match increased media sales while decreasing filter media inventory levels from H1.

Effective expense control underpinned a strong financial performance, with total revenues increasing by 74% to \$21.4m in 2013 from \$12.3m in 2012 resulting in record profit for the Company.

### Operational Review

In 2013, the Company was active across multiple regions particularly in the Middle East, North America and Europe. In Saudi Arabia, MyCelx received two contract extensions for each of the two large equipment leases currently in downstream service. In addition, a contract was placed for an additional system from an existing customer as well as two leases with new customers. Also in the Middle East, MyCelx systems were deployed to treat water at a waste water treatment facility on an intermittent basis which serves as a reference for future mobile water treatment opportunities. The lease renewals, the new lease and the treatment facility application confirm the success of the 'fast-to-market' lease strategy which the Company will continue to pursue.

The Company developed and extended its systems offerings during the year. Capital was invested in the first half in three new rental systems, all of which were delivered to new or existing projects. Design and implementation was also finalised for standardised modular systems for offshore deployment as well as for

the lease and emergency response markets globally. We expect to invest in additional units of these standardised modular systems to form the backbone of our rental fleet capacity in order to respond swiftly to customer demand and shorten the sales timeline. While the Company will continue to be involved in large green field projects where timelines are less predictable, the lease strategy continues to gain momentum in the Middle East and other regions.

Expansion into new regions highlights the Company's success in gaining broader technology recognition and pilot trials. The first sales for produced water treatment systems were made in Alberta, Canada and Albania, both of which underline the Company's ability to handle the more challenging areas of water treatment such as heavy oil and polymer-flood applications.

The Company's technical and engineering team was predominantly focused during the second half of the year on prosecuting and installing seven projects in the Middle East, Australia, India, Colombia, Albania and a major US oil terminal facility which will result in media sales in late 2014.

Business development efforts were greatly enhanced with the addition of the Houston demonstration center in early 2013. The demonstration center allows potential customers to observe real-time processing of water samples taken by the customer from the applicable installation site. As a result, eight opportunities were added to the sales pipeline and two successful trials were conducted in the Gulf of Mexico in the second half of 2013. Leveraging the success of in-house demonstrations during the Offshore Technology Conference week in 2013, the Company has designed an intensive 2014 program and expects record participation again this year.

The Company moved into a new manufacturing facility mid-year which resulted in increased capacity and improved efficiency. The Company believes it will be able to greatly scale up and optimise production while keeping manufacturing costs level.

The Company's projects in the last two years have increased in size, profile and complexity. While these projects typically involve higher

## Revenue

\$21.4 million  
(2012: \$12.3 million)

**+74.0%**



## Gross profit

\$12.2 million  
(2012: \$6.6 million)

**+84.8%**



values for both equipment and recurring media sales, they are often subject to lengthier and less predictable timelines to completion that can be beyond the control of the Company. Major green field projects involving multiple vendors and interdependent complex work streams can present the greatest challenge to accurate forecasting. Management monitors closely all project timelines and incremental expense increases as it invests to ensure growth in the future.

## Financial

The Company continued its strong financial performance, recording record profit. Total revenues for the year increased by 74.0% to \$21.4 million for 2013, up from \$12.3 million in 2012. Revenues continued to increase both as a result of new customer wins and additional installations with existing customers. Revenues from equipment sales and leases increased by 148.4% to \$7.7 million for 2013 (2012: \$3.1 million), while recurring revenues from consumable filtration media and services increased by 48.9% to \$13.7 million (2012: \$9.2 million). Gross profit increased by 84.8% to \$12.2 million in 2013, compared to \$6.6 million in 2012. Gross profit margin increased in 2013 to 56.9% from 53.3% for the previous year, assisted by a full year of the revised pricing structure put in place in Q2 2012.

Total operating expenses for 2013 were \$10.7 million (2012: \$8.2 million). The largest component of operating expenses was Selling, General and Administrative (SG&A) expenses, which includes \$5.3 million of salaries, payroll taxes and travel. Additionally, SG&A expenses include non-cash, stock-based expense of \$1.4 million, rent expense and property taxes of \$526,000 and insurance expense of \$458,000.

The Company recorded income before tax of \$1.3 million in 2013, compared to a loss before tax of \$1.6 million in 2012. Basic earnings per share were 4 cents, compared to basic loss per share of 15 cents for the previous year.

The Company's investment in the fast-to-market lease fleet led to cash outflow in the first half of the year, and shortly thereafter a \$5 million line of credit was secured to support this continued investment. Cash levels increased throughout the second half of 2013 until year end when an increase in accounts receivable, due to the timing of customer payments, resulted in the need to utilise the line of credit. The majority of the \$7 million receivable balance at year end has since been collected in early 2014 and there have been no further draws on the line of credit.

## Corporate

In May 2013, the Company bid farewell to three retiring Directors: former Chairman and co-founder John Mansfield, Sr., and Non-Executive Directors Dr. Dale Threadgill and Ian Johnson. The Board resolved to bestow upon Mr. Mansfield the title of Chairman Emeritus upon his retirement in recognition of his contribution to the Company, particularly during its early development. The Board is also grateful to Dr. Threadgill and Mr. Johnson for their contributions to the Company through the Initial Public Offering (IPO) and during its subsequent development.

The Board currently consists of three Executive Directors and three Non-Executive Directors: Tim Eggar (Chairman [Non-Executive]); Connie Mixon (Chief Executive Officer); Mark Clark (Chief Financial Officer); Hal Alper (Chief Science Officer); Brian Rochester (Non-Executive Director) and Swinton Griffith (Non-Executive Director).

In late 2013, the Board of Directors approved the formation of an independent technology committee to be chaired by former Non-Executive Director, Dr. Dale Threadgill. As a leading provider of advanced technology as well as cutting edge research and development, the committee will provide guidance and support to ensure the Company's proprietary technology is protected, advanced, and further commercialised in appropriate markets and applications.

## Summary and Outlook

We are very pleased with the progress of the Company and the financial results for 2013.

The market for proven technology that can provide clean water in the production process is as robust as ever in the oil and gas industry. MyCelx systems fill a very large and recognised need for cost effective and reliable water treatment that also gives operational control to the end user. The Company expects to continue its expansion in the Middle East, North America and other established markets through increased engineering and sales capacity and a larger modular rental fleet.

The Board looks forward to the future with enthusiasm and confidence.



**Tim Eggar**  
Chairman

4 April 2014



**Connie Mixon**  
Chief Executive Officer

## What we do and why we do it

### MyCelx has proven success with global operators managing these water treatment challenges and expects further success in the future

#### Where the industry is now – the need for water treatment

The need for proven technology that provides reliable and effective water treatment to the oil and gas industry is as robust as ever. The desire of industry to invest in production and process improvement and reduce the environmental impact of ongoing operations is contributing to the global opportunities for MyCelx's advanced water treatment technology and systems. Sustainably managing the enormous volume of water associated with operations is crucial to institutional performance and the bottom line of the oil and gas industry.

#### 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 74% year-over-year revenue growth and profitability, illustrates the Company's continued success 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 solution 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 acknowledged by leading-edge 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 continue to present opportunities for MyCelx. In water stressed regions of the world, water available for operations is very limited therefore reuse is highly valued. 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 leading the industry to seek advanced methods of water treatment. MyCelx technology addresses these key challenges by offering technology that enables the industry to treat difficult streams to low level oil-in-water content as well as operate with reduced environmental impact in a way that is cost effective and sustainable. MyCelx has proven success with global operators managing these water treatment challenges and expects further success in the future.





## How we do it

# Our strategy aligns with specific water treatment needs that the proprietary MyCelx technology addresses better than other existing water treatment equipment

### 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 Company is expanding by leveraging its downstream market success in the petrochemical sector in Saudi Arabia to other countries in the Cooperation Council for the Arab States of the Gulf (GCC) with plans to grow the application globally. Water reuse is critical in the Middle East, India, South America and parts of the drought-stricken United States where water scarcity or limited availability is a challenge. Water used in processes is expensive and consequently adds to operational costs. There are ongoing global initiatives to reuse water to conserve it for other uses such as agriculture. The efficacy of the MyCelx technology is apparent in applications in water scarce regions where the advanced technology enables water reuse or discharge that is reliable and sustainable. Readily available lease equipment is imperative to the success of the strategy given the elevated operational challenges when production increases. Other downstream sectors where the Company has key installations, references or has identified niche opportunities are refineries, terminals, pipelines, and upgrader facilities. The Company continually develops intellectual property owned to offer additional product lines to existing and new customers. The Company plans to focus resources

on its mercury separation technology with further trials and commercialisation in the coming year.

In the upstream sector the Company is growing through customer-facing demonstrations in our Houston facility as well as business development activity globally. The focus on onshore and offshore produced water treatment using fast-to-market lease equipment enables convenient trials and sizing of full equipment installations. The Company will continue to grow its fleet of lease equipment in keeping with the demand it is experiencing. In concert with global business development, the demonstration center hosts customers from around the world and the Company expects further trials and sales to result in 2014 and beyond.

### Downstream 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 from water 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 since process improvement and reduced environmental impact is a major priority of the region and the petrochemical industry. The Company installed its first system in Saudi Arabia in 2008, has since installed three more systems in two other plants and will be installing at a new customer site in 2014. 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 treatment applications in the Middle East to be high-value; the benefit to the end user is high-value in terms of process improvement, reduced environmental impact 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 Company continues to identify applications with high operational value to the end user

In order to support the operations in the Middle East downstream market our technical service office in Al-Jubail Industrial City, Saudi Arabia was expanded in 2013 providing ongoing services requested by the end users. The region contributed \$13.4 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. The Company installed its first water treatment system in the United Arab Emirates (UAE) in 2013 and will install its first system in Kuwait in 2014. The geographic expansion is a direct result of successful reference sites in the region. Additionally, the Company is offering emergency response units that can be leased on a short term basis to address unexpected oily waste water excursions. MyCelx technology is uniquely positioned to provide this service with small, efficient treatment skids that are easily trailer mounted.

Diversifying into niche segments, the Company has installed two systems to treat water in the terminal and pipeline sector to achieve reliable discharge to surface water. During 2013, a second project was installed at another pipeline company located nearby for similar application. The Company believes the terminal and pipeline sector fits well into its targeted downstream strategy because so many terminals are located near or on regulated bodies of water and rely on effective water treatment to operate efficiently.

During 2014, the Company intends to focus resources on its mercury separation technology and plans to begin additional trials and commercialisation.

#### Upstream Strategy

There are numerous opportunities in upstream water treatment related to the oil and gas industry. 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 state-of-the-art Jack/

St. Malo platform which will be operational in 2015. With successful installations in offshore oil and gas production, the Company expects to expand its fast-to-market lease program which enables the operator to effectively manage and control production water discharge. The Company installed on a platform offshore of Australia in the second half of 2013, installed an onshore system in Albania in late 2013 and has run successful trials in upstream production in Alberta, Qatar, and Australia. We anticipate more trials in 2014 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 the Company has secured two new leases in the Gulf of Mexico and made the first sale in South America where initiatives for water reuse for agriculture are a key driver. The Company completed a two year study of the efficiency, effectiveness and cost of operations on a customer platform that has successfully served as a reference for potential customers around the world. Other niche opportunities include unmanned, close-to-shore platforms, as well as medium-depth platforms where space constraints are easily addressed with the small footprint of the MyCelx modular equipment. The Company anticipates that changes in the regulatory environment in onshore oil and gas production in specific areas in the US will open up opportunities for water reuse where use of conventional disposal wells is prominent.

The Company continues to identify applications with high operational value to the end user where the MyCelx technology provides the most cost effective 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 funding with bank lines of credit.
- 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 <sup>1</sup>

#### 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, 3 Legs Resources plc and Haultryn Limited. Mr. Eggar holds an MA from Cambridge University and is qualified as a barrister.

### John Mansfield Sr.

#### Founder and Chairman Emeritus

Mr. Mansfield co-founded the Company with Haluk 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. Mr. Mansfield is Connie Mixon's father.

Mr. Mansfield stepped down from the Board on 13 May 2013.

### Connie Mixon <sup>2</sup>

#### 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 <sup>3</sup>

#### 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 authored and been granted numerous patents in the areas of electrochemistry, polymer chemistry, and environmental technologies, including seventy for MyCelx oil removal chemistry and related applications. He has led the research and development of the Company since inception.

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 <sup>4</sup>**

##### **Chief Financial Officer and Director**

Mark Clark joined MyCelx in 2011 as the Corporate Controller and now serves as Chief Financial Officer and Secretary of the Company. Prior to joining MyCelx, he 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 US public company boards, management and public accounting firms. Before his tenure with Invesco, Mr. Clark was an auditor with Arthur Andersen. Mr. Clark holds a Bachelor of Business Administration from the University of Louisiana – Monroe. Mr. Clark was appointed as Chief Financial Officer, and as a Director on 11 September 2012.

#### **Swinton Griffith <sup>5</sup>**

##### **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.

#### **Brian Rochester <sup>6</sup>**

##### **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 three 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), Brian Rochester 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) and Brian Rochester.

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 five times in 2013.

## Compensation Committee

The present members of the Compensation Committee are Brian Rochester (Chairman), Tim Eggar (appointed 26 November 2013) and Swinton Griffith. Ian Johnson was a member and Chairman of the Committee until he stepped down on 14 May 2013.

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 four times in 2013.

## Nomination and Governance Committee

The present members of the Nomination and Governance Committee are Tim Eggar (Chairman) and Swinton Griffith (appointed 14 May 2013). John Mansfield, Sr. and Dr. Dale Threadgill were members of the Committee until they stepped down on 13 May 2013 and 14 May 2013, respectively.



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 2013. 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 2014.

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 once in 2013.

### **Executive Committee**

The present members of the Executive Committee are Connie Mixon (Chairman) and Tim Eggar. John Mansfield, Sr. was a member of the Committee until he stepped down on 13 May 2013. 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](http://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 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 Secretary

4 April 2014

# Directors' Report

for the year ended 31 December 2013

## 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 2013 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 Note 10 to the financial statements on pages 32 to 34.

## 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 2013 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) – Resigned 13 May 2013

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

**Connie Mixon** (Chief Executive Officer)

**Mark Clark** (Chief Financial Officer and Secretary)

**Brian Rochester** (Non-Executive Director)

**Ian Johnson** (Non-Executive Director) – Resigned 14 May 2013

**Dr. Dale Threadgill** (Non-Executive Director) – Resigned 14 May 2013

**Swinton Griffith** (Non-Executive Director)

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 2014 Annual Meeting will be held at 11:00 a.m. on 13 May 2014 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 2013 are set out in Note 10 to the financial statements. At 4 April 2014, a total of 13,257,734 Common Shares were outstanding. At 4 April 2014, the Company had received notification, or was otherwise aware, that the following are interested in more than 3 percent of the issued ordinary share capital:

Artemis Investment Management	14.00%
John Mansfield Sr.	12.68%
Hal Alper	9.36%
Connie Mixon	7.05%
BlackRock	6.41%
BB&T Asset Management	5.73%
Octopus Investments	5.68%
Majedie Asset Management	5.39%
Emerald Investment Group	4.73%
Amati Global Investors	3.05%



# 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

The Audit Committee of the Board of Directors reviews annually the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditors. Grant Thornton LLP was engaged to perform the 2013 audit for fees of \$130,000. Grant Thornton LLP was not engaged to perform any other services than audit related services in 2013.

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 Secretary

4 April 2014

# Directors' Remuneration Report

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.

An increase in Ms. Mixon's base salary to \$341,250 was approved by the Compensation Committee with effect 1 January 2014.

### 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.

An increase in Mr. Clark's base salary to \$199,500 was approved by the Compensation Committee with effect 1 January 2014.

## 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 percent 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.

An increase in Mr. Alper's base salary to \$236,250 was approved by the Compensation Committee with effect 1 January 2014.

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 2013 was as follows:

	Salary and Director's fees \$US	Benefits in kind \$US	Performance related bonus \$US	2013 Total \$US	2012 Total \$US
<b>Non-Executive Chairman</b>					
Tim Eggar	\$57,000	-	-	\$57,000	\$57,000
<b>Executive</b>					
Connie Mixon	\$331,816	\$6,934	\$79,625	\$418,375	\$339,458
David Pattillo*	-	-	-	-	\$182,283
Mark Clark*	\$196,485	\$4,270	\$35,150	\$235,905	\$177,233
Hal Alper	\$237,769	\$10,257	\$75,000	\$323,026	\$247,777
<b>Non-Executive</b>					
John Mansfield Sr.	\$19,286	-	-	\$19,286	\$52,000
Ian Johnson	\$17,060	-	-	\$17,060	\$46,000
Brian Rochester	\$40,000	-	-	\$40,000	\$40,000
Dr. Dale Threadgill	\$14,835	-	-	\$14,835	\$40,000
Swinton Griffith	\$46,000	-	-	\$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.



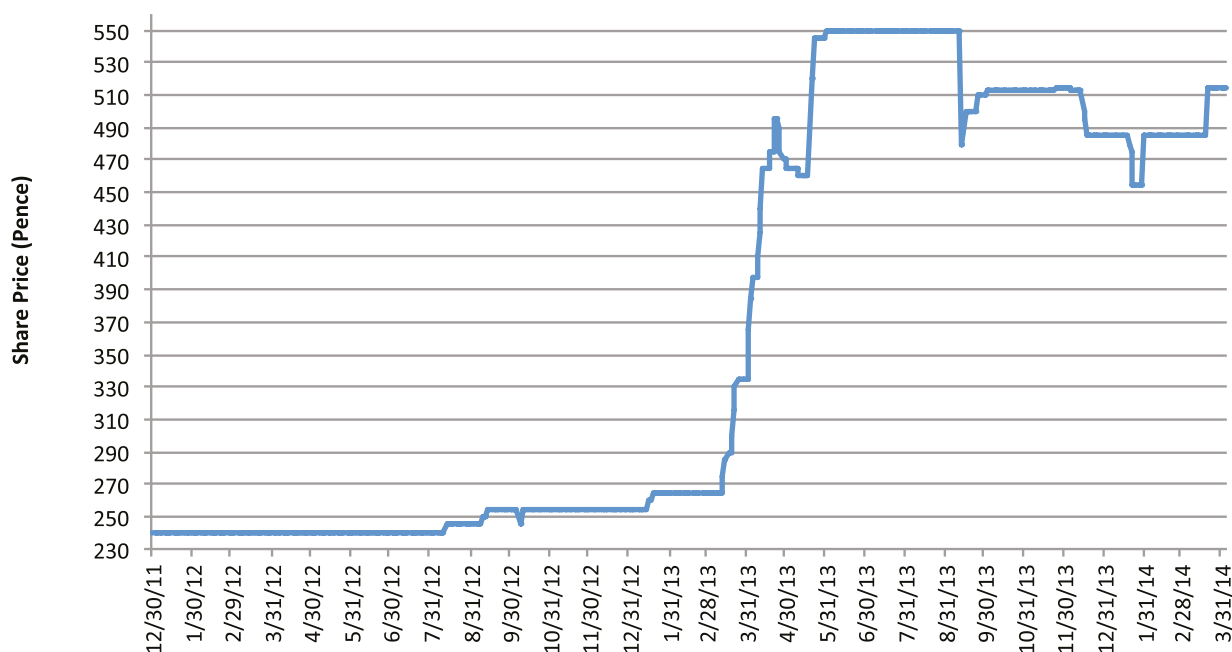
## Directors' Remuneration Report continued

The interests of the Directors at 4 April 2014 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	0.22
Connie Mixon (Note 1)	934,402	7.05
Hal Alper	1,240,769	9.36
Brian Rochester (Note 2)	135,986	1.05
Mark Clark	5,000	0.04

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

### Share Price Performance



## Share Options and Restricted Stock Awards

Options and restricted stock awards for Common Shares awarded to Directors under the Omnibus Performance Incentive Plan in place on 31 December 2013 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	50,459
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
Mark Clark (Note 1)	Employee Stock Option	1 January 2014	\$3.87	3,333
		1 January 2015	\$3.87	3,334
	Employee Stock Option	1 September 2013	\$4.02	25,000
		1 September 2014	\$4.02	30,000
Hal Alper (Note 2)	Employee Stock Option	1 January 2014	\$3.44	54,339
Swinton Griffith	Non-Executive Director Stock Option	1 January 2016	\$3.87	26,000
Brian Rochester	Non-Executive Director Stock Option	1 January 2015	\$0.86	41,143

\* For Non-Executive Director Stock Options, first date permitted for exercise is shown as 1 January 2015 or 1 January 2016; some or all of the options are scheduled to vest before that date

- (1) On 15 October 2013, Mark Clark exercised options over 35,000 Common Shares of \$0.025 each ("Common Shares") under the Company's Omnibus Performance Incentive Plan 2011 (the "Plan") at a price of \$4.02 per Common Share, and exercised options over 3,333 Common Shares under the Plan at a price of \$3.87 per Common Share. On 15 October 2013, Mr. Clark sold 33,333 Common Shares at a price of 500p per Common Share.
- (2) On 24 May 2013, Hal Alper exercised options over 108,678 Common Shares under the Plan at a price of \$3.44 per Common Share, and sold the resulting 108,678 Common Shares at a price of 530p per Common Share.

### Brian Rochester

Chairman, Compensation Committee

4 April 2014

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## **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, 2013 and 2012, 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 MyCelx Technologies Corporation as of December 31, 2013 and 2012, 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  
4 April 2014

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



# Statements of Operations

(USD, in thousands, except share data)

<b>For the Year Ended 31 December:</b>	<b>2013</b>	<b>2012</b>
<b>Revenue</b>	21,379	12,297
Cost of goods sold	9,205	5,737
<b>Gross profit</b>	12,174	6,560
<b>Operating expenses:</b>		
Research and development	479	870
Selling, general and administrative	9,864	7,065
Depreciation and amortisation	340	219
<b>Total operating expenses</b>	10,683	8,154
<b>Operating income (loss)</b>	1,491	(1,594)
<b>Other expense</b>		
Loss on disposal of equipment	(90)	-
Interest expense	(87)	(2)
<b>Income (loss) before income taxes</b>	1,314	(1,596)
Provision for Income taxes	(749)	(380)
<b>Net income (loss)</b>	565	(1,976)
<b>Earnings (loss) per share - basic</b>	0.04	(0.15)
Earnings (loss) per share - diluted	0.04	(0.15)
<b>Shares used to compute basic income (loss) per share</b>	13,097,911	12,922,873
<b>Shares used to compute diluted income (loss) per share</b>	14,316,603	12,922,873

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



# Balance Sheets

(USD, in thousands, except share data)

<b>31 December:</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3,664	9,059
Restricted cash	500	100
Accounts receivable - net	7,431	2,177
Unbilled accounts receivable	1,430	449
Inventory - net	3,142	2,964
Prepaid expenses	218	295
Other assets	94	129
<b>Total Current Assets</b>	<b>16,479</b>	<b>15,173</b>
Property and equipment - net	10,542	3,832
Intangible assets - net	574	476
<b>Total Assets</b>	<b>27,595</b>	<b>19,481</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	1,680	1,801
Payroll and accrued expenses	1,356	835
Deferred revenue	15	315
Capital lease obligations - current	4	13
Line of credit	2,820	-
Note payable - current	74	-
Warrant liability	383	-
Other current liabilities	46	63
<b>Total Current Liabilities</b>	<b>6,378</b>	<b>3,027</b>
Note payable - long-term	2,165	-
Capital lease obligations - long-term	4	1
<b>Total Liabilities</b>	<b>8,547</b>	<b>3,028</b>
<b>Stockholders' Equity</b>		
Common stock, \$0.025 par value, 100,000,000 shares authorised, 13,257,734 and 12,922,873 shares issued and outstanding at 31 December 2013 and 2012, respectively	332	324
Additional paid-in capital	27,821	25,799
Accumulated deficit	(9,105)	(9,670)
<b>Total Stockholders' Equity</b>	<b>19,048</b>	<b>16,453</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>27,595</b>	<b>19,481</b>

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	\$	\$	\$	\$
<b>Balances at 31 December 2011</b>	12,923	324	24,947	(7,694)	17,577
Stock-based compensation expense	-	-	852	-	852
Net loss for the period	-	-	-	(1,976)	(1,976)
<b>Balances at 31 December 2012</b>	12,923	324	25,799	(9,670)	16,453
Exercise of stock options and issuance of shares	171	4	606	-	610
Exercise of stock warrants and issuance of shares	164	4	369	-	373
Stock-based compensation expense	-	-	1,047	-	1,047
Net income for the period	-	-	-	565	565
<b>Balances at 31 December 2013</b>	13,258	332	27,821	(9,105)	19,048

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

# Statements of Cash Flows

(USD, in thousands)

<b>For the Year Ended 31 December:</b>	<b>2013</b>	<b>2012</b>
<b>Cash flow from operating activities</b>		
Net income (loss)	565	(1,976)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortisation	857	406
Loss from disposition of equipment	90	-
Stock compensation	1,047	852
Non-cash change in warrant liability	383	-
Change in operating assets and liabilities:		
Accounts receivable	(5,254)	(977)
Unbilled accounts receivable	(981)	(449)
Inventory - net	(178)	(1,694)
Prepaid expenses	77	(351)
Other assets	35	37
Accounts payable	(121)	645
Payroll and accrued expenses	521	580
Deferred revenue	(300)	220
Other current liabilities	(17)	63
<b>Net cash used in operating activities</b>	<b>(3,276)</b>	<b>(2,644)</b>
<b>Cash flow from investing activities</b>		
Payments for purchases of property and equipment	(7,629)	(3,132)
Proceeds from sale of property and equipment	19	-
Payments on capital lease obligations	(12)	(20)
Payments for purchases of intangible assets	(139)	(126)
<b>Net cash used in investing activities</b>	<b>(7,761)</b>	<b>(3,278)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from stock issuance	983	-
Payments on notes payable	(47)	(13)
Advances from notes payable	2,286	-
Increase in restricted cash	(400)	(100)
Advances on line of credit	2,820	-
<b>Net cash provided by (used in) financing activities</b>	<b>5,642</b>	<b>(113)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,395)</b>	<b>(6,035)</b>
Cash and cash equivalents, beginning of year	9,059	15,094
<b>Cash and cash equivalents, end of year</b>	<b>3,664</b>	<b>9,059</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash payments for interest	87	2
Cash payments for income taxes	638	348
Property and equipment remaining in accounts payable and other current liabilities	137	169
Purchase of property and equipment under capital leases	6	-

Management considered the effect of exchange rate changes on cash and cash equivalents held or due in foreign currency and deemed it immaterial to the statement of cash flows.

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 24 March 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 and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At 31 December 2013, all of the Company’s cash and cash equivalent balances were held in non interest-bearing transaction accounts.

### Restricted cash

The Company classifies as restricted cash all cash whose use is limited by contractual provisions. As of 31 December 2013, restricted cash included \$500,000 cash on deposit in a money market account as required by a lender (see Note 9).

**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. There was no allowance for doubtful accounts for the years ended 31 December 2013 and 2012.

**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 for sale to customers is also included in inventory (work-in-progress). The Company applies the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progress 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 2013 and 2012, the valuation reserve was \$21,000 and \$12,000, respectively.

### Prepaid expenses and other current assets

Prepaid expenses and other current assets include non-trade receivables that are collectible in less than twelve months, security deposits on leased space and various prepaid amounts that will be charged to expenses within twelve months. Non-trade receivables that are collectible in twelve 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
Buildings	39 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. 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 2013 and 2012 was \$517,000 and \$187,000, respectively.

**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 sales in which equipment is pre-fabricated and stocked in inventory are recognised upon shipment of the equipment to the customer.

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 31 December 2013 and 2012. 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 2013 and 2012.

**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 2013 and 2012 was approximately \$479,000 and \$870,000, respectively.

**Advertising costs** – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2013 and 2012 was approximately \$24,000 and \$11,000, 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 2013 and 2012 the Company recognised no interest or penalties. The Company's tax years 2010 through 2013 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 hierarchy established by ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

- **Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** Unobservable inputs for the asset or liability.

There were no significant transfers into and out of each level of the fair value hierarchy for assets measured at fair value for the year ended 31 December 2013 or 2012.

All transfers are recognised by the Company at the end of each reporting period.

Transfers between Levels 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Levels 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety.

The Company's financial instruments as of 31 December 2013 and 2012 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, the note payable, and the warrant liability. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short term nature of those assets and liabilities. The Company believes it is impractical to disclose the fair value of the note payable as it is an illiquid financial instrument.

The Company uses Level 3 inputs for its valuation methodology for the warrant liability. The estimated fair value was determined using a Monte Carlo pricing model based on various assumptions (see Note 10). The Company's warrant liability is adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in Selling, General and Administrative expenses in the statements of operations.



The following table presents the activity for liabilities measured at estimated fair value using unobservable inputs for 2012 and 2013:

	<b>Warrant Liability US\$000</b>
Balance at 31 December 2012	-
Adjustments to estimated fair value	871
Warrant liability removal due to exercises	(488)
Balance at 31 December 2013	383

**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.

### 3. Accounts receivable

Accounts receivable and their respective allowance amounts at 31 December 2013 and 2012 follow:

	<b>31 December 2013 US\$000</b>	<b>31 December 2012 US\$000</b>
Accounts receivable	7,431	2,177
Less: allowance for doubtful accounts	-	-
Total receivable - net	7,431	2,177

### 4. Inventories

Inventories consist of the following at 31 December 2013 and 2012:

	<b>31 December 2013 US\$000</b>	<b>31 December 2012 US\$000</b>
Raw materials	1,503	1,005
Work-in-progress	545	1,008
Finished goods	1,115	963
	3,163	2,976
Less: inventory reserve	(21)	(12)
Total inventory - net	3,142	2,964



## Notes to the Financial Statements continued

### 5. Property and equipment

Property and equipment consists of the following at 31 December 2013 and 2012:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>US\$000</b>	<b>US\$000</b>
Office equipment	606	326
Land	709	-
Building	2,704	-
Leasehold improvements	304	139
Manufacturing equipment	652	416
Construction in progress	1,248	31
Research and development equipment	504	274
Purchased software	211	90
Equipment leased to customers	5,077	3,227
	12,016	4,503
Less: accumulated depreciation	(1,474)	(671)
Property and equipment - net	10,542	3,832

During the year ended 31 December 2013, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately \$13,000 to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2013 and 2012 was approximately \$816,000 and \$363,000, 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 2013 and 2012 was \$517,000 and \$187,000, respectively.

### 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 utilising the straight-line method over a useful life of 17 years which represents the remaining legal life. Accumulated amortisation on the patent was approximately \$20,000 and \$13,000 as of 31 December 2013 and 2012, respectively.

Intangible assets as of 31 December 2013 and 2012 consist of the following:

	<b>Weighted Average Useful lives</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
		<b>US\$000</b>	<b>US\$000</b>
Patent defense cost	15 years	845	706
Purchased patents	17 years	100	100
		945	806
Less accumulated amortisation		(371)	(330)
Intangible assets - net		574	476



Approximate aggregate future amortisation expense is as follows:

<b>Year ending 31 December (USD, in thousands)</b>	
2014	35
2015	34
2016	33
2017	26
2018	27

Amortisation expense for the years ended 31 December 2013 and 2012 was approximately \$41,000 and \$43,000, respectively.

## 7. Income taxes

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

	<b>31 December 2013 US\$000</b>	<b>31 December 2012 US\$000</b>
<b>Current:</b>		
Federal	8	-
Foreign	702	380
State	39	-
Total current provision	749	380
<b>Deferred:</b>		
Federal	-	-
Foreign	-	-
State	-	-
Total deferred provision	-	-
Total provision for income taxes	749	380

The provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 34 percent, 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:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Federal statutory income tax rate	34.0%	34.0%
State tax rate, net of federal benefit	2.9%	.2%
Valuation allowance	(17.6%)	(41.8%)
Other	2.4%	(.5%)
Foreign withholding tax	35.3%	(15.7%)
Effective income tax rate	57.0%	(23.8%)

# Notes to the Financial Statements continued

## 7. Income taxes continued

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

	31 December 2013 US\$000	31 December 2012 US\$000
Deferred tax assets		
Other	211	29
Accrued liability	72	131
Charitable contributions	6	5
Research and development credits	159	159
Equity compensation	648	442
Net operating loss	2,561	2,791
Total gross deferred tax asset	3,657	3,557
Deferred tax liabilities		
Property and equipment	(785)	(454)
Total gross deferred tax liability	(785)	(454)
Net deferred tax asset before valuation allowance	2,872	3,103
Valuation allowance	(2,872)	(3,103)
Net deferred tax asset (liability)	-	-

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 2013, the Company has recorded a valuation allowance of \$2.9 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 31 December 2013, the Company has approximately \$7.0 million of gross U.S. federal net operating loss carry forwards that will begin to expire in the 2019 tax year.

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 percent 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 2013 and 2012, there was no accrual for uncertain tax positions or related interest.



On 13 September 2013, the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code regarding the deduction and capitalisation of expenditures related to tangible property as well as dispositions of tangible property. These regulations will be effective for the Company's fiscal year ending 31 December 2014. Taxpayers may elect to apply the regulations to tax years beginning on or after 1 January 2012. The Company does not anticipate that the regulations will have a material impact on the Company's consolidated results of operations, cash flows or financial position.

## 8. Line of credit

In August 2013, the Company entered into a revolving credit facility with a bank that permits it to borrow up to 90 percent of eligible accounts receivable and 75 percent of its eligible inventory with a maximum borrowing of \$5 million. Borrowings bear interest at a rate per annum equal to the base rate, which is the greater of the Prime Rate in effect on a given day, a rate determined by the lender to be one and one-half percent (1.50%) above Daily One Month LIBOR, or the Federal Funds Rate plus one and one-half percent (1.5%). The facility renews annually and is secured by a first security interest in all of the Company's accounts receivable, general intangibles and inventory. Under terms of the line of credit, the Company is required to maintain a specified fixed charge coverage ratio and debt to intangible net worth ratio, as those terms are defined, and did so throughout 2013 and as of 31 December 2013. The balance on the line of credit at 31 December 2013 was \$2,820,000. The interest rate on 31 December 2013 was 3.25 percent. Interest expense related to this loan for the year ended 31 December 2013 was \$17,000.

Since 2010, the Company had a bank line of credit that allowed for borrowings up to \$400,000. This line of credit was closed in 2013. The line of credit was revolving and payable on demand. The balance on the line of credit at 31 December 2012 was \$0 and the Company did not draw against the line in 2013. The line of credit carried an interest rate of prime plus 0.30 percent. There was no interest expense related to this loan for the years ended 31 December 2013 and 2012.

## 9. Notes payable

In April 2011, the Company entered into a lending agreement with a shareholder in the original amount of \$1,500,000, payable within five days after the Company received at least \$15,000,000 in cash proceeds from an equity offering. The note had an interest rate of 10 percent, 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. All of the warrants were exercised in October 2013. The note was recognised net of a discount related to the stock warrants. The balance of this note was converted to common stock in connection with the Company's public offering in August 2011.

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The Company borrowed proceeds of \$2,285,908 at a fixed interest rate of 4.45 percent. The loan has a ten year term with monthly payments based on a twenty year amortisation. In accordance with the terms of the agreement, the Company is required to maintain a minimum cash balance of \$3 million until a 1.25 fixed charge coverage ratio is achieved. As a result of the financial results during the year ended 31 December 2013, the fixed charge coverage ratio of 1.25 was achieved. Therefore, the minimum cash balance requirement will be removed upon approval by the holder of the note after review of the audited 2013 financial statements. The Company is also required to keep \$500,000 in a deposit account with the lending bank. As of 31 December 2013, the Company had restricted cash of \$500,000 related to the loan agreement. Future maturities of long-term debt are as follows as of 31 December 2013:

<b>Year ending 31 December (USD, in thousands)</b>	
2014	74
2015	78
2016	81
2017	85
2018	89
Thereafter	1,832
	<b>2,239</b>



## Notes to the Financial Statements continued

### 10. 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 in 2011.

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 former Chief Financial Officer. In addition, additional stock options were awarded to two employees and a Director in May and September 2012, one employee in January 2013, and certain employees and consultants in September 2013. 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 1,325,773, with 1,072,569 shares allocated as of 31 December 2013. The shares are allocated as 269,713 shares to Non-Executive Directors and 802,856 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, options granted in September 2012 and January 2013 have an exercise price equal to \$4.02 per share, and options granted in September 2013 have an exercise price equal to \$8.01. 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 or they will expire and 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 the Company does not have a sufficient trading history from which to calculate its historical volatility, the Company's expected volatility is based on a basket of comparable companies' historical volatility. As the Company's initial options were granted in 2011, the Company does not have sufficient history of option exercise behavior from which to calculate the 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 two and five 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, 2012 and 2013 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value per option
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
2013	10,000	01/01/13	0.42%	6 years	45.00%	\$4.02	\$1.75
	130,000	09/20/13	1.20%	6 years	55.00%	\$8.01	\$4.14

The Company assumes a dividend yield of 0.0%.

The following table summarises the Company's stock option activity for the years ended 31 December 2013 and 2012:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (in years)</b>	<b>Average Grant Date Fair Value</b>
Outstanding at 31 December 2011	904,901	\$2.75	5.4	\$1,606,300
Granted	226,000	\$3.93	5.7	\$370,500
Exercised	-			
Forfeited	(27,314)	\$3.44		
Outstanding at 31 December 2012	1,103,587	\$2.97	5.5	\$1,936,921
Granted	140,000	\$7.73	6.0	\$555,700
Exercised	(171,018)	\$3.44		
Forfeited	-			
Outstanding at 31 December 2013	1,072,569	\$3.52	5.5	\$2,242,935
Exercisable at 31 December 2013	433,480			

A summary of the status of unvested options as of 31 December 2013 and changes during the years ended 31 December 2013 and 2012 is presented below:

<b>Unvested Options</b>	<b>Shares</b>	<b>Weighted-Average Fair Value at Grant Date</b>
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
Granted	140,000	\$3.97
Vested	(336,708)	\$1.85
Forfeited	-	
Unvested at 31 December 2013	386,710	\$2.11

As of 31 December 2013, total unrecognised compensation cost of \$359,000 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 were subject to a number of restrictions and forfeiture provisions that continued for up 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 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.

## Notes to the Financial Statements continued

### 10. Stock compensation continued

#### 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 warrants to subscribe for Common Shares representing 1.5 percent of the total shares outstanding immediately following the initial public offering, or 193,843 warrant shares. The warrants vested upon the Issuance. The exercise price of the warrants is \$3.44 per share. The warrants are exercisable in whole or in part at any time in the period between 5 August 2011 and 5 August 2016.

The warrants are 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 warrants 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 warrants (or any part) in this manner, the warrants are 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 warrants 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 warrants, calculated in accordance with a formula set out in the warrant agreement. As a result, the fair value of the outstanding warrants is classified as a liability in accordance with ASC 480 - Distinguishing Liabilities from Equity. As discussed in Note 2, the fair value of the warrants is measured utilising a Monte Carlo valuation model with the following assumptions:

	<b>31 December 2013</b>
Closing price per share of common stock	\$7.91
Exercise price per share	\$3.46
Expected volatility	46.0%
Risk-free interest rate	0.88%
Remaining expected term of underlying securities (years)	2.6

In addition, as of the valuation dates, management assessed the probabilities of future financings assumptions in the Monte Carlo valuation model.

In May 2013, the consultant exercised 113,843 warrants for consideration paid to the Company and proceeds of approximately \$371,000 were received. The warrants were revalued as of the date exercised and the change in fair value was recognised to earnings. Included in the current year warrant liability is an immaterial amount that was misclassified as equity in the prior year's financial statements.

### 11. Commitments and contingencies

**Operating and capital leases** - The Company has entered into capital lease agreements for equipment through 2016. Equipment under capital leases together with accumulated depreciation at 31 December 2013 and 2012 is as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>US\$000</b>	<b>US\$000</b>
Office equipment	26	19
Manufacturing equipment	47	47
	73	66
Less: Accumulated depreciation	(31)	(23)
Equipment under capital leases - net	42	43

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 lease was terminated in January 2013 and the equipment was purchased from the lessor.

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 granted a three-year option through June 2016 with monthly payments ranging from approximately \$6,000 to \$7,000. As discussed in Note 9, the Company purchased property and a building in March 2013 for its manufacturing operations and corporate offices. As such, the option to extend the lease on the property in Gainesville, Georgia was allowed to expire.

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 \$4,000.

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 was for a period of one year at an annual rate of \$68,000 and included an option to renew for a period of one year. In May 2013, the lease was extended for 13 months and amended to include additional warehouse and office space at an annual rate of \$151,000.

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 was for a period of one year at an annual rate of \$36,000. The lease included an option to renew for a period of one year or less. In June 2013, the lease was extended for a period of one year.

The Company entered into an operating lease for office space in London, United Kingdom in September 2012. The lease was for a period of one year at an annual rate of \$33,000. In September 2013, the lease was extended for a period of one year.

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 \$7,000 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 2013 are as follows:

<b>Year Ending 31 December</b>	<b>Capital Leases US\$000</b>	<b>Operating Leases US\$000</b>
2014	4	207
2015	2	91
2016	2	86
2017	-	89
2018	-	8
Thereafter	-	-
Total future lease payments	8	481
Less amount representing interest	-	
Net capital lease liability	8	
Less current portion	(4)	
Total long-term portion of capital lease obligations	4	

Rent expense for the years ended 31 December 2013 and 2012 was approximately \$413,000 and \$243,000, respectively.

# Notes to the Financial Statements continued

## 11. Commitments and contingencies continued

### State sales tax

In 2012, the Company determined that it had a liability for state sales tax resulting from activities in states where it did not previously collect sales tax from customers and remit to taxing authorities. The ultimate amount due depended on a number of factors, including the jurisdictional tax rates, the amount of sales to customers who already paid the tax or were exempt, and any penalties and interest. The Company recorded a liability of \$120,000 in accrued expenses in 2012 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 completed the process of filing voluntary disclosure agreements with state and local taxing authorities and resolved all liabilities in 2013 resulting in a gain of \$96,000.

## 12. Related party transactions

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

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

## 13. Concentrations

At 31 December 2013, one customer with four contracts with three separate plants represented 80 percent of accounts receivable. During the year ended 31 December 2013, the Company received 57 percent of its gross revenue from one customer with three separate plants.

At 31 December 2012, two customers, one with three contracts with separate plants, represented 89 percent of accounts receivable. During the year ended 31 December 2012, the Company received 53 percent of its gross revenue from one customer with three separate plants.

## 14. Subsequent events

Management has evaluated subsequent events through 4 April 2014, 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.

Designed and produced by

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