

# Unlocking our Full Potential





## Strong Results, Seizing The Opportunities, Positioning For The Future

In 2018, MYCELX achieved the most successful year in the Company's history. Revenue nearly doubled during the period, up 96% year on year, with EBITDA of \$5.6 million and a net profit of \$3.1 million. We exceeded guidance and expectations by taking advantage of value accretive opportunities including successfully deploying our rapid response fleet at an unprecedented rate. The strong momentum generated in Saudi Arabia accounted for a major portion of MYCELX's revenues during the year. The strategy we put in place in 2017, to offer cost effective, rapid response systems to treat water during unexpected upset conditions, delivered significant results for us in 2018. The Company secured plant contracts with existing and new clients to mobilise systems on a temporary basis, for one to three months, as well as renewing operating leases with terms ranging from 12 to 24 months.

MYCELX continued to engage with our clients and strategic partners in other geographic regions, to ensure the business remains well positioned to secure future field upgrade projects with clients striving for better operational performance. We will also look to leverage the success in 2018 to benefit from the policy initiatives in key countries where we operate, and ensure we grow from the groundwork that was laid in pursuing business in regions beyond the Middle East where the Company's unique technology continues to deliver sizeable operational and performance benefits.

We made our first equipment sale in Australia, into the country's burgeoning Liquefied Natural Gas ('LNG') industry. We maintained a focus

on additional Enhanced Oil Recovery ('EOR') opportunities, by performing a trial in Europe and winning a smaller but important project in Canada.

We have delivered a significant increase in revenue and profit without adversely affecting our cash position, showing that we are able to maintain strict capital discipline whilst still capitalising on business development opportunities. Going forward, MYCELX will look to build on the strong performance achieved in 2018, focussing on maximising its growth potential, both in oil and gas and wider markets, and will aim to generate significant value for shareholders over the coming years as we continue to unlock our full potential.

## Highlights of the Year

### Exceeding expectations

**Revenue**  
**\$27.0m**

(2017: \$13.8m)

▲ 96%

**Gross profit**  
**\$14.1m**

(2017: \$7.5m)

▲ 88%

**EBITDA**  
**\$5.6m**

(2017: \$0.5m)

**Net Profit**  
**\$3.1m**

(2017: net loss of \$1.2m)

### Successful opportunity conversion

- **Saudi Arabia:** Three contract extensions with current customer
- **Saudi Arabia:** Two new contracts with an existing customer and a new customer
- **Australia:** First sale into LNG industry in Australia
- **Canada:** System sale in onshore oil production market



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## Creating a strong pipeline

### Australia:

Successful trial exceeding groundwater regulatory specifications

### Nigeria:

Successful shallow water installation moving toward Department of Petroleum Resources approval for overboard discharge

# Our Business at a Glance

## 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.**

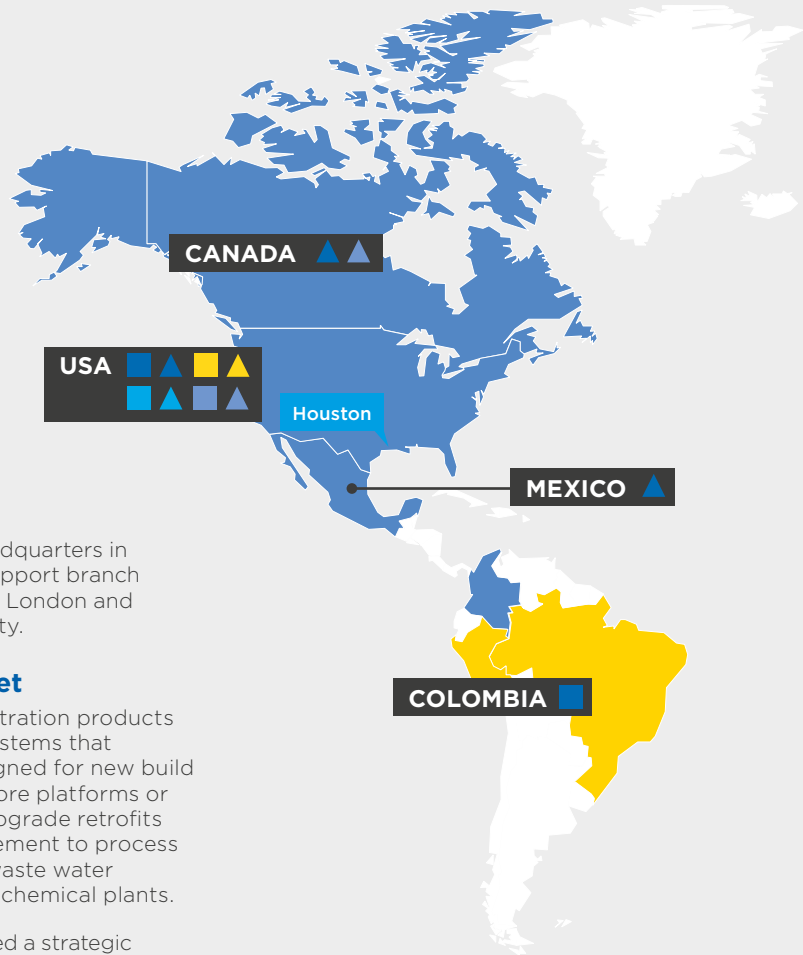
### Water Challenges our Customers Face

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, Australia and Canada. 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 support 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 2018, the Company identified channel partners to increase the uptake of proven MYCELX products that add value outside the oil and gas market. These areas include:

pool and spa, stormwater, air filtration, bilge water and spill product markets. The Company believes its patented technology can generate significant cost savings and performance to these markets and will therefore pursue opportunities within them in 2019 and beyond.

KEY		Installations	Ongoing Trials
<b>Current Presence</b>	<b>Upstream</b>		
<b>Countries of Interest</b>	<b>Downstream</b>		
	<b>Midstream</b>		
	<b>Non-O&amp;G</b>		



## In tune with current market trends

### Water Treatment in Oil and Gas – 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 maximising 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.

### Delivering Value in Commercial and Industrial Markets

MYCELX has several products that have been sold and adopted by industries outside of oil and gas, such as the maritime and shipping, car manufacturing and healthcare markets. During 2018, the Company invested in updating these product lines and identifying channel partners that will increase and accelerate further uptake of our offerings. We anticipate that sales of these products will add to overall media sales in the future.

## Our Business at a Glance continued

### 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.

#### Revolutionary Technology

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

#### Recurring Media Sales

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

#### Standardised Equipment

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



### AT A GLANCE



#### 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.

## Delivering proven, high-performance technology targeting large markets that value effective water treatment

**MYCELX is a clean water, IP-driven Company that has made its name by solving the world's toughest water treatment challenges with its market leading technology. We deploy our patented MYCELX media in filtration systems that are sold or leased to customers, delivering significantly better performance than existing water treatment systems.**

MYCELX has focused on solutions for the oil and gas industry, selling or leasing systems which consume filtration media supplied by the Company. The Company's revenues are based on a combination of recurring media sales, upfront equipment sales or lease and service contracts. The key differentiator of a MYCELX system is its technology. The MYCELX polymer has the capability to reduce hydrocarbon contamination in water to 0-10 parts per million ('ppm') in a single pass at any flow rate with concentration levels as high as 10,000 ppm. The importance of this level of performance cannot be overstated. Water can be recycled and reused while recovering oil, discharge to bodies of water is routine with no sheen, closed loop processing is

achievable and equipment systems are a fraction of the size of existing systems due to MYCELX's high efficiency. There is no rival in the marketplace with a similar range of performance metrics in one technology. The ability to provide cost savings compared to conventional technology as well as the potential for production enhancements due to superior water quality means that the demand for MYCELX should be somewhat insulated from market downturns and can rally quickly with market recoveries. Our geographic spread, pro-active business development approach and ability to deploy our smaller footprint equipment mean that we can be dynamic in response to market opportunities and trends.

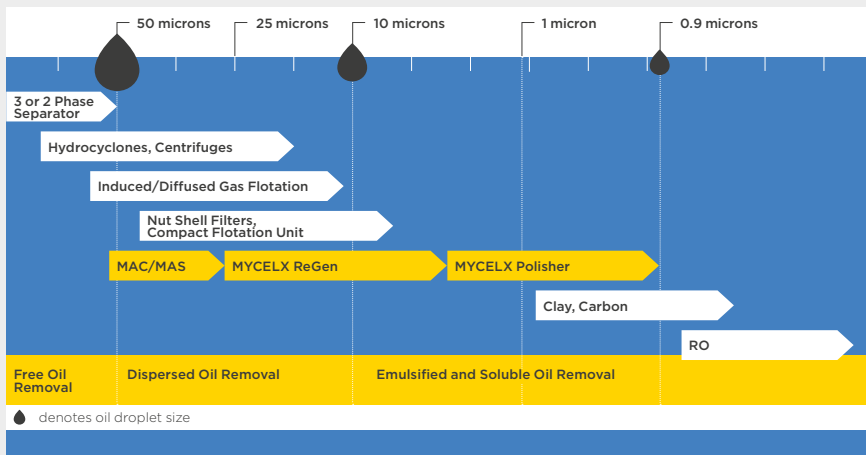
### What Makes Us Different: Bridging The Technology Gap

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



“Our primary goal remains the industry adoption of MYCELX as a new standard for water treatment, a key step towards unlocking MYCELX’s full potential.”

**\$27.0m**

Revenue

## Exceptional Results, Operational Excellence, Determination To Unlock Full Potential

The results in 2018 were the most successful so far in MYCELX’s history, underpinned by the better than anticipated Rapid Response System deployments in Saudi Arabia. MYCELX’s ability to respond to our customer’s unpredictable needs has come down to two major factors – the foresight to invest in our Saudi Arabian rental fleet, which can be deployed rapidly, and proactively pursuing business development opportunities. It should be noted that the significant turnaround in the Company’s position over the last two years, with 241% greater revenue and converting a \$3m loss into similar sized net profit, has been achieved with the same equipment asset base and a streamlined workforce. These results are a credit to our CEO, Connie Mixon, and her team.

### Financial & Operating Performance

The Company’s ongoing drive to unlock our full potential has been multi-faceted. We have challenged ourselves to take on bigger and more complex projects, thereby broadening our service offering to an ever-increasing potential customer base. At the same time, we have strived to make our assets work harder for us by optimising our operational performance. Lastly, we continue to promote the technological superiority of our product suite via trials and strategic partnerships, in order to gain greater industry adoption of our cost-effective and performance enhancing solutions.

The improvements in operational excellence that the Saudi team have made in the last eighteen months is best seen in the impressive speed with which we are now able to install and demobilise systems in Saudi Arabia. What once may have taken a week is now achieved in less than 48 hours. This speed improvement opened up new opportunities to respond in this inherently unpredictable market. Our results exceeded our initial revenue forecasts by \$10m and this is largely down to the fact that it is difficult to predict rapid response emergency

projects in Saudi Arabia, which can have a major impact on revenue. Whilst the Company continues to seek out longer term, more consistent, revenue generation, and to diversify its geographic base, the operational excellence of the Saudi team means that we are well positioned to take advantage of any future emergencies when they arise.

### UNLOCKING OUR FULL POTENTIAL – Core Markets

Our primary goal remains the industry adoption of MYCELX as a new standard for water treatment. This would be a key step towards our overall determination to unlock MYCELX’s full potential. We have identified our core focus markets as Saudi Arabia, North America, Australia and Nigeria, namely countries where treated water quality is a regulatory requirement and/or a performance imperative.

Saudi Arabia’s ‘Vision 2030’ programme, and its focus on environmental protection and reducing the wastage of precious resources such as water, is perfectly aligned to MYCELX solutions. Our team in Saudi has capitalised on this increasing regulatory environment and sought out opportunities to



deploy our rental fleet to respond more quickly to clients' needs as they demand smarter solutions to solve their water challenges. The desire to generate a fourth economy pillar in the form of tourism has resulted in a focus on what is being discharged into precious water resources. MYCELX technology is trusted in other protected eco-systems such as the coastguards for the Galapagos Islands, and we are exploring ways to increase awareness of our spill products in Saudi Arabia as a means of further diversifying our product range. We see the recent acquisition of a majority stake in SABIC by Saudi Aramco as a huge opportunity given our existing strong reputation within SABIC and Saudi Aramco's world class operating philosophy.

We believe that our RE-GEN media product is a game-changer for the EOR market globally and have seen excellent operational results both in Nigeria and Canada. The potential to leverage our first installation in Nigeria into a broader footprint will be a focus of our business development efforts in West Africa. With the successful results from that installation demonstrating the significant cost reduction of being able to treat and discharge produced water into the shallow waters as well as the potential enhancement to production efficiencies, this becomes a launchpad for further penetration into this lucrative market. In Canada, we won a small but important project, whilst our continued successes with in-field trials and studies with leading EOR producers is honing in on a retrofit solution for a sizeable portion of the EOR market. The growing complexity of oil reservoir recoveries across the globe is inevitable and with that trend comes harder to treat produced water. Canada is at the forefront of dealing with such enhanced techniques and the produced water solutions that become the preferred method of choice there are likely to then become a standard globally.

## Other Markets

The full potential of MYCELX technology is not limited to the oil and gas sector. Given the Company's size and bandwidth we focus on the oil and gas market as the most lucrative for our current suite of products. However, there are already existing markets for MYCELX products in related (Shipping and Maritime) and entirely separate industries

(Manufacturing, Air Filtration, Pool & Spa, Bilge Water and Stormwater). The Company has worked on updating product lines and identifying channel partners that will help expedite market adoption and generate greater media sales from a more diverse range of customers. The Company is fully aware of the broad applicability of MYCELX to many different industries and adopts an opportunistic approach to dedicating sufficient bandwidth to exploit these markets.

## Key Metrics & Outlook

The Company outperformed its key metrics and did so whilst preserving its cash position. Revenue exceeded initial projections by \$10m and is a 96% improvement on 2017. EBITDA performance was \$5.6m, an improvement of over 10 times the figure for 2017. Our exceptional performance is largely due to our ability to win back-to-back lucrative projects for the rental fleet. For the first time since 2013 we are pleased to report a net profit of \$3.1m. The improvements in operational excellence and the creativity of our team to apply our technology in new applications to meet more complex water treatment challenges places the Company in a strong position to chase down future material opportunities. The Company will continue to address the upstream market, utilising its lease model as the door opener to full scale excursion management systems. While not compromising our core market focus, the business development plans are in place to sell MYCELX products into other market sectors where the Company can capitalise on the breadth of its technology to address air and water treatment needs in commercial and industrial markets globally.

## Board of Directors Composition

This year saw some changes in the composition of your Board of Directors with the departure of Swinton Griffith from the Board of Directors after six years of service. I would like to express my gratitude for his long-standing commitment to the Company both as a Non-Executive Director and Chairman of the Audit Committee. We are fortunate to have been able to secure André Schnabl as a Non-Executive Director, Chairman of the Audit Committee and Senior Independent Director, with effect 1 January 2019.

## Tribute

The Company owes its existence and core purpose to the vision of John Mansfield Sr, who we sadly lost at the end of the year. It was John's and Hal Alper's vision that MYCELX would become a new standard in the water treatment industry and he was extremely proud of the progress that the Company has made towards that goal. It is this drive and passion borne out of our significant water treatment expertise that will help ensure that our Company continues to thrive.

## Our Strategic Report

Our 2018 strategic report from pages 1 to 21 was reviewed and approved by the Board on 9 May 2019.

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

## Rt. Hon. Tim Eggar Chairman

10 May 2019

# Our Core Markets

## MARKET: DOWNSTREAM

**Our key market in the downstream petrochemical industry remains the Kingdom of Saudi Arabia.**

### Current Trends

#### Saudi Arabia: Bright vision for the future

The Saudi petrochemical industry remains the second pillar in the Saudi Arabian economy. Perhaps the best demonstration of this was the recent acquisition of a majority stake in SABIC by Saudi Aramco. 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.

#### New opportunities

Looking ahead, our rapid response model has been successful in providing a vital service to the end users and we expect to push this throughout the petrochemical plants in Saudi Arabia. While unpredictable, the ability to quickly deploy and treat process water onsite avoids haul off which is expensive and slower during an upset situation. It also gives MYCELX the opportunity to showcase its expertise in effectively treating the most difficult to treat water at high flow rates during upset conditions. These deployments have the potential to turn into longer

term contracts. There are other applications for MYCELX technology going forward such as treating groundwater and mercury removal from gas condensate.

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 recent 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. One bold plant stands out from that trend in Abu Dhabi where the reformation of the various downstream players under the single ADNOC brand coincided with a plan to grow the downstream business to emulate the size of SABIC.

### 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 industry is starting to make capital commitments that had been deferred during the oil price malaise, and a focus of this recovery will be cost efficiency. During the year the Company's Polishing Systems were deployed on platforms on a lease basis to treat water during well clean-up activities as well as excursion management. Our technology gives customers the opportunity to experience, in real time, the enormous benefits of a technology that removes extremely high levels of oil from the water and enables reliable discharge overboard without interruption to platform activity. These leases can lead to purchase of a full scale, permanent system for excursion management, driving cost efficiency through very low loss time production. 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. With continuing capital delays and further headcount reduction there is a greater focus on tangible cost saving opportunities, and an acknowledged loss of in-house expertise. MYCELX is able to provide such water treatment expertise.

# Our Business Model

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

### OUR ASSETS...

### ...WHICH WE DEPLOY TO EXECUTE OUR STRATEGY...

#### Technology and IP



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



#### People



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



#### Fixed Assets



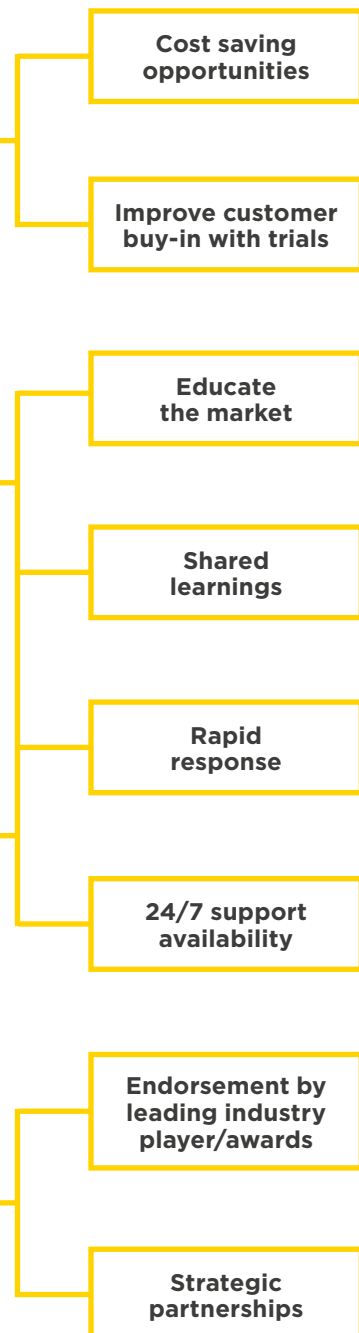
We have built a rental fleet that allows us to quickly respond to our clients' needs and have also established offices across the globe to provide immediate service support.

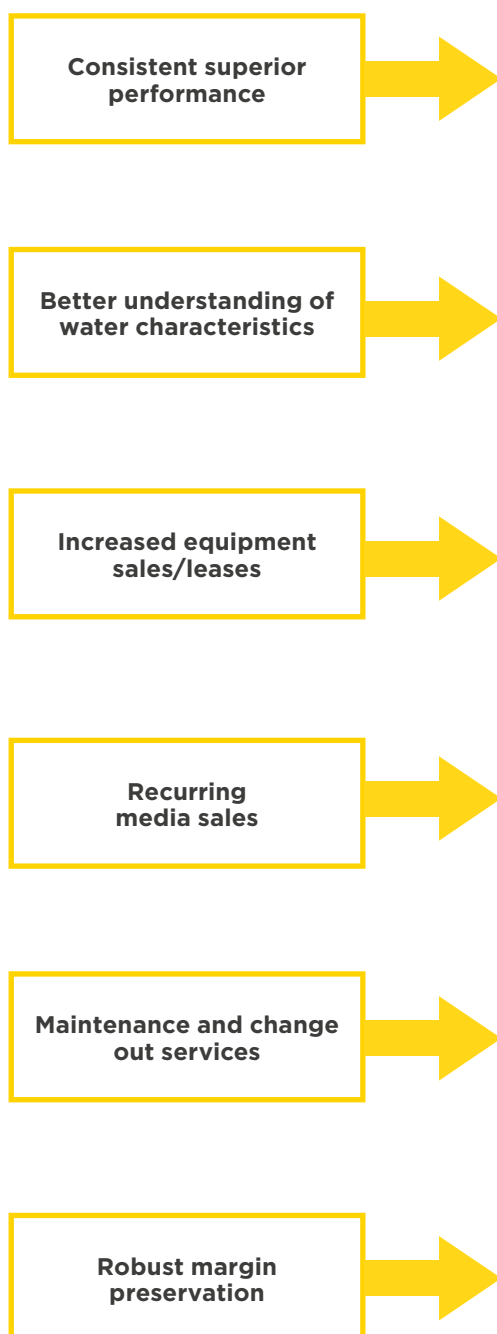


#### Reputation and References



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



**...SECURING VALUE...****...FOR ALL OUR STAKEHOLDERS****Clients**

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 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
<p><b>Demonstrate Technical Superiority</b></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><b>Client buy-in with trials</b></p> <p>We create value for our clients through a deep understanding of their needs, both now and in the future.</p> <p><b>Educate the market</b></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><b>Consistent superior performance</b></p> <p>Our performance underpins our reputation and our future.</p>
<p><b>Gain Industry Acceptance</b></p> <p>We seek to gain wider industry acceptance of our technology. We need to broadcast our successes to the wider audience.</p>	<p><b>Cost saving opportunities</b></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><b>Shared learnings</b></p> <p>Issues faced by one operation are often common problems faced at other sites.</p> <p><b>Endorsement by leading industry player/awards</b></p> <p>References with leading industry players is an immediate comfort for a new customer.</p>
<p><b>Obtain Critical Mass</b></p> <p>Converting industry acceptance into revenue generation.</p>	<p><b>Rapid response</b></p> <p>We deploy our Rapid Response equipment to provide time-critical water treatment.</p> <p><b>Strategic partnerships and channel partners</b></p> <p>Partners with geographic reach and sector dominance give MYCELX greater visibility in key markets globally.</p>



**BENEFITS OF SUCCESS**

**ACHIEVEMENTS TO DATE**

**SHORT/MEDIUM TERM GOALS**

**A customer base that realises the true value of MYCELX**

**Enhancing reputation via industry game-changing trials**

**Revenue generation & preserving margins**

**Established Houston demonstration centre**

**Country entry into Nigeria**

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

**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**

**Reference creation**

With some of our larger customers, if MYCELX is installed in two operations then it will become a recommended solution for the Group.

**Revenue generation**

**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 success of Nigerian installation to expand footprint in this new lucrative territory**

**Establish partnerships with leading EOR producers in Canada**

**Broaden customer base**

Mitigates against dependency risk and opens up new opportunities.

**Significant revenue generation**

**Deployed Rapid Response Systems resulting in record revenue**

**Endorsements by major oilfield services companies**

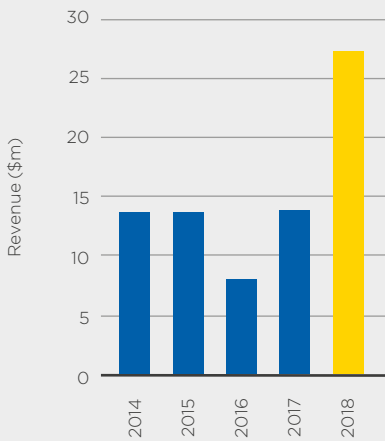
**Widespread adoption of fast to market Oil Recovery System and waste water treatment solutions**

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

# Goals & Key Performance Indicators

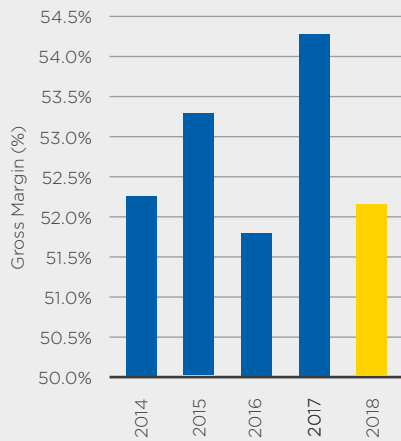
The Company strives to achieve its full potential and uses the following metrics to monitor its progress

### I. Revenue: Exceptional Turnaround



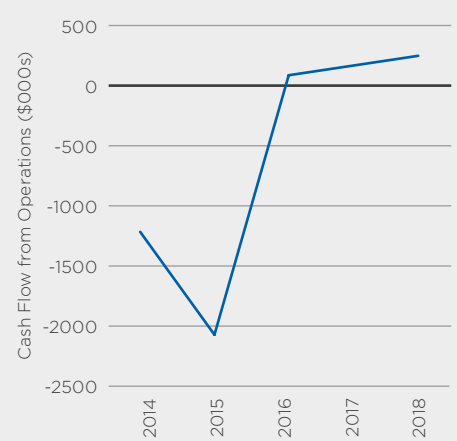
Revenues have seen a significant turnaround since 2016 with a 241% improvement over that period. The figures for 2018 have been underpinned by lucrative emergency response contracts.

### II. Gross Operating Margin: Maintained



Our ability to consistently maintain robust gross margins stems from the acknowledgement that MYCELX offers a premium service and product line.

### III. Cash Flow from Operations: Positive

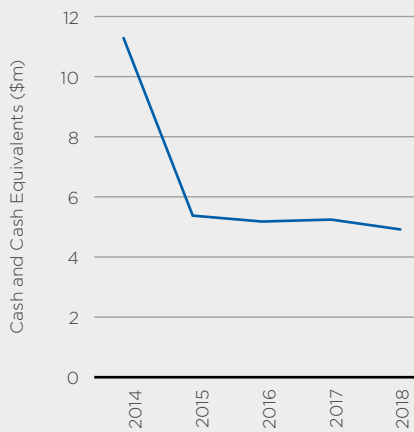


We continue to manage costs and drive the business forward whilst maintaining our positive cash flow from operations metric.



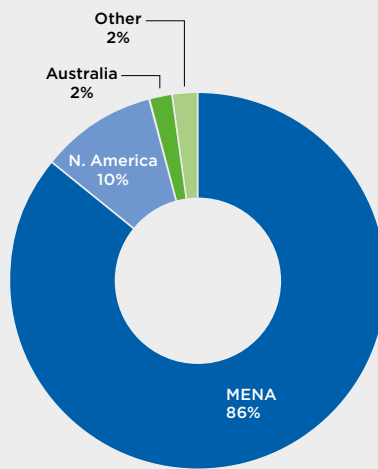


#### IV. Cash and Cash Equivalents: Maintained



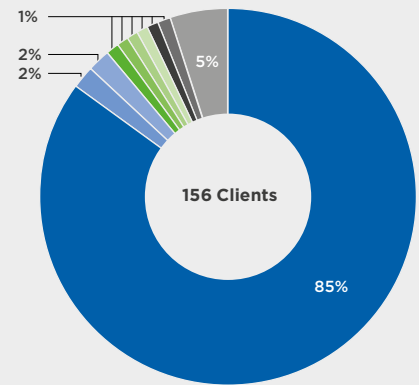
Our stewardship of the Company's balance sheet and commitment to preserving cash is ongoing. Any expenditure on new equipment is matched with demand from an active revenue generating contract.

#### V. Geographical Diversification



The geographical split of revenues is a reflection of the market conditions, with the Middle East economic transformation projects bolstering those economies.

#### VI. Client Diversification



Currently the top 10 customers make up 95% of the Company's revenue. The major customer makes up 85% but this is comprised of revenue streams from six different affiliates. As we continue to unlock our full potential the diversification of the client mix will improve.



# Chief Executive's Statement



**“MYCELX achieved record results in 2018 with revenue up 96% year on year, EBITDA of \$5.6m and net profit of \$3.1m, to a large extent as a result of our Rapid Response deployments in Saudi Arabia.”**

**\$3.1m**

**Net Profit**

## Building on Strong Foundations Opening New Frontiers Targeted Efforts for Ongoing Growth

**During the period, the Company successfully delivered on its growth strategy and capitalised on short term opportunities and service and lease renewals for its operating systems in the Middle East. Strong recurring media sales and sales of other smaller but important reference projects in Australia and Canada also added to the Company's successful year.**

In recent years, the Company was repositioned to be able to respond to projects that produce near-term revenue. Our strategic plan is offering clients a cost saving option for rapid response systems when water treatment issues arise due to unexpected plant upsets. This short-term rapid response service has been historically dominated by haul-off companies and is a vital component of managing loss time production in petrochemical plants. The contracts the Company secured accounted for a major portion of our revenues in 2018. In addition to the rapid response projects, the Company renewed operating leases for terms from 12 to 24 months. While MYCELX's revenues were primarily underpinned by our continued success in the Middle East, progress was also made in other regions with sales in Australia and Canada that will serve as references for specific applications for treatment of onshore produced water and at LNG facilities. The Company also experienced strong recurring media sales due to a full year of a more robust oil and gas market.

### **OPERATIONAL PERFORMANCE**

The Company continued its customer focused approach and was able to create opportunities with existing and new clients, which was the foundation of our strong financial performance this year. We sought to reposition our resources to take advantage of need-based, near term opportunities in the

Middle East while pursuing options with strategic partnerships in other regions. As a result, our focus this year was mainly on Saudi Arabia, Nigeria, North America and Australia. These regions have a need for superior water treatment, driven by a variety of factors. Whilst a major portion of our revenues came from the rapid response model, we made significant headway with positioning ourselves for future long term project wins by executing an Enhanced Oil Recovery trial in Europe and conducting ongoing trials in Australia, leveraging products that provide solutions for difficult to treat groundwater.

### **Middle East and North Africa ('MENA')**

Our MENA team set another record with the number of installations in one year surpassing 2017. But it wasn't just the number of projects that was impressive, the value and the level of complexity increased because the team rose to the challenges it was presented with. The results from MENA show that we have made our assets work harder than before and with equipment utilisation rates in excess of 90%, we reached a maximum level of activity given our existing rental fleet. The critical hurdle to winning the most lucrative contracts was overcoming the initial set up time. By adopting a performance optimising approach, the team in Saudi Arabia has brought the installation and demobilisation time down from a week to between

24–48 hours. This step change improvement opened up new larger emergency water challenges where the end user could not wait any more than a couple of days for a system to start to remove the problems being faced. Once installed, our small footprint system would be able to treat at greater volumes per hour than even the largest fleet of haul off trucks that could be mobilised within Jubail. Our solution was more cost effective, safer from an EHSS perspective and in line with 'Vision 2030' aims.

During the year, we successfully completed the largest and most complex projects we have ever undertaken. We developed a new application based on our core technology called DSG ('Dilution Steam Generator') Safeguard. This system was the largest temporary process/waste water treatment system installed in Saudi Arabia to date. No other rapid response system was able to cope with the levels of oil loading (% levels), temperature (>100 degrees Celsius), VOC loading >50,000ppm and consistently meet regulation effluent at a rate close to 200m<sup>3</sup>/hr. Because of this system the SABIC affiliate where it was installed was able to continue to produce instead of shutting down for 10–14 days for unscheduled maintenance. This represented a cost saving to the end user that was greater than \$30m just in terms of production losses. This project was part of the three back-to-back installations/demobilisations that the team successfully undertook in the second half of the year. At each of these installations we were faced with greater than expected inspec conditions and maintained perfect outlet specifications for the duration of the projects.

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 long term 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

Our first sale in Nigeria was of significant strategic importance to the Company because it created a footprint for MYCELX in a region where producers and regulators are searching for a new standard in water treatment. Producers require higher quality treated water for operational purposes to enhance production and regulators want to establish more stringent environmental regulations and to enforce proper disposal processes. MYCELX's unique technology has demonstrated that it can achieve the desired water outlet specifications and meet and exceed both parties' requirements.

On the back of a successful trial in 2016, a contract for a MYCELX system was secured in 2017. It was delivered and installed in June 2018. The system has been in continuous operation, allowing the client to meet immediate discharge requirements ensuring robust performance and reliable ongoing production. MYCELX's advanced technology has proven that it can cost effectively solve the client's current and future water challenges. The Company is currently looking to engage with the Department of Petroleum Resources in Nigeria, that regulates and enforces limits for overboard discharge, to seek final approval for the MYCELX system to meet their stringent requirements. The system which includes MYCELX's RE-GEN solution is integral to the client's plan to use its produced water for secondary or enhanced oil recovery techniques. There is significant strategic benefit in MYCELX having a system operating in Nigeria, as it serves as a reference point for all the benefits our technology could potentially provide to producers in the area.

## Other key geographic regions: North America and Australia

The Company's legacy media sales were stronger than 2017 due to a full year of a robust oil and gas market. Underpinning the sales was our offshore installations in the Gulf of Mexico as well as other clients deploying our media in manufacturing and other non-oil and gas related markets.

In Canada, the Company installed a system for an operator to treat water during Steam Assisted Gravity Drainage ('SAGD') production. While the project was a smaller installation, it serves as a reference for MYCELX's technology in SAGD operations which is very prevalent in Canada. MYCELX's RE-GEN has been 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 installation places MYCELX in a strong position for a sale at that facility in the future. In the US Permian Basin the Company teams with a strategic partner to deliver frac-grade water on demand ensuring no interruption to ongoing operations.

The Company continues to believe the ability to treat polymer-laden water during Enhanced Oil Recovery ('EOR') operations is one of the largest opportunities in the future. With the increase in oil price many producers are reinvigorating trials and working toward transitioning their fields to EOR to increase production. MYCELX's RE-GEN media is extremely effective in treating polymer-laden produced water removing the associated contaminants to lower levels than the competition without removing the polymer. The Company ran a trial in Europe with a producer looking to move to EOR production furthering our profile in this lucrative market.

In Australia the Company made a sale into the LNG industry in 2018 and continued to support its business expansion in-country. Sales were made into the mining industry for heavy equipment washdown as well as recurring media sales for the offshore production activity. The market in Australia for treating difficult groundwater is a new area for MYCELX and we intend to pursue those opportunities aggressively into the future.

## 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.

## Chief Executive's Statement continued

**“The pursuit of market sector and geographic diversity is a focus for the Company that will be carried throughout 2019 and beyond.”**

**\$5.6m**

**EBITDA**

### LOOKING TO THE FUTURE

MYCELX had a very good year, far surpassing revenue projections with the success of the Rapid Response model. Given the number and inherent unpredictable nature of rapid deployment, these contracts kept the Middle East and Houston teams engaged through year end executing two projects in Q4. The Company aims to continue the Rapid Response offering with the expectation of converting these projects into longer term contracts as it has done in the past. To support and accelerate our growth in the Middle East the Company has engaged several strategic partners who work with us in different areas of business from sales and marketing to vendor relations. We expect to continue to work with our partners to grow our business and footprint in this important, robust market into 2019 and beyond.

The Company is committed to pursuing the enormous opportunity in treating water during Enhanced Oil Recovery operations. We are engaged with global producers transitioning to EOR and expect to sell our RE-GEN media to clients globally who are in need of high performance and loss production mitigation. Operational excellence is key to the economics of EOR production and RE-GEN provides the performance that enables producers to meet their goals better than the competition. In 2019 we expect to increase our engagement with large EOR producers advancing the uptake of our proven technology advantage.

The pursuit of market sector and geographic diversity is a focus for the Company that will be carried throughout 2019 and beyond. The diversity program was initiated in 2017 and the Company spent 2018 refreshing specific non-oil and gas products that the Company has already sold in commercial and industrial markets globally. Strong channel partners were chosen to give us access to marketing and sales platforms with access to the markets we wanted to pursue such as pool and spa, air filtration, spill products and bilge water and stormwater. We will continue to support this initiative to harvest the full value and broad range of applications of our unique technology.

Given the nature and timing element of our Rapid Response offering to manage unexpected upsets, precision of forecasting is a distinct challenge. Conversion to longer term contracts is important as well as chasing our opportunity pipeline in oil and gas in other geographic regions. Our goal for 2019 is to ensure we manage our growth trajectory to ensure profitability, and devote the necessary resources to sustain the momentum while using our strategic relationships and channel partners to enhance our diversification profile.

MYCELX enters 2019 with the knowledge that it is a stronger and more capable solutions provider. As mentioned, the lucrative emergencies that made 2018 an exceptional year are difficult to predict and can come all at once - such as the three back-to-back projects.

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 2018, 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 and we expect the other market sectors we have resourced this year to add to our success into the future. The Company is confident its 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**

10 May 2019

## Focussed business development efforts result in record revenue, EBITDA and net profit in 2018

Due to new opportunities with existing and new clients driven by focussed business development efforts, particularly in Saudi Arabia, 2018 was the most successful year in the Company's history. Total revenue increased 96% to \$27.0 million for 2018, compared to \$13.8 million for 2017. Revenue from equipment sales and leases increased by 3% to \$6.7 million for 2018 (FY17: \$6.4 million) and revenue from consumable filtration media and service increased by 174% to \$20.3 million (FY17: \$7.4 million).

Gross profit increased by 88% to \$14.1 million (FY17: \$7.5 million) and gross profit margin remained strong at 52% (FY17: 54%).

Total operating expenses for 2018, including depreciation and amortisation, increased by 18% to \$9.7 million (FY17: \$8.2 million). The largest component of operating expenses was selling, general and administrative ('SG&A') expenses, which increased by approximately \$1.5 million, or 19%, to \$9.3 million (FY17: \$7.8 million) as the Company invested in staff and resources to support the rapid growth during the year.

Depreciation and amortisation increased by 4% to \$438,000 (FY17: \$422,000), primarily due to more lease equipment moving into the field and thereby beginning amortisation of the capitalised asset.

EBITDA was \$5.6 million, compared to \$0.5 million in 2017. EBITDA is defined as net profit before interest expense, provision for income taxes, and depreciation and amortisation of fixed and intangible assets, including depreciation of leased equipment which is included in cost of goods sold. The Company recorded profit before tax of \$4.3 million in 2018, compared to a loss before tax of \$0.8 million in 2017. Basic profit per share was 16 cents in 2018, compared to basic loss per share of 6 cents in the previous year.

As of 31 December 2018, total assets were \$27.9 million with the largest assets being property and equipment of \$8.5 million, accounts receivable of \$8.2 million, \$5.4 million of cash and cash equivalents including restricted cash and \$4.7 million of inventory.

Total liabilities as of 31 December 2018 were \$7.0 million and stockholders' equity was \$21.0 million, resulting in a debt-to-equity ratio of 33%.

The Company was operationally cash flow positive at \$298,000 (FY17: \$194,000) for a third consecutive year. The Company used \$515,000 in investment activities compared to \$58,000 for 2017. This increase is the result of capital expenditures for warehouse equipment and equipment that is leased to customers. In 2018, the Company paid \$88,000 in financing activities related to payments on debt.

The Company increased the maximum borrowing capacity of its bank line of credit from \$500,000 to \$1.88 million. The full facility is available and can be used for working capital purposes to support the growth of the business.

**"2018 was the most successful year in the Company's history."**

# \$298k

Cash from Operations

# Principal Risks & Uncertainties

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

## RISK

**Additional funds**



**Retaining Key personnel**



**Existing products and service optimisation**



**Reliance on certain key manufacturers**



## DESCRIPTION

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 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 future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis.

The Company relies on certain key manufacturers for the fabrication of the Company's equipment in accordance with the specifications of the Company's customers.

## MITIGATION

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.

The Company continuously monitors and reviews compensation and benefits offered to its employees. The Company desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.

The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.

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.



**RISK**

<b>Competitive Market</b> <span style="float: right;">▼</span>	<b>Customer diversification</b> <span style="float: right;">—</span>	<b>Oil &amp; Gas industry cycles</b> <span style="float: right;">—</span>	<b>Geopolitical Risk</b> <span style="float: right;">▼</span>
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**DESCRIPTION**

<p>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.</p>	<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>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>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>
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**MITIGATION**

<p>The Company is pursuing a growth strategy to continuously increase its financial and technical resources.</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>	<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>	<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>
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## Board of Directors



**Tim Eggar**  
Non-Executive Chairman



**Connie Mixon**  
Chief Executive Officer  
and Director



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

### Committee Membership



### Appointed

2011

2004

1994

### Background & Experience

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 40 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 Cape plc. Mr. Eggar holds an MA from Cambridge University and is qualified as a barrister.

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 a 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 the Goizueta Business School Emory University and a BA in politics from Wake Forest University.

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.

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) and AIChE (American Institute of Chemical Engineers).

### Current Appointments

Mr. Eggar is currently Chairman of the UK Oil & Gas Authority.

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.





**André Schnabl**  
Non-Executive Director



**Brian Rochester**  
Non-Executive Director

-  Audit Committee
-  Nomination and Governance Committee
-  Compensation Committee
-  Executive Committee

## Committee Membership



## Appointed

2019

1998

## Background & Experience

Mr. Schnabl joined the Board of MYCELX in January 2019. He is the managing principal of Tenor Capital Partners LLC, a boutique investment bank focused on advising companies and shareholders in analysing, structuring and financing employee stock ownership plans. Prior to Tenor, Mr. Schnabl was the managing partner of the Atlanta office of Grant Thornton LLP, from which he retired in 2012. He joined Grant Thornton in Zimbabwe and also spent time in the firm's Montreal office before moving to the Atlanta office. Mr. Schnabl holds a Bachelor degree in Chemistry and Geology from the University of London and is a CPA.

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.

## Current Appointments

Mr. Schnabl serves on a number of corporate and not-for-profit boards.

# 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, and is governed by and complies with the Georgia Business Corporation Code ('GBCC'). 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.

The Company is committed to high standards of corporate governance and draws upon best practice available. Further to the change in the AIM Rules as regards Rule 26 information, which took effect on 28 September 2018, the Board determined to follow the QCA code, published by the Quoted Companies Alliance, which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies. The following information is provided to describe how the Company applies the principles of that code and explain any departures from the specific provisions of that code. This review was originally carried out as at 21 September 2018, and reviewed on 10 May 2019.

## The QCA's Ten Principles of Corporate Governance

The ten principles of corporate governance set out in the QCA Code and applied by the Company are as follows:

### Deliver Growth

#### 1. Establish a strategy and business model which promote long-term value for shareholders

MYCELX's business model and strategy can be found on pages 10 to 13 of this Annual Report.

#### 2. Seek to understand and meet shareholder needs and expectations

At the Company's Annual Meeting held in London, the Chairman and Chief Executive Officer are available before and after the meeting for further discussions with shareholders. A meeting with US shareholders is also held annually. The Chief Executive Officer meets with institutional investors on various occasions during the year, primarily following the Company's Annual Results and Interim Results announcements.

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Company's website. 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, and may be contacted through the address on the Company's website.

#### 3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

Our business model which identifies the key resources and relationships on which the business relies can be found on pages 10 and 11 of this Annual Report.

#### 4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company continues to face and address a number of risks and uncertainties, some of which are set out on pages 20 and 21 of this Annual Report.

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.

## Maintain a Dynamic Management Framework

### 5. Maintain the Board as a well-functioning, balanced team led by the chair

The Board of the Company 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 André Schnabl. The two Executive Directors are Connie Mixon (Chief Executive Officer) and Haluk Alper (President and Chief Science Officer). Swinton Griffith, who served as a Non-Executive Director during the year, resigned as a Director on 31 December 2018.

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

Of the three Non-Executive Directors, Tim Eggar was independent on his appointment as a Director on 4 August 2011. The Board also considers that Brian Rochester exercises independent judgement in relation to the Company's affairs, but he cannot be regarded as independent as a result of his having been originally appointed as a Director in 1998 prior to the Company's Admission to AIM in August 2011. André Schnabl, who was appointed as a Director on 1 January 2019, is regarded as independent and was appointed as Senior Independent Director on 1 January 2019.

At the date of its Admission to AIM in August 2011, the Company granted options over 50,459 and 41,143 Common Shares of US\$0.025 each ('Common Shares') under the Company's Omnibus Performance Incentive Plan 2011 (the 'Plan') at a price of US\$0.86 per share to Tim Eggar and Brian Rochester, respectively. These options were all exercised on 3 June 2015. On 9 May 2012, the Company granted an option over 26,000 Common Shares under the Plan to Swinton Griffith at a price of US\$3.87 per share. This option lapsed on 31 December 2016. The Board believes that the grant of the above options did not affect the independence of the Non-Executive Directors concerned.

### 6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board believes that, as a whole, it contains the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long term. Full details of the Directors are set out on pages 22 and 23.

#### *Internal Advisory Responsibilities*

The Company is incorporated in the State of Georgia, United States, and the role of Company Secretary is carried out by the US based Chief Financial Officer. An experienced qualified UK based individual performs the role of Assistant Secretary, and provides a sounding board for the Board on UK regulatory issues. In addition, the Company relies on its external US and UK advisors to provide additional advice when required, and to ensure the Directors are fully aware of their responsibilities as Directors of an AIM company.

There is a process for ensuring that any new Director receives advice, including from the Company's nominated adviser and external lawyers where appropriate, on his/her responsibilities as a Director of an AIM company, and the Board would ensure that any new appointee would benefit from a full induction programme.

### 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Company has conducted an internal evaluation of the Board and its Committees, and their performance, annually since Admission to AIM in August 2011. Further information on the process used can be found below under QCA Principle 9 – Nomination and Governance Committee.

Succession planning at Board and Committee level, and of senior management, is formally reviewed on an annual basis. In addition, all Directors are subject to re-election at the Annual Meeting, and due consideration is given by the Nomination Committee as to whether individual Directors are recommended for re-election.

The Company regularly reviews the ongoing training requirements of Directors as part of the annual Board evaluation process, and Directors are encouraged to attend relevant training courses.

## Corporate Governance Statement continued

### 8. Promote a corporate culture that is based on ethical values and behaviours

The Board believes that the business culture is consistent with the Company's objectives, strategy and business model as set out in the strategic report and the description of principal risks and uncertainties.

The Board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected through the adoption of appropriate policies, including a Code of Ethics and Business Conduct; a Whistleblower Policy, and a Policy on Equal Employment Opportunities.

In addition, in response to the Market Abuse Regulations ('MAR') which came into force on 3 July 2016, and which apply to AIM companies, the Company has adopted a Share Dealing Policy and Dealing Code which apply to all Directors and employees of the Company.

### 9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board has adopted policies in relation to a Schedule of Matters Reserved for Board Decision and the Separation of the Roles of Chairman and Chief Executive Officer.

#### Board Committees

The Company has established an Audit Committee, a Compensation Committee, a Nomination and Governance Committee and an Executive Committee with the following roles:

#### Audit Committee

The members of the Audit Committee are André Schnabl (Chairman) and Brian Rochester. Meetings are held not less than three times a year, and take into account the work programme set out in the Audit Committee Guide published by the QCA. Swinton Griffith served as Chairman of the Audit Committee during the year ended 31 December 2018. The role of the Committee is set out in its Terms of Reference which are available on the Company's website.

- I. Monitoring the integrity of the Company's financial statements, including its annual and interim reports, preliminary announcements and any other formal statements relating to its financial performance, and reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain;
- II. Reviewing the Company's internal financial controls that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- III. Reviewing and making recommendations in relation to the adequacy and security of the Company's arrangements for its employees to raise concerns over compliance, whistleblowing and fraud; and
- IV. Making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor.

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 2018 audit for fees of \$159,000. Grant Thornton LLP was not engaged to perform any other services than audit related services in 2018.

The Audit Committee formally met three times in 2018. All of the Committee meetings were attended by all of the Committee members.

#### Compensation Committee

The members of the Compensation Committee are Brian Rochester (Chairman), Tim Eggar and André Schnabl. Swinton Griffith served as a member of the Compensation Committee during the year ended 31 December 2018. 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.

Meetings of the Committee take place not less than three times a year. The Compensation Committee formally met four times in 2018. All of the Committee meetings were attended by all of the Committee members.

### Nomination and Governance Committee

The members of the Nomination and Governance Committee are Tim Eggar (Chairman) and André Schnabl. Swinton Griffith served as a member of the Nomination Committee during the year ended 31 December 2018. 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 internal evaluation of the Board and its Committees, and their performance, has been conducted annually since Admission to AIM in August 2011. The individual evaluation takes the form of interviews conducted by the Chairman with each Director. A performance evaluation of the Chairman is carried out by the Non-Executive Directors in conjunction with the Chief Executive Officer. Questionnaires covering the Board and each Committee are also completed by each relevant Director, and provide an opportunity to comment on Board and Committee procedures. The results of the 2018 evaluation were presented to the Board in January 2019, and any findings are followed up at subsequent Board meetings.

The terms of Reference of the Nomination and Governance Committee are available on the Company's website. The Nomination and Governance Committee met once in 2018. All of the Committee meetings were attended by all of the Committee members.

### Executive Committee

The 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.

### Build Trust

#### 10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board ensures that the market is kept fully apprised of all material business developments through formal announcements. The Company announces the outcomes of all votes held at Annual Meetings.

Further information is shown under QCA Principle 2 above.

### Kimberly Slayton

#### Chief Financial Officer and Secretary

10 May 2019

# Directors' Report

for the year ended 31 December 2018

## 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.

On 27 February 2019, the Company completed the closing of a Placing of 577,246 Common Shares and a Subscription for 26,387 Common Shares, both at a price of 230 pence per new share, raising US\$1.8 million before expenses.

## 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 2018 and up to the date of signing the financial statements except where otherwise shown.

**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) – Resigned 31 December 2018

**André Schnabl** (Non-Executive Director) – Appointed 1 January 2019

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 and 23.

## Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. The 2019 Annual Meeting will be held at 12 noon on 10 July 2019 at the offices of Addleshaw Goddard LLP located at Milton Gate, 60 Chiswell Street, London EC1Y 4AG, United Kingdom.

## Directors' Remuneration and Interests

The Remuneration Report is set out on pages 31 to 33. It includes details of Directors' remuneration, interests in the Common Shares of the Company and share options.

## Corporate Governance

The Board's Corporate Governance Statement is set out on pages 24 to 27.

## Going Concern

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

## Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2018 are set out in Note 10 to the financial statements. At 10 May 2019, a total of 19,413,750 Common Shares were outstanding. At 10 May 2019, 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:

Garraway Capital Management	18.63%
Canaccord Genuity Wealth Management	16.14%
Artemis Investment Management	15.92%
Estate of John Mansfield Sr.	8.77%
Octopus Investments	8.20%
Hal Alper	6.50%
Connie Mixon	5.19%

## Directors' Statement as to Disclosure of Information to Auditors

The Directors who served as members of the Board during 2018 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**

10 May 2019

# 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.

## **André Schnabl**

### **Chairman, Audit Committee**

10 May 2019



# Directors' Remuneration Report

for the year ended 31 December 2018

Strategic  
Report

Financial  
Statements

Corporate  
Governance

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.

An increase in Ms. Mixon's base salary to \$375,000 was approved by the Compensation Committee with effect 1 January 2018.

### 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.

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. In September 2018, Mr. Alper's agreement was extended for another year and an increase in his base salary to \$250,000 was approved by the Compensation Committee with effect 16 September 2018.

## Directors' Remuneration Report continued

for the year ended 31 December 2018

### 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 2018 was as follows:

	Salary and Director's fees \$US	Benefits in kind \$US	Performance related bonus \$US	2018 Total \$US	2017 Total \$US
<b>Non-Executive Chairman</b>					
Tim Eggar	\$57,000	-	-	\$57,000	\$48,450
<b>Executive</b>					
Connie Mixon	\$375,000	\$13,084	\$150,000	\$538,084	\$408,341
Hal Alper	\$228,051	\$22,420	\$20,000	\$270,471	\$256,758
<b>Non-Executive</b>					
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 10 May 2019 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	132,329	0.68
Hal Alper	1,262,046	6.50
Connie Mixon (Note 1)	1,007,703	5.19
Brian Rochester (Note 2)	264,492	1.36
André Schnabl	8,246	0.05

- 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.
- 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 2018 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 2018 by the estate of her late husband Mark Mixon.

No Director exercised any options over Common Shares during the year.

## Brian Rochester

### Chairman, Compensation Committee

10 May 2019

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Grant Thornton LLP  
1110 Peachtree Street NE, Suite 1200  
Atlanta, GA 30309

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors and Stockholders of  
MYCELX Technologies Corporation

We have audited the accompanying financial statements of MYCELX Technologies Corporation (a Georgia corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, 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, 2018 and 2017, 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  
May 10, 2019

# Statements of Operations

(USD, in thousands, except share data)

<b>For the Year Ended 31 December:</b>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	26,952	13,751
Cost of goods sold	12,892	6,285
<b>Gross profit</b>	14,060	7,466
<b>Operating expenses:</b>		
Selling, general and administrative	9,264	7,772
Depreciation and amortisation	438	422
<b>Total operating expenses</b>	9,702	8,194
<b>Operating profit (loss)</b>	4,358	(728)
<b>Other expense</b>		
Loss on disposal of equipment	(3)	(14)
Interest expense	(85)	(89)
<b>Profit (loss) before income taxes</b>	4,270	(831)
Provision for income taxes	(1,200)	(327)
<b>Net profit (loss)</b>	3,070	(1,158)
<b>Profit (loss) per share - basic</b>	0.16	(0.06)
<b>Profit (loss) per share - diluted</b>	0.15	(0.06)
<b>Shares used to compute basic profit (loss) per share</b>	18,802,981	18,773,764
<b>Shares used to compute diluted profit (loss) per share</b>	20,003,251	18,773,764

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

(USD, in thousands, except share data)

<b>as at 31 December:</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	4,866	5,171
Restricted cash	525	525
Accounts receivable - net	8,225	2,436
Unbilled accounts receivable	20	398
Inventory - net	4,708	3,085
Prepaid expenses	228	254
Other assets	42	33
<b>Total Current Assets</b>	<b>18,614</b>	<b>11,902</b>
Property and equipment - net	8,536	8,755
Intangible assets - net	788	837
<b>Total Assets</b>	<b>27,938</b>	<b>21,494</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	2,912	982
Payroll and accrued expenses	1,950	570
Deferred revenue	125	192
Note payable - current	86	89
Other current liabilities	153	14
<b>Total Current Liabilities</b>	<b>5,226</b>	<b>1,847</b>
Note payable - long-term	1,739	1,832
<b>Total Liabilities</b>	<b>6,965</b>	<b>3,679</b>
<b>Stockholders' Equity</b>		
Common stock, \$0.025 par value, 100,000,000 shares authorised, 18,807,617 and 18,787,617 shares issued and outstanding at 31 December 2018 and 2017, respectively.	470	470
Additional paid-in capital	40,544	40,456
Accumulated deficit	(20,041)	(23,111)
<b>Total Stockholders' Equity</b>	<b>20,973</b>	<b>17,815</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>27,938</b>	<b>21,494</b>

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

# Statements of Stockholders' Equity

(USD, in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	\$	\$	\$	\$
<b>Balances at 31 December 2016</b>	18,770	469	40,325	(21,953)	18,841
Issuance of common stock, net of offering costs	18	1	6	-	7
Stock-based compensation expense	-	-	125	-	125
Net loss for the period	-	-	-	(1,158)	(1,158)
<b>Balances at 31 December 2017</b>	18,788	470	40,456	(23,111)	17,815
Issuance of common stock, net of offering costs	20	-	8	-	8
Stock-based compensation expense	-	-	80	-	80
Net profit for the period	-	-	-	3,070	3,070
<b>Balances at 31 December 2018</b>	18,808	470	40,544	(20,041)	20,973

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



**(USD, in thousands)**

<b>For the Year Ended 31 December:</b>	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>		
Net profit (loss)	3,070	(1,158)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Depreciation and amortisation	1,239	1,205
Loss on abandonment or expiration of patent	-	22
Loss from disposition of equipment	3	14
Stock compensation	80	125
Change in operating assets and liabilities:		
Accounts receivable - net	(5,789)	(495)
Unbilled accounts receivable	378	(304)
Inventory - net	(2,082)	670
Prepaid expenses	26	(128)
Other assets	(9)	3
Accounts payable	1,930	325
Payroll and accrued expenses	1,380	145
Deferred revenue	(67)	192
Other current liabilities	139	(422)
<b>Net cash provided by operating activities</b>	<b>298</b>	<b>194</b>
<b>Cash flow from investing activities</b>		
Payments for purchases of property and equipment	(492)	(5)
Payments for purchases of intangible assets	(23)	(53)
<b>Net cash used in investing activities</b>	<b>(515)</b>	<b>(58)</b>
<b>Cash flow from financing activities</b>		
Net proceeds from stock issuance	8	6
Payments on notes payable	(96)	(85)
Increase in restricted cash	-	(25)
<b>Net cash used in financing activities</b>	<b>(88)</b>	<b>(104)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(305)</b>	<b>32</b>
Cash and cash equivalents, beginning of year	5,171	5,139
<b>Cash and cash equivalents, end of year</b>	<b>4,866</b>	<b>5,171</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash payments for interest	92	89
Cash and non-cash payments for income taxes	1,128	306
Non-cash movements of inventory and fixed assets	(459)	565

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 filtration media product, equipment leases and equipment sales. These sales are based on mutually agreed upon pricing with the customer prior to the delivery of the media product and equipment. The Company recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Revenue from filtration media sales is billed and recognised when products are shipped to the customer. Revenue from equipment leases is recognised over time as the equipment is available for customer use and is typically billed monthly. Revenue from services is recognised at the point the service is provided and is typically billed monthly. Revenue from long-term contracts related to construction of equipment is recognised over time, usually a period less than one year, as value and control of the asset is transferred to the customer. Revenues on sales in which equipment is pre-fabricated and stocked in inventory are recognised upon shipment of the equipment to the customer.

Sales tax charged to customers is presented on a net basis within the consolidated statements of operations and therefore recorded as a reduction of net revenues. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

The Company's contracts with the customers state the final terms of the sales, including the description, quantity, and price of media product, equipment (sale or lease) and the associated services to be provided. The Company's contracts are generally short-term in nature and in most situations, the Company provides products and services ahead of payment and has fulfilled the performance obligation prior to billing.

The Company believes the output method is a reasonable measure of progress for the satisfaction of its performance obligations, which are both satisfied over time and at a point in time, as it provides a faithful depiction of (1) performance toward complete satisfaction of the performance obligation under the contract and (2) the value transferred to the customer of the services performed under the contract.

Our contracts with clients often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Judgment is required to determine stand-alone selling price ('SSP') for each distinct performance obligation. We develop observable SSP by reference to stand-alone sales for identical or similar items to similarly situated clients at prices within a sufficiently narrow range. In situations where an observable SSP does not exist, the residual method is applied and requires significant judgment.

All equipment sold by the Company is covered by the original manufacturer's warranty. The Company does not offer an additional warranty and has no related obligations.

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.

See Note 13 for disaggregation of revenue by geographic region. Timing of revenue recognition for each of the periods presented is shown below:

	31 December 2018 US\$000	31 December 2017 US\$000
Equipment leases recognised over time	5,503	1,550
Consumable filtration media, equipment sales and service recognised at a point in time	21,449	12,201
<b>Total revenue</b>	<b>26,952</b>	<b>13,751</b>

**Cash and cash equivalents** – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within 90 days of purchase. At 31 December 2018, all of the Company's cash and cash equivalent balances were held in checking and money market accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At 31 December 2018 and 2017, cash in non-U.S. institutions was \$13,000 and \$73,000, 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 2018 and 2017, 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 2018 and 2017 was \$300,000 and \$32,000, 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 12 months, security deposits on leased space and various prepaid amounts that will be charged to expenses within 12 months. Non-trade receivables that are collectible in 12 months or more are included in long-term assets.

**Property and equipment** – All property and equipment are valued at cost. Depreciation is computed using the straight-line method for 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 2018 and 2017.

**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 2018 and 2017.

**Advertising costs** – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2018 and 2017 was approximately \$nil, 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.

# Notes to the Financial Statements continued

## 2. Summary of significant accounting policies continued

**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 2018 and 2017 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 for the year ended 31 December 2017.

**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 transfers into and out of each level of the fair value hierarchy for assets measured at fair value for the years ended 31 December 2018 or 2017.

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 2018 and 2017 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, was effective for the Company beginning 1 January 2018. The Company applied 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 was no 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 12 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 Company is planning to adopt this ASU under a modified retrospective approach on 1 January 2019. This will result in the recognition of an Operating Lease Right of Use Asset and an Operating Lease Liability of \$960K.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on the Company.

### 3. Accounts receivable

Accounts receivable and their respective allowance amounts at 31 December 2018 and 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$000</b>	<b>US\$000</b>
Accounts receivable	8,525	2,468
Less: allowance for doubtful accounts	(300)	(32)
<b>Total receivable – net</b>	<b>8,225</b>	<b>2,436</b>

### 4. Inventories

Inventories consist of the following at 31 December 2018 and 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$000</b>	<b>US\$000</b>
Raw materials	1,341	686
Work-in-progress	-	44
Finished goods	3,367	2,355
<b>Total inventory</b>	<b>4,708</b>	<b>3,085</b>

### 5. Property and equipment

Property and equipment consists of the following at 31 December 2018 and 2017:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$000</b>	<b>US\$000</b>
Land	709	709
Building	2,724	2,724
Leasehold improvements	361	341
Office equipment	699	697
Manufacturing equipment	898	747
Research and development equipment	496	514
Purchased software	222	222
Equipment leased to customers	9,674	8,495
Construction in progress	-	444
	15,783	14,893
Less: accumulated depreciation	(7,247)	(6,138)
<b>Property and equipment – net</b>	<b>8,536</b>	<b>8,755</b>

During the years ended 31 December 2018 and 2017, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately \$58,000 and \$188,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2018 and 2017 was approximately \$1,167,000 and \$1,159,000, 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 2018 and 2017 was \$801,000 and \$783,000, respectively.

## Notes to the Financial Statements continued

### 6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of \$28,000 in 2009 with the possibility of an additional \$72,000 based on profits on the sales of a particular product. During 2010, the Company paid \$22,000 based on profits on the sales of the product and paid the remaining \$50,000 in 2011. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately \$51,000 and \$45,000 as of 31 December 2018 and 2017, 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 2018 and 2017 consist of the following:

	<b>Weighted Average Useful Lives</b>	<b>31 December 2018 US\$000</b>	<b>31 December 2017 US\$000</b>
Internally developed patents	15 years	1,294	1,271
Purchased patents	17 years	100	100
		1,395	1,371
Less accumulated amortisation		(606)	(534)
Intangible assets – net		788	837

Approximate aggregate future amortisation expense is as follows:

<b>Year Ending 31 December (USD, in thousands)</b>	
2019	51
2020	51
2021	50
2022	49
2023	41
Thereafter	209

Amortisation expense for the years ended 31 December 2018 and 2017 was approximately \$72,000 and \$46,000, respectively.

## 7. Income taxes

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Current:</b>		
Federal	-	-
Foreign	1,185	326
State	15	1
Total current provision	1,200	327
<b>Deferred:</b>		
Federal	-	-
Foreign	-	-
State	-	-
Total deferred provision	-	-
Total provision for income taxes	1,200	327

The provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 34 percent for 2017 and 21 percent for 2018, 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:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Federal statutory income tax rate	21.0%	34.0%
State tax rate, net of federal benefit	0.5%	(0.5%)
Valuation allowance	(16.7%)	271.6%
Rate reduction adjustment	-	(311.6%)
Other	1.5%	(1.8%)
Foreign withholding tax	21.8%	(31.0%)
Effective income tax rate	28.1%	(39.3%)

## Notes to the Financial Statements continued

### 7. Income taxes continued

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

	31 December 2018 US\$000	31 December 2017 US\$000
<b>Deferred tax assets</b>		
Net operating loss	3,971	4,679
Equity compensation	297	284
Research and development credits	159	159
Allowance for bad debts	64	7
Accrued liability	4	1
Inventory valuation reserve	93	23
Other	22	3
Total gross deferred tax asset	4,610	5,156
<b>Deferred tax liabilities</b>		
Property and equipment	(738)	(569)
Total gross deferred tax liability	(738)	(569)
Net deferred tax asset before valuation allowance	3,872	4,587
Valuation allowance	(3,872)	(4,587)
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 2018, the Company has recorded a valuation allowance of \$3.9 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 31 December 2018, the Company has approximately \$18.0 million of gross U.S. federal net operating loss carry forwards and \$5.2 million of gross state net operating loss carry forwards that will begin to expire in the 2024 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 was impacted by the corporation changes. The new federal corporate tax rate reduces 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 rate of 21 percent. 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 2018 and 2017, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2014 through 2018 remain subject to examination by federal, state and foreign income tax jurisdictions.

## 8. Line of credit

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to \$500,000. The line of credit is revolving and is payable on demand. In November 2018, the maximum borrowing capacity was increased to \$1,875,000. The facility renews annually and is secured by the assignment of a deposit account held by the lender and a second deed to the property owned by the Company in Duluth, Georgia. The line of credit carries a floating rate of interest equal to the lender's Prime Rate and is subject to change any time the Prime Rate changes. Under terms of the line of credit, the Company is required to maintain a minimum cash balance and a specified cash flow coverage ratio, as those terms are defined, and the Company was in compliance as of 31 December 2018. There was no balance on the line of credit at 31 December 2018 and 2017. The interest rate on 31 December 2018 and 2017 was 5.50 percent and 4.00 percent, respectively. There was no interest expense related to this loan for the years ended 31 December 2018 and 2017.

## 9. Note 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 10 year term with monthly payments based on a 20 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 2018 and 2017, 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 2018:

<b>Year Ending 31 December (USD, in thousands)</b>	
2019	86
2020	97
2021	102
2022	107
2023	1,433
	1,825

## Notes to the Financial Statements continued

### 10. Stock compensation

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 1,880,762 with 1,347,042 shares allocated as of 31 December 2018. 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 vest over three years with a third vesting ratably each year, partially on issuance and partially over the following 24 month period, or if there is a change of control. 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 2017 and 2018 were as follows:

	<b>Number of Options Granted</b>	<b>Grant Date</b>	<b>Risk-Free Interest Rate</b>	<b>Expected Term</b>	<b>Volatility</b>	<b>Exercise Price</b>	<b>Fair Value per Option</b>
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
2018	150,000	30/11/2018	2.90%	5.72 years	53.00%	\$3.03	\$1.57

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 2018 and 2017:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (in years)</b>	<b>Average Grant Date Fair Value</b>
<b>Outstanding at 31 December 2016</b>	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		
<b>Outstanding at 31 December 2017</b>	1,222,042	\$2.31	5.9	\$1,307,331
Granted	150,000	\$3.03	5.7	\$235,500
Exercised	(20,000)	\$0.44		
Forfeited	(5,000)	\$0.75		
<b>Outstanding at 31 December 2018</b>	1,347,042	\$2.43	5.9	\$1,536,406
Exercisable at 31 December 2018	1,130,375	\$2.42	6.0	

A summary of the status of unvested options as of 31 December 2018 and changes during the years ended 31 December 2018 and 2017 is presented below:

<b>Unvested Options</b>	<b>Shares</b>	<b>Weighted-Average Fair Value at Grant Date</b>
<b>Unvested at 31 December 2016</b>	341,833	\$0.65
Granted	280,000	\$0.35
Vested	(340,584)	\$0.92
Forfeited	(97,583)	
<b>Unvested at 31 December 2017</b>	183,666	\$0.44
Granted	150,000	\$1.57
Vested	(114,499)	\$0.34
Forfeited	(2,500)	
<b>Unvested at 31 December 2018</b>	216,667	\$1.14

As of 31 December 2018, total unrecognised compensation cost of \$224,000 was related to unvested share-based compensation arrangements awarded under the Plan.

# Notes to the Financial Statements continued

## 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 June 2021. 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 2018 are as follows:

Year Ending 31 December	Future Lease Payments US\$000
2019	233
2020	237
2021	166
2022	120
2023	122
Thereafter	51
Total future lease payments	929

Rent expense for the years ended 31 December 2018 and 2017 was approximately \$320,000 and \$325,000, respectively.

**Legal** – From time to time, the Company is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Company.

## 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 2018. For the year ended 31 December 2018, 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 (USD, in thousands)	2018	2017
Middle East	23,066	6,256
United States	2,465	7,191
Other	1,421	304
Total	26,952	13,751

Equipment leased to customers by geography is as follows:

<b>Year Ending 31 December (USD, in thousands)</b>	<b>2018</b>	<b>2017</b>
Middle East	7,602	6,391
United States	1,726	1,729
Other	346	375
<b>Total</b>	<b>9,674</b>	<b>8,495</b>

#### **14. Concentrations**

At 31 December 2018, one customer with seven contracts with six separate plants, represented 89 percent of accounts receivable. During the year ended 31 December 2018, the Company received 85 percent of its gross revenue from one customer with six separate plants.

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 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 10 May 2019, the date the financial statements were available to be issued. On 27 February 2019, the Company completed the closing of a Placing of 577,246 Common Shares and a Subscription for 26,387 Common Shares, both at a price of 230 pence per new share, raising US\$1.8 million before expenses. Upon conclusion of the public offering, the total shares issued and outstanding were 19,411,250. Following the exercise of a share option, the total shares issued and outstanding at the date of this report is 19,413,750.

# 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.





MYCELX Technologies Corporation  
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