MYCELX

MYCELX Technologies Corporation
Annual Report & Accounts 2019

TECHNOLOGY
PERFORMANCE
RELIABILITY

Technology and performance for the future

Whilst MYCELX experienced a strong first quarter in 2019, global market forces, particularly events in the Company's core market of the Middle East, led to a number of projects being delayed into 2020 and beyond. The Company had forecast significant revenue in H2 2019 for Rapid Response deployment and maintenance activity. However, whilst maintenance activity was expected to increase in the first half of 2020, the historically dependable Rapid Response contracts typically signed in the last quarter of the calendar year did not materialise, largely due to the difficult trading environment.

Despite the challenging conditions, in 2019 MYCELX signed three new contracts and two contract extensions in Saudi Arabia, in addition to sales into Nigeria and Australia. The Company continued to engage with existing and prospective clients to ensure MYCELX is well positioned to secure new contract wins as bidding activity increases. 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.

MYCELX achieved revenue of $11.9 million during the year, marginally below guidance. Following a $1.8 million fundraise in February 2019 the Company continues to be adequately funded with current unrestricted cash of $6.3 million including a $1.8 million draw on its line of credit.

Although MYCELX made a strong start to 2020, following the award of three new purchase orders in Q1, trading conditions remain challenging, with the recent oil price decline and the global COVID-19 pandemic, leading to further deterioration in global markets. Despite these macro challenges, the Company remains operational and continues to function in shipping, production and operations across all of its active sites. MYCELX also took decisive action to protect its employees from the pandemic and reduce costs by implementing business-wide cost saving measures. These measures, combined with the proven upside of MYCELX's offering, leaves the business well placed to benefit from an uptick in bidding activity once the COVID-19 pandemic is ove and pressure on oil prices has eased.

MYCELX continues to monitor its pipeline and will focus on maximising the Company's growth potential, both in oil and gas and wider markets, going forward. The Company is determined to ensure the business is well placed to weather the downturn, in order to generate significant value for shareholders once market conditions improve.

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Highlights of the Year

Financial

Revenue

$11.9m

(2018: $27.0m)

▼ 56%

Gross profit

$6.1m

(2018: $14.1m)

▼ 57%

EBITDA

$(1.2)m

(2018: $5.6m)

Net Loss

$3.0m

(2018: Net profit $3.1m)

Total operating expenses reduced by

12% year-on-year

Operational

- Saudi Arabia: Three contract extensions and two new contracts
- Australia: First sale into PFAS remediation in Australia
- Post period end: Signed three new purchase orders
  - Two in the Middle East and one in Nigeria

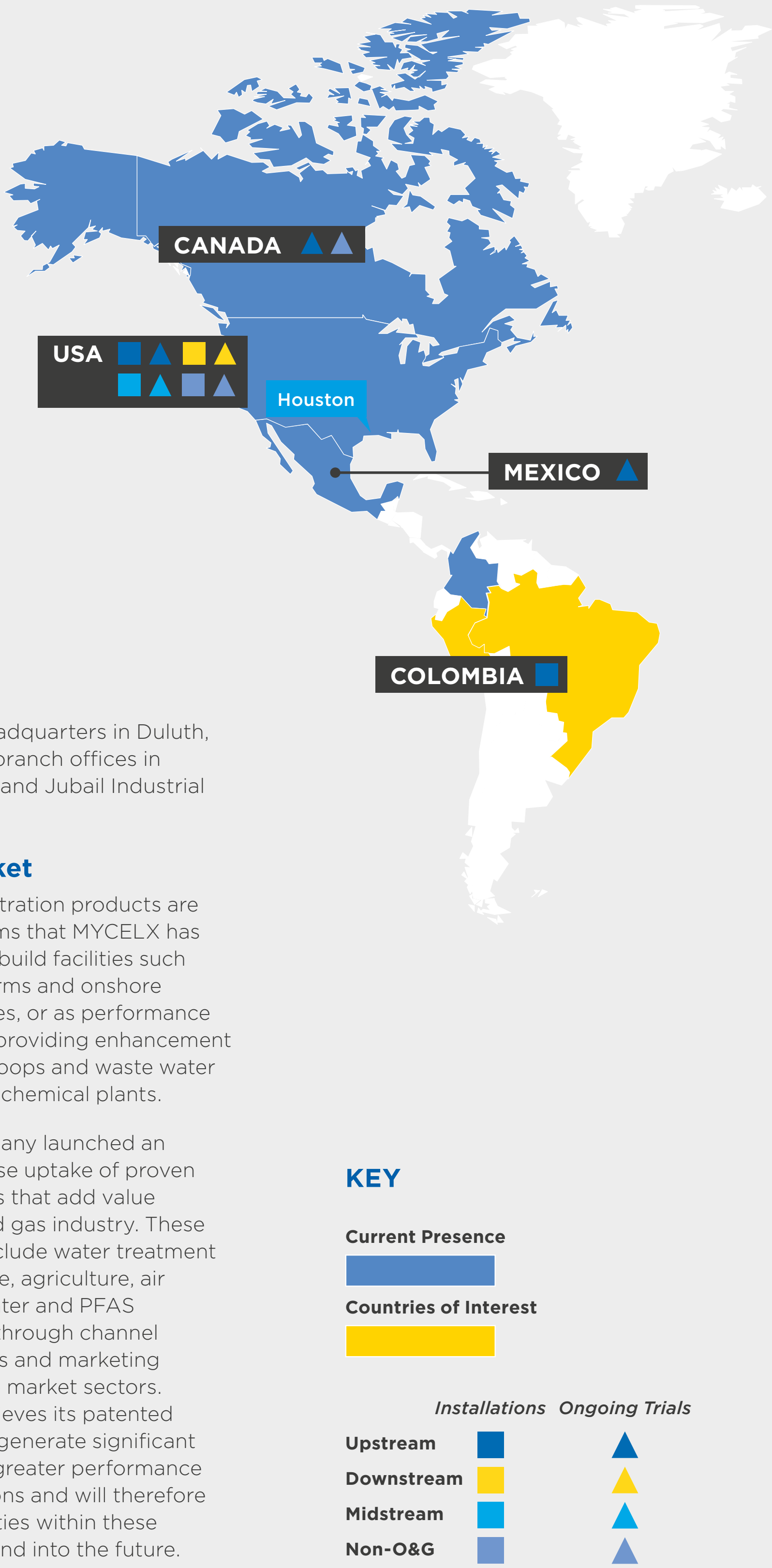
Corporate

- Board of Directors appointment during the period adding Tom Lamb as a Non-Executive Director and Chairman of the Compensation Committee
- Following the slowdown in bidding activity in H1 2019 the Company took decisive action to reduce costs across the Group

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 for the oil and gas industry's water treatment needs, as well as for targeted commercial industrial markets globally.



Water Challenges our Customers Face

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 industry worldwide, proven technology adoption is the path forward for operational excellence, stronger bottom lines and sustainable environmental stewardship.

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, agriculture, PFAS groundwater remediation, mining, manufacturing and air filtration industries.

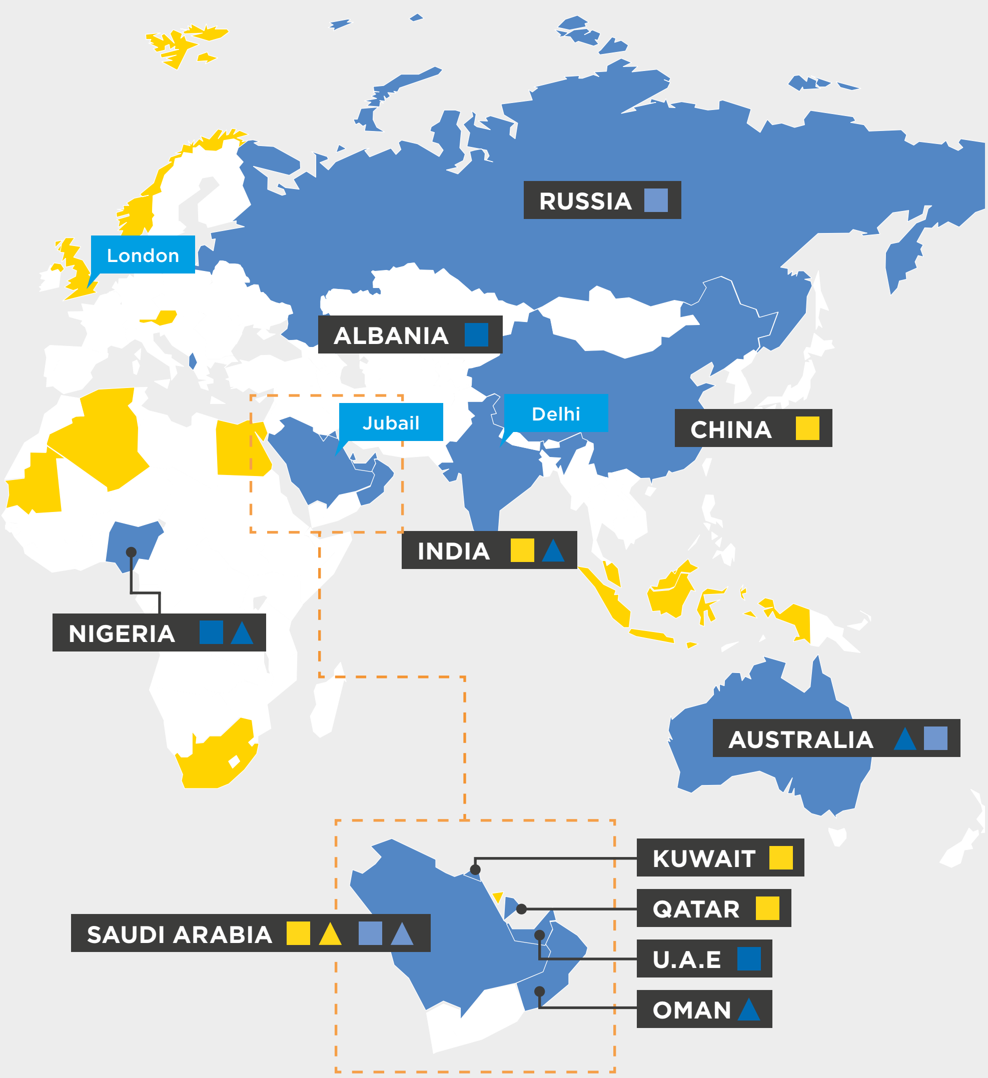
MYCELX products are currently used in over 20 countries across the globe. Our teams are active, particularly in the United States, the Middle East, Australia, Nigeria and Canada. Our systems are installed at some of the leading upstream and downstream operations, including one of the largest ethylene 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 such as offshore platforms and onshore production facilities, or as performance upgrade retrofits providing enhancement to process water loops and waste water treatment in petrochemical plants.

In 2018, the Company launched an initiative to increase uptake of proven MYCELX products that add value outside the oil and gas industry. These market sectors include water treatment systems for marine, agriculture, air filtration, stormwater and PFAS remediation sold through channel partners with sales and marketing platforms in those market sectors. The Company believes its patented technologies can generate significant cost savings and greater performance in these applications and will therefore pursue opportunities within these markets in 2020 and into the future.



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 maritime and shipping, air filtration, agriculture PFAS remediation, and stormwater. During 2018, the Company invested in upgrading 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. These products address health and safety issues, have significant positive environmental impact and are sustainable for industry into the future.

Our Business at a Glance continued

MYCELX is unique polymer technology that delivers step-change performance in water treatment worldwide

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 or tailored for specific discharge levels, contaminant removal and 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 an array of standard filters.

Standardised Equipment

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

Enhanced Performance

The end result is oil free water, oil free air, and removal of targeted contaminants from 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 and other contamination in their systems allows for greater uptime, reduced maintenance and more reliable performance which ultimately improves production metrics and ensures robust environmental stewardship.

Engineered Solutions Based on Extensive Water Expertise

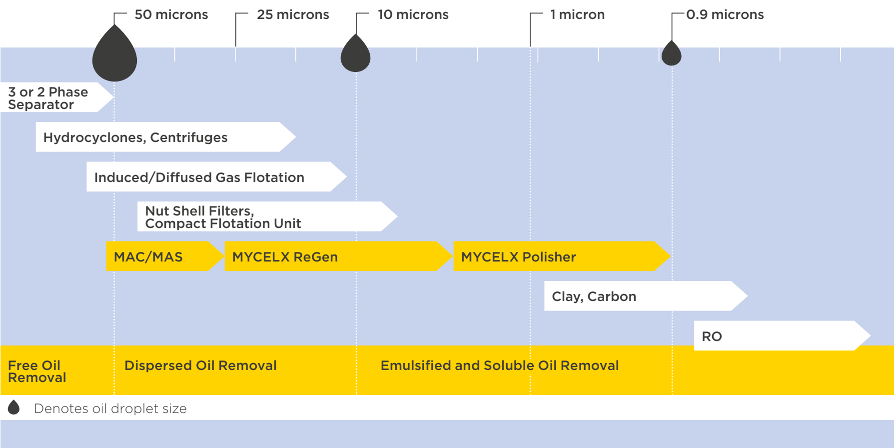
Understanding our clients' water is at the core of ensuring the MYCELX solutions we provide are efficient, cost-effective and operator friendly.

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 solutions have been installed successfully at the facilities of leading industry operators around the globe. Since the Company's listing on AIM in 2011, MYCELX has primarily 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 applications, performance and reliability metrics in one technology. As such, the Company has leveraged its scope of technology to include removal of oil mist in air, PFAS remediation and agriculture water use. The key is our 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

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

"We are fortunate to have an existing footprint in countries and companies operating at the lowest part of their respective industry cost curves."

Strengthening foundations and footprint with focus on resilience and operational efficiency

Throughout 2019, MYCELX further consolidated its position as one of the world's leading clean water technology companies by widening our footprint with sales to the oil and gas industry in Nigeria and Australia and pursuing opportunities in industrial and commercial markets. With a focus on adding value to our customers, we continue to provide them with innovative, patented solutions for their water treatment needs that are both cost-effective and production enhancing.

At a time of unprecedented global challenges, MYCELX's offering of world class clean water technology remains more relevant than ever. Industry has never needed to manage its water as effectively and responsibly as it does today, or as much as it will tomorrow. Against the backdrop of the current turbulence facing us all, following a far-reaching cost reduction programme, the Company today is lean, yet remains well placed to continue to capture new opportunities at the appropriate moment.

2019 saw a number of macro-economic factors creating headwinds in our core market. Whilst MYCELX benefits from supplying into multiple geographies, the geo-politics of the Middle East materially affected us with a number of projects for the Saudi Arabian market being postponed. In 2019, the oil price decreased year-on-year to an average of $64 a barrel, meaning the oil companies who we support were required to do more with less.

The further decline of oil prices adds significant pressure on the oil and gas industry, but it is too early to assess the full impact. Forward work programmes are being re-assessed by operators but the need to maximise the effectiveness of production and processing operations could not be greater. MYCELX therefore remains well placed to continue to support the industry. We proved to be robust through the last oil price cycle and are confident, should the current situation prove to be part of a prolonged downturn, that we are well placed to continue to develop our business.

A dominant theme throughout 2019 was the growing awareness of the need for companies to help achieve the objectives of the 2016 Paris Agreement, the United Nations Framework Convention on Climate Change. As a result, the focus on the Environmental, Social and Governance (ESG) measures being taken by corporates has never been sharper. The environmental benefits associated with the correct management of water are clear and MYCELX is uniquely placed to help all of its customers to fulfil their ESG commitments whilst meeting their cost-saving goals and supporting their steps to ensure resilience in these challenging times.

Outlook

Given the uncertain economic environment that has been created by the coronavirus pandemic, it is critical that MYCELX focuses on providing its clients with cost-saving solutions that will help them achieve optimal operational efficiency. As a company, we will continue to leverage our strong reputation and widening footprint to pursue opportunities both in core markets as well as opening new frontiers in the commercial and industrial sectors. We are fortunate to have an existing footprint in countries and companies operating at the lowest part of their respective industry cost curves. Whilst we expect to see a global economic slowdown our core markets and key customers will continue to operate and require our solutions although potentially at lower production levels. The Company has taken specific employee safety and cost saving actions in light of COVID-19 and plunging oil prices to ensure the team members remain safe following effective guidelines and the Company is poised to move quickly when the unprecedented global market disruption eases.

Looking ahead, as world markets stabilise, MYCELX remains in a strong position to capitalise on the myriad of opportunities we have identified in markets both in oil and gas and the commercial and industrial sectors. Our geographic focus will remain the growing markets of Saudi Arabia, North America, Australia and Nigeria. This provides us with both focus and diversity in regions of the world where MYCELX is now firmly established, and where the regulatory environment supports our offering.

Board of Directors Composition

In 2019 we welcomed Tom Lamb as a Non-Executive Director, Chairman of the Compensation Committee and a member of the Audit and Nomination Committees. Tom brings to the table a considerable depth of experience in the industrial and technology sectors. We also said farewell to Brian Rochester who served as a Non-Executive Director and as Chairman of the Compensation Committee for many years. We thank Brian for his steadfast support of MYCELX for 20 years helping the Board guide the Company not only through its IPO on the AIM market in the UK but its expansion into the Middle East and other markets worldwide as well.

Our Strategic Report

Our 2019 strategic report from pages 1 to 19 was reviewed and approved by the Board on 26 May 2020.

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

Rt. Hon. Tim Eggar
Chairman
26 May 2020

Our Core Markets

MARKET: DOWNSTREAM

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

Current Trends

Saudi Arabia: Competitive Edge but facing market uncertainty

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. 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. Saudi producers are expected to keep their edge for their petrochemical products despite the narrowing of prices between ethane and naphtha.

Recently the Saudi Arabian petrochemical industry has expanded its investments in China by around $35bn to increase production capacity to be 45% of its total overseas production of chemicals. This highlights the importance of the Chinese market to Saudi petrochemical producers. A predicted slowdown in Chinese demand in 2020 as a result of the corona pandemic and its aftermath comes after output growth had already slowed down during 2019 with no major petrochemical projects due to come on stream during 2020. Like other petrochemical producers, the Saudi focus has shifted to cash reservation and optimisation of operations in order to deal with potentially 40–50% reduction in petrochemical prices.

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.

New opportunities

Focus on cost optimisation and performance to navigate the current market uncertainty provides an opportunity for MYCELX's superior water treatment technology to be adopted by cost-conscious producers. Our treatment solutions offer significant cost and performance advantages over conventional water treatment options and our strong reputation for reliability and quick response time and existing footprint means that we are well positioned to assist our clients' needs during this period of uncertainty.

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 contributes 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. Such solutions are valued even more during the expected period of cost-saving and production optimisation.

MARKET: UPSTREAM

Current Outlook

Uncertainty over the reduction in global demand due to the coronavirus pandemic and its aftermath have pushed the Upstream producers back to a focus on consolidation, cost-cutting and quality of assets and operating procedures. Producers with marginal assets will struggle to continue to operate, but even low cost producing assets will be reassessed to remove inefficiencies that are no longer acceptable in a low price environment. The industry has recently been through such a period of introspection, therefore Upstream producers will now have to employ new technologies such as MYCELX to derive the further necessary performance enhancement or cost savings that will allow them to keep producing. 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. MYCELX solutions drive cost efficiency through very low loss time production.

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, customers are increasingly focussing on tangible cost saving opportunities, while facing a 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.

- **Cost saving opportunities**
- **Improve customer buy-in with trials**

People

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

- **Educate the market**
- **Shared learnings**
- **Rapid response**

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.

- **24/7 support availability**

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.

- **Endorsement by leading industry player/awards**
- **Strategic partnerships**

...SECURING VALUE...

Consistent superior performance

Better understanding of water characteristics

Increased equipment sales/leases

Recurring media sales

Maintenance and change out services

Robust margin preservation

...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 as well as targeted commercial and industrial markets worldwide. We adopt a staged approach of building traction amongst our target markets to appreciate the performance and cost benefits of differentiated technology delivered by MYCELX.

STAGE	ACTIONS
Demonstrate Technical Superiority We differentiate ourselves by the reliability of our superior performance. We get better results, using a smaller footprint, and are more cost effective than conventional techniques.	**Client buy-in with trials** We create value for our clients through a deep understanding of their needs, both now and in the future. **Educate the market** Our water expertise allows us to show our customers how they might improve their system by focusing on different water metrics. **Consistent superior performance** Our performance underpins our reputation and our future.
Gain Industry Acceptance We seek to gain wider industry acceptance of our technology in multiple markets.	**Cost saving opportunities** The ability to offer quick pay back on investment and cost savings is particularly attractive during this period of low economic uncertainty. **Shared learnings** Issues faced by one operation are often common problems faced at other sites. **Endorsement by leading industry player/awards** References with leading industry players is an immediate comfort for a new customer.
Obtain Critical Mass Converting industry acceptance into revenue generation.	**Rapid response** We deploy our Rapid Response equipment to provide time-critical water treatment. **Strategic partnerships and channel partners** Partners with geographic reach and sector dominance give MYCELX greater visibility in key markets globally.

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** **Expanded footprint in Nigeria with second sale** **Recognised solution to ensure waste water specifications are met by SABIC**	**Undertake trials at other leading Saudi Arabian oil and gas or industrial companies** **Explore lucrative opportunities in commercial and industrial sectors** **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 players' operations** **Endorsement by leading oilfield services companies as their 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**

Chief Executive's Statement

"We were pleased to announce multiple contract wins and extensions in the Middle East and Nigeria."

A year of solid performance against a challenging macro backdrop

2019 saw the Company make solid progress in key regions despite the geo-political challenges for our core market. We continued to execute our strategy of remaining close to existing and target customers and conducting trials with potential customers during the period, and anticipate that these efforts will yield results over the course of 2020 and beyond.

Operational Performance

During 2019, we were pleased to announce multiple contract wins, along with a number of contract extensions, in core geographies for our business, namely the Middle East and Nigeria. Our continued focus on these regions, and the reliable performance of our patented technology, also led to a number of contract wins in the Middle East and Nigeria, post-period end. We were also pleased to announce our first equipment sale into Australia's burgeoning Liquefied Natural Gas ('LNG') industry, which will provide recurring media sales and has the potential to be a revenue generative market for us going forward.

Whilst we were pleased to start 2019 with a strong first quarter, our bidding activity was impacted by regional events taking place in Saudi Arabia at the time. This meant that a number of the projects we were due to bid on were postponed to later in the year or to 2020. Although the postponement of bidding activity was disappointing, as an organisation we were quick to take action and reduce costs throughout the business. The reduction of costs, combined with our $1.8 million fundraise in February 2019 ensured that we maintained a strong balance sheet throughout the period.

Looking to the Future

While we maintain focus on opportunities in our core Oil and Gas market, given current sector uncertainty and the reduction in oil prices, we will continue to develop opportunities in the Commercial and Industrial sectors. We intend to focus on areas such as air filtration, PFAS groundwater remediation and agri-business. Our unique technology and new product development brings distinct advantages that will generate cost savings and have direct, positive environmental impact for companies in these industries. These efforts will take some time to show material results but we believe it will be worth it in terms of growth and diversification.

As a business, we continue to benefit from a strong financial position with ca.$3.6 million of cash and no unsecured debt (as at 31 December 2019). However, we expect there to be significant market disruption with the global COVID-19 pandemic, combined with the recent fall in oil prices, which has the potential to have a long-term impact on bidding activity. Given the global market uncertainty, the Company has decided to withdraw its guidance for 2020 given earlier this year but will continue to monitor developments and provide further updates as necessary.

Safety

The safety of our workforce is of paramount importance to the Company, so in light of the global COVID-19 pandemic we have gone to great lengths to ensure the safety of our employees. We have stopped all non-essential work travel and set in place a work from home policy where possible.

I would like to thank the MYCELX team and all our stakeholders for their continued support during what was a challenging year for our business. As we continue to work through the high level of market uncertainty currently present, we are well placed to benefit from a pick-up in activity. We look forward to updating all our stakeholders on progress throughout the rest of 2020.

Connie Mixon
Chief Executive
26 May 2020

Financial Review

Events in the Middle East and slower bid activity result in decreased revenue, EBITDA and net profit in 2019

Due to events in the Middle East and slower than expected bidding activity in the Rapid Response deployment market in H2 2019, total revenue decreased 56% to $11.9 million for 2019, compared to $27.0 million for 2018. Revenue from equipment sales and leases increased by 44% to $9.5 million for 2019 (FY18: $6.6 million) and revenue from consumable filtration media and service decreased by 88% to $2.4 million (FY18: $20.3 million).

Gross profit decreased by 57% to $6.1 million (FY18: $14.1 million) and gross profit margin remained strong at 51% (FY18: 52%).

Total operating expenses for 2019, including depreciation and amortisation, decreased by 12% to $8.5 million (FY18: $9.7 million). The largest component of operating expenses was selling, general and administrative ('SG&A') expenses, which decreased by approximately $1.5 million, or 16%, to $7.8 million (FY18: $9.3 million) as the Company reduced costs associated with the delayed project bids.

Depreciation and amortisation decreased by 12% to $386,000 (FY18: $438,000), primarily due to older equipment reaching the end of its useful life.

EBITDA was negative $1.2 million, compared to $5.6 million in 2018. 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 a loss before tax of $2.5 million in 2019, compared to a profit before tax of $4.3 million in 2018. Basic loss per share was 15 cents in 2019, compared to basic profit per share of 16 cents in the previous year.

As of 31 December 2019, total assets were $24.5 million with the largest assets being property and equipment of $8.0 million, inventory of $6.1 million, $4.1 million of cash and cash equivalents including restricted cash and $4.0 million of accounts receivable.

Total liabilities as of 31 December 2019 were $4.7 million and stockholders' equity was $19.8 million, resulting in a debt-to-equity ratio of 24%.

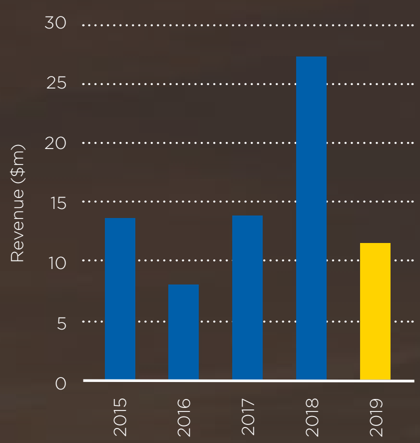
The Company used $1.9 million of cash in operations in 2019 (FY18: $298,000 provided by operations). The Company used $867,000 in investment activities compared to $515,000 for 2018. This increase is the result of capital expenditures for warehouse equipment and equipment that is leased to customers. In 2019, the Company's financing activities included net proceeds of $1.6 million from a capital raise and $86,000 paid towards debt.

The Company renewed its $1.88 million bank line of credit in 2019. The full facility is available and can be used for working capital purposes to support the business.

Goals & Key Performance Indicators

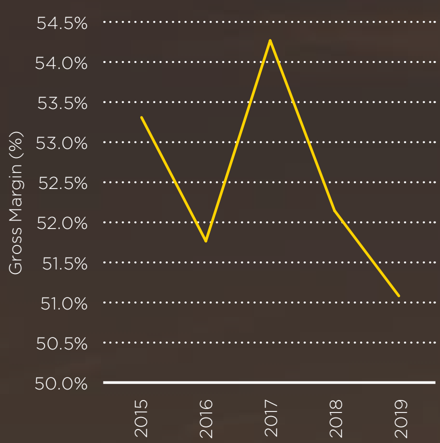
The Company strives to achieve its full potential and uses the following metrics to monitor its progress

I. Revenue:



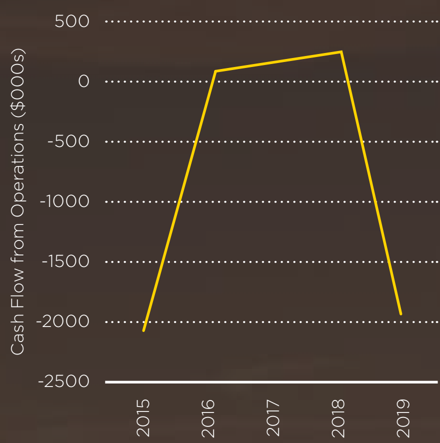
Drop in revenues reflects delays in MENA projects due to geopolitical events and a reduced number of emergency response contracts

II. Gross Operating Margin:



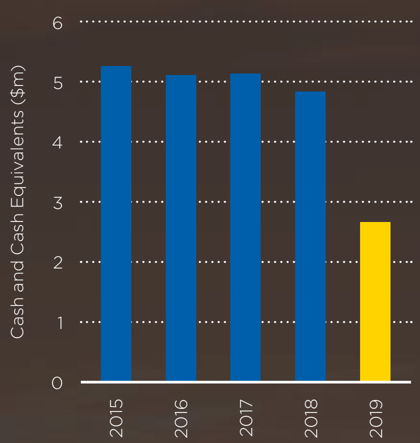
Consistent gross margins reflect our clients' acknowledgement of MYCELX's superior performance and value to their operations

III. Cash Flow from Operations:



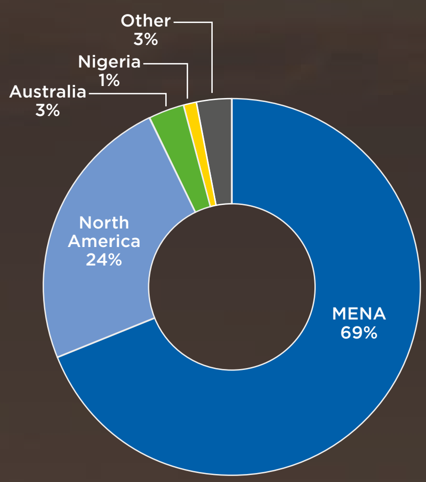
The Company continued to manage costs while also investing in strategic market initiatives

IV. Cash and Cash Equivalents:



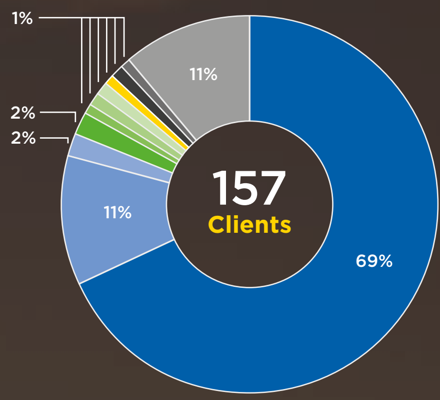
The Company is always mindful of preserving its cash position whilst supporting revenue generating growth activities

V. Geographical Diversification



The geographical split of revenues reflects market conditions, with the geo-political events in the Middle East leading to project delays, as well as successful company business development efforts to grow footprint in other geographies

VI. Client Diversification



Currently the top ten clients make up 89% of the Company's revenue. The major client makes up 69%, but this is comprised of revenue streams from 5 different plants. As we continue to unlock our full potential we expect the client mix to further diversify

Principal Risks and Uncertainties

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

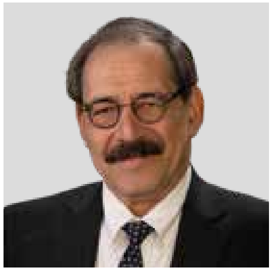
RISK	DESCRIPTION	MITIGATION
Additional Funds	Should the Company require additional funds in order to carry out its strategy, there can be no assurance that the Company will be able to raise such additional capital on favourable terms or at all.	The Company is managing its operations with working capital and the funds obtained in the last equity capital raise with the goal of eliminating the need for additional funding in the near future. The Company has received funds from the Small Business Administration's Payroll Protection Program. The Company owns its headquarters building and can enter into a sales leaseback contract which would unlock the equity in the building.
Retaining Key Personnel	The contribution of the existing Executive Directors, senior management team members and certain key employees to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth.	The Company continuously monitors and reviews compensation and benefits offered to its employees. The ompany desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.
Existing Products and Service Optimisation	The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis.	The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.
Reliance on Certain Key Manufacturers	The Company relies on certain key manufacturers for the fabrication of the Company's equipment in accordance with the specifications of the Company's customers.	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	Competitive Market	Customer Diversification	Oil & Gas Industry Cycles	Geopolitical Risk
DESCRIPTION	The Company operates in a competitive market and it can be expected that the competition will continue and/or increase in the future both from established competitors and from new entrants to the market. The Company's competitors include companies with greater financial, technical and other resources than the Company.	The Company receives a significant portion of its revenue from one customer through multiple system installations at several of the customer's plants.	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, the global COVID-19 pandemic combined with the recent collapse of oil prices, high cost oil projects may be scaled down, deferred or cancelled.	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.
MITIGATION	The Company is pursuing a growth strategy to continuously increase its financial and technical resources. The growth strategy includes partnering with companies with complimentary technologies to expand scope and leverage relationships to garner more business.	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.	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.	Although the Company is focused on the oil and gas industry, it does sell into other industry sectors and is continuously developing intellectual property to commercialise new products.

Board of Directors

Tim Eggar
Non-Executive Chairman

Connie Mixon
Chief Executive Officer and Director



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

Committee Membership

Appointed

Tim Eggar: 2011

Connie Mixon: 2004

Haluk (Hal) Alper: 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 and of Cape plc. He is currently Chairman of the UK Oil & Gas Authority. 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

2019

Mr. Schnabl joined the Board of MYCELX in January 2019. He is the managing principal of Tenor Capital Partners LLC, a boutique corporate finance firm focused on advising companies and shareholders in analysing, structuring and financing employee ownership through 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.

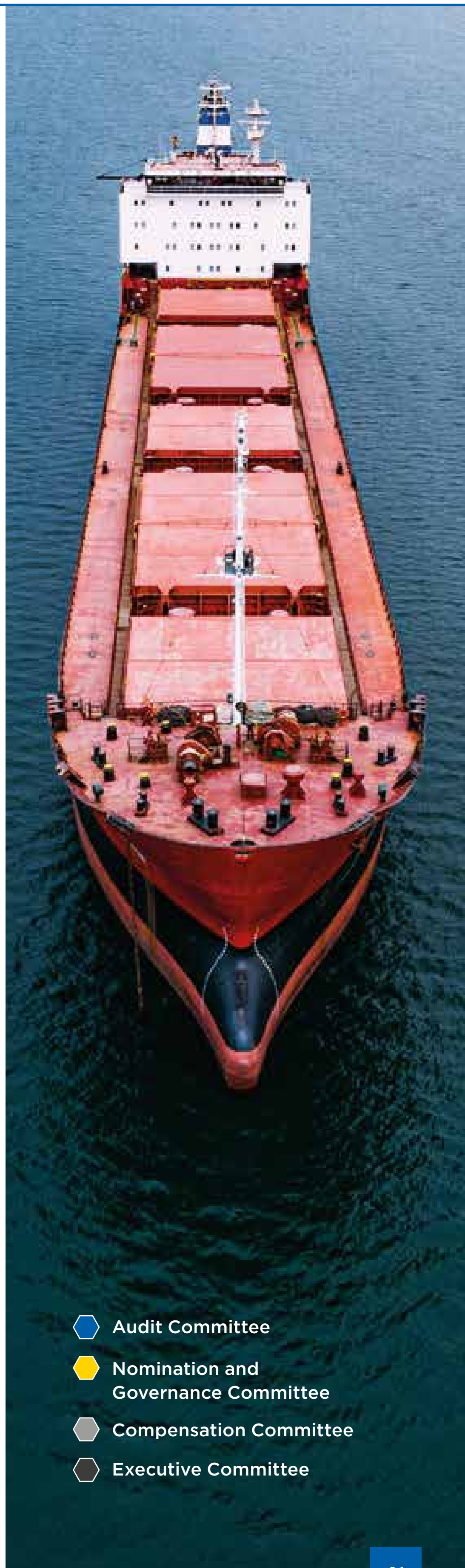
Mr. Schnabl serves on a number of corporate and not-for-profit boards.

Tom Lamb

Non-Executive Director

2019

Mr. Lamb joined the Board of MYCELX in July 2019. Mr. Lamb has a wealth of strategic and operating expertise in the industrial and technology sectors, having spent over 30 years driving organic growth and leading businesses in multiple international settings. He has served in several executive leadership roles in public and private companies; and is currently CEO of TWR/Pharos-API, a navigational equipment company focused on Oil & Gas and other markets. His previous experience includes Chairman and CEO of Agilex Flavors and Fragrances, President and CEO of C.P. Kelco/J.M. Huber Corporation and Executive VP of Lexmark International. Mr. Lamb has also served on the boards of several for-profit companies in chemical, technology and healthcare spaces. Mr. Lamb received an MBA from the Stanford Graduate School of Business and a BA in Economics and Computer Science from Union College in Schenectady, New York.



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 updated on 26 May 2020.

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. Special arrangements will be in place for the 2020 Annual Meeting due to COVID-19. Further information is set out in the Notice of Annual Meeting.

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 18 and 19 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), Tom Lamb and André Schnabl. The two Executive Directors are Connie Mixon (Chief Executive Officer) and Haluk Alper (President and Chief Science Officer). Brian Rochester, who served as a Non-Executive Director during the year, resigned as a Director on 29 July 2019.

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. Thereafter, the test of independence is not appropriate in relation to the Chairman. Tim Eggar will have served three consecutive three year terms of office in August 2020. 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. Tom Lamb, who was appointed as a Director on 29 July 2019, is regarded as independent.

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, a former Director, 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 20 and 21.

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.

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.

Corporate Governance Statement continued

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

The Board met formally seven times in 2019. All of the Board meetings were attended by all of the Board members.

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 Tom Lamb. 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. André Schnabl served as Chairman of the Audit Committee during the year ended 31 December 2019. The role of the Committee is set out in its Terms of Reference which are available on the Company's website, and includes:

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. Deloitte & Touche LLP was engaged to perform the 2019 audit for fees of $175,000. Deloitte & Touche LLP was engaged to perform tax work in Saudi Arabia and audit related services in 2019.

The Audit Committee met formally three times in 2019. All of the Committee meetings were attended by both Committee members.

Compensation Committee

The members of the Compensation Committee are Tom Lamb (Chairman), Tim Eggar and André Schnabl. Brian Rochester served as Chairman of the Compensation Committee until his resignation on 29 July 2019. 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 met formally four times in 2019. All of the Committee meetings were attended by all of the Committee members.

The Terms of Reference of the Compensation Committee are available on the Company's website.

Nomination and Governance Committee

The members of the Nomination and Governance Committee are Tim Eggar (Chairman), Tom Lamb and André Schnabl. Brian Rochester served as a member of the Nomination Committee until his resignation on 29 July 2019. 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 2019 evaluation were presented to the Board in January 2020, 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 formally four times in 2019. 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 appraised 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

26 May 2020

Directors' Report

for the year ended 31 December 2019

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 US$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 gross proceeds of approximately $1.1 million 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 US$2.35 (150 pence) per new share raising gross proceeds of approximately $10.7 million. 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 gross proceeds of approximately US$186,000. The Company incurred costs in the issuance of these shares of approximately $657,000.

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. The Company incurred costs in the issuance of these shares of approximately $229,000.

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 2019 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)

André Schnabl (Non-Executive Director and Senior Independent Director) – Appointed 1 January 2019

Tom Lamb (Non-Executive Director) – Appointed 29 July 2019

Brian Rochester (Non-Executive Director) – Resigned 29 July 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 20 and 21.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. Special arrangements will be in place for the 2020 Annual Meeting due to COVID-19. Further information will be set out in the Notice of 2020 Annual Meeting which will be sent to shareholders in due course. An announcement concerning those arrangements will be made through the London Stock Exchange, and published on the Company's website.

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 29 to 31. It includes details of Directors' remuneration, interests in the Common Shares of the Company and share options.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 22 to 25.

Going Concern

Having considered the Company's funding position and financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, revenue forecasts and the latest working capital forecasts. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. See Note 1 of the financial statements for further discussion.

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2019 are set out in Note 10 to the financial statements. At 26 May 2020, a total of 19,443,750 Common Shares were outstanding. At 26 May 2020, 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:

Canaccord Genuity Wealth Management	16.46%
Artemis Investment Management	15.90%
Octopus Investments	15.85%
Estate of John Mansfield Sr.	8.76%
Connie Mixon	7.50%
Hal Alper	6.49%
Cantor Fitzgerald Europe	4.27%
ABN AMRO Bank	3.79%

Directors' Statement as to Disclosure of Information to Auditors

The Directors who served as members of the Board at 31 December 2019 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

During the year the Board engaged Deloitte & Touche LLP as Auditors in place of Grant Thornton LLP. Deloitte & Touche 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
26 May 2020

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
26 May 2020

Directors' Remuneration Report

for the year ended 31 December 2019

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 $400,000 was approved by the Compensation Committee with effect 1 January 2019. As part of a programme to reduce costs, Ms. Mixon agreed to a reduction of 15% in base salary to $340,000 with effect 1 April 2019. In March 2020, Ms. Mixon agreed to a further reduction in base salary to $323,000 with effect 16 April 2020.

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.

Directors' Remuneration Report continued

for the year ended 31 December 2019

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.

As part of a programme to reduce costs, Mr. Alper agreed to a reduction of 20% in base salary to $200,000 with effect 1 April 2019. In March 2020, Mr. Alper agreed to a further reduction in base salary to $190,000 with effect 16 April 2020.

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 2019 was as follows:

	Salary and Director's Fees $US	Benefits in Kind $US	Performance Related Bonus $US	2019 Total $US	2018 Total $US
Non-Executive Chairman					
Tim Eggar	$57,000	–	–	$57,000	$57,000
Executive					
Connie Mixon	$355,000	$9,829	$150,000	$514,829	$538,084
Hal Alper	$212,500	$24,073	$20,000	$256,573	$270,471
Non-Executive					
Andre Schnabl	$46,000	–	–	$46,000	–
Tom Lamb	$19,500	–	–	$19,500	–
Brian Rochester	$22,631	–	–	$22,631	$39,100

Benefits in kind include medical and life insurance.

As part of a programme to reduce costs, Tim Eggar, Andre Schnabl and Tom Lamb agreed to a 15 percent reduction in Directors fees with effect 1 April 2020.

The interests of the Directors at 10 May 2020 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	140,511	0.72
Hal Alper	1,262,046	6.49
Connie Mixon (1)	1,457,703	7.50
André Schnabl	8,246	0.04

(1) The aggregate number of shares shown for Ms. Mixon includes (a) 150,000 shares held by limited liability companies controlled by Ms. Mixon; (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.

Share Options

Options over Common Shares awarded to Directors under the Omnibus Performance Incentive Plan in place on 31 December 2019 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 300,204 Common Shares were held at 31 December 2019 by the estate of her late husband Mark Mixon.

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

Tom Lamb

Chairman, Compensation Committee

26 May 2020

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Independent Auditors' Report

Deloitte.

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

We have audited the accompanying consolidated financial statements of MYCELX Technologies Corporation (the 'Company'), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MYCELX Technologies Corporation as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2018 Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2018, before the effects of the reclassifications discussed in Note 2 to the consolidated financial statements, were audited by other auditors whose report, dated May 10, 2019, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

May 26, 2020

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2019	2018
Revenue	11,908	26,952
Cost of goods sold	5,822	12,892
Gross profit	6,086	14,060
Operating expenses:		
Research and development	352	–
Selling, general and administrative	7,754	9,264
Depreciation and amortisation	386	438
Total operating expenses	8,492	9,702
Operating (loss) profit	(2,406)	4,358
Other expense		
Loss on disposal of equipment	(13)	(3)
Interest expense	(80)	(85)
(Loss) profit before income taxes	(2,499)	4,270
Provision for income taxes	(460)	(1,200)
Net (loss) profit	(2,959)	3,070
(Loss) profit per share – basic	(0.15)	0.16
(Loss) profit per share – diluted	(0.15)	0.15
Shares used to compute basic (loss) profit per share	19,312,664	18,802,981
Shares used to compute diluted (loss) profit per share	19,312,664	20,003,251

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

Balance Sheets

(USD, in thousands, except share data)

As at 31 December:	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	3,647	4,866
Restricted cash	500	525
Accounts receivable – net	3,987	8,225
Unbilled accounts receivable	–	20
Inventory – net	6,141	4,708
Prepaid expenses	218	228
Other assets	387	42
Total Current Assets	14,880	18,614
Property and equipment – net	8,016	8,536
Intangible assets – net	798	788
Operating lease asset – net	808	–
Total Assets	24,502	27,938
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	786	2,912
Payroll and accrued expenses	503	1,950
Deferred revenue	–	125
Customer deposits	864	130
Operating lease obligations – current	282	–
Note payable – current	97	86
Other current liabilities	–	23
Total Current Liabilities	2,532	5,226
Operating lease obligations – long-term	484	–
Note payable – long-term	1,642	1,739
Total Liabilities	4,658	6,965
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 19,443,750 and 18,807,617 shares issued and outstanding at 31 December 2019 and 2018, respectively.	486	470
Additional paid-in capital	42,358	40,544
Accumulated deficit	(23,000)	(20,041)
Total Stockholders' Equity	19,844	20,973
Total Liabilities and Stockholders' Equity	24,502	27,938

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

Statements of Stockholders' Equity

(USD, in thousands)

Capital	Common Stock Shares	Common Stock $	Additional Paid-in $	Accumulated Deficit $	Total $
Balances at 31 December 2017	18,788	470	40,456	(23,111)	17,815
Exercise of stock options	20	–	8	–	8
Stock-based compensation expense	–	–	80	–	80
Net profit for the period	–	–	–	3,070	3,070
Balances at 31 December 2018	18,808	470	40,544	(20,041)	20,973
Issuance of common stock, net of offering costs	604	15	1,573	–	1,588
Exercise of stock options	32	1	42	–	43
Stock-based compensation expense	–	–	199	–	199
Net loss for the period	–	–	–	(2,959)	(2,959)
Balances at 31 December 2019	19,444	486	42,358	(23,000)	19,844

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2019	2018
Cash flow from operating activities		
Net (loss) profit	(2,959)	3,070
Adjustments to reconcile net (loss) profit to net cash provided by operating activities:		
Depreciation and amortisation	1,269	1,239
Loss from disposition of equipment	13	3
Stock compensation	199	80
Change in operating assets and liabilities:		
Accounts receivable – net	4,238	(5,789)
Unbilled accounts receivable	20	378
Inventory – net	(1,338)	(2,082)
Prepaid expenses	10	26
Prepaid operating leases	(42)	–
Other assets	(345)	(9)
Accounts payable	(2,126)	1,930
Payroll and accrued expenses	(1,447)	1,380
Deferred revenue	(125)	(60)
Customer deposits	734	123
Other current liabilities	(23)	9
Net cash (used in) provided by operating activities	(1,922)	298
Cash flow from investing activities		
Payments for purchases of property and equipment	(805)	(492)
Payments for internally developed patents	(62)	(23)
Net cash used in investing activities	(867)	(515)
Cash flows from financing activities		
Net proceeds from stock issuance	1,588	–
Net proceeds from exercise of stock options	43	8
Payments on notes payable	(86)	(96)
Net cash provided by (used in) financing activities	1,545	(88)
Net decrease in cash, cash equivalents and restricted cash	(1,244)	(305)
Cash, cash equivalents and restricted cash, beginning of year	5,391	5,696
Cash, cash equivalents and restricted cash, end of year	4,147	5,391
Supplemental disclosures of cash flow information:		
Cash payments for interest	74	92
Cash payments for income taxes	496	1,128
Non-cash movements of inventory and fixed assets	96	(459)

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.

Liquidity – The Company meets its day-to-day working capital and other cash flow requirements through operations and loan facilities. The Company has a Note Payable (Note 9) that matures in March 2023 and access to a line of credit (Note 8) that renews annually. The Company actively manages its financial risk by operating Board-approved financial policies that are designed to ensure that the Company maintains an adequate level of liquidity and effectively mitigates financial risks.

Currently due to fears over the spread of COVID-19 there has been a significant economic impact in the regions in which the Company operates. Further, for several reasons including COVID-19, there has been a significant decrease in oil demand and therefore a fall in prices. Considering the Company's customer base is concentrated in the Oil and Gas industry, this could have a significant impact on future demand for the Company's clean water technology. Whilst it is too early to predict the impact to the Company's operations, the extent of the effect on the Company's operational and financial performance will depend on future developments, including the duration, spread, and intensity of the pandemic, and governmental, regulatory and private sector responses.

Given the future uncertainty, including that the Company's 2019 operations showed a significant decrease in revenues from 2018 due to the delay of certain projects, the Company performed a downside scenario sensitivity analysis taking into account the potential for continuation of low oil prices and uncertainty around COVID-19, whilst considering revenues already under contract and adjusting only for cost of goods sold.

On the basis of current financial projections, including the downside scenario sensitivity analysis, and facilities available, the Company believes that it has adequate resources to continue in operational existence for the foreseeable future at least 12 months from the date of the issuance of these financial statements and, accordingly, consider it appropriate to adopt the going concern basis in preparing these Financial Statements.

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 inventory valuation, accounts receivable valuation, 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, professional services to operate the leases, turnkey operations, 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 and spare parts 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 professional services provided to monitor and operate the equipment is recognised over time when the service is provided and is typically billed monthly. Revenue from turnkey projects whereby the Company is asked to manage the water filtration process end to end is recognised on a straight line basis over time as the performance obligation, in the context of the contract, is a stand ready obligation to filter all water provided. Revenue from contracts related to construction of equipment is recognised upon shipment of the equipment to the customer because the contractual terms state that control transfers at the point of shipment and there is no enforceable right to payments made as customer deposits prior to that date. Customer deposits for equipment sales represent payments made prior to transferring control at the point of shipment that can be refunded at any time when requested by the customer, thus, they do not represent deferred revenue.

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 fulfilment cost and are included in cost of goods sold.

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 that are satisfied over 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. All other performance obligations are satisfied at a point in time upon transfer of control to the customer.

The Company's contracts with customers 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. The Company develops observable SSP by reference to stand-alone sales for identical or similar items to similarly situated clients at prices within a sufficiently narrow range.

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 revenue recognised in excess of amounts billed. Deferred revenue represents billings in excess of revenue recognised. Deferred revenue at 31 December 2018 included $124,867 recognized as revenue in 2019. There was no unbilled accounts receivable and no deferred revenue at 31 December 2019.

Timing of revenue recognition for each of the periods and geographic regions presented is shown below:

	Equipment Leases, Turnkey Arrangements, and Services Recognised Over Time		**Consumable Filtration Media, Equipment Sales and Service Recognised at a Point in Time**	
Year Ending 31 December (USD, in thousands)	**2019**	**2018**	**2019**	**2018**
Middle East	3,931	7,593	4,324	15,473
United States	1	260	2,448	2,205
Other	–	98	916	1,323
Total revenue recognised under ASC 606	3,932	7,951	7,688	19,001
Total revenue recognised under ASC 842	288	–	–	–
Total revenue	4,220	7,951	7,688	19,001

Contract Costs – The Company capitalises certain contract costs such as costs to obtain contracts (direct sales commissions) and costs to fulfil contracts (upfront costs where the Company does not identify the set up fees as a performance obligation). These contract assets are amortised over the period of benefit, which the Company has determined is customer life.

During the year ended 31 December 2019, the Company did not have any costs to obtain a contract and any costs to fulfil a contract were inconsequential.

Cash, cash equivalents and restricted cash – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At 31 December 2019, 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 2019 and 2018, cash in non-U.S. institutions was $7,000 and $13,000, respectively. The Company has not experienced any losses in such accounts. The Company classifies as restricted cash all cash whose use is limited by contractual provisions. As of 31 December 2019 and 2018, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 9). The restricted cash balance at 31 December 2018 also included $25,000 in a Certificate of Deposit to secure the Company's corporate credit card.

Reconciliation of cash, cash equivalents and restricted cash at 31 December 2019 and 2018:

	31 December 2019 US$000	**31 December 2018 US$000**
Cash and cash equivalents	3,647	4,866
Restricted Cash	500	525
Total cash, cash equivalents and restricted cash	4,147	5,391

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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 2019 and 2018 was $nil and $300,000, respectively, as the Company wrote off the balances reserved at 31 December 2018 during 2019 and no other amounts were reserved during 2019.

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 changed their inventory accounting method from the FIFO method (first in; first out) to the Average Cost method. 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. The Company determines the valuation by evaluating expected future usage as compared to its past history of utilisation and future expectations of usage.

Change of Accounting Principle – On 30 September 2019, the Company changed its inventory accounting method from the FIFO method to the Average Cost method. The change coincided with the migration of the Company's ERP system to NetSuite. While both costing methods are acceptable under U.S. GAAP, the Company decided to use average costing in the new system to best utilise NetSuite capabilities and more accurately account for inventory and cost. A change in prior periods has been deemed both immaterial and impractical due to the significant turnover of inventory over the preceding two years, and thus, the Company has chosen to apply the change prospectively starting on the date of the NetSuite implementation.

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:

Building	39 years
Leasehold improvements	Lease period or 1–5 years (shorter of)
Office equipment	3–10 years
Manufacturing equipment	5–15 years
Research and development equipment	5–10 years
Purchased software	Licensing period or 5 years (whichever is shorter)
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 2019 and 2018.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2019 and 2018 was approximately $352,000 and $nil, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2019 and 2018 was $nil and is recorded in selling, general and administrative expenses.

Rent expense – In 2018, under ASC 840, the Company recorded 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 represented the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

In 2019, under ASC 842, the deferred rent liability was recognised within the initial right of use asset as of the transition date and the rent expense was recorded using straight-line amortisation of the right of use asset as calculated under the standard for the remainder of the expected lease term. The lease liability was calculated at the present value of the remainder of the contracted lease payments.

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

The realisation of the deferred tax assets, net of a valuation allowance, is primarily dependent on the ability to generate taxable income. A change in the Company's estimate of future taxable income may require an addition or reduction to the valuation allowance.

The benefit from an uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained upon audit by the relevant authority. For positions that are more than 50 percent likely to be sustained, the benefit is recognised at the largest amount that is more-likely-than-not to be sustained. 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 2019 and 2018 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 consisting of unexercised stock options that were excluded from computing diluted net loss per share were approximately 1,324,968 for the year ended 31 December 2019 and there were no adjustments to net income available to stockholders as recorded on the income statement.

The following table sets forth the components used in the computation of basic and diluted net (loss) profit per share for the periods indicated:

	Years Ended 31 December	
	2019	**2018**
Basic weighted average outstanding shares of common stock	19,312,664	18,802,981
Effect of potentially dilutive stock options	–	1,200,270
Diluted weighted average outstanding shares of common stock	19,312,664	20,003,251
Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock	1,324,968	–

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

Fair value of financial instruments – The Company uses the framework in ASC 820, Fair Value Measurements, 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 2019 or 2018.

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 2019 and 2018 include cash and cash equivalents, restricted cash, 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.

Stock compensation – The Company issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date is expensed, based on the Company's estimate of shares that will eventually vest, on a straight-line basis over the vesting period. Fair value for the share awards representing equity interests identical to those associated with shares traded in the open market is determined using the market price at the date of grant. Fair value is measured by use of the Black Scholes valuation model (see Note 11).

Recently issued accounting standards – In February 2016, the Financial Accounting Standards Board ('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 prior U.S. GAAP, which required only capital leases be recognised on the balance sheet, the new standard requires both finance and operating 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 adopted this ASU under a modified retrospective approach on 1 January 2019 adopting the standard only from the beginning of the adoption year with a cumulative-effect adjustment recorded as of 1 January 2019, which resulted in no impact to the statement of stockholders' equity. This resulted is the recognition of an Operating Lease Right of Use Asset and an Operating Lease Liability of $1,076,000 and $1,042,000, respectively. The Company adopted the standard with the 'package of three' practical expedient as stated in ASC 842 upon adoption in evaluating its adoption impact from a lessee perspective.

Lessor Contracts
The Company evaluated the potential impact of the adoption from a lessor perspective as the Company's business model provides customers with the use of equipment to filter water. The Company determined that in contracts where equipment was leased, there was an identified asset, the most significant economic benefit was the ability of the customer to obtain clean water from their use of the Company's clean water technology, and customers directed the activities most significant to the ability to obtain those economic benefits. Contracts generally contain no purchase options or residual value guarantees. The assets that the Company leases generally have a long useful life of up to 10 or more years and are used by several customers over the useful life of the equipment. The Company believes that the residual value at any point in time is materially consistent with the recorded rate of depreciation as a result.

The Company's lease contracts are generally short term in nature and contain non lease components in the form of services, whereby employees operate the equipment, and the media to use with the equipment in order to clean the water. Within these contracts, the predominant value lies in the purchased media, which cleans the water, and is the most significant value received by the customer. As a result, the Company will use the lessor practical expedient to recognise all components under ASC 606 within these contracts.

From time to time, customers will lease only the equipment on a trial basis or for a short period of time, as a need arises, without the purchase of services or media. In these instances, revenue is recognised under ASC 842. The amount of lease income to be received under these types of arrangements over the next five years for which a contract currently exists is not significant because of the short-term nature of the Company's lease contracts.

In August 2016, the FASB issued ASU 2016-15, 'Clarification on Classification of Certain Cash Receipts and Cash Payments on the Statement of Cash Flows', which amends ASC 230. The FASB issued ASU 2016-15 with the intent of reducing diversity in practice with respect to eight types of cash flows. The Company has adopted this guidance effective 1 January 2019. The adoption of this new guidance did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, 'Statement of Cash Flows (Topic 230): Restricted Cash', that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. The Company has adopted this guidance effective 1 January 2019 using the retrospective transition method and has applied its content to the statement of cash flows for the years ended 31 December 2018 and 2019 presented herein.

In August 2018, the FASB issued ASU 2018-13, 'Fair Value Measurement (Topic 820): Disclosure Framework', which removes, modifies and adds to the disclosure requirements on fair value measurements in Topic 820. The amendments on changes in unrealised gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. This guidance will become effective for the Company in fiscal years beginning after 15 December 2019, including interim periods within that reporting period. The Company does not expect adoption of this guidance to have a material impact on its financial statements.

In December 2019, the FASB issued ASU 2019-12, 'Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes', which is expected to simplify income tax accounting requirements in areas deemed costly and complex. The amendments under ASU 2019-12 will be effective as of 1 January 2021, and interim periods within that year, with early adoption permitted in its entirety as of the beginning of the year of adoption. At adoption, the guidance allows for modified retrospective application through a cumulative effect adjustment to retained earnings. The Company is currently evaluating the impact of adopting this guidance.

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

Reclassifications – Certain reclassifications have been made to prior years' financial statements to conform to current year presentation. A reclassification was made on the balance sheet to separately present 'customer deposits' of $130,000 previously included in 'other current liabilities'. A reclassification was made in the cash flow statement to separately present 'customer deposits' of $130,000 previously included in 'other current liabilities' among adjustments to reconcile net income to net cash provided by operating activities. These reclassifications had no effect on reported results of operations, accumulated deficit, or net cash provided by operating activities, as of and for the year ended 31 December 2018.

3. Accounts Receivable

Accounts receivable and their respective allowance amounts at 31 December 2019 and 2018:

	31 December 2019 US$000	**31 December 2018 US$000**
Accounts receivable	3,987	8,525
Less: allowance for doubtful accounts	–	(300)
Total receivable – net	3,987	8,225

4. Inventories

Inventories consist of the following at 31 December 2019 and 2018:

	31 December 2019 US$000	**31 December 2018 US$000**
Raw materials	2,125	1,341
Work-in-progress	–	–
Finished goods	4,016	3,367
Total inventory	6,141	4,708

Notes to the Financial Statements continued

5. Property and Equipment

Property and equipment consists of the following at 31 December 2019 and 2018:

	31 December 2019 US$000	31 December 2018 US$000
Land	709	709
Building	2,724	2,724
Leasehold improvements	277	361
Office equipment	707	699
Manufacturing equipment	926	898
Research and development equipment	551	496
Purchased software	222	222
Equipment leased to customers	9,378	9,511
Equipment available for lease to customers	617	163
	16,111	15,783
Less: accumulated depreciation	(8,095)	(7,247)
Property and equipment – net	8,016	8,536

During the years ended 31 December 2019 and 2018, the Company removed property, plant and equipment and the associated gross and accumulated depreciation of approximately $369,000 and $58,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2019 and 2018 was approximately $1,217,000 and $1,167,000, 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 2019 and 2018 was $883,000 and $801,000, respectively.

6. Intangible Assets

During 2009, the Company entered into a patent rights purchase agreement. 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 $58,000 and $51,000 as of 31 December 2019 and 2018, 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 2019 and 2018 consist of the following:

	Weighted Average Useful Lives	31 December 2019 US$000	31 December 2018 US$000
Internally developed patents	15 years	1,356	1,294
Purchased patents	17 years	100	100
		1,456	1,394
Less accumulated amortisation		(658)	(606)
Intangible assets – net		798	788

Internally developed patents includes approximately $357,000 for costs accumulated for patents that have not yet been issued and are not depreciating.

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December (USD, in thousands)	
2020	51
2021	54
2022	53
2023	45
2024	44
Thereafter	194

Amortisation expense for the years ended 31 December 2019 and 2018 was approximately $52,000 and $72,000, respectively.

7. Income Taxes

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

	31 December 2019 US$000	31 December 2018 US$000
Current:		
Federal	–	–
Foreign	462	1,185
State	(2)	15
Total current provision	460	1,200
Deferred:		
Federal	–	–
Foreign	–	–
State	–	–
Total deferred provision	–	–
Total provision for income taxes	460	1,200

The provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 21 percent, primarily due to the effect of certain non-deductible expenses, foreign withholding tax, and changes in valuation allowances.

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

	31 December 2019	31 December 2018
Federal statutory income tax rate	21.0%	21.0%
State tax rate, net of federal benefit	3.8%	0.5%
Valuation allowance	(28.9%)	(16.7%)
Other	0.3%	1.5%
Foreign withholding tax	(14.6%)	21.8%
Effective income tax rate	(18.4)%	28.1%

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 2019 US$000	31 December 2018 US$000
Deferred tax assets		
Net operating loss	4,660	3,971
Equity compensation	324	297
Research and development credits	159	159
Right of use liability	168	–
Allowance for bad debts	–	64
Accrued liability	–	4
Inventory valuation reserve	132	93
Other	16	22
Total gross deferred tax asset	5,459	4,610
Deferred tax liabilities		
Property and equipment	(687)	(738)
Right of use asset	(178)	–
Total gross deferred tax liability	(865)	(738)
Net deferred tax asset before valuation allowance	4,594	3,872
Valuation allowance	(4,594)	(3,872)
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 2019, the Company has recorded a valuation allowance of $4.6 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 31 December 2019, the Company has approximately $20.8 million of gross U.S. federal net operating loss carry forwards and $4.4 million of gross state net operating loss carry forwards that will begin to expire in the 2024 tax year and will continue through 2030 when the current year net operating losses will expire.

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.

The Company's tax years 2016 through 2019 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 2019. There was no balance on the line of credit at 31 December 2019 and 2018. The interest rate on 31 December 2019 and 2018 was 4.75 percent and 5.50 percent, respectively. There was no interest expense related to this loan for the years ended 31 December 2019 and 2018.

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 from which the Company continues to operate. The carrying amount of the property and building as of 31 December 2019 and 2018 was $2.9 million and $3.0 million, respectively. Upon selling the collateral, the Company is required to repay the term loan in full. The lender is not allowed to sell the collateral during the term of the loan. 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. This will result in a one-time balloon payment at the end of the term of the note of approximately $1,400,000 during 2023. 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 2019 and 2018, 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 2019:

Year Ending 31 December (USD, in thousands)	
2020	97
2021	102
2022	106
2023	1,434
	1,739

10. Public Offering of Common Stock

In March 2019, the Company issued an additional 603,633 shares of common stock for 230 pence per share. The Company incurred costs in the issuance of these shares of approximately $229,000. The Company received net proceeds of approximately $1,588,000.

11. 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 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.

In July 2019, the Company's shareholders approved the extension of the Plan to 2029 and the increase in the possible number of shares to be awarded pursuant to the Plan to 15 percent of the Company's issued capital at the date of any award.

Notes to the Financial Statements continued

11. Stock Compensation continued

The total number of shares reserved for stock options under this Plan is 2,916,563 with 1,374,542 shares allocated as of 31 December 2019. The shares are all allocated to employees, executives and consultants.

Any 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, and expire on the tenth anniversary date of the grant. 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 on the five year anniversary date of the grant.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. The Company's expected volatility is calculated as the historical volatility of the Company's stock over a period equal to the expected term of the awards. The expected terms of options are calculated using the weighted average vesting period and the contractual term of the options. 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 2019 and 2018 were as follows:

	Number of Options Granted	Grant Date	Risk-free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
2018	150,000	30/11/2018	2.90%	5.72 years	53.00%	$3.03	$1.57
2019	10,000	28/02/2019	2.58%	6 years	72.00%	$3.20	$2.08
	50,000	04/11/2019	1.65%	6 years	76.00%	$0.68	$0.45

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 2019 and 2018:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2017	1,222,042	$2.31	5.9	$1.07
Granted	150,000	$3.03	5.7	$1.57
Exercised	(20,000)	$0.44		
Forfeited	(5,000)	$0.75		
Outstanding at 31 December 2018	1,347,042	$2.43	5.9	$1.14
Granted	60,000	$1.10	6.0	$0.72
Exercised	(32,500)	$1.29		
Outstanding at 31 December 2019	1,374,542	$2.40	5.7	$1.13
Exercisable at 31 December 2019	1,206,208	$2.49	6.0	

The total intrinsic value of the stock options exercised during the years ended 31 December 2019 and 2018 was approximately $29,000 and $19,000, respectively.

A summary of the status of unvested options as of 31 December 2019 and changes during the years ended 31 December 2019 and 2018 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2017	183,666	$0.44
Granted	150,000	$1.57
Vested	(114,499)	$0.34
Forfeited	(2,500)	
Unvested at 31 December 2018	216,667	$1.14
Granted	60,000	$0.72
Vested	(108,333)	$1.50
Unvested at 31 December 2019	168,334	$0.76

As of 31 December 2019, total unrecognised compensation cost of approximately $67,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the years ended 31 December 2019 and 2018 was approximately $199,000 and $80,000, respectively.

See remuneration by Director, including stock compensation, on pages 30 and 31 of this report.

12. Commitments and Contingencies

Operating leases – During 2019, the Company adopted ASU 2016-02 Leases (Topic 842). The Company has operating leases for its offices, yards and warehouses and is applying the provisions of ASU 2016-02 to these leases. The Company is following a modified retrospective approach in the adoption of this ASU resulting in the recognition of an Operating Lease Right of Use ('ROU') Asset of $1,076,000 and an Operating Lease Liability of $1,042,000 at 1 January 2019. This adjustment is based on the present value of future minimum rental payments of the leases.

As of 31 December 2019, the Operating Lease ROU Asset has a balance of $810,000, net of accumulated amortisation of $267,000 and an Operating Lease Liability of $766,000, which are included in the accompanying balance sheet. The weighted average discount rate used for leases accounted for under ASU 2016-02 at transition is 5.25 percent, which is based on the Company's secured incremental borrowing rate.

The Company's leases do not include any options to renew that are reasonably certain to be exercised. The Company's leases mature at various dates through May 2024 and have a weighted average remaining life of 3.49 years.

Future maturities under the Operating Lease Liability are as follows for the years ended 31 December:

Year Ending 31 December	Future Lease Payments US$000
2020	313
2021	227
2022	120
2023	122
2024	51
Total future maturities	833
Portion representing interest	(67)
	766

Total lease expense for the year ended 31 December 2019 was approximately $313,000.

Total cash paid for leases for the year ended 31 December 2019 was $322,012.

Notes to the Financial Statements continued

12. Commitments and Contingencies continued

The Company has elected to apply the short-term lease exception to all leases of one year or less and is not separating lease and non-lease components when evaluating leases. Total costs associated with short-term leases was $156,000 for the year ended 31 December 2019.

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.

13. Related Party Transactions

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

14. Segment and Geographic Information

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ('CODM') in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer ('CEO'). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 31 December 2019. For the year ended 31 December 2019, 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)	2019	2018
Middle East	8,255	23,066
United States	2,737	2,465
Other	916	1,421
Total	11,908	26,952

Long lived assets available for lease, net of depreciation, by geography is as follows:

Year Ending 31 December (USD, in thousands)	2019	2018
Middle East	3,241	3,787
United States	663	933
Other	–	144
Total	3,904	4,864

15. Concentrations

At 31 December 2019, one customer with four contracts represented 94 percent of accounts receivable. During the year ended 31 December 2019, that same customer, along with the Company's second largest customer, account for 80 percent of its gross revenue.

At 31 December 2018, one customer with seven contracts represented 89 percent of accounts receivable. During the year ended 31 December 2018, that same customer accounted for 85 percent of the Company's gross revenue.

16. Subsequent Events

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 26 May 2020, the date the financial statements were available to be issued, and no events have occurred which require further disclosure other than the following:

In March 2020, the World Health Organization declared the outbreak of the COVID-19 virus a global pandemic. This outbreak is causing major disruptions to businesses and markets worldwide as the virus continues to spread. A number of countries as well as certain states and cities within the United States have enacted temporary closures of businesses, issued quarantine or shelter-in-place orders and taken other restrictive measures in response to COVID-19. The Company is closely monitoring the effects of the COVID-19 pandemic. The Company is currently operating normally, and, at this time, does not anticipate any significant operations effects as a result of the pandemic.

During March 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security ('CARES') Act. The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the 2020 coronavirus pandemic, which contains numerous payroll and income tax provisions among other provisions. The Company is currently evaluating the implications of the CARES Act, and its impact on the Company's financial statements and related disclosures has not yet been determined. The Company applied for and was approved for a Paycheck Protection Program in the amount of approximately $401,000 with an interest rate of 1% and a maturity date of April 2022. The Company anticipates meeting the requirements for forgiveness of the loan as laid out in the Act.

Forward Looking Statements

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

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