

The logo for MYCELX Technologies Corporation, featuring the word "MYCELX" in a bold, sans-serif font. The "Y" is yellow, and the "X" is blue. To the right of the text is a stylized icon consisting of three overlapping hexagons: a yellow one on top, a blue one on the left, and a grey one on the right.

MYCELX

MYCELX Technologies Corporation
Annual Report & Accounts 2017

A large-scale industrial refinery or chemical plant at sunset. The sky is filled with dramatic, colorful clouds in shades of orange, yellow, and purple. The facility is illuminated by numerous lights, creating a bright, glowing effect. In the foreground, there are several large, white, cylindrical storage tanks with red metal railings and ladders. The background shows a complex network of pipes, towers, and distillation columns, with a prominent tall, lattice-structured tower in the center. The overall scene conveys a sense of industrial activity and modern technology.

Securing New Frontiers



Exceeding Expectations Targeted Approach Sustaining Momentum

In 2017, MYCELX exceeded initial expectations thanks to the decisive steps we took the previous year. We ended the year 74% up on revenue and we were EBITDA and cash flow positive compared to a neutral target. The Company is now positioned to benefit from the policy initiatives in key countries where we operate as well as from the recovery across the industry as a whole.

We have secured new frontiers for the Company this year which will continue to produce revenue for years to come. We converted a successful trial into a country entry sale in Nigeria, gained local regulatory and industry recognition for new applications in Saudi Arabia and ran successful trials in Alberta and West Texas.

We have delivered a significant increase in revenue and profit without adversely affecting our cash position, showing that we are able to make our resources work harder. As the industry improves, we expect our leaner and more focussed organisation to further benefit from improving market conditions.



Highlights of the Year

Exceeding expectations

- 74% improvement in revenue YoY
- 82% increase in gross profit YoY
- EBITDA and cash flow positive vs neutral market expectation

Successful opportunity conversion

- Saudi Arabia: Secured new customer SHARQ with a waste water application
- Saudi Arabia: Won a turnaround role at Saudi Kayan
- Saudi Arabia: Placed wastewater solution at Petrokemya Olefins II Plant
- Nigeria: Successful conversion of trial success into country entry sale of a RE-GEN system for shallow water application

Creating a strong pipeline

- Saudi Arabia: Wastewater solution placed at Petrokemya Olefins III Plant in Q1 2018
- US: Successful trial in the Permian basin for water for reinjection solution
- Canada: Successful trial for a Polymer Flood Produced Water Solution at a facility in Alberta

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Our Business at a Glance

Taking Water Treatment to a whole new level

Taking Water Treatment 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, as well as commercial industrial markets globally.

Water Challenges our Customers Face

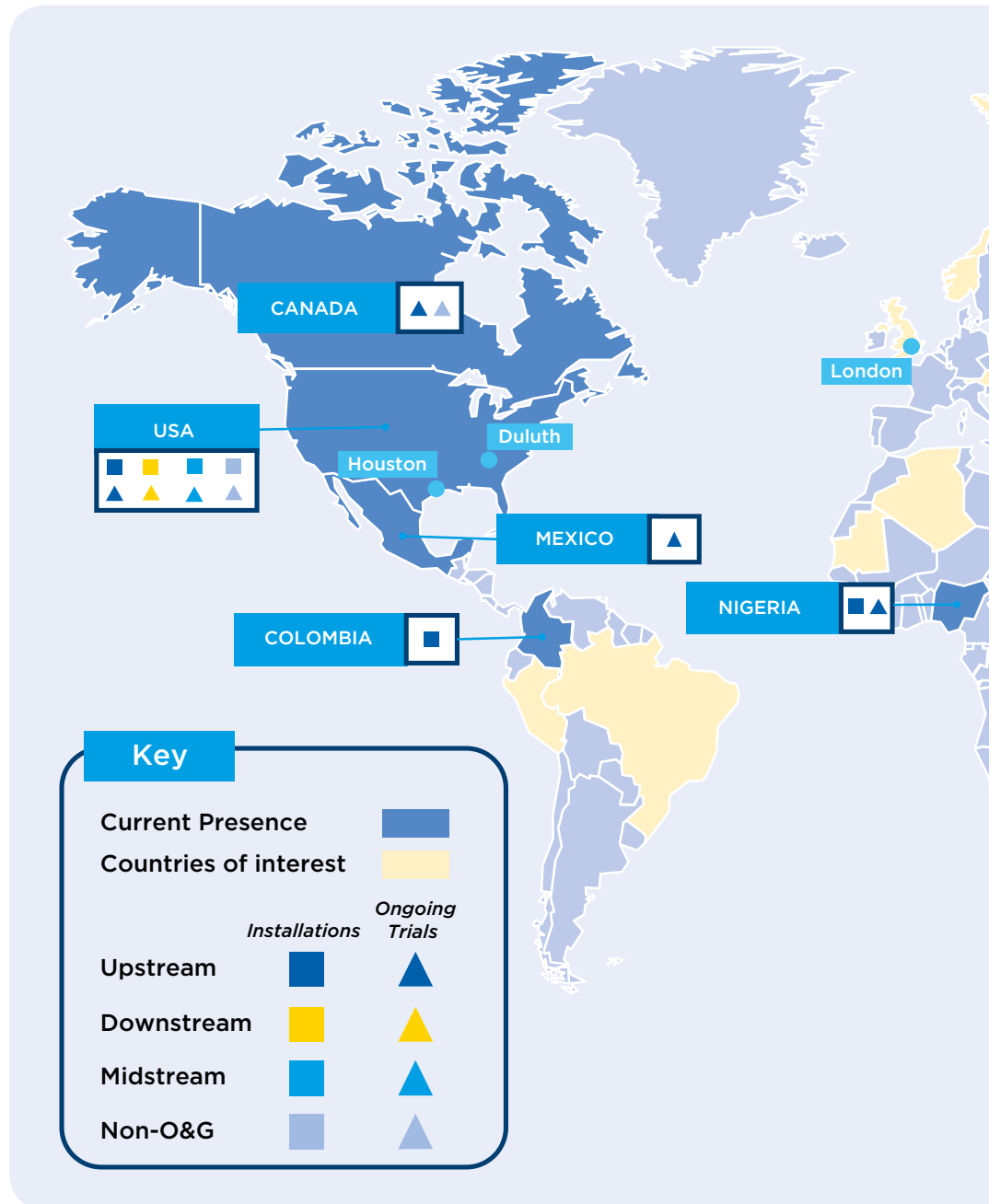
Very often much more water than oil is produced during oil and gas production. Reuse of water, especially in water stressed regions, is part of the industry's every day water management and business calculations. Our technology is industry-recognised as a step change improvement on the now outmoded conventional approaches to water management 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.

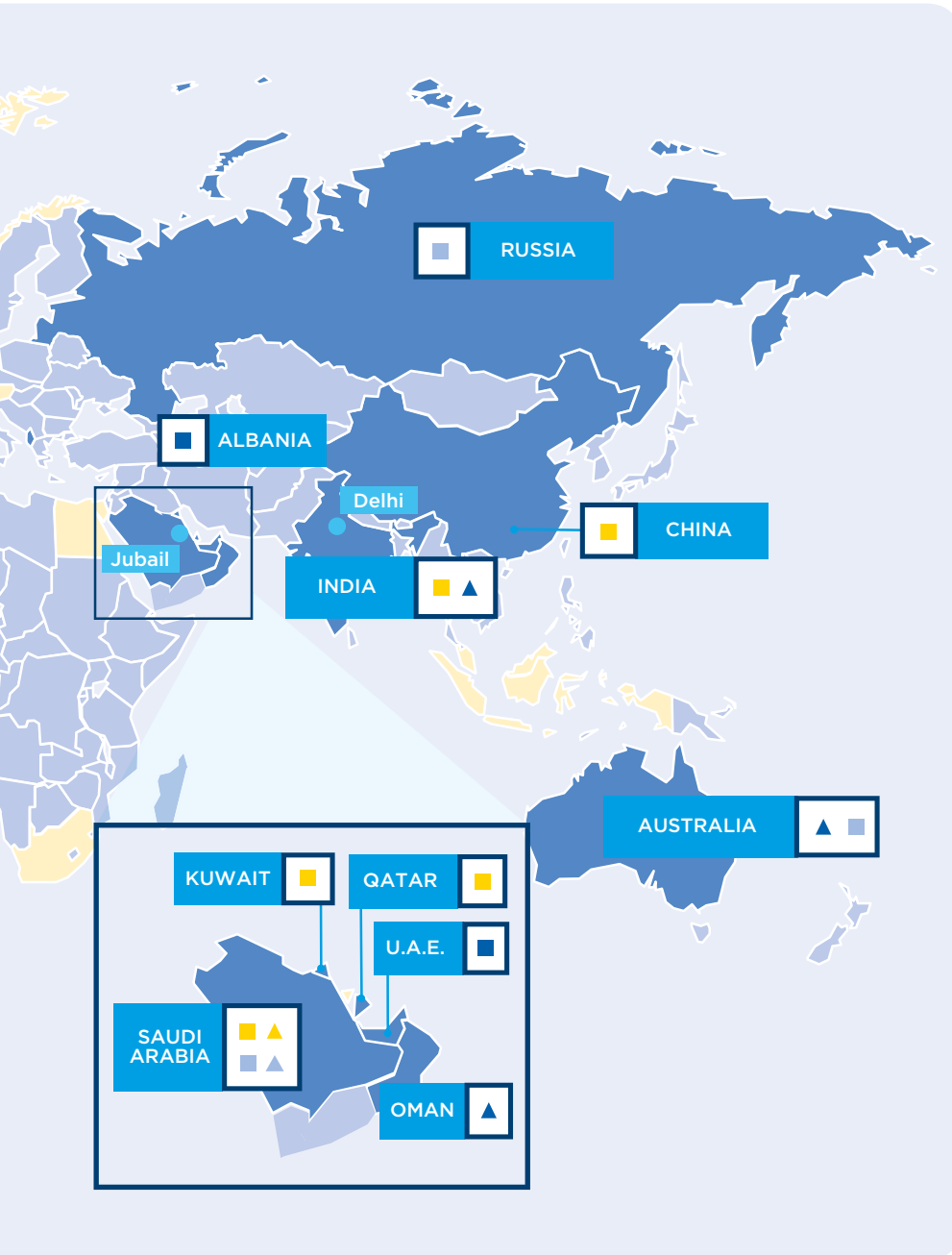
Our corporate headquarters in Duluth, Georgia supports branch offices in Houston, London and Jubail Industrial City.



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 providing enhancement to process water loops and waste water treatment in petrochemical plants.

We have established a strategic partnership in the upstream market with Schlumberger to enhance knowledge of our capabilities throughout their global client base. We will consider similar strategic alliances in our other markets if they are beneficial in expediting our business model.



In tune with current market trends

Water Treatment – A production enhancement opportunity

Oil and gas producers live in a 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 challenging 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 while producing the required water quality to operate without interruption and 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. Our unique RE-GEN media solution has 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 our 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. By removing oil at the molecular level we deliver a step change improvement on conventional physical separation methods. The Company also leverages differentiating proprietary media materials in specific process streams to achieve oil removal to less than 1 ppm if required to tailor for specific discharge levels and contaminant removal as well as operational run time.

At a Glance

Revolutionary Technology

Our patented polymer was created by our founder, Hal Alper. The polymer and its applications are protected by 35 global patents.



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.

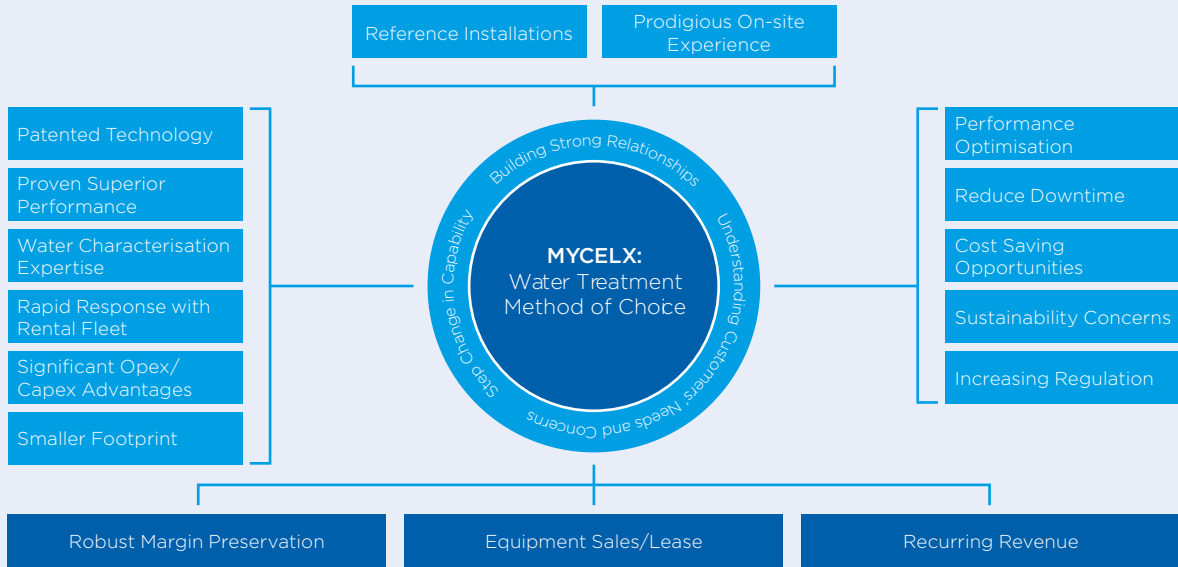
Our engineers design systems leveraging our proven technology which meet our customers' requirements in terms of overall economics, performance and whether they wish us to handle operation of the installation.

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.

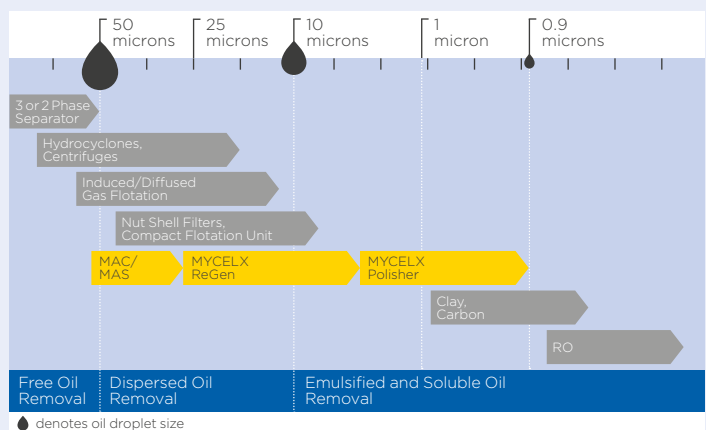
Our Business Model



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



Exceeding Expectations Establishing Strong Foundations Sustaining Momentum

2017 has been an exciting year for MYCELX and we are pleased to report that the steps taken last year to safeguard the Company and position it for success yielded positive results and laid the strong foundations for sustained growth.

This has been a turnaround year for the Company with revenues up 74% and returning to levels not seen since 2014. We exceeded our own expectations thanks to the efforts of our teams in Saudi Arabia and Houston. Encouragingly, the overall momentum generated has continued to grow as seen by the Company's largest ever contract win in Saudi Arabia in early 2018.

Improving Market Environment

During 2017, overall market sentiment improved as global economic growth rates returned to pre-financial crisis levels. For the oil and gas industry, our core market, the first half of the year saw price volatility on changing US stockpile data. This was followed by a price recovery based on improved fundamentals, the effects of Hurricane Harvey and the continuation of the OPEC output reduction deal. Looking forward, the effectiveness of the OPEC cuts will continue to be dependent on the activity of US Shale swing production but so far the outlook remains positive. As MYCELX is both cost effective and performance enhancing, the Company should be somewhat insulated from these macro production trends.

Financial & Operating Performance

MYCELX has exceeded expectations this year both in terms of outperforming our financial metric targets, increasing our customer base and securing new geographic frontiers. The pessimism that marked the oil and gas market in 2016 noticeably dissipated throughout the year. Energy companies have steadily increased their spending in line with recovering crude oil prices. US rig counts are much higher than a year ago and continue to rise. After years of constraints, it is pleasing to note that the majority of E&P companies are now budgeting for at least a 10% increase in planned capital spending for 2018. This bodes well for our 2018 outlook, however what we learnt in 2017 was to rely on our customer focussed approach rather than ride the wave of industry fortunes.

Customer Focussed Approach

Our primary goal remains to be increasing industry adoption of MYCELX. In 2016, our approach was to work with our clients to better understand their water challenges and educate them on how the Company's technology would provide cost efficiencies and production enhancements. This took the form of multiple trials on site. The most obvious positive outcome of these efforts came in the form of our first sale into Nigeria for a full produced water treatment system allowing future overboard discharge.

The potential to leverage this sale into a broader footprint in Nigeria is significant and will be a focus of our business development efforts in West Africa this year. Historical difficulties with adherence to discharge requirements have created an environmental challenge for this oil rich nation. MYCELX can assist with ensuring that future discharge specifications are met in a robust, cost effective and sustainable manner for years to come. The Company could potentially play a role in future clean-up operations in the Niger Delta.

In addition to Nigeria, we have had successful trials in Alberta, Canada and in the Permian Basin in West Texas. In Canada, the successful trial was an in-field demonstration of our technically superior results in Enhanced Oil Recovery produced water applications. As fields mature globally, the ability to deal with polymer laden produced water will be essential as this effective extraction method is widely adopted.

The customer focussed approach was particularly successful in Saudi Arabia. I am delighted to say that the funds we deployed to reinvigorate our business development drive paid off as we expanded our footprint and deepened our relationships with existing clients by deploying new installations. Saudi Arabia remains one of the most exciting markets for MYCELX going forward. The country's Vision 2030 program and its focus on environmental protection and reducing the wastage of precious resources such as water are perfectly aligned to MYCELX solutions. Our team in Saudi have done a splendid job of capitalising on these opportunities by deploying our rental fleet to respond quickly to clients' needs as they demand smarter solutions to solve their water challenges.

Performance Vs Key Metrics

The Company outperformed its key metrics and did so whilst preserving its cash position. Revenue exceeded projections by 30% and is a 74% improvement on 2016. Gross profit improved by 82% and returns to pre-2014 levels. Having set a goal of being EBITDA neutral we are pleased to report that we were both EBITDA and cash flow positive for the year. But the key is not just to have undertaken a turnaround in financial results but to also ensure the stability of our position and to build on it. We firmly believe that the successful trials combined with our business development momentum will help ensure that the Company continues to thrive. We have already seen this momentum sustained into 2018 with the securing of two large purchase orders from SABIC.

Tribute

These successful results are a fitting tribute to Mark Mixon, who we tragically lost in September. Mark's vision and leadership are at the core of the business successes that we have seen this year and will underpin our success going forward. He was a key advocate for opening the branch in Saudi Arabia as well as the creation of the Rental Fleet services model that has been critical to our recent success in Saudi.

That the Company has managed to achieve these results in the face of a difficult operating environment is a testament to both the lasting impact of Mark's leadership and determination, as well as the tireless efforts of the whole MYCELX team.

Promising Outlook

With our financial position more assured, we are now well positioned for when the industry does recover and stabilise. There are indications that the tide is turning - as seen with the increase in rig activity, and signs of greater investment in the petrochemical industry in our key market of Saudi Arabia. We have raised our revenue outlook for 2018 to be \$16-\$17 million on the basis that we already have visibility from the secured purchase orders announced to date.

Governance

I am happy to advise that your Board of Directors and our experienced team of employees has continued to work well together over the year to support the Company's ambitions. I would like to thank them all for their wise counsel and support.

Our Strategic Report

Our 2017 strategic report from pages 1 to 21 was reviewed and approved by the Board on 14 May 2018.

The business review, future developments and principal risks and uncertainties have been included in the strategic report.

Rt. Hon. Tim Eggar

Chairman

14 May 2018

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
<p>Demonstrate Technical Superiority</p> <p>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.</p>	<p>Improve Customer Intimacy via trials</p> <p>We create value for our clients through a deep understanding of their needs, both now and in the future.</p> <p>Educate the market</p> <p>Our water expertise allows us to show our customers how they might improve their system by focusing on different water metrics.</p> <p>Consistent Superior Performance</p> <p>Our performance underpins our reputation and our future.</p>	<p>A customer base that realises the true value of MYCELX</p> <p>Enhancing reputation via industry game-changing trials</p> <p>Revenue generation & preserving margins</p>
<p>Gain Industry Acceptance</p> <p>We seek to gain wider industry acceptance of our technology. We need to broadcast our successes to the wider audience.</p>	<p>Cost savings opportunities</p> <p>The ability to offer quick pay back on investment and cost savings is particularly attractive during this period of low prices.</p> <p>Shared learnings</p> <p>Issues faced by one operation are often common problems faced at other sites.</p> <p>Endorsement by leading industry player/awards</p> <p>References with leading industry players is an immediate comfort for a new customer.</p>	<p>Reference creation</p> <p>With some of our larger customers, if MYCELX is installed in two operations then it will become a recommended solution for the Group.</p> <p>Revenue generation</p>
<p>Obtain Critical Mass</p> <p>Converting industry acceptance into revenue generation.</p>	<p>Rapid Response</p> <p>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.</p> <p>24/7 support availability</p> <p>Through our branch office we offer support to our customers' needs 24/7.</p> <p>Strategic Partnerships</p> <p>Through their broader customer networks, our successes can be broadcast better.</p>	<p>Broaden customer base</p> <p>Mitigates against dependency risk and opens up new opportunities.</p> <p>Significant revenue generation</p>

ACHIEVEMENTS TO DATE

**Established Houston
Demonstration centre**

Country entry into Nigeria

**Recognised solution to ensure waste
water specifications are met by Sabic**

SHORT/MEDIUM TERM GOALS

**Undertake trials at other leading Saudi
Arabian Oil and Gas or Industrial companies**

Expand footprint in Nigeria

**MYCELX installation at industry leading
polymer flood operation in North America**

**Current footprint includes installation at
leading industry players' operations**

**Endorsement by Schlumberger as water
treatment method of choice**

Winner of several industry awards

**Further installations for waste water
systems in SABIC**

**Leverage Saudi Arabian successes to
expand footprint within the GCC**

**Deployed rental fleet to secure three new
SABIC contracts**

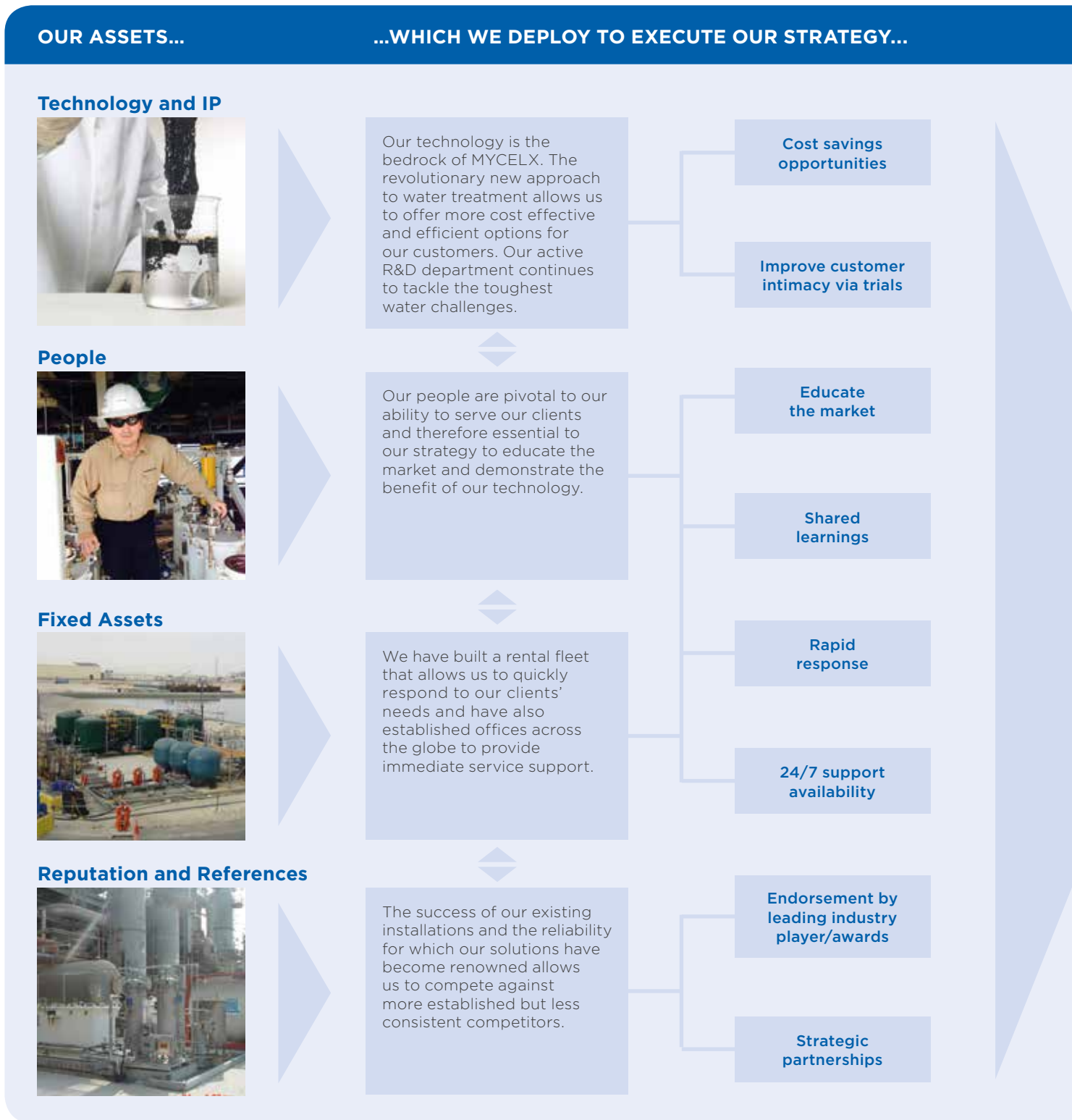
**Endorsements by major oilfield
services companies**

**Widespread adoption of fast to market Oil
Recovery System and waste water treatment
solutions**

**Global replacement of outmoded
conventional walnut shell filters with next
generation RE-GEN media**

Our Business Model

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



...SECURING VALUE...

...FOR ALL OUR STAKEHOLDERS

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

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 manage their water challenges more cost effectively.

Shareholders

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

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 remains the Kingdom of Saudi Arabia.

Saudi Arabia: Bright vision for the future

The Saudi petrochemical industry remains 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.

Overcoming production disruptions

During 2017, the petrochemical industry reported that overall production had been affected by feedstock constraints and a power outage event in Jubail in May. As a result, petrochemical companies sought to increase production in the second half of the year to make up for this disruption. Production rate increases can create water treatment issues for conventional technology and therefore the value of MYCELX's more robust systems is highlighted. The resulting wastewater challenges created by production disruptions have also led to two new opportunities won by MYCELX during the year.

New opportunities

Looking ahead, several major manufacturing projects will start up in 2018 which will contribute to sector growth. These include the Petro Rabigh II, and the SR4.5 billion joint venture between SABIC and Mitsubishi Rayon Company, which will bring two acrylates plants on-line in Jubail in Q2 2018. During the year, Sadara was fully commissioned and this \$20 billion joint venture between Saudi Aramco and Dow Chemical offers a host of potential water treatment opportunities for MYCELX.

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 the largest facilities.

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's range of applications that convert costly waste water streams into profit generating centres or performance enhancements are welcomed by Saudi petrochemical plants. As regulations have become stricter, MYCELX solutions allow our customers to ensure compliance with regulations and cost effective water treatment solutions.

MARKET: UPSTREAM



Current Outlook

The upstream market is showing signs of recovery. Producers have enjoyed the second half of 2017 as crude price increases provided respite from a painful 2016. The industry is finally starting to make capital commitments that have been deferred during the price malaise, but this recovery will be tempered by a continuing focus on cost efficiency. Producers have walked away from projects this year when margins were deemed to be insufficient to provide resilience in any future downturn. There is a continuing focus on technology to provide production efficiencies as E&P companies strive to maintain the margins that they achieved via streamlining and austerity measures.



Impact and Opportunities

MYCELX is aligned with our upstream customers' focus on sustainable profitability. MYCELX's capability to both provide cost efficiencies and performance enhancement places it in a strong position to assist producers continuing to optimise their production. Between 2014-16 the upstream industry saw a 25% reduction in personnel which will take time to recover and place a greater reliance on external experts to assist where experienced personnel have been lost. MYCELX is able to provide such water treatment expertise.

Chief Executive's Statement



Building On Strong Foundations Opening New Frontiers Targeted Efforts For Ongoing Growth

MYCELX enjoyed a turnaround in 2017 ensuring stronger foundations to support our ongoing focus on profitable growth.

We are happy to report that the actions we took last year paid off and allowed us to secure near term revenue opportunities. We exceeded our initial revenue forecast by 30%, thanks to the efforts of our team in Houston who made a significant first sale into Nigeria and the team in Saudi Arabia who secured a record three new projects in one year within SABIC.

What was most pleasing was that two of these projects were placed at new customer plants. With each addition to our footprint comes further momentum as customers understand the cost savings and operational benefits our robust technology can bring to their projects and installations. Success at one location for a producer or operator often leads to many new opportunities at their sites around the world.

During 2017, we repositioned the Company so we could chase near term revenue opportunities that arose from policy initiatives in core geographies, and to prepare us for the nascent recovery seen across the industry. Our actions helped sustain the momentum that we created in 2016 with several large project wins at the start of 2018 and an exciting and growing pipeline to pursue.

In late 2017 Trent Weber was added as Chief Operating Officer for the Company, and in January 2018, Dr Alexander Millar was promoted to General Manager of MENA and Asia.

Operational Performance

The steps taken in 2016 ensured that MYCELX was able to thrive this year. Our customer focussed approach and successful trials opened up opportunities with existing and new clients, which was the foundation of the turnaround in our financial results. We have repositioned our resources to take advantage of new opportunities arising across the globe. As a result, our focus this year has been on Saudi Arabia, Nigeria and Canada, where the need for superior water treatment is at the core of their policy and industry initiatives. Whilst we have taken account the recovery of the oil and gas industry and will continue to pursue those longer term opportunities, our immediate focus for the Company has been on nearer term revenue opportunities and maintaining the momentum to generate more of these faster to market solutions.

Middle East and North Africa (MENA)

Our MENA team set a record with the number of installations in one year. The additional resources that we deployed to reinvigorate the business development drive in Saudi Arabia paid off with three new projects during the year and a pipeline of near term opportunities, from which two have already been converted into purchase orders in Q1 2018.

The focus in the first half of the year was to secure the foundations of our operations in Saudi Arabia. The core projects have continued to perform successfully as demonstrated by the lease renewal in Q1 2018 of our Quenchwater System for a further two years. The second half of the year has been characterised by increasing the utilisation of our rental fleet. In June we were pleased to place our Rapid Response Unit at a new SABIC client – SHARQ. That unit was deployed during adverse weather conditions and during Ramadan which posed significant logistical hurdles. The team did a sterling job to place and install the unit at site, on time and on budget. The system was tasked with solving a waste water issue which had previously been disposed of by vacuum truck haul off. Not only did our system significantly reduce the cost of treating this waste stream, but we were able to meet outlet specifications that allowed it to be discharged to the client's existing wastewater facilities, removing the need for any vacuum trucks. Vacuum trucks pose a logistical and health and safety issue for our clients in Saudi Arabia and there is a drive to reduce their costly usage.

The success of the SHARQ installation was followed by a suite of further opportunities in quick succession. In collaboration with a local waste management company, the team secured a role in the Saudi Kayan Turnaround to treat the complex waste water generated by that activity. This successful installation which ran for the duration of the turnaround and the restarting of the plant obtained recognition from the local regulator and other producers. Both the SHARQ and Saudi Kayan projects became a reference point for our next deployment of a rapid response system at Petrokemya. We placed a unit at one of that client's largest Olefins plant and have been operating successfully since installation.

The ability to chase these lucrative opportunities was only possible due to the availability of the Company's rental fleet in Saudi Arabia. This available equipment meant that we could be deployed within days of an enquiry, making us a viable alternative to the option of hauling away the problem waste stream.

There is clear demand for further opportunities similar to those secured in 2017. The superior water treatment capability of MYCELX is aligned with Saudi Arabia's initiatives to safeguard the environment and reduce waste. At the same time, regulations are becoming more stringent and enforced more rigorously. This provides the ideal environment for MYCELX's superior technology. There is a Saudi goal for 100% recycle or reuse of valuable water and other waste streams. Our collaboration with local waste management companies will help to ensure that we will be involved in this exciting and growing market.

West Africa: Nigeria

MYCELX entered a new geographical territory with its first contract for onshore water treatment in Nigeria. The client asked MYCELX to undertake a trial in 2016 as it was looking

for an advanced technology that could cost effectively solve its current and future water challenges. MYCELX's trial proved that our system would allow the client to meet immediate discharge requirements and ensure performance and reliable ongoing production. MYCELX's RE-GEN solution is integral to the client's plan to use its produced water for secondary or enhanced oil recovery techniques.

Our first significant sale in Nigeria was strategically important because it creates a footprint for MYCELX in a country where both Producers and Regulators are searching for a new standard in water treatment. Producers require higher quality treated water for operational purposes to enhance production. Regulators are trying to establish more stringent environmental regulations and proper disposal is being enforced. MYCELX has been proven to meet the desired water outlet specifications to meet and exceed both parties' requirements.

Americas: Canada & West Texas

Activity in North America and South America was slightly subdued in early 2017 but increased as the year progressed, particularly for onshore production in West Texas. Thanks to our recurring revenue model we continued to sell media to our existing installations in the region, but our footprint did not enlarge. Opportunities in North America generally require a longer lead time before conversion to revenue generation. We have positioned ourselves for an uptick by conducting successful trials at facilities in Canada and West Texas.

In Canada, the client was faced with poor water quality for reinjection which had a detrimental impact on production and operating cost. The client needed a technology that would be able to maintain reinjection water quality despite sustained upsets and changing back produced polymer viscosities. MYCELX's RE-GEN was able to reliably treat oil to below 10mg/L and remove solids above 7 micron under all conditions. Prior to MYCELX's trial, all previous technologies had failed to achieve the necessary results. The success of this trial places MYCELX in a strong position for a sale at that facility in the future.

Through Schlumberger, our Strategic Partner in upstream, we ran a successful trial in the Permian Basin, which has become the focus of US resurgent production in recent years. The ability to recycle produced water for hydraulic fracturing is critical for the Permian. MYCELX was able to meet the client's water requirements for produced water recycle and therefore will be able to provide significant operating cost savings.

Navigating Pipeline Timelines

During 2017 the Company reinvigorated its business development efforts globally. This revealed the clear regional differences in the likely timeline between receiving an enquiry and generating revenue. In our current stage of development, it is important that the Company continues to pursue opportunities in all regions and to take on the most difficult challenges facing the industry in order to clearly set a new standard for water treatment. However, this must

be balanced with deploying our resources to secure near term revenue opportunities when they arise.

Safety

Our continuing success is based on our people, and their safety and that of those people around us is central to everything we do. As we increase the number of installations we have put in place action plans to ensure that these standards are upheld across the whole portfolio of projects. We have engineered the design of our systems to ensure that operating them is simple and safe.

Looking to the Future

The outlook for the Company after this turnaround year is bright. Our goal during 2018 is to ensure we manage our growth trajectory to ensure profitability, and devote the necessary resources to sustain the momentum enjoyed since the second half of 2017.

MYCELX enters 2018 in a much stronger position than it was in 2017. We have secured large scale projects in Q1 and into Q2, which means that we have visibility on \$16-\$17 million in revenue already. Whilst downstream activities were the foundations of our success in 2017, with US rig counts increasing, OPEC production cuts and increasing capital budgets in the upstream space, we have positioned the Company to be ready to seize opportunities in the upstream sector. Our ambition is underpinned by our success in Nigeria which we will continue to leverage in-country and around the world.

At its core, MYCELX is a technology business 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 its customers' current and future needs. In 2017, our experience was that once we solved one water challenge for our customers they often asked us to help with other water issues. Our solutions are more reliable and cost effective than outdated conventional methods and gradually we have started to obtain local regulatory and industry recognition of our new standard of water treatment. 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.

Connie Mixon Chief Executive

14 May 2018

Financial Review

Increased revenue, continued cost control and cash preservation allowed the Company to exceed its financial goals

Due to new opportunities with existing and new clients across the globe, total revenue increased by 74% to \$13.8 million for 2017, compared to \$7.9 million for 2016. Revenue from equipment sales and leases increased by 156% to \$6.4 million for 2017 (FY16: \$2.5 million) and revenue from consumable filtration media and service increased by 37% to \$7.4 million (FY16: \$5.4 million). Gross profit margin remained strong in 2017 at 54% (FY16: 52%).

Total operating expenses for 2017 increased 16% to \$8.2 million (2016: \$7.1 million). The largest component of operating expenses was selling, general and administrative (SG&A) expenses. As a result of the Company's cost reduction program originally implemented in 2015, recurring SG&A expenses were largely unchanged in 2017. The increase of \$1.1 million in SG&A expenses was due to one-time sales commissions incurred in relation to new contracts.

The Company recorded a loss before tax of \$0.8 million in 2017, compared to a loss before tax of \$3.1 million in 2016. Basic loss per share was 6 cents in 2017, compared to basic loss per share of 17 cents for the previous year.

EBITDA was \$0.5 million after adjusting for depreciation included in cost of goods sold, compared to a neutral target. In 2016 EBITDA was negative \$1.6 million.

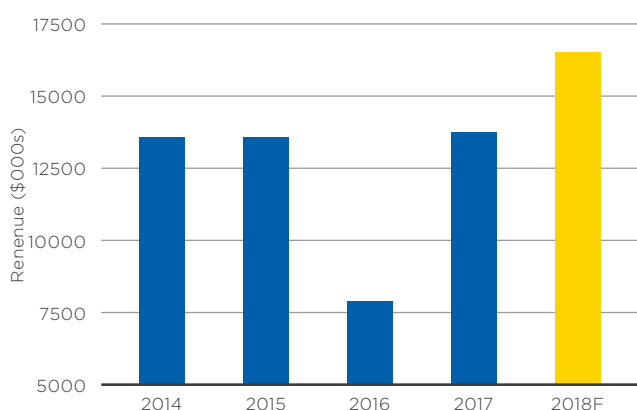
The Company ended the period with \$5.7 million of cash and cash equivalents including restricted cash, compared to \$5.6 million in total at 31 December 2016, and delivered on its promise to be operationally cash flow positive at \$0.2 million (FY16: \$0.1 million) for a second consecutive year.



Goals & Key Performance Indicators

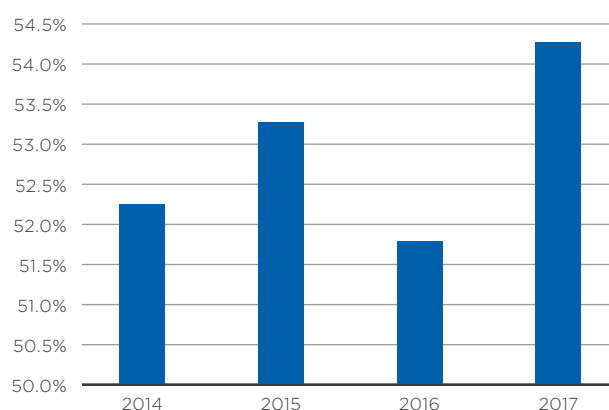
The Company strives to achieve its full potential and uses the following metrics to monitor its progress

I. Revenue: From Strength to Strength



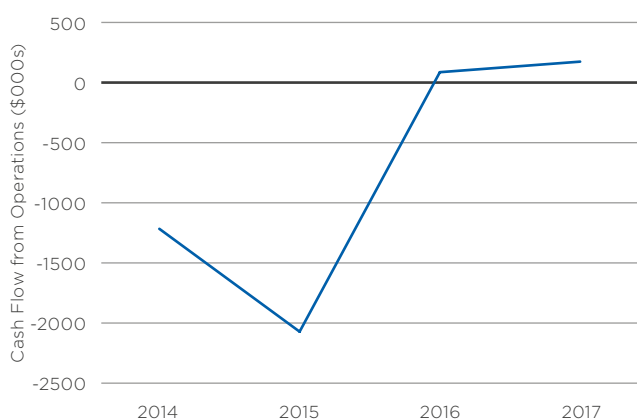
The turnaround in revenue generation is clear with 2017 results returning to above 2014 levels. Our outlook for 2018 shows a continuing improvement and is based on visibility of secured contract orders to date.

II. Gross Operating Margin: Maintained



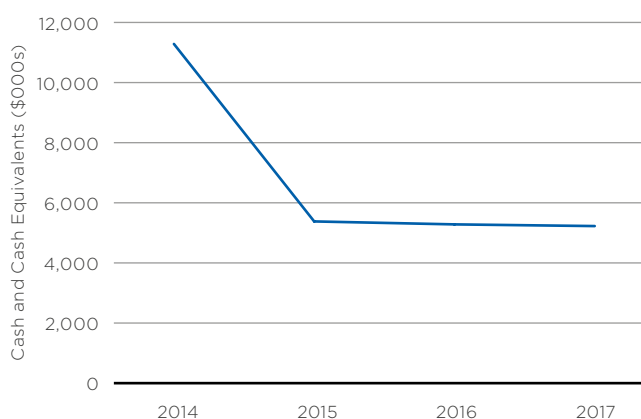
Our ability to consistently maintain robust margins stems from the superior quality of our performance and the realisation by our customers of the significant cost savings that they are making by using our technology.

III. Cash Flow from Operations: Positive



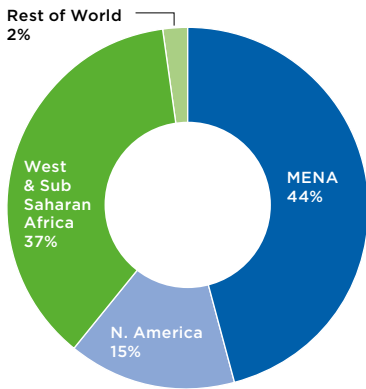
Our concerted efforts to manage costs and drive the business forward have enabled us to turn the cash flow from operations metric around.

IV. Cash and Cash Equivalents: Maintained



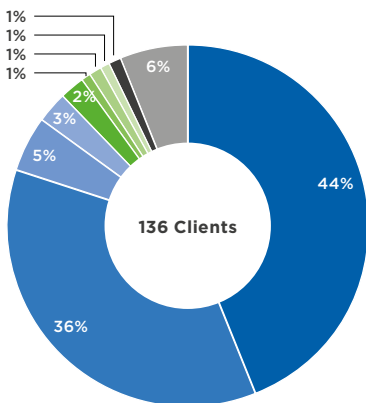
We continued to meet our commitment to our investors to preserve cash and safeguard the Company's balance sheet. We have successfully stemmed cash burn and will only spend on new equipment when there is a corresponding order.

V. Geographical Diversification



The geographical split of revenues is a reflection of the state of the core market trends. The significant portion for West and Sub Saharan Africa reflects the Nigeria Country Entry Sale.

VI. Client Diversification



Currently top 10 customers make up 94% 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. We are also grouping the various SABIC affiliates as a single client.

Case Study: Country Entry in Nigeria - Shallow Water Application



MYCELX was approached by a leading Nigerian independent producer to help solve a 20,000 bbl/day water treatment challenge.

The client required a system that could be placed on board a Floating Production Storage and Offloading vessel. The crude oil that was being recovered had an API of 19 and had a high level of Asphaltenes and elevated suspended solids due to a biocide campaign. The inlet specifications were around 2,000ppm with a heavy emulsion and the desired outlet was 20ppm. These factors posed a serious challenge to conventional technologies, as they struggle to deal with neutrally buoyant dispersions. MYCELX has no problem with such inlet conditions, as shown by the successful trial which consistently achieved <5ppm outlet. As a result of this trial, the customer placed an order for a large scale system which is our first installation in Nigeria.



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 working capital and 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 its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis.	<p>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.</p> <p>The Company is continuously developing intellectual property to commercialise new products.</p>
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.	To attempt to manage this risk, the Company has expanded the number of manufacturers it uses that are capable of conducting manufacture on similar terms. However, any disruption in the Company's relationship with a manufacturer could affect pending orders placed with that manufacturer and result in transition costs and delays.
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 	<p>The Company receives a significant portion of its revenue from one customer through multiple system installations at several of the customer's plants.</p>	<p>While the individual plants operate autonomously, any disruption in the Company's relationship with this customer could result in reduced revenue. The installations at this customer's various plants are performing critical functions and any stoppage of the Company's systems could have a severe impact on production and therefore it is unlikely that the customer would want to disrupt the relationship. Furthermore, the Company is pursuing a growth strategy that will diversify its customer base.</p>
Oil & Gas industry cycles 	<p>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.</p>	<p>The Company's primary customers are located in the lowest quadrants of their respective industry curves, which provides them with some insulation against oil and related feedstock price declines. Furthermore, the Company is continuously developing intellectual property to commercialise new products for other industry sectors to broaden its client and market base.</p>
Geopolitical Risk 	<p>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.</p>	<p>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.</p>

Board of Directors



Tim Eggar¹

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 and of Cape plc. He is currently Chairman of 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 Mixon²

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 United States. 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 was married to Mark Mixon, who held the role of the Company's Chief Business Development Officer and Senior Vice President until his death on 7 September 2017.

Haluk (Hal) Alper³

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. Accordingly, the Board has resolved to apply the Code, to meet the requirements of an amendment to the AIM Rules for companies which comes into effect in September 2018.

As examples, the Company does not at present comply with:

- FCA Listing Rule 9.8.6R (which includes the 'comply or explain' requirement); and
- FCA disclosure Guidance and Transparency Rules (DTR) Section 7.2 (which set out certain mandatory disclosures).

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 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 2017 audit for fees of \$148,500. Grant Thornton LLP was not engaged to perform any other services than audit related services in 2017.

The Audit Committee formally met three times in 2017.

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 four times in 2017.

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 2017. 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 2018.

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

The Nomination and Governance Committee met once in 2017.

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 and Chief Executive Officer 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

14 May 2018

Directors' Report

for the year ended 31 December 2017

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 21.

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 2017 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)

Kimberly Slayton was appointed as Chief Financial Officer and Secretary 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 22 to 23.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. The 2018 Annual Meeting will be held at 12 noon on 11 July 2018 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 29 to 31. 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 24 to 25.

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 2017 are set out in Note 10 to the financial statements. At 14 May 2018, a total of 18,807,617 Common Shares were outstanding. At 14 May 2018, the Company had received notification, or was otherwise aware, that the following are interested in more than three percent of the issued ordinary share capital:

City Financial Investment Co Ltd	18.13%
Artemis Investment Management	16.65%
Hargreave Hale	14.11%
John Mansfield Sr.	9.06%
Octopus Investments	8.46%
Hal Alper	6.71%
Connie Mixon	5.27%
Emerald Investment Group	3.33%

Directors' Statement as to Disclosure of Information to Auditors

The Directors who served as members of the Board during 2017 have approved this report. Each of these Directors confirms that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

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

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

Rt. Hon. Tim Eggar
Chairman

14 May 2018

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.

Swinton Griffith
Chairman, Audit Committee

14 May 2018

Directors' Remuneration Report

for the year ended 31 December 2017

As a US incorporated AIM-listed company, MYCELX is not required to comply with the following regulations: disclosure requirements of the Directors' Remuneration Report Regulations 2013; the UKLA Listing Rules; the disclosure provisions under schedule 8 to SI 2008/410 of the large and medium-sized companies and groups (accounts and reports) regulations 2008. Consequently, certain disclosures contained in these regulations are not included below.

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 non-disclosure restrictions.

Following a programme introduced in 2015 to reduce costs, Ms. Mixon base salary during the year ended 31 December 2017 was \$320,000.

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 three percent on gross sales of products relating to that intellectual property, six 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, the agreement with Mr. Alper was amended in September 2015 (i) to reduce Mr. Alper's base salary by 15% to \$219,013 which is fixed for the period ending 15 September 2018; (ii) to replace the technology incentive bonus with an entitlement to a bonus in respect of each calendar year of employment as determined and administered by the Company's Compensation Committee; and (iii) to extend the term of the agreement for the three year period ending 15 September 2018.

Directors' Remuneration Report continued

for the year ended 31 December 2017

Annual Re-election of Directors

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

Directors' Remuneration

The Directors' remuneration for 2017 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	\$48,450	-	-	\$48,450	\$48,450
Executive					
Connie Mixon	\$320,000	\$11,787	\$76,554	\$408,341	\$306,877
Hal Alper	\$219,013	\$21,095	\$16,650	\$256,758	\$234,495
Non-Executive					
Swinton Griffith	\$39,100	-	-	\$39,100	\$39,100
Brian Rochester	\$39,100	-	-	\$39,100	\$39,100

Benefits in kind include medical and life insurance.

The interests of the Directors at 14 May 2018 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	0.69
Hal Alper	1,262,046	6.71
Connie Mixon (Note 1)	991,211	5.27
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; (b) 202,646 shares held by or on behalf of Ms. Mixon's children and (c) 10,000 shares which are held by the estate of her late 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 2017 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
		31 December 2017	\$0.75	20,000
		31 December 2018	\$0.75	20,000
Hal Alper	Employee Stock Option	1 January 2014	\$3.44	54,339

* Additionally, options over an aggregate of 265,204 Common Shares were held at 31 December 2017 by the estate of her late husband Mark Mixon

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.

Brian Rochester

Chairman, Compensation Committee

14 May 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of MYCELX Technologies Corporation (a Georgia corporation), which comprise the balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Atlanta, Georgia
14 May 2018

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:	2017	2016
Revenue	13,751	7,923
Cost of goods sold	6,285	3,820
Gross profit	7,466	4,103
Operating expenses:		
Selling, general and administrative	7,772	6,588
Depreciation and amortisation	422	499
Total operating expenses	8,194	7,087
Operating loss	(728)	(2,984)
Other expense		
Loss on disposal of equipment	(14)	(2)
Interest expense	(89)	(94)
Loss before income taxes	(831)	(3,080)
Provision for income taxes	(327)	(199)
Net loss	(1,158)	(3,279)
Loss per share - basic	(0.06)	(0.17)
Loss per share - diluted	(0.06)	(0.17)
Shares used to compute basic loss per share	18,773,764	18,770,117
Shares used to compute diluted loss per share	18,773,764	18,770,117

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

Balance Sheets

(USD, in thousands, except share data)

as at 31 December:	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	5,171	5,139
Restricted cash	525	500
Accounts receivable - net	2,436	1,941
Unbilled accounts receivable	398	94
Inventory	3,085	3,190
Prepaid expenses	254	126
Other assets	33	36
Total Current Assets	11,902	11,026
Property and equipment - net	8,755	10,487
Intangible assets - net	837	852
Total Assets	21,494	22,365
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	982	657
Payroll and accrued expenses	570	425
Deferred revenue	192	-
Note payable - current	89	85
Other current liabilities	14	436
Total Current Liabilities	1,847	1,603
Note payable - long-term	1,832	1,921
Total Liabilities	3,679	3,524
Stockholders' Equity		
Common stock, \$0.025 par value, 100,000,000 shares authorised, 18,787,617 and 18,770,117 shares issued and outstanding at 31 December 2017 and 2016, respectively.	470	469
Additional paid-in capital	40,456	40,325
Accumulated deficit	(23,111)	(21,953)
Total Stockholders' Equity	17,815	18,841
Total Liabilities and Stockholders' Equity	21,494	22,365

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

Statements of Stockholders' Equity

(USD, in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	\$	\$	\$	\$
Balances at 31 December 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
Issuance of common stock, net of offering costs	18	1	6	-	6
Stock-based compensation expense	-	-	125	-	125
Net loss for the period	-	-	-	(1,158)	(1,158)
Balances at 31 December 2017	18,788	470	40,456	(23,111)	17,815

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2017	2016
Cash flow from operating activities		
Net loss	(1,158)	(3,279)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortisation	1,205	1,384
Loss on abandonment or expiration of patent	22	-
Loss from disposition of equipment	14	2
Stock compensation	125	123
Change in operating assets and liabilities:		
Accounts receivable	(495)	914
Unbilled accounts receivable	(304)	(74)
Inventory	670	591
Prepaid expenses	(128)	78
Other assets	3	73
Accounts payable	325	172
Payroll and accrued expenses	145	(158)
Deferred revenue	192	(42)
Other current liabilities	(422)	321
Net cash provided by operating activities	194	105
Cash flow from investing activities		
Payments for purchases of property and equipment	(5)	(109)
Proceeds from sale of property and equipment	-	7
Payments for purchases of intangible assets	(53)	(85)
Net cash used in investing activities	(58)	(187)
Cash flows from financing activities		
Net proceeds from stock issuance	6	-
Payments on notes payable	(85)	(75)
Increase in restricted cash	(25)	-
Net cash used in financing activities	(104)	(75)
Net increase (decrease) in cash and cash equivalents	32	(157)
Cash and cash equivalents, beginning of year	5,139	5,296
Cash and cash equivalents, end of year	5,171	5,139
Supplemental disclosures of cash flow information:		
Cash payments for interest	89	86
Cash and non cash payments for income taxes	306	216
Non cash movements of inventory and fixed assets	565	(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 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 judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The primary estimates and assumptions made by management relate to the useful lives of property and equipment, volatility used in the valuation of the Company’s share-based compensation and valuation allowance on deferred tax assets. Although these estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates and the differences may be material to the financial statements.

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 labour 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 2017 and 2016. 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.

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 2017, 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 2017 and 2016, cash in non-U.S. institutions was \$73,000 and \$140,000, respectively. The Company has not experienced any losses in such accounts.

Restricted cash – The Company classifies as restricted cash all cash whose use is limited by contractual provisions. As of 31 December 2017 and 2016, restricted cash included \$500,000 cash on deposit in a money market account as required by a lender (see Note 9) and \$25,000 in a Certificate of Deposit to secure the Company’s corporate credit card.

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 2017 and 2016 was \$32,000 and \$143,000, 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 net realisable 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 labour and material, and those indirect costs which are related to production, such as indirect labour, 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.

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 2017 and 2016.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

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. There was no research and development expense for the years ended 31 December 2017 and 2016.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2017 and 2016 was approximately \$nil and \$4,000, respectively, and is recorded in selling, general and administrative expenses.

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 Tax Cuts and Jobs Act (“TCJA”) was enacted on 22 December 2017, with a key provision of the TCJA being a reduction of the corporate income tax rate from 35 percent to 21 percent. Pursuant to the

requirements of ASC 740 the Company’s income tax provision reflects the impact of the TCJA. This includes a \$2.6 million tax expense of the rate reduction on the Company’s cumulative differences between the financial statement and tax basis of its assets and liabilities. This expense has been fully offset by a corresponding decrease in 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 2017 and 2016 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. 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 1,119,350 and 1,125,640 for the years ended 31 December 2017 and 2016, 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 2017 or 2016.

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 2017 and 2016 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 10).

Recently issued accounting standards – In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board issued their converged standard on revenue recognition Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”, as subsequently amended. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognising revenue, the application of which will require significant judgement. ASU No. 2014-09, as amended, is effective for the Company beginning 1 January 2018. The Company will apply Topic 606 using the cumulative effect method, recognising the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at 1 January 2018 for all open contracts at 31 December 2017. Based on the analysis completed by the Company, there will not be an impact to the beginning equity account at 1 January 2018.

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

Notes to the Financial Statements continued

3. Accounts receivable

Accounts receivable and their respective allowance amounts at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
	US\$000	US\$000
Accounts Receivable	2,468	2,084
Less: allowance for doubtful accounts	(32)	(143)
Total receivable - net	2,436	1,941

4. Inventories

Inventories consist of the following at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
	US\$000	US\$000
Raw materials	686	756
Work-in-progress	44	-
Finished goods	2,355	2,434
Total inventory	3,085	3,190

5. Property and equipment

Property and equipment consists of the following at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
	US\$000	US\$000
Land	709	709
Building	2,724	2,724
Leasehold improvements	341	341
Office equipment	697	723
Manufacturing equipment	747	854
Research and development equipment	514	514
Purchased software	222	222
Equipment leased to customers	8,495	8,837
Construction in progress	444	730
	14,893	15,654
Less: accumulated depreciation	(6,138)	(5,167)
Property and equipment - net	8,755	10,487

During the years ended 31 December 2017 and 2016, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately \$188,000 and \$183,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2017 and 2016 was approximately \$1,159,000 and \$1,342,000, 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 2017 and 2016 was \$783,000 and \$885,000, respectively.

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of \$28,000 in 2009 with the possibility of an additional \$72,000 based on profits on the sales of a particular product. During 2010, the Company paid \$22,000 based on profits on the sales of the product and paid the remaining \$50,000 in 2011. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately \$45,000 and \$39,000 as of 31 December 2017 and 2016, 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 2017 and 2016 consist of the following:

	Weighted Average Useful lives	31 December 2017 US\$000	31 December 2016 US\$000
Internally developed patents	15 years	1,271	1,240
Purchased patents	17 years	100	100
		1,371	1,340
Less accumulated amortisation		(534)	(488)
Intangible assets - net		837	852

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December (USD, in thousands)	
2018	45
2019	44
2020	44
2021	44
2022	42
Thereafter	203

Amortisation expense for the years ended 31 December 2017 and 2016 was approximately \$46,000 and \$42,000, respectively.

Notes to the Financial Statements continued

7. Income taxes

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

	31 December 2017	31 December 2016
	US\$000	US\$000
Current:		
Federal	-	-
Foreign	326	197
State	1	2
Total current provision	327	199
Deferred:		
Federal	-	-
Foreign	-	-
State	-	-
Total deferred provision	-	-
Total provision for income taxes	327	199

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 2017	31 December 2016
Federal statutory income tax rate	34.0%	34.0%
State tax rate, net of federal benefit	(0.5%)	(0.1%)
Valuation allowance	271.6%	(36.2%)
Rate reduction adjustment	(311.6%)	-
Other	(1.8%)	0.1%
Foreign withholding tax	(31.0%)	(4.2%)
Effective income tax rate	(39.3%)	(6.4%)

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

	31 December 2017 US\$000	31 December 2016 US\$000
Deferred tax assets		
Net operating loss	4,679	7,140
Equity compensation	284	413
Research and development credits	159	159
Allowance for bad debts	7	49
Accrued liability	1	7
Charitable contributions	-	10
Other	26	37
Total gross deferred tax asset	5,156	7,815
Deferred tax liabilities		
Property and equipment	(569)	(971)
Total gross deferred tax liability	(569)	(971)
Net deferred tax asset before valuation allowance	4,587	6,844
Valuation allowance	(4,587)	(6,844)
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 2017, the Company has recorded a valuation allowance of \$4.6 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 2017, the Company has approximately \$21.3 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.

On 22 December 2017, the Tax Cuts and Jobs Act was signed into law and impacts individuals, pass through entities and corporations. The Company is impacted by the corporation changes. The corporate tax rate remains unchanged for the year ended 31 December 2017, with the new federal corporate tax rate reducing from a maximum 35 percent marginal rate to a set 21 percent rate beginning in 2018. The Company's current income tax expense is based on a federal tax marginal rate of 34 percent. However, US GAAP requires the deferred tax components to be recorded at the rate in which the differences are expected to reverse which impacts tax expense for the year ended 31 December 2017. Based on the new federal corporate tax rate of 21 percent for 2018 and thereafter, the deferred tax assets and liabilities were revalued at the new tax rate and the adjustment of approximately \$2.6 million was recorded directly to tax expense in 2017.

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 2017 and 2016, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2014 through 2017 remain subject to examination by federal, state and foreign income tax jurisdictions.

Notes to the Financial Statements continued

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 2017 and 2016. The facility matures in October 2019 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 2017 and 2016 was 4.00 percent and 3.25 percent, respectively. There was no interest expense related to this loan for the years ended 31 December 2017 and 2016.

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. In addition, 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 2017 and 2016, 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 2017:

Year Ending 31 December (USD, in thousands)	
2018	89
2019	93
2020	97
2021	102
2022	106
Thereafter	1,434
	<hr/> 1,921

10. Stock compensation

Stock options

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

Upon the issuance of these additional shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to a former Chief Financial Officer. In addition, additional stock options were awarded in each year subsequent. The awards of stock options and restricted shares made upon issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the Public Offering. The total number of shares reserved for stock awards and options under this Plan is 1,878,761 with 1,222,042 shares allocated as of 31 December 2017. 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 2016 and 2017 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value per option
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
2017	205,000	26/05/2017	1.69%	5.75 years	56.70%	\$0.75	\$0.39
	25,000	06/11/2017	2.08%	6 years	56.70%	\$1.26	\$0.69
	50,000	06/11/2017	2.08%	6 years	56.70%	\$1.26	\$0.00

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 2017 and 2016:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
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
Granted	280,000	\$0.89	5.8	\$97,200
Exercised	(17,500)	\$0.36		
Forfeited	(180,014)	\$1.81		
Outstanding at 31 December 2017	1,222,042	\$2.31	5.9	\$1,307,331
Exercisable at 31 December 2017	1,038,376	\$2.52	6.0	

Notes to the Financial Statements continued

10. Stock compensation continued

A summary of the status of unvested options as of 31 December 2017 and changes during the years ended 31 December 2017 and 2016 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2015	249,000	\$1.16
Granted	370,000	\$0.20
Vested	(262,167)	\$0.49
Forfeited	(15,000)	
Unvested at 31 December 2016	341,833	\$0.65
Granted	280,000	\$0.35
Vested	(340,584)	\$0.92
Forfeited	(97,583)	
Unvested at 31 December 2017	183,666	\$0.44

As of 31 December 2017, total unrecognised compensation cost of \$70,000 was related to unvested share-based compensation arrangements awarded under the Plan.

11. 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 2017 are as follows:

Year Ending 31 December	Future Lease Payments US\$000
2018	149
2019	45
Total future lease payments	194

Rent expense for the years ended 31 December 2017 and 2016 was approximately \$325,000 and \$337,000, respectively.

12. Related party transactions

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

13. 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 2017. For the year ended 31 December 2017, 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	2017	2016
Middle East	6,256	3,989
United States	7,191	1,766
Other	304	2,168
Total	13,751	7,923

Equipment leased to customers by geography is as follows:

Year Ending 31 December	2017	2016
Middle East	6,391	6,391
United States	1,729	2,071
Other	375	375
Total	8,495	8,837

14. Concentrations

At 31 December 2017, two customers, one with four contracts with three separate plants, represented 89 percent of accounts receivable. During the year ended 31 December 2017, the Company received 80 percent of its gross revenue from two customers, one with four separate plants.

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.

15. 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 14 May 2018, the date the financial statements were available to be issued, and no events have occurred which require further disclosure.

Forward Looking Statements

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

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