



MYCELX Technologies Corporation
Annual Report & Accounts 2015

Technology Edge



MYCELX – superior performance and cost effective solutions for the Oil and Gas industry’s water treatment needs



MYCELX is a revolutionary clean water technology company that provides superior performance and cost effective solutions to the Oil and Gas Industry’s water treatment needs.

Three to twelve 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. Our systems are based upon scientific breakthroughs, which allow us to deliver superior results compared to traditional methods that are becoming obsolete in the face of increasingly complex water treatment requirements across the industry. We are able to solve the industry’s toughest water treatment challenges.

MYCELX is molecular cohesion, not just filtration, resulting in true oil-free water.

Our patented MYCELX® polymer uses innovative molecular cohesion to reliably and consistently remove oil from water to levels our customers require. We can achieve oil removal to less than 1 ppm (part per million) if necessary.

Our systems offer revenue enhancing and cost saving opportunities to our customers.

MYCELX solutions are fast, efficient, cost-effective and operator-friendly. Our virtually fail-safe process leads to higher operational uptime and greater production. Our products’ smaller footprint can save valuable space on offshore platform new builds or allows our customers to easily incorporate MYCELX systems into existing infrastructure to act as a retrofit to fix failing conventional treatment.

MYCELX is taking oil-free water treatment to new levels, setting the standard with proven technology and establishing a global presence.

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.

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Highlights

Financial

- Gross profit margin remained strong at 53.3% (2014: 52.3%)
- Revenue of \$13.6 million (2014: \$13.6 million)
- Adjusted EBITDA of negative \$1.7 million (2014: negative \$4.1 million)
- Paid off line of credit balances
- Cash provided by operating activities of \$0.12 million in H2 2015
- Net cash of \$3.7 million (2014: \$6.2 million)

Operational

- Qatar: Successful turnaround project showcased the Company's ability to quickly deploy and treat extremely difficult water streams present during these operations
- Saudi Arabia: Continuous successful operation of four current installations in petrochemical plants
- US: Startup of offshore system on new build platform in Gulf of Mexico
- US: Third system sold to a terminal operator to treat water from operations for discharge into Houston Ship Channel
- Canada and India: Successful trials for Enhanced Oil Recovery produced water operations
- Mexico: Successful trial treating upstream produced water

New Contracts

- US: Secured lease for recycle and reuse system to treat water for hydraulic fracturing in west Texas

Contract Extensions

- Saudi Arabia: Two lease and service contract extensions with SABIC for process water treatment systems

Post period end events

- Saudi Arabia: Awarded two year contract with SABIC for total value of \$5 million
- Nigeria: Successful trial offshore platform with local oil producer
- Oman: Successful trial resulting in a lease to purchase for downstream process water in Oman
- US: Equipment lease secured for treatment of process water at a refinery in Oklahoma
- US: Added experienced Business Development personnel with oilfield services and water treatment background to drive sales and strategic alliance formation

Outlook

- Increased focus on establishing strategic alliances to leverage sales and marketing channels globally
- Expense control measures will enable the Company to be cash neutral from operations in 2016
- Take advantage of oil market dislocation to demonstrate cost savings achieved through advanced technology
- Leverage current customer relationships and installations in the Middle East to continue to grow downstream business in MENA and North America
- Oil price volatility and market dislocation will continue to affect timing of project awards

Chairman's & Chief Executive Officer's Statement

Continued distress in the oil and gas market resulted in flat Y-O-Y growth but provided new opportunities

In 2015, the Company's expected revenues were adversely affected by the continuing oil price decline, which led to widespread project delays. The magnitude of the industry downturn continued to stun the global market. Operators delayed maintenance and turnaround activity and producers slowed or shut down their operations based on operating cost metrics. These factors led to a very difficult business environment that resulted in no increase in year-over-year revenue in 2015 versus 2014.

Amid the turmoil and market dislocation the Company seized the opportunity to present cost effective, differentiated solutions resulting in successful trials in 2015 with new customers. In the "new normal" for global oil prices, the operating cost structure of the producers must improve. MYCELX offers the industry a proven technology solution that delivers sought-after cost savings but more importantly enhanced production potential. This is MYCELX's strength.

We continue to grow our presence in Saudi Arabia and in the Middle East and build the MYCELX brand based on successful performance of our installations at four petrochemical plants in Jubail City.

Overall, while the combination of industry-wide pricing pressure and uncertainty over project awards made revenue recognition extremely difficult, the Company made progress in its opportunistic approach to attract new customers by proving the cost savings with successful trials. It remains the case that wherever oil and gas production and petrochemical processing occurs, water is present and must be cost effectively treated for sustainable operations. This is what MYCELX does best and where we will continue to move forward with the entire team's focus.

Operational Review

Middle East

In the Middle East, the Company completed a successful turnaround at a major petrochemical plant in Qatar utilising MYCELX's unique water characterization techniques and proprietary media to meet the customer's stringent water discharge requirements. This successful project serves as a reference for the Company's technology as well as its fast deployment equipment and services in the Cooperation Council for the Arab States of the Gulf ("GCC").

The Company continued its successful operation of four installations in petrochemical plants in Jubail City, Saudi Arabia providing water treatment for process water reuse and wastewater treatment for discharge to wastewater

treatment plants. Two of the operating leases were extended during the year and one lease was extended for two years in the amount of \$5 million post period. The plants continue to meet important key performance indicators based on extended run time even during upset conditions which would otherwise result in a costly slowdown in production. The Company continues to make product and process improvements to assist the plants in meeting their water treatment and operational goals.

Post period, the Company conducted a successful trial offshore Nigeria and a downstream trial in Oman which led to a lease to purchase.

India

The Company completed successful trials in Enhanced Oil Recovery ("EOR") produced water with a major producer in India, including trials using a potential new product line specifically designed for EOR application. The Company continues to believe the commercial opportunity associated with treating water associated with EOR operations cannot be overstated. The EOR process is highly dependent on the ability to treat the water during operations and MYCELX has been proven to be a cost effective solution. For producers around the world, EOR is one of the predominant processes for maximizing production in older fields. We continue to build on these successful trials with further opportunities and sales as we address the untapped market in this lucrative application.

Americas

Leveraging the Company's successes in water reuse applications globally, the Company leased a water treatment system to an independent producer to treat water during hydraulic fracturing operations in west Texas. The system was provided with remote monitoring capability and greatly reduced the cost of manpower necessary to operate. The Company is pursuing these projects as a faster path to recurring media sales. In the terminal sector, the Company sold its third system to a terminal operator to treat water from operations for discharge into the Houston Ship Channel, with installation expected in Q2 2016. In the Gulf of Mexico the Company performed the startup of the MYCELX® system on a new build platform which has been anticipated and will be additive to the Company's recurring media sales as production ramps up.

The Company conducted a successful first trial in Mexico treating water during production and a successful EOR produced water trial in Alberta.

The Company made progress with new customers by proving the cost savings with successful trials



Financial

Total revenue was flat in 2015 versus 2014 at \$13.6 million. Revenue from equipment sales and leases decreased by 26.0% to \$3.7 million for 2015 (2014: \$5.0 million) due to continued oil price volatility and market dislocation. Revenue from consumable filtration media and service increased by 15.1% to \$9.9 million (2014: \$8.6 million) due to two turnaround petrochemical plant projects in 2015 that did not occur in 2014. Gross profit margin remained strong in 2015 at 53.3% (2014: 52.3%).

Total operating expenses for 2015 decreased by 16.9% to \$10.3 million (2014: \$12.4 million). The largest component of operating expenses was selling, general and administrative ("SG&A") expenses. As a result of the Company's efforts to reduce total operating expense, SG&A expenses decreased \$992,000 due to reductions in staff costs. Other savings included \$440,000 from travel expense, \$271,000 from R&D, \$253,000 for freight fees, \$239,000 from consulting and accounting fees, and \$125,000 from marketing expense.

Adjusted EBITDA for 2015 was negative \$1.7 million, compared to negative \$4.1 million in 2014. Adjusted EBITDA is net income before interest expense, provision

for income taxes, depreciation and amortisation of fixed and intangible assets including depreciation of leased equipment which is included in cost of goods sold. The Company uses Adjusted EBITDA as the profitability measure for making decisions regarding allocating resources and assessing performance.

The Company recorded a loss before tax of \$3.2 million in 2015, compared to a loss before tax of \$5.5 million in 2014. Basic loss per share was 20 cents in 2015, compared to basic loss per share of 44 cents for the previous year.

The Company ended the period with \$5.8 million of cash and cash equivalents including restricted cash, compared to \$11.8 million in total at 31 December 2014. The Company's net cash position was \$3.7 million at 31 December 2015, compared to \$6.2 million at 31 December 2014. Net cash is defined as cash and cash equivalents plus restricted cash less balances on the lines of credit and the current and long term note payable. The Company's primary use of cash in 2015 was related to payments to pay off and close a line of credit and payments to complete the expansion of the lease equipment fleet.

Chairman's & Chief Executive Officer's Statement

MYCELX will continue to innovate and commercialise next generation technology

Outlook

The Company's primary market remains in distress, therefore we have taken a conservative approach to forecasting revenue in 2016. Increasingly operators are keen to seek out new technology that offers better performance and most importantly cost savings. While the tough environment has created opportunity for MYCELX, the Board of Directors and the Company are well aware of the challenges the Company faces in 2016 and beyond. We continue to believe long-term success and building a global brand will be achieved by engaging in large scale projects as well as smaller scale, fast-to-market opportunities. The Company will remain in the turnaround market, but primarily with current customers where we have installed equipment and operators onsite. We have identified lower cost, lower risk projects with faster execution that will bridge the gap of lengthy project timelines and will be additive to annual recurring revenue. We are focusing on strategic partnerships to leverage sales and marketing platforms that value differentiated technology. It is clear that the oil and gas industry wants and needs technology to support cost effective operations.

The current year has started out with the award of a two year contract in the amount of \$5 million with an existing petrochemical customer in Saudi Arabia. The contract is a result of bringing operational efficiency which led to attractive cost savings for the plant. The Company is pleased to report that a successful upstream trial was completed offshore Nigeria, which the Company believes will lead to future sales in a market that is actively seeking effective technology to manage water for compliant overboard discharge. In the downstream sector the Company completed a successful trial in Oman which led to a lease to purchase of equipment and media sales. In the U.S. a lease has been awarded to treat water during refinery operations. The Company has strengthened the Houston Business Development and Engineering team. The major focus will be the downstream and terminal markets in Texas and Louisiana. The project pipeline remains strong but predicting the timing of sales and revenue recognition remains difficult. Utilising the equipment from previous leases, the Company is well positioned for projects globally which has enabled us to respond quickly and cost effectively to paid trial requests such as the Oman downstream trial.

The Company has taken the necessary actions to reduce operating expenses which will result in the Company ending the 2016 year operationally cash neutral. The Company constantly monitors to ensure specific measures are taken in the event of a revenue shortfall or contract delay during the year. Our cost reduction program has been targeted to ensure it does not adversely affect the Company's ability to grow, engineering and business development will remain protected from further reductions. The Company will continue to be prudent stewards of its cash and any additional equipment purchased will be supported by a sales contract.

At its core, the Company is a technology company. As such, the Company will continue to innovate and commercialise next generation technology to achieve treatment results not currently found in the market today. The oil and gas and petrochemical industries continue to integrate MYCELX® technology into their critical, real-time processes. This confirms its role in achieving sustainable water treatment for years to come. The Board of Directors and Company management are committed to ensuring MYCELX® technology reaches its full potential as the global industry standard.



Tim Eggar
Chairman



Connie Mixon
Chief Executive Officer

16 May 2016

Global need for water treatment

In water stressed regions of the world, water available for operations is very limited therefore reuse is highly valued

Our market

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 cost savings is contributing to the global opportunities for the Company's advanced water treatment technology and systems. Sustainably managing the enormous volume of water associated with operations is crucial to the bottom line and indeed to the survival of some producers within the oil and gas industry.

Our solutions

The Company 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 illustrates the Company's continued success in an industry that is extremely thorough in evaluating and implementing changes to established practice. The Company 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 the Company. 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 compels operators to seek advanced methods of water treatment. MYCELX 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. The Company has proven success enabling global operators to meet their water treatment challenges and expects the current market conditions to generate greater industry interest in and adoption of our technology and products.

Our markets and strategy

Industry desire to invest in production and process improvement and cost savings is contributing to the global opportunities for the Company

Our Business Model

The Company's business model is based on recurring revenue. MYCELX sells or leases equipment 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 levels) 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 GCC, with further 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 presents economic and production challenges. 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 and pipelines. The Company continually develops intellectual property to offer additional product lines to existing and new customers.

In the upstream sector the Company is growing through customer-facing demonstrations in our Houston facility as well as on site leases and trials. The Company's Houston demonstration center hosts global producers and has supported growing awareness and adoption of the technology. The focus on onshore and offshore produced water treatment using fast-to-market lease equipment enables convenient trials and sizing of full equipment installations. With the advent of lower oil prices, producers are actively seeking to control costs. Water treatment is one of the targeted areas. MYCELX[®] provides an effective, lower cost-to-treat option and as a result, the Company expects to see more opportunity in onshore and offshore applications.

Downstream Strategy

The Company has remained committed to its successful strategy of focusing 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 reduced environmental impact and process improvement are major priorities of the region and the petrochemical industry. The Company installed its first system in Saudi Arabia in 2008 and has since installed four more systems in three other plants. 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 and operational efficiency which drives 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.

Leveraging references with current customers in the Middle East, the Company has focused on opportunities in turnarounds or water treatment during plant maintenance operations. The regulatory requirements for water treatment

during these projects are getting more stringent which drives operators to implement better technologies such as MYCELX[®]. The Company completed two successful turnaround projects in 2015 and expects to engage in the market in the future by targeting existing customers where the Company has equipment and operators onsite.

Diversifying into niche segments, the Company has installed three systems to treat water in the terminal and pipeline sector to achieve reliable discharge to surface water. 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.

Upstream Strategy

There are numerous opportunities for MYCELX[®] technology in the upstream water treatment market. The largest opportunity the Company sees for the future is treating produced water at Enhanced Oil Recovery operations. The EOR process is highly dependent on the ability to treat the water during production and MYCELX[®] has been proven to be a cost effective solution. For producers around the world, EOR is one of the predominant processes for high level extraction in older fields which have substantial amounts of oil remaining in the ground. We continue to build on successful trials and installations with further opportunities and sales as we address the untapped market in this lucrative application.

Our markets and strategy continued

The Company remains committed to its strategy of focusing on water-stressed geographic regions and applications where there is need for removal of oil from water to critically low levels

The Company has installations in the Gulf of Mexico, one of which is Chevron's state-of-the-art Jack/St. Malo platform which became 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 particularly during upset conditions. The Company has installed on a platform offshore of Australia, successfully trialed offshore Nigeria and onshore in the U.S., Albania, Alberta, Qatar, and Australia. We anticipate more trials in 2016 and 2017 as a result 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. 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.

Principal Risks and Uncertainties

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

- Should the Company require additional funds in order to carry out its strategy, there can be no assurance that the Company will be able to raise such additional capital on favorable terms or at all. The Company is managing its operations with the funds obtained in the recent equity capital raise with the goal of eliminating the need for additional funding in the near future.
- The contribution of the existing Executive Directors, senior management team members and certain key employees to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth. The Company continuously monitors and reviews compensation and benefits offered to its employees. The Company desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.
- The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis. The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.
- The Company relies on certain key manufacturers for the fabrication of the Company's 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.
- The Company receives a majority of its revenue from one customer through multiple system installations at several of the customer's plants. While the individual plants operate autonomously, any disruption in the Company's relationship with this customer could result in reduced revenue. The Company is pursuing a growth strategy that will diversify its customer base.
- Historically, the oil and gas industry has been subject to "boom-and-bust" cycles. Recession-induced downturns can affect the development of various oil and gas projects, particularly high-cost projects such as those relating to oil sands, deepwater offshore and liquefied natural gas. High-cost oil projects like deepwater offshore and oil sands typically depend on high oil prices. The market price of oil is affected by numerous factors which are beyond the Company's control. Should oil prices fall and remain low for a prolonged period for any reason including, for example, a lasting economic disruption in China, high cost oil projects may be scaled down, deferred or cancelled. Although the Company is focused on the oil and gas industry, it does sell into other industry sectors and is continuously developing intellectual property to commercialise new products.
- Historically, oil supply is subject to periodic disruption due to political unrest or insurrection, sabotage or terrorism, nationalist policies, accident or embargo. These events generally prove to be transient; however they can cause material reductions in production and are often difficult or impossible to predict. A disruption in oil supply can cause significant fluctuations in oil prices which, in turn, could have a material adverse effect on the Company's business. Although the Company is focused on the oil and gas industry, it does sell into other industry sectors and is continuously developing intellectual property to commercialise new products.

Board of Directors



Tim Eggar ¹

Non-Executive Chairman

Mr. Eggar joined MYCELX as Non-Executive Chairman in June 2011. Mr. Eggar was a Member of Parliament in the United Kingdom from 1979 to 1997 and served in a number of ministerial positions including Minister for Energy from 1992 to 1996. He has over 30 years of extensive international experience in the oil and gas industry including being Global Head of ABN AMRO's Global Energy Corporate Finance Group, Chief Executive Officer of Monument Oil and Gas plc, Chairman of Harrison Lovegrove, and Chairman of Indago Petroleum. He is currently Chairman of Cape plc and Haulfryn Group 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 ²

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 U.S. 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 ³

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.

Swinton Griffith ⁴

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 ⁵

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 U.S. corporation, they intend to take certain actions to meet U.K. standard practice adopted by companies incorporated under English law and admitted to AIM.

As the Company's shares are traded on AIM, the Company has not complied with the U.K. Corporate Governance Code ("the Code") nor is it required to. However, the Company is committed to high standards of corporate governance and draws upon best practice available, including those aspects of the Code considered appropriate. 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 two 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 two Executive Directors are Connie Mixon (Chief Executive Officer) and Haluk Alper (President and Chief Science Officer).

Kimberly Slayton was appointed Chief Financial Officer on 16 March 2016, but is not a member of the Board of Directors.

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 six times in 2015.

Compensation Committee

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

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 six times in 2015.

Nomination and Governance Committee

The present members of the Nomination and Governance Committee are Tim Eggar (Chairman) and Swinton Griffith. 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 2015. 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 2016.

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 three times in 2015.

Executive Committee

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

Relations with Shareholders

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Company's website (www.mycelx.com). The Company also uses its website to provide information to shareholders and other interested parties, subject to applicable restrictions of United States securities laws. The Chief Financial Officer and Secretary also deal 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.

Kimberly Slayton

Chief Financial Officer and Secretary

16 May 2016

Directors' Report

for the year ended 31 December 2015

Principal Activities

MYCELX Technologies Corporation ("MYCELX" or the "Company") is a clean water technology company, incorporated in the State of Georgia, United States, which 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 2015 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.

On 9 December 2014, the Company received commitments under a U.S. private placement (the "U.S. Placing") in accordance with Regulation D of the U.S. Securities Act of 1933, as amended, to subscribe for 468,773 Common Shares raising \$1,101,617 at a price of US\$2.35 (150 pence) per new share.

On 10 December 2014, the Company completed a U.K. Placing of 4,826,296 new Common Shares of US\$0.025 per value each with U.K. institutional investors at a price of 150 pence per new share raising £7.2m (approximately £6.9m net of expenses).

On 5 January 2015, the Company completed the final closing of the U.S. Placing and issued 78,977 Common Shares at a price of US\$2.35 (150 pence) per new share raising US\$185,596.

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 2015 and up to the date of signing the financial statements.

Tim Eggar Chairman

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

Connie Mixon (Chief Executive Officer)

Brian Rochester (Non-Executive Director)

Swinton Griffith (Non-Executive Director)

Mark Clark, who was a Director at 1 January 2015 and held the position of Chief Financial Officer and Secretary, resigned with effect 31 August 2015. Kimberly Slayton

was appointed as Interim Chief Financial Officer upon Mr. Clark's departure, and was appointed as Chief Financial Officer on 16 March 2016. Ms. Slayton reports to, but is not a member of, the Board of Directors.

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 2016 Annual Meeting will be held at 12 noon on 13 July 2016 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.

Corporate Governance

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

Going Concern

Having considered the Company's funding position and financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, revenue forecasts and the latest working capital forecasts. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2015 are set out in Note 10 to the financial statements. At 16 May 2016, a total of 18,770,117 Common Shares were outstanding. At 16 May 2016, 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	16.69%
City Financial Investment Co Ltd	15.28%
Octopus Investments	9.19%
John Mansfield Sr.	9.07%
Hargreave Hale	8.69%
Hal Alper	6.72%
Allianz	5.86%
Connie Mixon	5.28%
BB&T Asset Management	4.05%
Emerald Investment Group	3.34%

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 2015 audit for fees of \$130,000. Grant Thornton LLP was not engaged to perform any other services than audit related services in 2015.

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

Kimberly Slayton

Chief Financial Officer and Secretary

16 May 2016

Directors' Remuneration Report

As an AIM-listed company, MYCELX is not required to comply with the disclosure requirements of the Directors' Remuneration Report Regulations 2013 or 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.

As part of a programme to reduce costs, Ms. Mixon agreed to a reduction of 15% in base salary to \$296,889 with effect 1 August 2015.

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 \$256,513 was approved by the Compensation Committee with effect 1 January 2015. As part of a programme to reduce costs, Mr. Alper agreed to a reduction of 15% in base salary to \$219,013 with effect 1 August 2015.

Mark Clark (resigned 31 August 2015)

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.

Mr. Clark resigned as a Director and employee with effect 31 August 2015. Mr. Clark received a severance payment of \$51,503 on termination of his employment agreement.

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.

Directors' Remuneration Report continued

for the year ended 31 December 2015

The Directors' remuneration for 2015 was as follows:

	Salary and Director's fees \$US	Benefits in kind \$US	Performance related bonus \$US	2015 Total \$US	2014 Total \$US
Non-Executive Chairman					
Tim Eggar	\$52,726	-	-	\$52,726	\$57,000
Executive					
Connie Mixon	\$326,958	\$9,682	-	\$336,640	\$389,645
Mark Clark (resigned 31 August 2015)	\$200,818	\$7,176	-	\$207,994	\$231,809
Hal Alper	\$241,003	\$14,256	-	\$255,259	\$330,331
Non-Executive					
Swinton Griffith	\$42,550	-	-	\$42,550	\$46,000
Brian Rochester	\$42,550	-	-	\$42,550	\$40,000

Benefits in kind include medical and life insurance. As part of a programme to reduce costs, all Non-Executive Directors agreed to a reduction of base remuneration with effect 1 July 2015.

The interests of the Directors at 16 May 2016 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	130,680	0.70
Hal Alper	1,262,046	6.72
Connie Mixon (Note 1)	991,211	5.28
Brian Rochester (Note 2)	264,492	1.41
Swinton Griffith	103,000	0.55

- (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. Additionally, 10,000 shares are held by her husband Mark Mixon (0.05 percent of the issued share capital) as a custodian.
- (2) The aggregate number of shares shown for Brian Rochester includes (a) 191,305 Common Shares which are registered in the name of Rochester Bros. Investments LLC in which Brian Rochester holds a 50 percent interest; and (b) 32,044 shares which are held by his wife Alana Rochester (0.17 percent of the issued share capital).

Share Options

Options over Common Shares awarded to Directors under the Omnibus Performance Incentive Plan in place on 31 December 2015 were:

Option holder	Type of award	Earliest exercise date and date of vesting*	Exercise price (\$US)	Number of shares
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
Hal Alper	Employee Stock Option	1 January 2014	\$3.44	54,339
Swinton Griffith	Non-Executive Director Stock Option	1 January 2016	\$3.87	26,000

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

** Additionally, options over an aggregate of 200,204 Common Shares were held by her husband Mark Mixon at 31 December 2015

On 3 June 2015, Tim Eggar exercised Non-Executive Director Stock Options over 50,459 Common Shares at a price of US\$0.86 per Common Share, and Brian Rochester exercised Non-Executive Director Stock Options over 41,143 Common Shares at a price of US\$0.86 per Common Share.

Employee Stock Options over 81,667 Common Shares formerly held by Mark Clark lapsed on 31 December 2015.

No other Director exercised any options over Common Shares during the year ended 31 December 2015.

Brian Rochester

Chairman, Compensation Committee

16 May 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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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 31 December 2015 and 2014, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MYCELX Technologies Corporation as of 31 December 2015 and 2014, 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.

Atlanta, Georgia
16 May 2016

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

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2015	2014
Revenue	13,592	13,581
Cost of goods sold	6,343	6,482
Gross profit	7,249	7,099
Operating expenses:		
Research and development	172	443
Selling, general and administrative	9,594	11,473
Depreciation and amortisation	507	519
Total operating expenses	10,273	12,435
Operating loss	(3,024)	(5,336)
Other expense		
Loss on disposal of equipment	(76)	(2)
Interest expense	(144)	(209)
Loss before income taxes	(3,244)	(5,547)
Provision for income taxes	(405)	(373)
Net loss	(3,649)	(5,920)
Loss per share - basic	(0.20)	(0.44)
Loss per share - diluted	(0.20)	(0.44)
Shares used to compute basic loss per share	18,705,244	13,574,809
Shares used to compute diluted loss per share	18,705,244	13,574,809

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

Balance Sheets

(USD, in thousands, except share data)

as at 31 December:	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	5,296	11,289
Restricted cash	500	500
Accounts receivable - net	2,855	2,610
Unbilled accounts receivable	20	91
Inventory	3,790	4,980
Prepaid expenses	204	528
Other assets	109	140
Total Current Assets	12,774	20,138
Property and equipment - net	11,714	12,386
Intangible assets - net	809	756
Total Assets	25,297	33,280
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	485	1,201
Payroll and accrued expenses	577	883
Deferred revenue	42	282
Lines of credit	-	3,427
Note payable - current	75	78
Warrant liability	-	63
Other current liabilities	115	234
Total Current Liabilities	1,294	6,168
Note payable - long-term	2,006	2,088
Total Liabilities	3,300	8,256
Stockholders' Equity		
Common stock, \$0.025 par value, 100,000,000 shares authorised, 18,770,117 and 18,552,803 shares issued and outstanding at 31 December 2015 and 2014, respectively	469	464
Additional paid-in capital	40,202	39,820
Accumulated deficit	(18,674)	(15,025)
Stock subscription receivable	-	(235)
Total Stockholders' Equity	21,997	25,024
Total Liabilities and Stockholders' Equity	25,297	33,280

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	Stock Subscription Receivable	Total
	Shares	\$	\$	\$	\$	\$
Balances at 31 December 2013	13,258	332	27,821	(9,105)	-	19,048
Issuance of common stock, net of offering costs	5,295	132	11,654	-	(235)	11,551
Stock-based compensation expense	-	-	345	-	-	345
Net loss for the period	-	-	-	(5,920)	-	(5,920)
Balances at 31 December 2014	18,553	464	39,820	(15,025)	(235)	25,024
Issuance of common stock, net of offering costs	217	5	259	-	235	499
Stock-based compensation expense	-	-	123	-	-	123
Net loss for the period	-	-	-	(3,649)	-	(3,649)
Balances at 31 December 2015	18,770	469	40,202	(18,674)	-	21,997

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2015	2014
Cash flow from operating activities		
Net loss	(3,649)	(5,920)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortisation	1,441	1,222
Loss from disposition of equipment	76	2
Stock compensation	123	345
Non-cash change in warrant liability	(63)	(320)
Change in operating assets and liabilities:		
Accounts receivable	(245)	4,821
Unbilled accounts receivable	71	1,339
Inventory	1,190	(1,838)
Prepaid expenses	324	(310)
Other assets	31	(46)
Accounts payable	(716)	(479)
Payroll and accrued expenses	(309)	(488)
Deferred revenue	(240)	267
Other current liabilities	(119)	188
Net cash used in operating activities	(2,085)	(1,217)
Cash flow from investing activities		
Payments for purchases of property and equipment	(806)	(3,024)
Proceeds from sale of property and equipment	3	-
Payments for purchases of intangible assets	(92)	(219)
Net cash used in investing activities	(895)	(3,243)
Cash flows from financing activities		
Net proceeds from stock issuance	499	11,551
Payments on notes payable	(85)	(73)
Payments on lines of credit	(3,427)	(1,593)
Advances on lines of credit	-	2,200
Net cash (used in) provided by financing activities	(3,013)	12,085
Net (decrease) increase in cash and cash equivalents	(5,993)	7,625
Cash and cash equivalents, beginning of year	11,289	3,664
Cash and cash equivalents, end of year	5,296	11,289
Supplemental disclosures of cash flow information:		
Cash payments for interest	153	191
Cash and non cash payments for income taxes	403	445
Property and equipment remaining in accounts payable and other current liabilities	-	28

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 is headquartered in Duluth, GA with operations in Houston, Texas, Saudi Arabia, India and the UK. The Company provides clean water technology equipment and related services to the oil and gas, power, marine and heavy manufacturing sectors and the majority of its revenue is derived from the Middle East and United States.

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. The primary estimates and assumptions made relate to depreciation and amortisation, share-based compensation, deferred taxes and stock warrant valuation. Actual results could differ from these estimates and the differences may be material to the financial statements.

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 2015, all of the Company’s cash and cash equivalent balances were held in non interest-bearing transaction accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At 31 December 2015 and 2014, cash in non-U.S. institutions was \$139,802 and \$140,087, respectively. The Company has not experienced any losses in such accounts.

Restricted cash – The Company classifies as restricted cash all cash whose use is limited by contractual provisions. As of 31 December 2015 and 2014, restricted cash included \$500,000 cash on deposit in a money market account as required by a lender (see Note 8).

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 2015 and 2014.

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 or lease 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 include 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 to reduce the cost of inventory to its net realisable value.

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 reporting over the following useful lives:

Buildings	39 years
Leasehold improvements	1-5 years
Office equipment	3-10 years
Manufacturing equipment	5-15 years
Research and development equipment	5-10 years
Purchased software	1-5 years
Equipment leased to customers	3-10 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 equipment leased to customers and is included in cost of goods sold.

Intangible assets – Intangible assets consist of the costs incurred to purchase patent rights and legal and registration costs incurred to internally develop patents. Intangible assets are reported net of accumulated amortisation. Patents are amortised using the straight-line method over a period based on their contractual lives which approximates their estimated useful lives.

Revenue recognition – The Company's revenue consists of media product and equipment sales. Revenues from media sales are recognised, net of sales allowances and sales tax, 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 twenty-four 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, net of sales tax, on the percentage-of-completion basis using costs incurred compared to total estimated costs. Costs are recognised and considered for percentage-of-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, net of sales tax, 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 recorded in the period in which such losses are probable and estimable. No such provisions have been recognised as of 31 December 2015 and 2014. 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 – 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 2015 and 2014.

Shipping and handling costs – Consistent with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 2015 and 2014 was approximately \$172,000 and \$443,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2015 and 2014 was approximately \$7,000 and \$19,000, respectively, and is recorded in selling, general and administrative expenses.

Notes to the Financial Statements continued

2. Summary of significant accounting policies *continued*

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 other current liabilities in the accompanying balance sheet represents the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

Income taxes – The provision for income taxes for annual periods is determined using the asset and liability method, under which deferred tax assets and liabilities are calculated based on the temporary differences between the financial statement carrying amounts and income tax bases of assets and liabilities using currently enacted tax rates. The deferred tax assets are recorded net of a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realised in future periods. Decreases to the valuation allowance are recorded as reductions to the provision for income taxes and increases to the valuation allowance result in additional provision for income taxes. The realisation of the deferred tax assets, net of a valuation allowance, is primarily dependent on the ability to generate taxable income. A change in the Company's estimate of future taxable income may require an addition or reduction to the valuation allowance.

The benefit from an uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained upon audit by the relevant authority. For positions that are more than 50 percent likely to be sustained, the benefit is recognised at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained. Where a net operating loss carried forward, a similar tax loss or a tax credit carry forward exists, an unrecognised tax benefit is presented as a reduction to a deferred tax asset. Otherwise, the Company classifies its obligations for uncertain tax positions as other non-current liabilities unless expected to be paid within one year. Liabilities expected to be paid within one year are included in the accrued expenses account.

The Company recognises interest accrued related to tax in interest expense and penalties in selling, general and administrative expenses. During the years ended 31 December 2015 and 2014 the Company recognised no interest or penalties.

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. Total common stock equivalents that were excluded from computing diluted net loss per share were approximately 1,150,201 and 873,053 for the years ended 31 December 2015 and 2014, respectively.

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 2015 or 2014.

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 2015 and 2014 include cash and cash equivalents, accounts receivable, accounts payable, the lines of credit, the note payable, and the warrant liability. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the lines 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 2014 and 2015:

	Warrant Liability US\$000
Balance at 31 December 2013	383
Adjustments to estimated fair value	(320)
Balance at 31 December 2014	63
Adjustments to estimated fair value	(63)
Balance at 31 December 2015	-

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 (see Note 10).

Recently issued accounting standards – In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", as subsequently amended, which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standards' core principle is that a company will recognise revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year. Accordingly, public companies should apply the guidance in ASU 2014-09, as amended, to annual and interim periods beginning on or after 15 December 2017. Early adoption is permitted but not before annual periods beginning after 15 December 2016. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance. The Company is currently evaluating the impact of adopting this guidance.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40)", which provides guidance about disclosing an entity's ability to continue as a going concern. The guidance is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard will be effective for annual periods ending after 15 December 2016, and for interim and annual periods thereafter, with early application permitted. The Company does not expect adoption of this guidance to have a material impact on the Company's financial position or results of operations.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

Recently issued accounting standards continued

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory", which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realisable value. The standard applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method and is effective for annual reporting periods beginning after 15 December 2016, and interim periods within those fiscal years, with early application permitted. The Company is currently evaluating the impact of adopting this guidance.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which will require entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. The new standard simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The standard is effective for interim and annual periods beginning after 15 December 2016, with early application permitted. The Company elected to early adopt this standard as of 31 December 2015 to simplify the presentation of its deferred income taxes and applied the guidance retrospectively to all periods presented. The retrospective application of this guidance decreased current assets by \$50,000 and decreased total liabilities by \$50,000 to include the current portion of the deferred tax assets and deferred tax liabilities within the non-current portion of the deferred tax assets and deferred tax liabilities in the Balance Sheet as of 31 December 2014.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which requires lessees to recognise on the balance sheet the assets and liabilities for the rights and obligations created by the leases with lease terms of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognised on the balance sheet, the new standard will require both types of leases to be recognised on the balance sheet. The new standard also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The new standard is effective for fiscal years beginning after 15 December 2019, and for interim and annual periods thereafter, with early application permitted. The Company is currently evaluating the impact of adopting this guidance.

Reclassifications – Certain reclassifications have been made to prior years' financial statements to conform to current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

3. Inventories

Inventories consist of the following at 31 December 2015 and 2014:

	31 December 2015	31 December 2014
	US\$000	US\$000
Raw materials	929	1,445
Work-in-progress	-	2,056
Finished goods	2,861	1,479
Total inventory	3,790	4,980

4. Property and equipment

Property and equipment consists of the following at 31 December 2015 and 2014:

	31 December 2015	31 December 2014
	US\$000	US\$000
Land	709	709
Building	2,724	2,710
Leasehold improvements	325	315
Office equipment	745	725
Manufacturing equipment	917	841
Research and development equipment	644	595
Purchased software	222	222
Equipment leased to customers	8,610	6,620
Construction in progress	826	2,294
	15,722	15,031
Less: accumulated depreciation	(4,008)	(2,646)
Property and equipment - net	11,714	12,386

During the years ended 31 December 2015 and 2014, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately \$41,000 and \$14,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2015 and 2014 was approximately \$1,403,000 and \$1,186,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the years ended 31 December 2015 and 2014 was \$934,000 and \$704,000, respectively.

Notes to the Financial Statements continued

5. 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 legal life of the patent from inception. Accumulated amortisation on the patent was approximately \$32,000 and \$26,000 as of 31 December 2015 and 2014, respectively.

In addition to the purchased patent, the Company has internally developed patents. Internally developed patents include legal and registration costs incurred to obtain the respective patents. The Company currently holds various patents and numerous pending patent applications in the United States, as well as numerous foreign jurisdictions outside of the United States.

Intangible assets as of 31 December 2015 and 2014 consist of the following:

	Weighted Average Useful lives	31 December 2015 US\$000	31 December 2014 US\$000
Internally developed patents	15 years	1,155	1,064
Purchased patents	17 years	100	100
		1,255	1,164
Less accumulated amortisation		(446)	(408)
Intangible assets - net		809	756

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December (USD, in thousands)	
2016	43
2017	36
2018	36
2019	31
2020	27
Thereafter	135

Amortisation expense for the years ended 31 December 2015 and 2014 was approximately \$38,000 and \$37,000, respectively.

6. Income taxes

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

	31 December 2015 US\$000	31 December 2014 US\$000
Current:		
Federal	-	(5)
Foreign	392	371
State	13	7
Total current provision	405	373
Deferred:		
Federal	-	-
Foreign	-	-
State	-	-
Total deferred provision	-	-
Total provision for income taxes	405	373

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, foreign withholding tax, and changes in valuation allowances.

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

	31 December 2015	31 December 2014
Federal statutory income tax rate	34.0%	34.0%
State tax rate, net of federal benefit	0.4%	0.5%
Valuation allowance	(25.1%)	(36.8%)
Other	(13.8%)	0.0%
Foreign withholding tax	(8.0%)	4.4%
Effective income tax rate	(12.5%)	(6.7%)

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 2015 US\$000	31 December 2014 US\$000
Deferred tax assets		
Net operating loss	6,056	4,628
Equity compensation	404	764
Research and development credits	159	159
Accrued liability	44	122
Charitable contributions	9	7
Other	25	188
Total gross deferred tax asset	6,697	5,868
Deferred tax liabilities		
Property and equipment	(968)	(952)
Warrants	-	(3)
Total gross deferred tax liability	(968)	(955)
Net deferred tax asset before valuation allowance	5,729	4,913
Valuation allowance	(5,729)	(4,913)
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 2015, the Company has recorded a valuation allowance of \$5.7 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 2015, the Company has approximately \$17.1 million of gross U.S. federal net operating loss carry forwards and \$5.3 million of gross state net operating loss carry forwards that will begin to expire in the 2019 tax year.

The FASB issued Interpretation ASC-740-10-25, Income Taxes, an interpretation of ASC-740 which 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 2015 and 2014, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2012 through 2015 remain subject to examination by federal, state and foreign income tax jurisdictions.

7. Lines of credit

In August 2013, the Company entered into a revolving credit facility with a bank that permitted it to borrow up to 90 percent of eligible accounts receivable and 75 percent of its eligible inventory with a maximum borrowing capacity of \$5 million. In April 2014, the maximum borrowing capacity was increased to \$10 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 (1.5%) above Daily One Month LIBOR, or the Federal Funds Rate plus one and one-half percent (1.5%). The facility renewed annually and was 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 was required to maintain a specified fixed charge coverage ratio and debt to intangible net worth ratio, as those terms are defined. During the year ended 31 December 2015 the Company repaid the full amount outstanding and closed the credit facility. The balance on the line of credit at 31 December 2015 and 2014 was \$nil and \$2,927,000, respectively. The interest rate on 31 December 2014 was 3.25 percent. Interest expense related to this loan for the years ended 31 December 2015 and 2014 was \$47,000 and \$99,000, respectively.

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to \$500,000. The line of credit is revolving and is payable on demand. The balance on the line of credit at 31 December 2015 and 2014 was \$nil and \$500,000, respectively. The facility matures in October 2017 and is secured by the assignment of a deposit account held by the lender. The line of credit carries a variable interest rate of 0.5 percentage points under an independent index which is the Wall Street Journal Prime and is calculated by applying the ratio of the interest rate over a year of 360 days multiplied by the outstanding principal balance multiplied by the actual number of days the principal balance is outstanding. The interest rate on 31 December 2015 and 2014 was 3.00 percent and 2.75 percent, respectively. Interest expense related to this loan for the years ended 31 December 2015 and 2014 was \$nil and \$2,000, respectively.

8. Notes payable

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 note is secured by the property and building. 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. There is a one-time payment at the end of the term of the note of approximately \$1,400,000. In accordance with the terms of the agreement, the Company is required to keep \$500,000 in a deposit account with the lending bank. As of 31 December 2015 and 2014, 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 2015:

Year Ending 31 December (USD, in thousands)	
2016	75
2017	85
2018	89
2019	93
2020	97
Thereafter	1,642
	<hr/> 2,081

9. Public Offering of Common Stock

Authorised shares and shares issuance

In December 2014, the Company issued an additional 5,295,069 shares of common stock for \$2.35 per share ("the Public Offering"). The Company incurred costs in the issuance of these shares of approximately \$657,000. The Company received net proceeds of approximately \$11,786,000. In January 2015, the Company completed the final closing of the share offering and issued 78,977 shares of common stock for \$2.35 per share raising approximately \$186,000.

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 an amount equal to 10 percent of the Common Shares issued and outstanding immediately following the Public Offering.

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 a former Chief Financial Officer. In addition, additional stock options were awarded in each year subsequent. The awards of stock options and restricted shares made upon issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the Public Offering. The total number of shares reserved for stock awards and options under this Plan is 1,877,011 with 825,556 shares allocated as of 31 December 2015. The shares are allocated as 26,000 shares to Non-Executive Directors and 799,556 shares to employees, executives and consultants.

The options granted to Non-Executive Directors unless otherwise agreed, vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service and have a ten year life.

Employee options either vest over three years with a third vesting ratably each year, or partially on issuance and partially over the following 24 month period. 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. The remaining Non-Executive Director options must be exercised during the course of the 2016 calendar year 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 2014 and 2015 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value per option
2014	100,000	7/08/14	1.36%	5.5 years	56.00%	\$7.45	\$3.78
2015	299,000	5/20/15	1.29%	6 years	58.00%	\$2.15	\$1.16

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 2015 and 2014:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2013	1,072,569	\$3.52	5.5	\$2,242,935
Granted	100,000	\$7.45	5.5	\$378,000
Exercised	-	\$3.44		
Forfeited	(21,295)	\$7.11		
Outstanding at 31 December 2014	1,151,274	\$3.79	5.5	\$2,544,210
Granted	299,000	\$2.15	6.0	\$346,840
Exercised	(170,007)	\$0.86		
Forfeited	(454,711)	\$4.03		
Outstanding at 31 December 2015	825,556	\$3.48	5.8	\$1,476,970
Exercisable at 31 December 2015	550,556			

A summary of the status of unvested options as of 31 December 2015 and changes during the years ended 31 December 2015 and 2014 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2013	386,710	\$2.11
Granted	100,000	\$3.78
Vested	(361,707)	\$1.98
Forfeited	(20,001)	
Unvested at 31 December 2014	105,002	\$3.83
Granted	299,000	\$1.16
Vested	(38,334)	\$3.92
Forfeited	(116,668)	
Unvested at 31 December 2015	249,000	\$1.16

As of 31 December 2015, total unrecognised compensation cost of \$233,000 was related to unvested share-based compensation arrangements awarded under the Plan.

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 warrant vested upon the August 2011 issuance of the shares. The exercise price of the warrants is 210 pence 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. 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 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:

	31 December 2015	31 December 2014
Closing price per share of common stock	\$0.37	\$2.73
Exercise price per share	\$2.15	\$2.27
Expected volatility	49.0%	51.0%
Risk-free interest rate	0.74%	0.74%
Remaining expected term of underlying securities (years)	0.6	1.6

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

11. Employee benefit plan

The Company maintains an active defined contribution retirement plan for its employees (the "Benefit Plan"). All employees satisfying certain service requirements are eligible to participate in the Benefit Plan. The Company makes cash contributions each payroll period up to specified percentages of employees' contributions as approved by the Board of Directors. In September 2015, the Company changed its policy of making contributions under which it chose not to contribute to the plan. The Company may elect to change its policy in the future. The Company's contributions to the Benefit Plan were approximately \$72,000 and \$97,000 for the years ended 31 December 2015 and 2014, respectively.

12. Commitments and contingencies

Operating leases – The Company leases certain facilities and equipment under non-cancelable operating leases which expire at varying times between January 2018 and May 2019. Certain of these leases have escalating rent payments which result in the Company recording a deferred rent liability.

Future minimum lease payments under the capital and operating leases, together with the present value of minimum lease payments as of 31 December 2015 are as follows:

Year Ending 31 December	Future Lease Payments US\$000
2016	307
2017	314
2018	116
2019	45
Total future lease payments	782

Rent expense for the years ended 31 December 2015 and 2014 was approximately \$613,000 and \$453,000, respectively.

13. Related party transactions

The Company has held a patent rights purchase agreement since 2009 with a shareholder as described in Note 5.

Notes to the Financial Statements continued

14. Segment and geographic information

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”) in deciding how to allocate resources and in assessing performance. The Company’s CODM is the Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 31 December 2015. For the year ended 31 December 2015, the Company’s revenues were generated primarily in the Middle East and the United States (U.S.). Additionally, the majority of the Company’s expenditures and personnel either directly supported its efforts in the Middle East and the U.S., or cannot be specifically attributed to a geography. Therefore, the Company has only one reportable operating segment.

Revenues from customers by geography are as follows:

Year Ending 31 December	2015	2014
Middle East	10,604	10,322
United States	1,897	2,512
Other	1,091	747
Total	13,592	13,581

Equipment leased to customers by geography is as follows:

Year Ending 31 December	2015	2014
Middle East	6,301	5,180
United States	1,813	1,171
Other	496	269
Total	8,610	6,620

15. Concentrations

At 31 December 2015, two customers, one with three contracts with three separate plants, represented 74 percent of accounts receivable. During the year ended 31 December 2015, the Company received 78 percent of its gross revenue from two customers, one with three separate plants.

At 31 December 2014, two customers, one with four contracts with three separate plants, represented 78 percent of accounts receivable. During the year ended 31 December 2014, the Company received 65 percent of its gross revenue from one customer with three separate plants.

16. Subsequent Events

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 16 May 2016, 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 the Company’s financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Company’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 the Company 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 the Company’s present and future business strategies and the environment in which the Company 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 the Company nor any other person undertakes any obligation (other than, in the case of the Company, pursuant to the AIM Rules for Companies) to update publicly any of the information contained in this Annual Report, including any forward-looking statements, in the light of new information, change in circumstances or future events.

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