MYCELX Technologies Corporation
Annual Report & Accounts 2016

Embracing the Challenge

Decisive Actions
Strong Foundations
Positioned For Growth

In 2016, MYCELX continued to take decisive actions to strengthen its business to ensure that we would not only prevail during these challenging introspective times for the Oil and Gas industry, but also lay the groundwork to be well positioned for the future recovery.

The steps we took in previous years ensured that we preserved our cash position, maintained our existing footprint, continued to deliver consistent superior performance for our leading customers and gave us the opportunity to pursue multiple on-site trialling campaigns to broadcast our capability to an audience that is increasingly appreciative of a technology that could offer them cost savings and performance enhancement.

On-site trials have always been the strongest tool in securing new projects for MYCELX. The opportunities we are pursuing place the Company at the forefront of water treatment challenges facing the industry and not only ensure the future for MYCELX but also support the ability of producers to continue to operate for the next generation as water management becomes the biggest challenge facing maturing fields. Similarly we have been able to change the view of wastewater from a costly annoyance into a sustainable profit generating opportunity.

Whilst 2016 had been a year of uncertainty for the industry, MYCELX has embraced those challenges and worked with its customers to overcome them. In so doing, we have established strong relationships based on the trust created working side by side with our technology and systems to solve challenges on site. These bonds provide strong foundations for our future and position us for sustainable growth.

Highlights of the Year

Financial highlights

- Management focus on active cash management and margin retention
- Operationally cash flow positive at $0.1m (FY15: negative $2.1m) in spite of tough market conditions
- Revenue reduced in line with management expectations to $7.9m (FY15: $13.6m), with 30% expected revenue growth in 2017
- Cash and cash equivalents, including restricted cash, of $5.6m (FY15: $5.8m)
- Retained robust gross margins at 52% (FY15: 53%)

Operational highlights

- Strategic Agreement – Schlumberger entered into an exclusive sales and marketing agreement with MYCELX for the upstream market and will promote MYCELX products as the method of choice for water treatment to their upstream Oil and Gas customers
- US: Fourth MYCELX system commissioned at terminal operator to treat water from operations for discharge into Houston Ship Channel
- US: Fifth system sold for offshore use to existing supermajor customer
- Saudi Arabia: Launched new fast-to-market product – the MYCELX Oil Recovery System
- Saudi Arabia: Awarded two year contract with SABIC for total value of $5 million
- US: Added experienced Business Development personnel with oilfield services and water treatment background to drive sales and strategic alliance formation
- Nigeria: Successful trial offshore platform with local oil producer. First deployment of RE-GEN system offshore
- Oman: Successful trial resulted in lease and media sales for downstream process water
- US: Equipment lease secured for treatment of process water at Oklahoma refinery
- On-going build-up of recurring revenue with filter media replacement sales

Post period highlights:

- Awarded first contract in the Nigerian Oil and Gas market, will provide an onshore water treatment solution to a leading independent oil and gas producer focused on the Niger Delta

Contents

Our Business at a Glance

Taking Water ent to a whole new level

MYCELX is a revolutionary clean water technology company that provides superior performance and cost effective solutions primarily for the Oil and Gas industry's water treatment needs.

Water challenges facing our customers

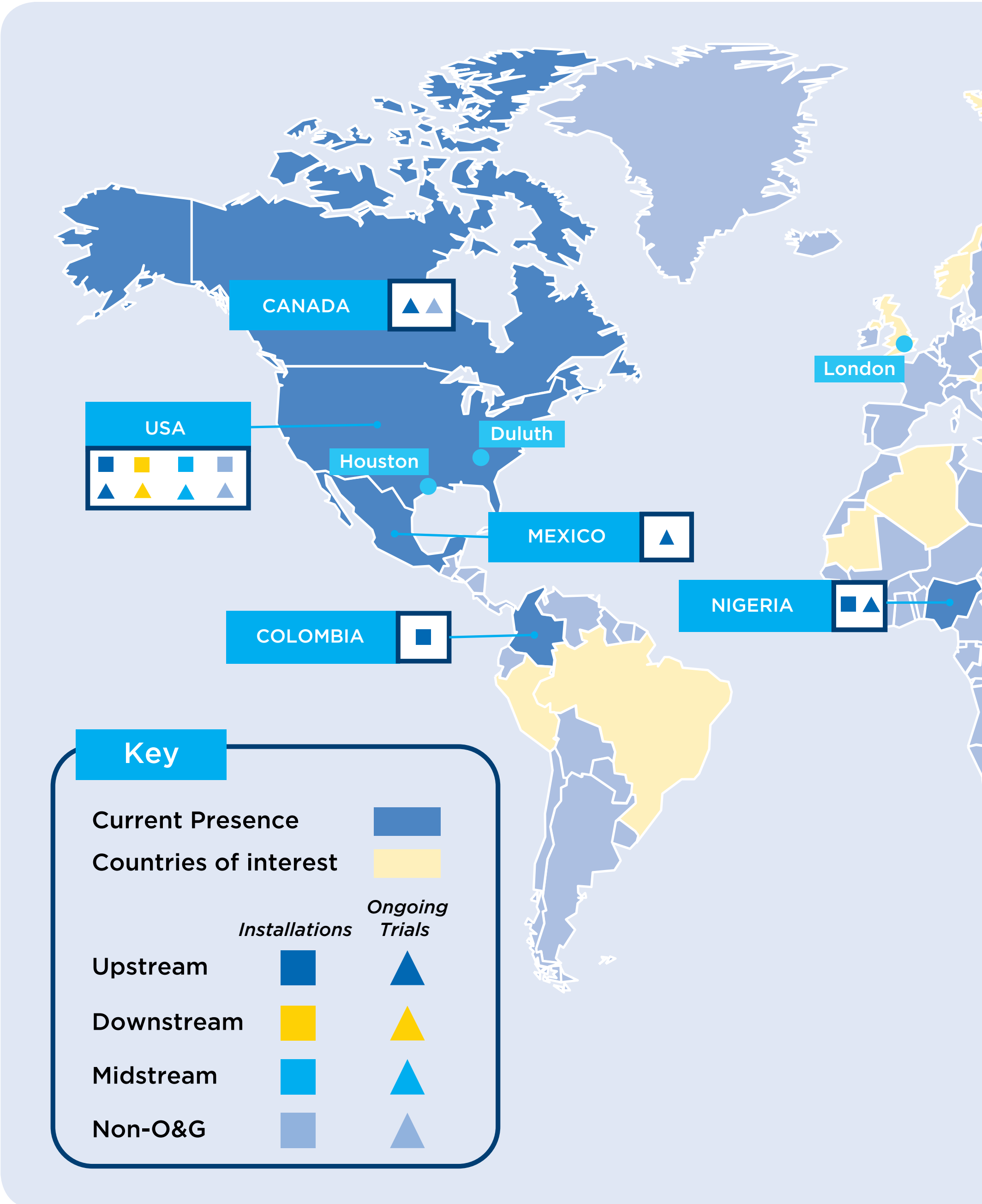
Very often much more water than oil is produced during Oil and Gas production. Reuse of water, especially in water stressed regions, is part of the industry's every day water management and business calculations. Our technology is industry-recognised as a step change improvement on the now outmoded conventional approaches that are becoming obsolete. In the face of increasingly challenging water treatment requirements across the industry worldwide, new technology adoption is the path forward for operational excellence.

Global Footprint and Ambition

We operate in all segments of the Oil and Gas industry and have installations throughout the world. Outside the Oil and Gas industry, we have also applied our technology to solve water treatment issues for other industries, including the marine, power and utility, mining, manufacturing and air filtration industries.

MYCELX products are currently used in over 20 countries across the globe. Our teams are active, particularly in North America, the Middle East and India. Our systems are installed at some of the leading upstream and downstream operations, including one of the largest ethylene plants in the world and the latest rig designs for a supermajor in the Gulf of Mexico.

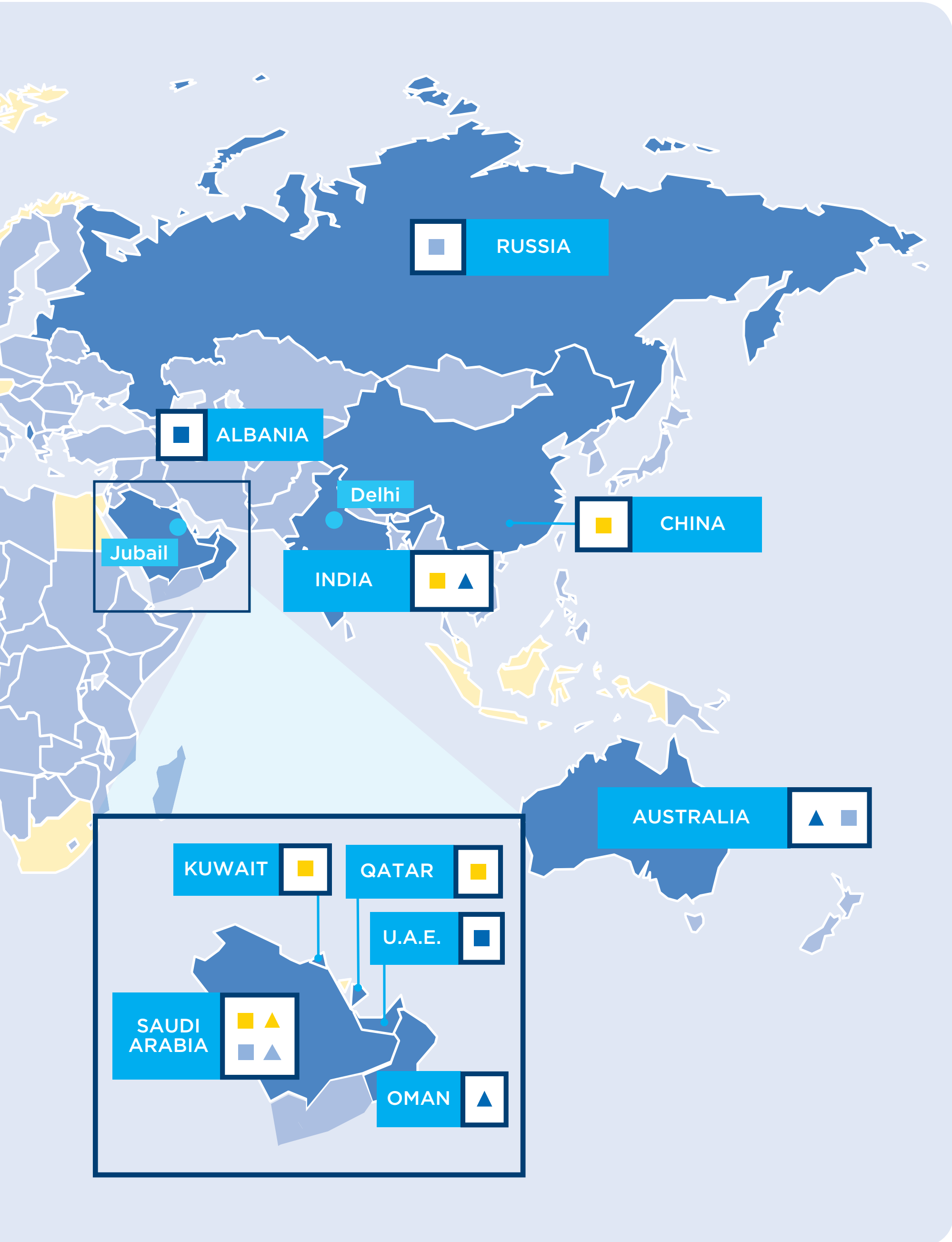
Our headquarters in Duluth, Georgia are supported by branch offices in Houston, London, Jubail and our project office in Delhi.



Route to Market

Our proprietary filtration products are delivered in systems that MYCELX has designed for new build facilities like offshore platforms or as performance upgrade retrofits such as enhancement to process water loops in petrochemical plants.

We have established a strategic partnership in the upstream market with Schlumberger to broadcast our successes better throughout their global client base and will consider similar strategic alliances in our other markets if they would be beneficial at expediting our business model.



In tune with current market trends

Water Treatment – A production enhancement opportunity

Oil and Gas producers live in the world of upset conditions during normal everyday operations. These upsets can wreak havoc on produced water quality which adversely impacts operations and production uptime. Upsets are intermittent, can fluctuate wildly, and last hours to days. Additionally, process control varies because some operating environments are more difficult than others. These factors, alone or in combination, can cause slowdown or shutdown of production. To maintain continuous operation the water treatment system must be able to handle the upsets and process control issues and produce the right water quality to keep running without interruption always avoiding downtime.

The Cost of 1%

If a production facility is not operational due to water management issues for even 1% of total run time during a year, the cost of lost production to the producer is significant. Production uptime is paramount to maximizing profits. MYCELX systems protect operators from the costly 1% at risk.

Sustainability Concerns

With increasing value placed on water in areas such as the Middle East and Canada, the opportunity to recycle or reuse water in upstream and downstream operations is now of critical importance not only from a regulatory view but also from a purely economic perspective.

The cost of water or the power required to turn it into steam is a key consideration at the forefront of operators' minds during these challenging times when Oil and Gas companies are looking for cost saving opportunities and performance improvements.

Ensuring Oil Production for the Next Generation

As water cuts rise in mature fields, the use of enhanced oil recovery (EOR) methods becomes increasingly important. MYCELX is leading the field in terms of water treatment solutions for such EOR techniques. The benefits of our unique molecular cohesion approach have the ability to transform the economics of EOR techniques such as Polymer Flooding or Steam Assisted Gravity Drainage.

From Waste to Worth

Our more efficient and cost effective Oil Recovery System recovers saleable oil and turns waste water treatment from a costly expense into a revenue stream for the customers.

Our Business at a Glance

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

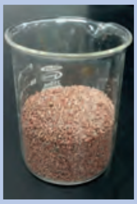
Our patented polymer uses innovative molecular cohesion to reliably and consistently remove oil from water to levels our customers require. We can achieve oil removal to less than 1ppm if necessary. By removing oil at the molecular level we deliver a step change improvement on conventional physical separation methods.

At a Glance

Revolutionary Technology
Our patented polymer was created by our founder, Hal Alper. The polymer and its applications are protected by 38 Global patents.

Recurring Media Sales
MYCELX's patented polymer is infused into purpose built back-washable media as well as standard filters.

Standardised Equipment
MYCELX media is housed inside MYCELX's equipment or specially modified standard vessels.




Enhanced Customer Performance
The end result is oil free water that allows MYCELX's clients to consistently meet their discharge or process requirements and regulation guidelines.

The ability to reuse or recycle this water offers huge cost savings to our customers.

The reduction of hydrocarbon contamination in their systems allows for greater uptime, reduced maintenance and more consistent performance which ultimately improves production metrics.

Engineered solutions based on extensive water expertise
Understanding our clients' water is at the core of ensuring the MYCELX solutions we provide are efficient, cost-effective and operator friendly.

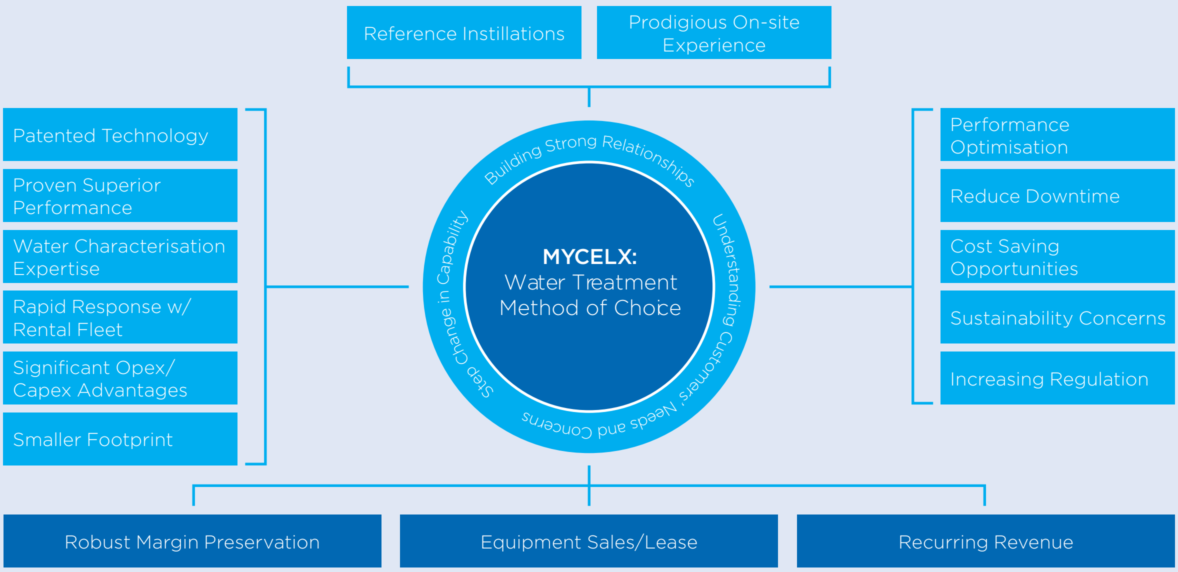
Our engineers design systems leveraging our proven technology which meet our customers' requirements in terms of overall economics, performance and whether they wish us to handle operation of the installation.

Investment Case

Robust business model underpinned by superior performance, strong relationships and relevancy to customers' needs

Current market conditions raise the importance of cost saving opportunities for the entire industry.

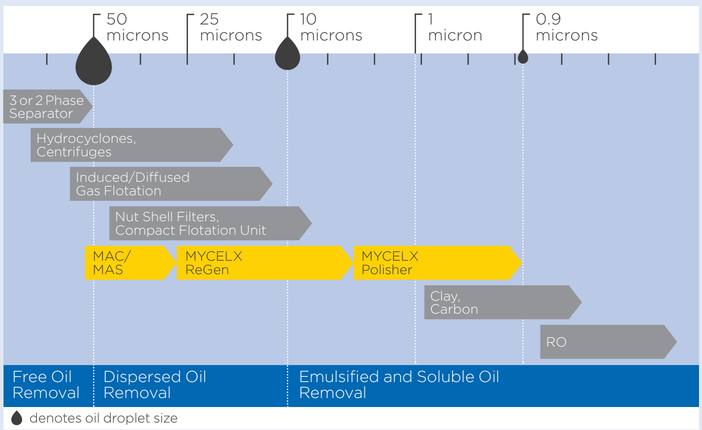
Our Business Model



What Makes us Different: Bridging the Technology Gap

The key differences between MYCELX and other oil removal processes are:

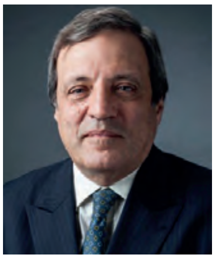
- **Instant and permanent oil removal at any flow rate**
- **Broad oil removal spectrum – free oils to Emulsified oils**
- **Small footprint available, lower capital cost, highest efficiency**
- **Enables water reuse**
- **Reduces need for chemical or biological treatment**
- **Guaranteed no visible oil sheen in effluent**



The ability to remove droplet sizes below 10 microns sets MYCELX apart from the rest of the conventional technology currently used in the Oil and Gas industry. These very small droplets can contribute a high percentage of the total oil contamination and wreak havoc on the ability to reuse or discharge because they evade conventional treatment systems.

The methods of Oil and Gas production as well as petrochemical processing have undergone extraordinary technological changes to improve and increase output but the existing equipment struggles or no longer meets the new operational demands. MYCELX's differentiated performance is filling the gap that has been created by industry innovation.

Chairman's Statement



Decisive Actions, Embracing the Challenge, Building Our Future

During this year of continued challenge for the Oil and Gas industry, MYCELX has taken the necessary steps to preserve our financial position and put in place the key building blocks for our future success – strong customer relationships built on the trust that comes from close interaction and consistent results, strategic partnerships and an international business development capability. When combined with our Company's drive for innovation and our technological advantage, we are now well positioned for the future.

Financial & Operating Performance

MYCELX has navigated through another extremely challenging year in the Oil and Gas market. Following the fall in crude pricing, a survival mindset took hold within the industry and this continues to be prevalent. Pessimism began to lift slightly when a reduction in US production underscored oil price recoveries later in the year. Coupled with this, the cost reduction programmes that had been implemented began to show results. However, capital spending delays continued to exert pressure on the oil field services sector. In these adverse times, MYCELX was able to adapt and embrace the challenges facing our industry.

We were able to do this because of our confidence in our own financial position. The Company met key milestones in its cash preservation program by finishing cash neutral from operations for the last eighteen months. The expense control measures enacted last year in response to the challenging oil price conditions have continued into this year and helped us meet our goal of achieving a cash positive position from operations for FY2016.

The Company will continue to be a prudent steward of its cash, with monitoring in place to ensure specific measures are taken in the event of a revenue shortfall or contract delay during the upcoming year. Any additional equipment purchased will be supported by a sales contract.

Importantly, our cost reduction program is targeted to ensure that it does not adversely affect the Company's continuing ability to win contracts and grow. Our recent wins in new markets and with new customers serve to show that whilst our Selling, General and Administrative costs have been reduced by approximately 43% over the last eighteen months, our ability to convert business development opportunities into cash generation has not diminished.

Strategic Partnership

Our steadfast goal of widespread industry adoption of MYCELX relies on our ability to retain and leverage our existing customer relationships as well as explore strategic alliances to leverage sales and marketing channels globally. In 2016 the Company made substantial progress on both fronts.

One of the stated goals of the Company was achieved in the first half of the year. MYCELX signed an exclusive upstream sales and marketing agreement with Schlumberger, the world's largest oil field services company. The agreement will help to expedite the industry adoption of MYCELX's new RE-GEN product line as Schlumberger will market it as the water treatment method of choice in the upstream market. We continue to pursue 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. MYCELX believes that the lack of spending by the oil producers during the downturn has created an even greater need for smart, technology-driven solutions going forward to overcome the likely ramifications of the drop in continuous investment.

Performance vs Key Metrics

The Company performed well against its key metrics despite the generally adverse market conditions. Revenue projections were met at $7.9m in sales, and crucially our commitment to be cash positive from operations was upheld. We have set a goal going forward to be EBITDA neutral.

Executing a strategic arrangement with Schlumberger was not only a demonstration of our ability to execute our strategy but was a powerful endorsement of our technology from the largest player in the oil field services in the world.

Funds have been focused on positioning MYCELX for the future. I'm delighted that we have brought two seasoned business development professionals to pursue opportunities which have arisen as clients respond to the adverse market conditions. We also supported on-site trialling work at our clients' sites. Our engineers spent over 250 man days working with customers in the field to demonstrate MYCELX's advanced technology. These trials are increasingly long processes, which reflect an industry determined to take its time to find the right solution as it can ill afford costly mistakes at the current oil price. Our ability to compete in these arduous trials against large established competitors and emerge successful has proven our resilience, demonstrated our superior product offering and meant that our technology is making inroads in new frontiers and markets.

A good example of this is the work this year on Enhanced Oil Recovery opportunities. After months of collaboration with SNF, the world's leading polymer producer for the Oil and Gas industry, our engineers were able to demonstrate conclusively that MYCELX has an effective water treatment solution for Polymer Flood operators who have historically failed to resolve the water treatment challenge using conventional technology. This capability is a game changer for the industry. MYCELX's technology is able to treat polymer laden water effectively, and actually preserve the valuable polymer. This improves the overall economics of the EOR technique. The concerted effort to build the relationship with this industry leader and the resulting white paper co-authored with SNF is a good example of how our efforts in 2016 have helped to build a platform for the future of the Company. By removing the water treatment obstacle for Polymer Flood we have opened up a large potential opportunity that will support not only MYCELX but also the industry at large in its effort to continue producing oil for the next generations.

We have also been careful to ensure our current footprint has been well serviced and maintained whilst we are chasing down new opportunities. We sold a fifth system for offshore use to a current customer and commissioned a fourth system for a midstream client. In downstream, which is currently our principal market, this is the fourth year we have been operating in one of the largest petrochemical plants in the world. The reliability of our service and the close partnership that our Jubail based team has with its customers mean that we have been able to grow our presence within that petrochemical complex with an exciting innovative project – the Oil Recovery System which embodies our corporate message – From Waste to Worth. We are able to convert the costly process of oily wastewater disposal into a revenue generating operation by recovering pure oil that can then be resold.

Promising Outlook

With our financial position more assured, we are now well positioned for when the industry does recover. There are signs that the tide is beginning to turn – with an increase in rig activity, and signs of greater investment in the petrochemical industry in our key market of Saudi Arabia.

Governance

I am happy to announce that there have been no changes to the Board of Directors over the year. I would like to thank my fellow Directors for their wise counsel and support during this year, especially in the evaluation of the exciting partnership that we have established with Schlumberger.

Annual Report

Our 2016 annual report was reviewed and approved by the Board on 10 May 2017.

The Rt. Hon. Tim Eggar
Chairman

10 May 2017

Our Strategy

Our strategic intent is to become the leading provider of water treatment solutions for the Oil and Gas industry

We adopt a staged approach of building traction amongst our target markets to appreciate the performance and cost benefits of truly oil free water delivered by MYCELX.

STAGE	ACTIONS	BENEFITS OF SUCCESS
Demonstrate Technical Superiority We differentiate ourselves by the reliability of our superior performance. We get better results, using a smaller footprint, and are more cost effective than conventional techniques.	**Improve Customer Intimacy via trials** We create value for our clients through a deep understanding of their needs, both now and in the future. **Educate the market** Our water expertise allows us to show our customers how they might improve their system by focusing on different water metrics. **Consistent Superior Performance** Our performance underpins our reputation and our future.	**A customer base that realises the true value of MYCELX** **Enhancing reputation via industry game-changing trials** **Revenue generation & preserve margins**
Gain Industry Acceptance We seek to gain wider industry acceptance of our technology. We need to broadcast our successes to the wider audience.	**Cost savings opportunities** The ability to offer quick pay back on investment and cost savings is particularly attractive during this period of low prices. **Shared learnings** Issues faced by one operation are often common problems faced at other sites. **Endorsement by leading industry player/awards** References with leading industry players is an immediate comfort for a new customers.	**Reference creation** In some of our larger customers if MYCELX is installed in two operations then it will become a recommended solution for the Group. **Revenue generation**
Obtain Critical Mass Converting industry acceptance into revenue generation.	**Rapid Response** Often our customers will need us to provide a solution quickly to address an urgent water treatment need. Having a ready rental fleet to deploy is particularly useful when establishing a new customer relationship. **24/7 support availability** Through our branch office we offer support to our customers' needs 24/7. **Strategic Partnerships**	**Broaden customer base** Mitigates against dependency risk and opens up new opportunities. **Significant Revenue generation**

Strategic Report

ACHIEVEMENTS TO DATE	SHORT/MEDIUM TERM GOALS	RELEVANT KPIs
Established Houston Demonstration centre Successful Industry Game Changing Trials with SNF and EOR operators Only water treatment company invited to present at latest SABIC technical conference Robust margin preservation	Publication of white paper with SNF MYCELX installation at industry leading polymer flood operation in North America, India or Middle East	I II III IV V VI
Current footprint includes installation at leading industry players' operations Endorsement by Schlumberger as water treatment method of choice Winner of several industry awards	Endorsement by group level entities of current customers with installations Second Quenchwater and ORS installations in Saudi Arabia	III V VI
Established rental fleet Exclusive Distributorship for upstream	Expansion of customer base Widespread adoption of fast to market ORS system Global replacement of outmoded conventional walnut shell filters with next generation RE-GEN media	I II III V

Our Business Model

We deploy our assets to pursue our strategic goals in order to create and secure value for all our stakeholders

OUR ASSETS... | **...WHICH WE DEPLOY TO EXECUTE OUR STRATEGY...**

Technology and IP

Our technology is the bedrock of MYCELX. The revolutionary new approach to water treatment allows us to offer more cost effective and efficient options for our customers. Our active R&D department is determined to solve the toughest water challenges.

- Cost savings opportunities
- Improve Customer Intimacy via trials

People

Our people are pivotal to our ability to serve our clients and therefore essential to our strategy to educate the market and demonstrate the benefit of our technology.

- Educate the market
- Shared learnings

Fixed Assets

We have built a rental fleet that allows us to quickly respond to our clients' needs and have also established offices across the globe to provide immediate service support.

- Rapid Response
- 24/7 support availability

Reputation and References

The success of our existing installations and the reliability that our solutions have become renowned for allow us to compete against more established but less consistent competitors.

- Endorsement by leading industry player/awards
- Strategic Partnerships

...SECURING VALUE...

Consistent Superior Performance

Better understanding of water characteristics

Increased Equipment Sales/Leases

Along with Recurring Media Sales

Maintenance and change out services

Robust margin preservation

...FOR ALL OUR STAKEHOLDERS

Customers

Clients benefit from MYCELX's consistent superior performance to lift the performance and lower maintenance and repair costs. A better understanding of the water characteristics allows them to more cost effectively manage their water challenges.

Shareholders

We believe that our strategy will allow MYCELX to reach its full potential as the leading oil-free water treatment technology company. The recurring revenue or 'razor blade model' means that as adoption increases, the financial stability and predictability of revenues improves. The significant cost benefits that MYCELX offers its customers helps to preserve the robust margins enjoyed since inception.

Employees

We believe our one team approach across our global offices provides a supportive environment where people can learn from each other and are provided with opportunities for growth and development. We are committed to develop and train our people and to keep them safe and healthy in everything that they do. As our business grows so too do the opportunities for our people.

Our Core Markets

MYCELX operates in all segments of the Oil and Gas industry

MARKET: DOWNSTREAM

Current trends

Our key market in the downstream petrochemical industry is Saudi Arabia.

Saudi Arabia: Positive support for the future

The future of the Saudi petrochemical industry has been confirmed along with its status as a vital pillar in the Saudi Arabian economy. It has been identified as a focus by two key government drives– the National Transformation Program (NTP) and Vision 2030. The Royal Commission for Yanbu and Jubail which oversees the Petrochemical industry in the Kingdom will be the second largest receiver of government funds under these schemes.

The Saudi Arabian petrochemical industry already has a structural advantage over its global competitors due to its low cost feedstock. This has helped it to weather the storm from the drop in global chemical prices since mid 2014, increased competition from the US and China and the recent rise in the price for its feedstock.

Even with the rise in ethane pricing to $1.75 per mmBTu, Saudi Arabia retains a distinct margin advantage over other petrochemical regions. Whereas it costs Saudi producers $108.50/MT ethylene, it would cost US producers $142.10/MT and other countries in the Middle East up to $303.80/MT.

It is therefore no surprise that Saudi petrochemical players hold the advantageous position of being the world's lowest cost ethylene producers. Saudi Arabia has 13 steam crackers currently operating in the country and MYCELX already has a footprint in several of these facilities.

Focus on margins

The 133% price rise of ethane in January 2016, along with the increase in the cost of electricity and water by 40% has led to a focus on margin improvement by Saudi ethylene producers hoping to address this new paradigm squeeze on their margins via performance optimisation and cost savings.

New investment in the industry

The recent move by Saudi Aramco to directly enter the petrochemical industry in Saudi Arabia via Sadara, its JV with Dow Chemical, is an excellent prospect and will lead to the building of many new plants.

Rest of GCC

Most of the petrochemical companies in the GCC are wholly or majority owned by their local governments and thus have been supported during these times of low prices and strained capital budgets.

Nevertheless, given the oil price impact on state budgets and the resulting reductions in subsidies for power and water – petrochemical plants across the region are looking to cut costs and protect their already squeezed margins.

Impact and Opportunities

MYCELX's systems offer significant cost savings for Saudi players by improving the water and utilities usage of their current processes.

Furthermore, the higher quality water that our systems generate contribute to production improvement and large reductions in maintenance and repair costs.

The Company appointed a new Director of Business Development for MENA and Asia specifically to chase down new opportunities such as the new market entrants in Jubail Industrial City.

The new Oil Recovery System (ORS) that MYCELX has developed is particularly welcomed given current market conditions. The ability to convert what was historically a costly waste stream into a profit generating centre without any outlay of capital and also benefiting from the improved water preservation is perfectly in tune with our customers' current concerns.

Downstram Revenue as % of Group Revenue

Our Core Markets continued

Despite continued upstream sector challenges, MYCELX has uncovered opportunities

MARKET: UPSTREAM OFFSHORE

Current Trends

Producers have declared 2016 as a year of tough decisions. Following the fall in crude pricing early in the year, a survival mindset took hold within the industry and this continues to be prevalent. Pessimism began to lift when a reduction in US production underscored oil price recoveries. Coupled with this, the cost reduction programmes that had been implemented began to take hold. For oilfield services companies like MYCELX, the continuing delays on capital spending remained to exert pressure, however in June 2016 US rig counts, a leading indicator, began to recover.

The US Energy Information Administration (EIA) projects growth in the Gulf of Mexico between 2016 and 2018 to be 300,000 barrels per day (bpd) which will account for 30% of the total US production increase forecast. The EIA also expects 2018 total production will be 1.9 million bpd. Additionally, according to the energy consultancy firm Douglas-Westwood, production from the global offshore market is expected to grow in the medium term as projects sanctioned before the downturn add to output. They also suggest that long-term new supply could stall as we approach 2020 from lack of investment during the last two years.

MARKET: UPSTREAM ONSHORE

Current Trends

With global demand for hydrocarbons continuing to rise each year, the ability of producers to meet demand is becoming increasingly strained. As fields mature, the oil production decreases while water production increases. The recovery factor of these mature fields currently average around 20% to 40%. This equates to 60% to 80% of the Original Oil in Place (OOIP) locked in the reservoir.

It is generally more practical for operators to invest in enhanced recovery techniques than to develop a new field. Many of the advanced recovery production techniques used by producers are referred to as Chemical Enhanced Oil Recovery (CEOR). Water availability, cost, and regulations are all careful considerations leading producers to adapt their produced water management methods. Reliable water treatment is critical to a facility that is utilizing a produced water recycle loop for a CEOR process. Poor water quality will increase the quantity of chemicals required to achieve the desired production gains associated with polymer flooding. This is a challenge because the presence of back-produced or returning polymer in the produced water can greatly impact the performance of existing produced water treatment systems.

Impact and Opportunities

MYCELX has a footprint of five offshore installations with a supermajor and looks to expand its reach as the oil price recovers.

The forecast for increased production coupled with the prevailing lack of investment points to the necessity for technology that can get the most out of existing assets as prices recover and robust enough to perform reliably to support production as output levels increase. This plays well into MYCELX's core strengths in offshore water treatment, namely excursion management and small footprint.

MYCELX has installed produced water treatment systems offshore managing severe upset conditions that curtail production and cost producers millions of dollars in production loss.

Desirous of new and better technology, Chevron designed the MYCELX system into their full treatment train on the Jack/St. Malo platform, their state-of-the-art facility in the Gulf of Mexico. The Company has continued its deployment with Chevron in the Gulf of Mexico and to other platforms around the world.

The Company anticipates the strategic alliance with Schlumberger will accelerate the uptake of MYCELX's differentiated solution for offshore use.

Offshore Revenue as % of Group Revenue

MYCELX continues to support innovation in unconventional shale plays. As the Permian Basin regains its confidence with an increasing rig count, the demand for produced water continues to increase supported by state and federal regulation, accommodating frac fluid systems and increasing frac water volume.

Impact and Opportunities

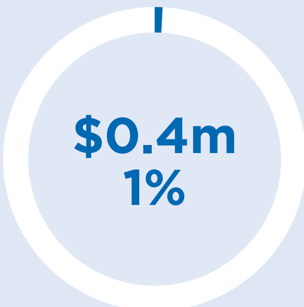
MYCELX believes Enhanced Oil Recovery is the largest play in the produced water market and has completed numerous successful trials and has the endorsement of the largest polymer producer servicing the Oil and Gas industry.

We have worked closely with SNF, the world leader in polymer production for the Oil and Gas industry, conducting rigorous testing and successfully proven that MYCELX RE-GEN achieves the performance required to treat water in polymer flood operations.

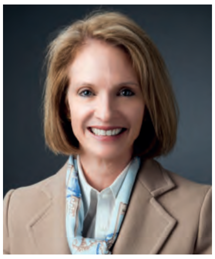
The fact that our technology allows the polymer to be preserved is also a game changer for the economics of this often overlooked EOR technique.

In the past four years innovation has driven the frac volume required to open some wells from 100,000 barrels of frac water to 1,000,000 barrels of frac water. MYCELX supports the operators' utilisation of produced water for this purpose by removing specific contaminants that encumber further innovation for this process.

Onshore Revenue as % of Group Revenue



Chief Executive's Statement



Seizing opportunities in a volatile market

Establishing strong foundations

The actions that we took to safeguard the business have ensured that we met the commitments we made to our investors. We protected our cash position, met our revenue forecast without sacrificing margin, and are cash positive from operations for the year in spite of continuing tough market conditions.

2016 was not just about righting the ship; weaker or more volatile markets emphasise the need to our clients for them to seek out smarter and more cost effective solutions for water treatment as part of performance optimisation. We seized this opportunity to work closely with existing and new clients on trials to demonstrate the significant value that MYCELX offers them. This market has created a more appreciative audience for our solutions. The concerted effort of undertaking trials over long periods has paid off. We have created business development opportunities that will ensure that the Company is well positioned to thrive going forward, even in uncertain times.

Operational Performance

The continuing oil price uncertainty and the severe reduction in investment across the industry in 2016 resulted in a generally subdued market for MYCELX but one that nevertheless presented us with opportunities. With an estimated $600 billion worth of projects deferred or cancelled through to 2020, there has been an increasing focus by Oil and Gas companies on optimising existing operations. Our superior performance, smaller footprint and immediate cost saving offering puts MYCELX in good position to impress clients looking for ways to optimise their current operations.

The effect of the downturn has been most profoundly felt in North America, whereas the Middle East was less impacted with no significant drop in Saudi Arabian investment this year. For MYCELX, the Middle East and specifically Saudi Arabia continue to be a primary market. Whilst capital investments were not scaled back in Saudi Arabia, the reduced margins that our petrochemical customers are experiencing, as they become accustomed to the increased price for their feedstock, has meant they too are focused on cost saving and performance enhancement opportunities.

Middle East and North Africa (MENA)

MYCELX had several key successes in the MENA region during the year and has taken action to strengthen our business going forward by committing additional resources. During 2016 we continued to operate at one of the leading ethylene plants in the world with a full service contract that treats water for the crucial quenchwater loop system. The current two year contract is for $5 million and is the result of the recognition that MYCELX systems bring greater operational efficiency which lead to higher production and attractive cost savings for the plant. As a result of the significant performance improvement experienced by the client, we were honored to be the only water treatment company invited to present at the internal SABIC Technical Conference held in Jubail.

In Saudi Arabia, the Company also undertook a sales initiative for a new fast-to-market product – the MYCELX Oil Recovery System which offers customers a system that treats oily wastewater onsite charged on a volume treated basis. Its benefits include cost savings, reduction of truck haul off and production of high quality sales oil in the process. It is the driving force behind our campaign – From Waste to Worth – that seeks to turn water treatment from a costly annoyance into a potentially significant profit center. The first installation of this new product occurred in Q1 2017 and underpins our 2017 forecasts.

Growing recognition of our successful performance has also spread throughout rest of the GCC region and led to paid trial requests from new customers. A downstream trial in Oman led to a lease, which we were able to respond quickly to by utilizing equipment from our rental fleet.

In order to capitalise on this wave of business opportunities, MYCELX appointed a Director of Business Development for the MENA and Asia regions who will be located in Saudi Arabia. This seasoned professional has worked with MYCELX for many years and will lead our efforts to grow the business in this key region. The fundamentals of the petrochemical industry in Saudi Arabia remain strong. Reduction in power and water subsidies, concerns over sustainability, along with the increased price for feedstock is driving operational efficiencies. At the same time, the commitment of the Saudi government to the petrochemical industry, as seen in both the National Transformation Plan and Vision 2030, ensures it will remain a key pillar of the economy and retain its leading global cost competitive position.

The Company had an important breakthrough in Nigeria during the year. We successfully performed our first trial offshore with a local oil producer and it was the first time that we had tested a RE-GEN system on an offshore facility. The Company will leverage this success to perform other trials in Nigeria showcasing the robust performance in a challenging operating environment. The Company expects successful trials to generate sales in the region as the oil price rises.

Americas

While activity in North America and South America was generally subdued in 2016 the Company's strategy of engaging with new customers to run trials generated revenue and we were also able to leverage our existing footprint to make follow on sales. For example, in the US onshore market MYCELX commissioned its fourth water treatment system for a terminal operator in the Houston Ship Channel. As the only approved technology for discharge into Houston Ship Channel, the system is able to freely discharge the water from operations. Similarly, the Company supplied a fifth offshore system to an important supermajor customer to manage water in a challenging production environment. MYCELX also secured its first project in Oklahoma with an equipment lease to a refinery. To further expand and strengthen our reach in North and South America from our Houston office, the Company added an experienced Business Development professional with years of oilfield services and water treatment background to drive sales and strategic alliance formation.

The Global EOR Market

The Company has been engaged in trials in Enhanced Oil Recovery ("EOR") produced water in North America, the Middle East, Europe and with a major producer in India for three years. The opportunity to trial at full scale at a polymer flood field facility is the only way to gather the necessary data and understand the operating conditions under which a water treatment system will have to perform. We continue to believe the commercial opportunity associated with treating water in EOR operations cannot be overstated.

The choice of which EOR processes are adopted is highly dependent on the ability to treat the water. One approach – Polymer Flood – presents a particularly difficult challenge as conventional technologies have been unable to effectively treat the polymer-laden water. This inability to properly process produced water containing polymers has adversely impacted the widespread adoption of what is an effective EOR technique.

MYCELX has now been proven to be the water treatment method to overcome this hurdle. Our cost-effective solution transforms the economics of using Polymer Flooding for the end user. This game changer opportunity for the industry was tested in close collaboration with SNF, the world's largest provider of polymer to the Oil and Gas industry. The objective was to test our RE-GEN media's ability to reliably remove oil and grease in the presence of polymer in produced water applications. The testing was very successful. Not only was RE-GEN media able to remove the oil from the polymer water to the required levels, the polymer was not removed from the water in the treatment process. This offers the potential for huge cost savings for producers using this technique. These results support the use of SNF's polymer to increase production in older fields. In the co-authored white paper, supported by extensive testing data, both MYCELX and SNF conclude that MYCELX provides the solution that operators have been searching for. This is a good example of how a concerted effort of working together with industry leaders to explore how combined technology capabilities can open up future opportunity in a lucrative market with applications globally.

Progress on Strategic Goals

We set a goal of searching for opportunities for strategic partnerships that would help to expedite the widespread adoption of MYCELX's technology in the industry. In June 2016 we executed an exclusive distributorship agreement for the upsteam market with Schlumberger, the world's largest oil field services company.

As our strategic partner, Schlumberger is marketing our products around the world on a scale and to an audience that only an industry leader could achieve. In partnering with Schlumberger, MYCELX has expedited our business plan and our ambition. Both MYCELX and Schlumberger believe together we can achieve more than either of us could alone in our targeted market sectors and we expect to grow in these sectors quickly as the market recovers.

MYCELX continues to look into further opportunities for similar partnerships that can expedite growth in our other target markets.

Safety

Our continuing success is based on our people, and their safety and of those people around us is central to everything we do. We are proud of our safety record and have engineered the design of our systems to ensure that operating them is simple and safe.

Looking to the Future

We continue to focus our growth strategy in the Middle East, India and Americas regions. Although the Company's primary market remained in distress, operators are increasingly 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 are well aware of the challenges the Company faces. 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's first Oil Recovery System installed in the petrochemical plant in Saudi Arabia is truly innovative and fits both this faster to market approach and also meets our customers' cost savings goals to turn waste water treatment from a cost into a profit center.

At its core, the Company is a technology company with exceptional expertise gained through onsite, real-time water treatment experience. The Company will continue to use its knowledge to innovate and commercialise next generation technology to meet our customers' current and future needs more reliably and cost effectively than outdated conventional methods. The Oil and Gas and petrochemical industries continue to integrate MYCELX® technology into their critical, real-time processes. This is confirmation that our technology has 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.

As we enter 2017, a sense of cautious optimism appears to have crept into the industry. Rig count increases, OPEC production cuts and increasing investment into the downstream sector are all signs of a potential recovery. Overall, the MYCELX contracted order book is stronger than this time last year and the Company therefore envisages a year-on-year revenue increase for 2017 in the range of 30%, with the aim of being EBITDA neutral, and with no material change in cash balance. MYCELX's revenue is already being generated from a broader geographic base than previously. The Company fully expects this positive trend, which is a result of our deliberate efforts to broaden our geographic exposure, to continue. By focussing on our customer relationships and strengthening those bonds, we have positioned the business to be prepared for continuing market uncertainty or a quick upturn. We are becoming known as a performance enhancing solution provider – we are important to our customers in all economic scenarios. As such, we embrace whatever challenges the market presents to us.

Connie Mixon
Chief Executive

10 May 2017

Financial Review

Decisive actions taken to safeguard cash despite industry downturn adversely impacting revenue

Due to adverse market conditions resulting in extended project timelines and cost cutting throughout the entire industry, total revenue decreased by 42% to $7.9m for 2016, compared to $13.6m for 2015.

Revenue from equipment sales and leases decreased by 32% to $2.5m for 2015 (FY15: $3.7m) and revenue from consumable filtration media and service decreased by 45% to $5.4m (FY15: $9.9m).

Gross profit margin remained strong in 2016 at 52% (FY15: 53%).

Total operating expenses for 2016 decreased by 31% to $7.1m (FY15: $10.3m). The largest component of operating expenses was Selling, General and Administrative (SG&A) expenses. As a result of the Company's cost reduction program, SG&A expenses decreased $1.5m due to reductions in staff costs. Other savings included $540,000 from property and office, $360,000 from travel expense, $310,000 from insurance and bank fees, and $295,000 from legal and professional fees.

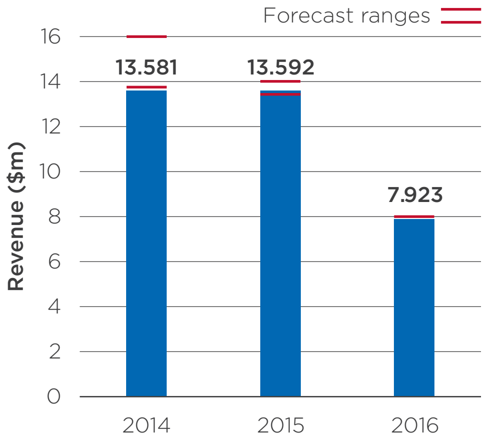
The Company recorded a loss before tax of $3.1m in 2016, compared to a loss before tax of $3.2m in 2015. Basic loss per share was 17 cents in 2016, compared to basic loss per share of 20 cents for the previous year.

The Company ended the period with $5.6m of cash and cash equivalents including restricted cash, compared to $5.8m in total at 31 December 2015, and the Company delivered on its promise to be operationally cash flow positive at $0.1m (FY15: negative $2.1m).

Goals & Key Performance Indicators

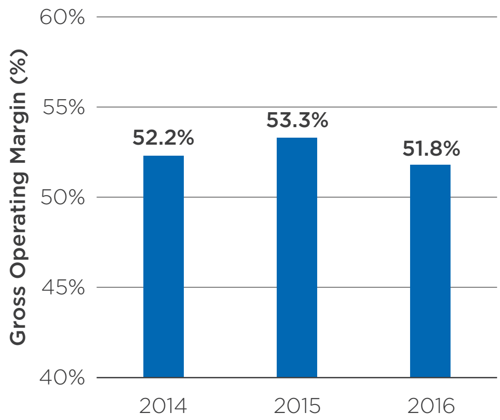
The Company strives to achieve its full potential and uses the following metrics to monitor its progress

I. Improve Revenue Projections



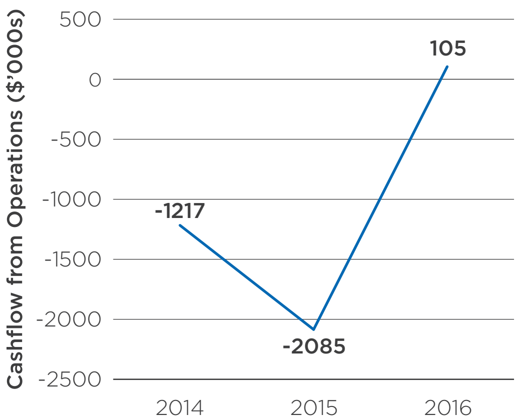
The Company's ability to predict revenue has markedly improved. The drop in revenues is a reflection of overall market conditions but given the effort that has gone into developing new customer relationships over 2016 we expect to be well positioned for the future.

II. Maintain Gross Operating Margin



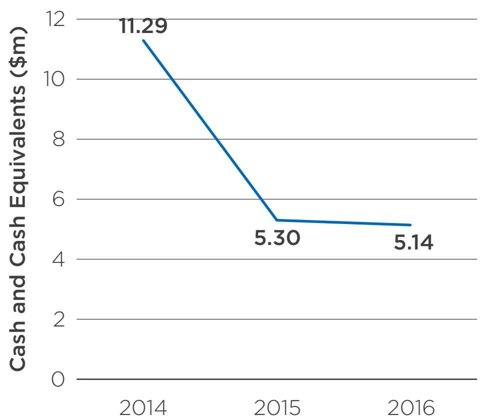
Our ability to consistently maintain robust margins stems from the superior quality of our performance and the realisation by our customers of the significant cost savings that they are making by using our technology.

III. Positive Cashflow from Operations



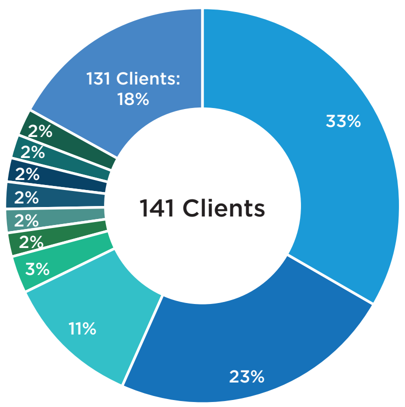
Our concerted efforts to manage costs and drive the business forward has enabled us to turn the cashflow from operations metric around.

IV. Preserve Cash and Cash Equivalents



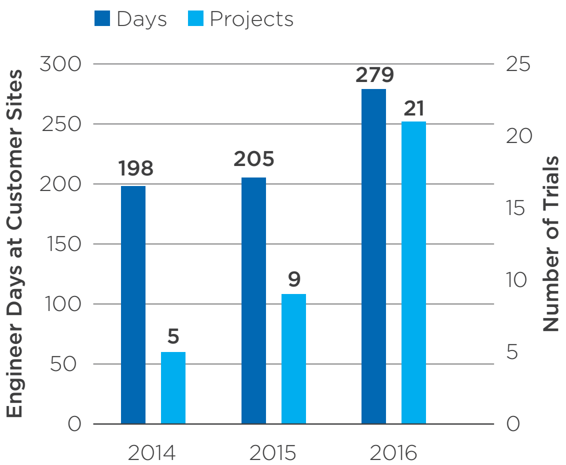
We made a commitment to our investors that we would enact cash preservation measures to safeguard the Company's balance sheet during these uncertain times. We have successfully stemmed cash burn and will only spend on new equipment when there is a corresponding order.

V. Client Diversification



Currently top 5 customers make up 72% of Company revenue. These large customers are industry leaders. As we pursue our strategy of gaining industry acceptance and critical mass, the client mix will improve as a consequence.

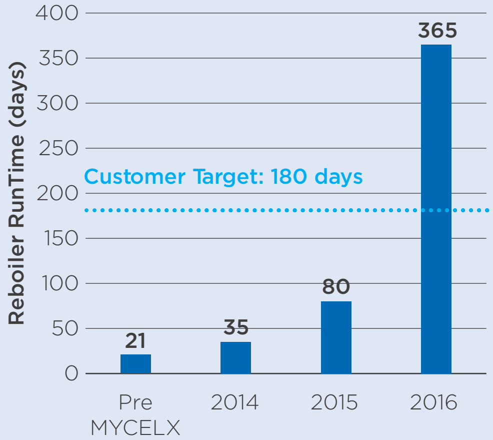
VI. Customer Intimacy: on-site trials



2016 has been focused on building customer intimacy with greater time spent on site to undertake trials. We have also undertaken a greater number of projects.

Case Study:

Consistent Superior Performance – Reboiler Run Time



MYCELX placed a Quench Water System at a SABIC affiliate in 2014 to replace an existing conventional technology that was failing to fully capture hydrocarbon contamination.

Our robust system is capable of tolerating upset conditions as high as 184,000ppm (versus a design of 3,500ppm). The previous installed system was designed for average inlet of 1,000ppm.

The easiest metric to demonstrate our superior performance is the reboiler runtime improvement. Reboilers heat up the water that is recirculating in the Quench Water system to turn it into steam to use in production. If there are excess hydrocarbons in the water then the carbon forms coke on the insides of the reboilers until the pressure increase inside the vessel forces it to shutdown. MYCELX superior oil removal capability has meant that the reboilers which were once isolated every 21 days are now only isolated once every 365 days. The customer target runtime was only 180 days. This system offers our customer significant cost savings in terms of reduced maintenance, improved stability, reduced damage to furnaces, and uses significantly less power and water which is in line with current macro trends where petrochemical clients are no longer benefiting from subsidised utilities.

Principal Risks & Uncertainties

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

Risk	Description	Mitigation
Additional funds	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 last equity capital raise with the goal of eliminating the need for additional funding in the near future.
Retaining key personnel	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.
Existing products and service optimisation	The future success of the Company will depend on the Company's ability to enhance existing products and services, address the increasingly sophisticated and diverse needs of the Company's 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.
Reliance on certain key manufacturers	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. 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 has expanded the number of manufacturers it uses that are capable of conducting manufacture on similar terms.
Competitive market	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.

Risk	Description	Mitigation
Customer diversification	The Company receives a significant portion 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 offers its customers significant operational performance enhancement and cost savings compared to conventional alternatives. The Company continues to pursue a growth strategy that will diversify its customer base.
Oil & Gas industry cycles	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.	The Company's principal customers are operating at the bottom of their respective industry cost curves. 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.
Geopolitical Risk	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.	As oil price volatility increases, so too does the focus on cost savings and operational performance. The Company has focussed on these aspects in its latest marketing drives and our customers recognise the cost benefits our products bring. Given the importance of our customers to their countries' economies, there will be significant efforts by states to protect the continued production from these operations.

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 approximately 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 five times in 2016.

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 three times in 2016.

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 2016.

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 2017.

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

The Nomination and Governance Committee met twice in 2016.

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 Chief Executive Officer and 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

10 May 2017

Directors' Report

for the year ended 31 December 2016

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.

Future Developments

The Board aims to pursue its corporate strategies as detailed in the Strategic Report on pages 1 to 23.

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 2016 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 24 to 25.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. The 2017 Annual Meeting will be held at 12 noon on 12 July 2017 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 31 to 33. 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 26 to 27.

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 2016 are set out in Note 10 to the financial statements. At 10 May 2017, a total of 18,770,117 Common Shares were outstanding. At 10 May 2017, 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%
Hargreave Hale	14.11%
John Mansfield Sr.	9.07%
Octopus Investments	8.48%
Hal Alper	6.72%
Connie Mixon	5.28%
BB&T Asset Management	4.05%
Emerald Investment Group	3.34%

Directors Indemnity Insurance

All Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

By Order of the Board

The Rt. Hon. Tim Eggar
Chairman

10 May 2017

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 2016 audit for fees of $140,000. Grant Thornton LLP was not engaged to perform any other services than audit related services in 2016.

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

10 May 2017

Directors' Remuneration Report

for the year ended 31 December 2016

As a US incorporated AIM-listed company, MYCELX is not required to comply with the disclosure requirements of the Companies Act 2006 (Strategic Report and Directors 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's 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 provided 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 could 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 was terminated without cause or resigned for good reason. The agreement provided 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.

The Directors' remuneration for 2016 was as follows:

	Salary and Director's fees $US	Benefits in kind $US	Performance related bonus $US	2016 Total $US	2015 Total $US
Non-Executive Chairman					
Tim Eggar	$48,452	–	–	$48,452	$52,726
Executive					
Connie Mixon	$296,889	$9,988	–	$306,877	$336,640
Mark Clark (resigned 31 August 2015)	–	–	–	–	$207,994
Hal Alper	$219,013	$15,482	–	$234,495	$255,259
Non-Executive					
Swinton Griffith	$39,100	–	–	$39,100	$42,550
Brian Rochester	$39,100	–	–	$39,100	$42,550

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 10 May 2017 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 2016 were:

Option holder	Type of award	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

* Additionally, options over an aggregate of 265,204 Common Shares were held by her husband Mark Mixon at 31 December 2016

An option over 26,000 Common Shares which was held by Swinton Griffith at 31 December 2015 lapsed during the year ended 31 December 2016. No Director exercised any options over Common Shares during the year.

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.

Brian Rochester
Chairman, Compensation Committee

10 May 2017

Contents

Grant Thornton

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

T 404.330.2000
F 404.330.2047
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of MYCELX Technologies Corporation (a Georgia corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MYCELX Technologies Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Atlanta, Georgia
10 May 2017

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:	2016	2015
Revenue	7,923	13,592
Cost of goods sold	3,820	6,343
Gross profit	4,103	7,249
Operating expenses:		
Research and development	–	172
Selling, general and administrative	6,588	9,594
Depreciation and amortisation	499	507
Total operating expenses	7,087	10,273
Operating loss	(2,984)	(3,024)
Other expense		
Loss on disposal of equipment	(2)	(76)
Interest expense	(94)	(144)
Loss before income taxes	(3,080)	(3,244)
Provision for income taxes	(199)	(405)
Net loss	(3,279)	(3,649)
Loss per share – basic	(0.17)	(0.20)
Loss per share – diluted	(0.17)	(0.20)
Shares used to compute basic loss per share	18,770,117	18,705,244
Shares used to compute diluted loss per share	18,770,117	18,705,244

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

Balance Sheets

(USD, in thousands, except share data)

as at 31 December:	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	5,139	5,296
Restricted cash	500	500
Accounts receivable – net	1,941	2,855
Unbilled accounts receivable	94	20
Inventory	3,190	3,790
Prepaid expenses	126	204
Other assets	36	109
Total Current Assets	11,026	12,774
Property and equipment – net	10,487	11,714
Intangible assets – net	852	809
Total Assets	22,365	25,297
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	657	485
Payroll and accrued expenses	425	577
Deferred revenue	–	42
Note payable – current	85	75
Other current liabilities	436	115
Total Current Liabilities	1,603	1,294
Note payable – long-term	1,921	2,006
Total Liabilities	3,524	3,300
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 18,770,117 shares issued and outstanding at 31 December 2016 and 2015	469	469
Additional paid-in capital	40,325	40,202
Accumulated deficit	(21,953)	(18,674)
Total Stockholders' Equity	18,841	21,997
Total Liabilities and Stockholders' Equity	22,365	25,297

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 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
Stock-based compensation expense	–	–	123	–	–	123
Net loss for the period	–	–	–	(3,279)	–	(3,279)
Balances at 31 December 2016	18,770	469	40,325	(21,953)	–	18,841

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2016	2015
Cash flow from operating activities		
Net loss	(3,279)	(3.649)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortisation	1,384	1,441
Loss from disposition of equipment	2	76
Stock compensation	123	123
Non-cash change in warrant liability	–	(63)
Change in operating assets and liabilities:		
Accounts receivable	914	(245)
Unbilled accounts receivable	(74)	71
Inventory	591	1,190
Prepaid expenses	78	324
Other assets	73	31
Accounts payable	172	(716)
Payroll and accrued expenses	(158)	(309)
Deferred revenue	(42)	(240)
Other current liabilities	321	(119)
Net cash provided by (used in) operating activities	105	(2,085)
Cash flow from investing activities		
Payments for purchases of property and equipment	(109)	(806)
Proceeds from sale of property and equipment	7	3
Payments for purchases of intangible assets	(85)	(92)
Net cash used in investing activities	(187)	(895)
Cash flows from financing activities		
Net proceeds from stock issuance	–	499
Payments on notes payable	(75)	(85)
Payments on lines of credit	–	(3,427)
Net cash used in financing activities	(75)	(3,013)
Net decrease in cash and cash equivalents	(157)	(5,993)
Cash and cash equivalents, beginning of year	5,296	11,289
Cash and cash equivalents, end of year	5,139	5,296
Supplemental disclosures of cash flow information:		
Cash payments for interest	86	153
Cash and non-cash payments for income taxes	216	403
Non-cash movements of inventory and fixed assets	(9)	-

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, Georgia with operations in Houston, Texas, Saudi Arabia, India and the United Kingdom. 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 and deferred taxes. 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 2016, 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 2016 and 2015, cash in non-U.S. institutions was $140,000. 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 2016 and 2015, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 9).

Trade accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. The allowance for doubtful accounts at 31 December 2016 and 2015 was $143,000 and $nil, respectively.

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 2016 and 2015. 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 2016 and 2015.

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 2016 and 2015 was approximately $nil and $172,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2016 and 2015 was approximately $4,000 and $7,000, respectively, and is recorded in selling, general and administrative expenses.

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 2016 and 2015 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 1,125,640 and 1,150,201 for the years ended 31 December 2016 and 2015, 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 2016 or 2015.

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 2016 and 2015 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, and the note payable. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short-term nature of those assets and liabilities. The Company believes it is impractical to disclose the fair value of the note payable as it is an illiquid financial instrument.

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 11).

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 but does not expect it to have a material impact on the Company's financial statements.

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 but does not expect it to have a material impact on the Company's financial statements.

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.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

Recently issued accounting standards continued

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 2018, and for interim and annual periods thereafter, with early application permitted. The Company is currently evaluating the impact of adopting this guidance but does not expect it to have a material impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which amends several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard 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.

3. Accounts receivable

Accounts receivable and their respective allowance amounts at 31 December 2016 and 2015:

	31 December 2016 US$000	31 December 2015 US$000
Accounts Receivable	2,084	2,855
Less: allowance for doubtful accounts	(143)	–
Total receivable – net	1,941	2,855

4. Inventories

Inventories consist of the following at 31 December 2016 and 2015:

	31 December 2016 US$000	31 December 2015 US$000
Raw materials	756	929
Finished goods	2,434	2,861
Total inventory	3,190	3,790

5. Property and equipment

Property and equipment consists of the following at 31 December 2016 and 2015:

	31 December 2016 US$000	31 December 2015 US$000
Land	709	709
Building	2,724	2,724
Leasehold improvements	341	325
Office equipment	723	745
Manufacturing equipment	854	917
Research and development equipment	514	644
Purchased software	222	222
Equipment leased to customers	8,837	8,610
Construction in progress	730	826
	15,654	15,722
Less: accumulated depreciation	(5,167)	(4,008)
Property and equipment – net	10,487	11,714

During the years ended 31 December 2016 and 2015, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately $183,000 and $41,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2016 and 2015 was approximately $1,342,000 and $1,403,000, 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 2016 and 2015 was $885,000 and $934,000, respectively.

Notes to the Financial Statements continued

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of $28,000 in 2009 with the possibility of an additional $72,000 based on profits on the sales of a particular product. During 2010, the Company paid $22,000 based on profits on the sales of the product and paid the remaining $50,000 in 2011. The patent is amortised 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 $39,000 and $32,000 as of 31 December 2016 and 2015, 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 2016 and 2015 consist of the following:

	Weighted Average Useful lives	31 December 2016 US$000	31 December 2015 US$000
Internally developed patents	15 years	1,240	1,155
Purchased patents	17 years	100	100
		1,340	1,255
Less accumulated amortisation		(488)	(446)
Intangible assets – net		852	809

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December (USD, in thousands)	
2017	46
2018	46
2019	42
2020	41
2021	41
Thereafter	223

Amortisation expense for the years ended 31 December 2016 and 2015 was approximately $42,000 and $38,000, respectively.

7. Income taxes

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

	31 December 2016 US$000	31 December 2015 US$000
Current:		
Federal	–	–
Foreign	197	392
State	2	13
Total current provision	199	405
Deferred:		
Federal	–	–
Foreign	–	–
State	–	–
Total deferred provision	–	–
Total provision for income taxes	199	405

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 2016	31 December 2015
Federal statutory income tax rate	34.0%	34.0%
State tax rate, net of federal benefit	(0.1%)	0.4%
Valuation allowance	(36.2%)	(25.1%)
Other	0.1%	(13.8%)
Foreign withholding tax	(4.2%)	(8.0%)
Effective income tax rate	(6.4%)	(12.5%)

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 2016 US$000	31 December 2015 US$000
Deferred tax assets		
Net operating loss	7,140	6,056
Equity compensation	413	404
Research and development credits	159	159
Allowance for bad debts	49	0
Accrued liability	7	44
Charitable contributions	10	9
Other	37	25
Total gross deferred tax asset	7,815	6,697
Deferred tax liabilities		
Property and equipment	(971)	(968)
Total gross deferred tax liability	(971)	(968)
Net deferred tax asset before valuation allowance	6,844	5,729
Valuation allowance	(6,844)	(5,729)
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 2016, the Company has recorded a valuation allowance of $6.8 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 2016, the Company has approximately $20.4 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 2016 and 2015, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2012 through 2016 remain subject to examination by federal, state and foreign income tax jurisdictions.

8. Line of credit

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. There was no balance on the line of credit at 31 December 2016 and 2015. 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 2016 and 2015 was 3.25 percent and 3.00 percent, respectively. There was no interest expense related to this loan for the years ended 31 December 2016 and 2015.

9. 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 2016 and 2015, 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 2016:

Year Ending 31 December (USD, in thousands)	
2017	85
2018	89
2019	93
2020	97
2021	102
Thereafter	1,540
	2,006

10. 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.

11. Stock compensation

Stock options

In July 2011, the Company's shareholders approved the Conversion Shares and the Directors' Shares, as well as the Plan Shares and Omnibus Performance Incentive Plan ("Plan"). This included the termination of all outstanding stock incentive plans, cancellation of all outstanding stock incentive agreements, and the awarding of stock incentives to Directors and certain employees and consultants. The Company established the Plan to attract and retain Directors, officers, employees and consultants. The Company reserved 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 1,139,556 shares allocated as of 31 December 2016. The shares are all allocated 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.

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 expired at the end of 2016.

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 2015 and 2016 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value per option
2015	299,000	20/05/2015	1.29%	6 years	58.00%	$2.15	$1.16
2016	25,000	01/02/2016	1.62%	5.75 years	56.00%	$0.34	$0.18
	345,000	14/03/2016	1.70%	5.75 years	54.50%	$0.40	$0.20

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 2016 and 2015:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
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
Granted	370,000	$0.40	5.8	$73,500
Forfeited	(56,000)	$4.36		
Outstanding at 31 December 2016	1,139,556	$2.56	5.9	$1,372,852
Exercisable at 31 December 2016	797,723	$3.13	6.3	

A summary of the status of unvested options as of 31 December 2016 and changes during the years ended 31 December 2016 and 2015 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
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
Granted	370,000	$0.20
Vested	(262,167)	$1.49
Forfeited	(15,000)	
Unvested at 31 December 2016	341,833	$0.65

As of 31 December 2016, total unrecognised compensation cost of $171,000 was related to unvested share-based compensation arrangements awarded under the Plan.

12. 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 $nil and $72,000 for the years ended 31 December 2016 and 2015, respectively.

Notes to the Financial Statements continued

13. 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 operating leases, together with the present value of minimum lease payments as of 31 December 2016 are as follows:

Year Ending 31 December	Future Lease Payments US$000
2017	314
2018	116
2019	45
Total future lease payments	475

Rent expense for the years ended 31 December 2016 and 2015 was approximately $337,000 and $613,000, respectively.

14. Related party transactions

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

15. 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 2016. For the year ended 31 December 2016, 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.

Revenue from customers by geography is as follows:

Year Ending 31 December	31 December 2016	31 December 2015
Middle East	3,989	10,604
United States	1,766	1,897
Other	2,168	1,091
Total	7,923	13,592

Equipment leased to customers by geography is as follows:

Year Ending 31 December	31 December 2016	31 December 2015
Middle East	6,391	6,301
United States	2,071	1,813
Other	375	496
Total	8,837	8,610

16. Concentrations

At 31 December 2016, two customers, one with three contracts with three separate plants, represented 61 percent of accounts receivable. During the year ended 31 December 2016, the Company received 67 percent of its gross revenue from two customers, one with three separate plants.

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.

17. 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 10 May 2017, 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 importance. 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.

www.mycelx.com

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

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

Europe
Room 507, Hamilton House
1 Temple Avenue
London, EC4Y 0HA
United Kingdom
+44 203 195 1390

Middle East
Lulu 1 Road, Al Arfaj Building 2
Al Fanateer District
Al-Jubail Industrial City 31961
Kingdom of Saudi Arabia

www.mycelx.com