MYCELX

MYCELX Technologies Corporation

Accelerating a Sustainable Future

Annual Report & Accounts 2020

About MYCELX

MYCELX is an IP-driven, clean water and air company that has made its name by solving the world's toughest water treatment challenges with its market leading technology

Accelerating a Sustainable Future

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Find the latest investor relations at:
https://mycelx.com/investors/

At a Glance

Our Purpose

MYCELX reduces the environmental impact of industry through science and its unique technology

Our Vision

MYCELX will become the industry standard in clean water and air treatment

Highlights

Operational

- **No disruption to ongoing operations during COVID-19 lockdowns**
- **$0.8m contract win for a new downstream application**
- **Optimisation of the REGEN Retrofit Package**
- **Assigned dedicated team to progress PFAS market opportunities**

Post Period

- **Two contract wins valued at $2.4m**
- **Secured paid trial with leading EOR producer**
- **Sale of Duluth office for $5.4m**

Financial

Revenue	**EBITDA**
$7.1m	**$(4.2)m**
Loss Before Tax	**Cash & Cash Equivalents**
$(5.8)m	**$3.8m**

Our Aims & Values

Safe solutions for everybody at all times

Safety is paramount for MYCELX. Our staff are our most valuable assets and our solutions always protect their well-being

Protect the environment

MYCELX enables its customers to meet the strictest regulatory standards, thereby reducing their impact on the environment

Provide future-proof systems

MYCELX systems solve immediate challenges, are robust and able to meet future demands as industry's requirements evolve

Deliver cost effective, performance optimising solutions

MYCELX systems are consistent and robust, providing our customers with superior performance, significant cost savings and the comfort to focus solely on their production

Support local stakeholders

MYCELX protects the environment in the locations it operates, whilst providing employment and supporting local content initiatives by manufacturing and sourcing locally

Realise value for shareholders

MYCELX seeks to gain widespread adoption for its applications to realise the full value of its technology

Chairman's Statement

MYCELX's offering has never been more relevant in the fight for a clean environment

I would like to thank all of those involved with the Company for their hard work and support during my tenure as Non-Executive Chairman. Since joining in 2011, the Company has achieved much in challenging markets, in addition to successfully navigating periods of low oil prices and a pandemic. I can stand down knowing that the business is in excellent hands, with Connie Mixon as CEO and Tom Lamb set to assume the role of Chairman upon my departure in July.

We have faced a number of major unforeseeable external challenges since flotation; but throughout that time, we have controlled our costs and continued to improve our patented technology. Our REGEN and PFAS solutions are unique and ideally placed to assist our clients in addressing their present and historic environmental and operational challenges.

2020 was a very difficult year for the global economy. The energy and industrials markets were adversely affected by the outbreak of the COVID-19 pandemic, which sent oil and gas prices to multi-year lows. We witnessed unprecedented events, such as the price for WTI futures turning negative in April 2020.

"At the time of writing, although the markets remain fragile, we are starting to see opportunities appear across the industries we are targeting."

We have now entered a period of almost universal Governmental and private sector concern for the environment so MYCELX's offering has never been more relevant. The effective treatment of wastewater is critical to the fight for a clean environment. We are proud to be able to offer our customers a solution that enables them to address that issue while helping them to reduce costs and increase operating margins at the same time.

Investors and the public markets are laser focused on the Environmental, Social and Governance ('ESG') measures being taken by corporates. Our offering can offer a real solution to enterprises in need of safe and sustainable wastewater treatment. We aim to operate to the highest of ESG standards and continue to monitor changing trends in our decision making as appropriate.

During this difficult period MYCELX was able to maintain operations at all of our sites and further cement our position as a leading global clean water technology company. MYCELX sought to leverage our footprint within our core regions of focus, which delivered commercial opportunities, but also expand into new industry segments, which our patented proprietary technology is well suited to.

In 2020 we acted quickly to reduce our cost base and safeguard the Company's financial position. The Company is well funded to capitalise on new bidding opportunities as they emerge.

Outlook

At the time of writing, although the markets remain fragile, we are starting to see opportunities appear across the industries we are targeting. We have already signed a number of new commercial agreements in 2021 and, with the resurgence in oil prices, we hope to see renewed bidding activity as we move into the second half of 2021 and into 2022. We are excited about the paid trial we have secured for REGEN and expect that in the event of a successful outcome, this will lead to renewed interest from leading Enhanced Oil Recovery players in the oil and gas space. The Company also sees considerable opportunity in the treatment of Per- and polyfluoroalkyl substances ('PFAS'). The treatment of PFAS is not only an environmental imperative, but it is also likely to be a growth market for the foreseeable future. It is therefore important to note that MYCELX's solution is a highly robust form of treatment that is proven to be superior to conventional methods, which has been shown to remove a broader range of PFAS contaminants to below detectable levels.

In closing, I do not know of another business out there that is more 'of the moment' as MYCELX. The environmental benefits, along with the cost savings our technologies generate are unparalleled. I believe that the Company is poised to benefit from greater levels of demand than ever from corporates committed to behave in an environmentally responsible manner.

I look forward to watching the Company's progress after I stand down at the AGM and I would like to thank our shareholders, employees and wider stakeholders for their continued support during what has been a challenging period for the business.

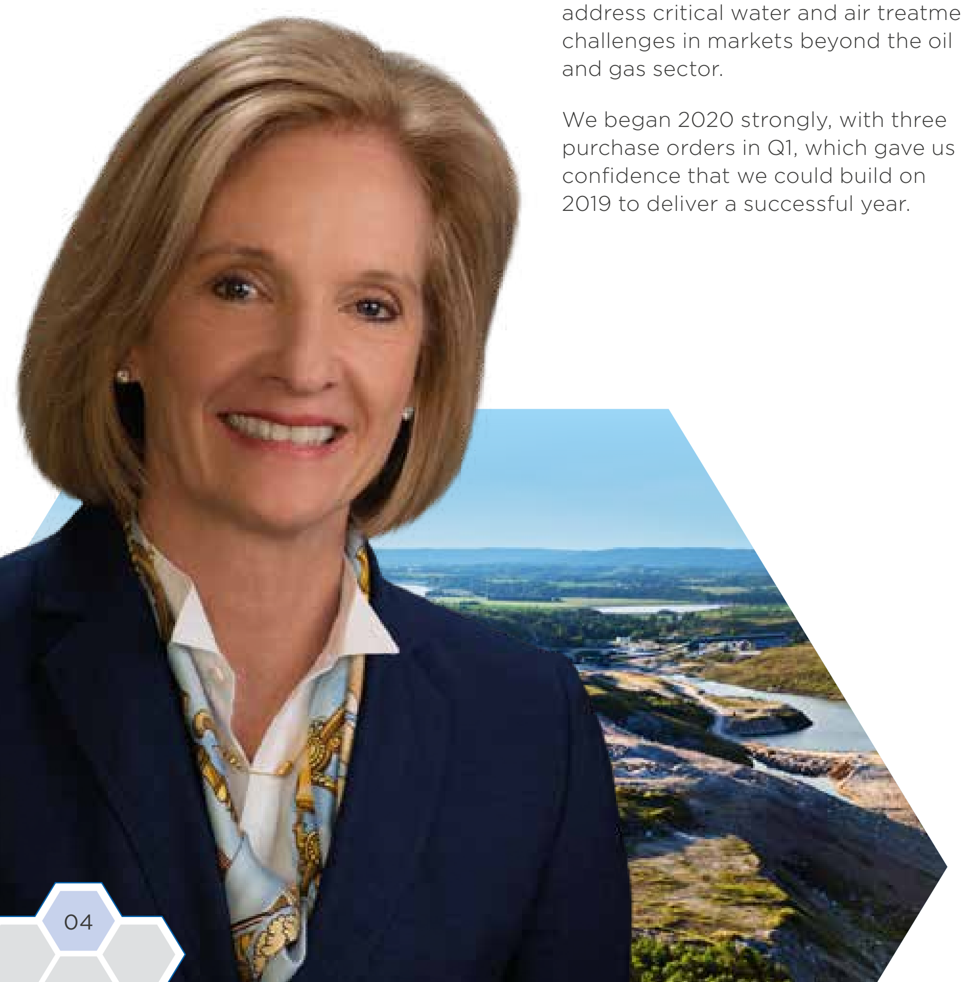
Rt. Hon. Tim Eggar
Chairman
25 May 2021

Chief Executive Officer's Statement

MYCELX supports sustainable operations with proven technology

2020 was a challenging year for the Company, with the combined impact of COVID-19 and the well-publicised issues facing the oil and gas industry.

"There are increasing opportunities for MYCELX outside the energy sector in groundwater remediation and air filtration."



Whilst we have been successfully diversifying, with products that address markets in addition to oil and gas, MYCELX is not immune to the unprecedented slowdown in the global economy.

MYCELX carefully deployed its resources and expert personnel in response to the COVID-19 travel and work restrictions. On the delivery side, this took the form of ensuring staff safety, adapting to new operating realities, whilst still providing the superior water and air treatment and a high quality of service to our customers in our key markets. It further involved the development of novel applications of MYCELX patented technologies to address critical water and air treatment challenges in markets beyond the oil and gas sector.

We began 2020 strongly, with three purchase orders in Q1, which gave us confidence that we could build on 2019 to deliver a successful year.

Whilst much of the rest of the year was characterised by the pandemic, we took the opportunity to ensure that MYCELX is well positioned to take advantage of the opportunities that lie ahead. This included making strides in product development and decisions to properly scale operations and right-size the business to current needs.

The ever-broadening regulatory framework and focus on the environment has gripped many industries worldwide, and oil and gas is no exception. MYCELX is well positioned to support the oil and gas industry, as well as these wider industries, as they seek to operate in a sustainable manner, with proven technology already in service around the globe.

There are increasing opportunities for MYCELX outside the energy sector in groundwater remediation and air filtration. The technology that we have developed, patented, own and have been successfully rolling out, is ideally positioned to take advantage of this ever-increasing need in industry to deploy the most effective technology that supports and achieves their corporate environmental goals.

Operational Performance

MYCELX made several positive developments during 2020. These included contracts wins, contract extensions and progress with product developments. Of particular note were contract awards in the Middle East, which we were delighted to win against very competitive and testing conditions. These achievements were made against a backdrop of the team working from home and a slowdown in bidding activity in core markets.

The successes delivered in 2020 clearly demonstrate the value our clients place in having the MYCELX solution in place. It is not only a superior and completely reliable answer to their water and air management needs, it also supports them in the delivery of their ESG reporting and business requirements.

Above all, it is cost effective and has been proven to lower both the capital and operational costs of any individual client site.

A new purchase order was signed with a SABIC affiliate later in the first half of the year, valued at $0.8 million. The contract related to an emergency response project, treating process water to maintain plant performance to desired specifications. Supporting a further SABIC affiliate expands our footprint in the key Saudi Arabian market and strengthens our position generally in the Middle East.

In June, we saw a further contract extension provided by SABIC, with the lease of a water treatment system. The value of the contract was $1.8 million. As part of that agreement, MYCELX also undertook to run a trial with a further SABIC affiliate. The trial not only again reaffirmed the Company's position in that market, it also presents a further purchase order opportunity.

The most notable product development during the year was the successful development and commercialisation of a retrofit package that enables MYCELX's REGEN media technology to be placed into existing installed filter systems. In addition to providing the customer with significant operational efficiencies and improved performance, this technology reduces the capital outlay, encouraging customer adoption and interest. The retrofit package was developed by the Company's in-house R&D team, requiring significant engineering and design input.

Decisive action was taken early in the pandemic to protect the safety of employees and reduce the Company's day to day costs. This entailed stopping all non-essential travel and installing a work from home policy. It also involved a reduction in salaries across the business, with the exclusion of those working on an hourly rate. These measures were effective in supporting our employees as well as protecting the business from the inevitable challenges of COVID-19. It is a huge testament to the loyalty and hard work of our team that, as the business emerges from this turbulent time, we are poised to move on and take advantage of the opportunities before us.

Looking to the future

We feel increasingly confident that MYCELX is well placed to pick up again on the momentum it saw pre-pandemic. A large part of this is down to being well situated to benefit from the dramatic growth in environmental regulation worldwide, combined with more stringent requirements for effective and definitive ESG reporting. ESG reporting effects every aspect of a customer's business today, from funding to winning contracts, and has become central to the way business is conducted, driving strategy and board level decisions.

Against this backdrop, the Company has made a strong start to the year with two project extensions, signed with customers in Saudi Arabia. The Company has also delivered equipment for the third sale in Nigeria and has commenced contract execution for a paid trial of the newly developed REGEN solution. A successful outcome of the trial is expected to lead to further interest among EOR producers.

MYCELX is benefiting from efforts made to right-size the business for the future. This culminated in the successful sale of the office in Duluth, Georgia, post the period end, for a total consideration of $5.4 million. Net cash proceeds from the sale, of $2.8 million, support the Company's net cash position of $6 million, providing a good platform for the future.

As per the announcement of 23 March 2021, Tom Lamb will be assuming the role of Chairman, following the planned departure of Tim Eggar in July. Tom is currently a Non-Executive Director and I look forward to working closer with him in his new role. On behalf of the team at MYCELX, I would again like to take the opportunity to thank Tim for the tremendous contribution he has made to the Company, including supporting its expansion into new territories and taking it public on the London Stock Exchange in 2011.

The Board is fully focused on maximising shareholder returns, and thereby maximising shareholder value. We are thus very mindful of the importance of regular and interactive dialogue with our shareholder base. We will make every effort to not only adhere to best guidance but to actively look to address and answer any shareholder concerns that may arise. As a significant shareholder myself, this is paramount in my thinking.

I am delighted to report that following all the hard work in 2020, MYCELX is well placed and has had a strong start to the year, trading very much in line with the Board's expectations. This, combined with encouraging signs across our key markets, means that the Board remains confident of the Company's prospects for the year ahead.

Connie Mixon
Chief Executive
25 May 2021

Our Focus Markets

MYCELX has a global footprint across the oil and gas sector and PFAS market

Downstream

Key Applications:
Process Water, Industrial Wastewater, Turnarounds

Key Countries:
Saudi Arabia, U.A.E, Oman, Qatar, Kuwait, India

MYCELX's well established downstream capabilities are currently responsible for the majority of revenue generation and consist largely of temporary and multi-year rental projects in Saudi Arabia.

Pandemic impact

- Continuing uncertainty over global economic recovery is impacting petrochemical demand but supply tightening in 2020 supports a rebound in petrochemical prices in 2021
- Mixed outlook for underlying industries – reduced construction and automotive demand, increased medical and personal care products

Current Trends

- Vision 2030: Greater adherence to water and air regulations is shown by stricter monitoring by authorities to ensure compliance
- Capex Project Delays: Austerity measures will increase emphasis on making existing infrastructure deliver by using temporary rental solutions

Opportunities

- Capex reduction measures will place increased demand on temporary rental solutions. MYCELX solutions which will help to reduce maintenance downtime will also help customers perform better
- Recycle/Reuse Opportunities: MYCELX water expertise offers chances to reduce water wastage and develop wastewater recycle/reuse systems
- Planned developments of petrochemical complexes in Saudi Arabia and rest of GCC

Upstream Onshore

Key Applications:
Produced Water Treatment, Heavy Oils, cEOR

Key Countries:
USA, Nigeria, Qatar, Kuwait, Canada, India

MYCELX Onshore installations provide superior performance for clients across the globe. However, it is the optimised REGEN Retrofit Solution which has the potential to transform this focus market by offering the ability to expand production with the same infrastructure and overcoming water treatment barriers to lucrative cEOR techniques.

Pandemic impact

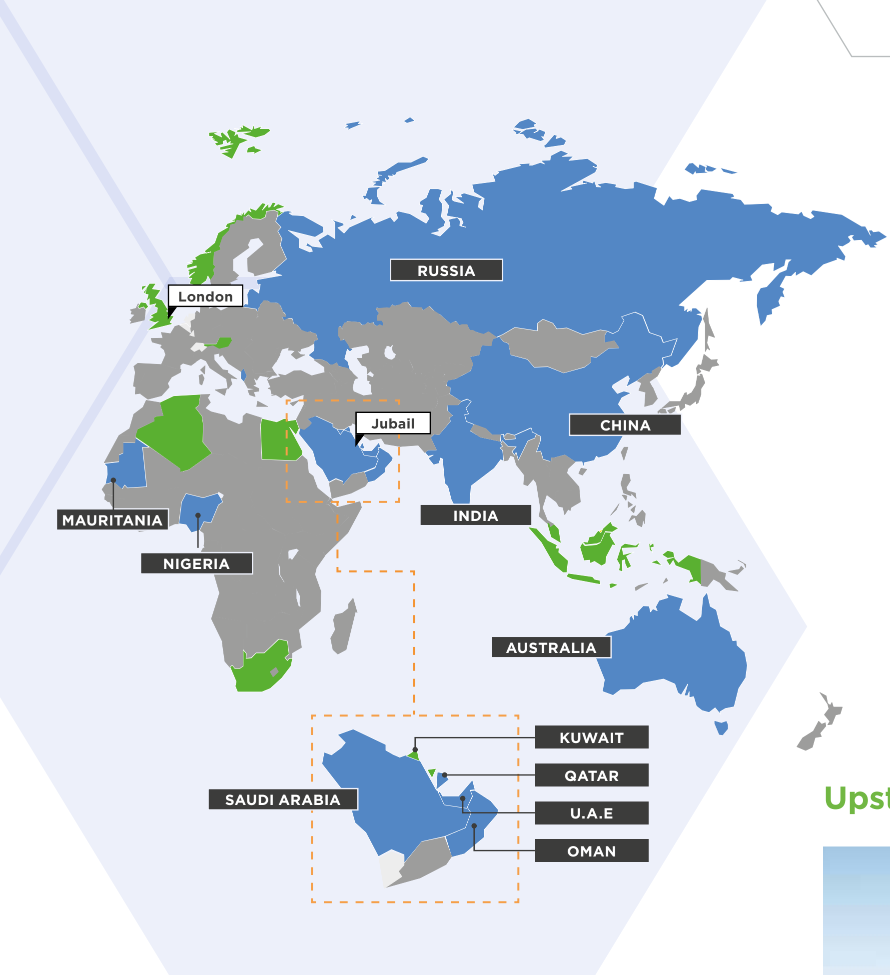
- Accelerated global energy transition trends, however crude oil is expected to play a significant role in the energy sector for the foreseeable future
- Optimism surrounding a recovery in oil prices has been tempered by threat of virus case resurgence in Europe, South America and Asia

Current Trends

- Focus will be to ensure hydrocarbons are produced in an efficient and environmentally sustainable manner
- Preference of maximising potential of brownfield assets, rather than starting new greenfield developments

Opportunities

- Mature productions assets will create greater and more complex treatment challenges as water-cuts increase
- REGEN retrofit package offers the ability to treat up to 50% extra flow rate through the same infrastructure at higher removal efficiency and less wastage
- REGEN already recognised by leading industry players as the industry leading option for cEOR water treatment



KEY

MYCELX solution installed

Potential MYCELX opportunity identified

MYCELX offices

Upstream Offshore

Key Applications:

Produced Water Treatment, Excursion Management, Early Production

Key Countries:

USA, Nigeria, Australia, Brazil

MYCELX's offshore capability is demonstrated by its installations on several major platforms in the Gulf of Mexico. The Company's nimble footprint and superior removal capability make MYCELX an ideal treatment solution for any offshore location.

Pandemic impact

- Weakened crude prices and pandemic related shut-ins impacted Gulf of Mexico production during 2020. In addition, Hurricanes in 2020 resulted in the most shut-ins since 2008
- 2020 was the lowest new offshore field development spend in 30 years

Current Trends

- 13 new projects expected to come online before the end of 2022
- Increased environmental regulations expected, which when coupled with hurricane seasons becoming longer and more serious year on year, means greater production efficiencies are required
- Significant new field development spending expected in Australia and South America

Opportunities

- Leverage existing installations in Gulf of Mexico to expand footprint in the US offshore and international markets for excursion management and early production applications

PFAS & Other

Key Applications:

PFAS Groundwater Remediation

Key Countries:

USA, Australia

MYCELX has a superior and cost-effective solution to treat Per-and Polyfluoroalkyl substances ('PFAS') contaminated groundwater. Leveraging footprint on installed systems in Australia, MYCELX aims to deploy its solutions in the growing US market for PFAS groundwater remediation.

Current Trends

- Increasing public awareness of the risks posed from PFAS contaminated water
- EPA expected to expand the range of PFAS types covered in regulations due to greater understanding of risks

Opportunities

- MYCELX's solution is more robust than conventional methods and has been shown to remove a broader range of PFAS contaminants to below detectable levels
- MYCELX's solution generates significantly less waste and is more cost effective than conventional alternatives

Our Technology and Approach

MYCELX solutions are a step change in filtration, resulting in clean water

Our patented polymer uses molecular cohesion to remove oil from water to levels the customers.

By removing oil at the molecular level MYCELX solutions have advantages over conventional physical separation methods in terms of performance, cost and footprint required.

MYCELX solutions can achieve oil removal to less than 1 ppm if required or tailored for specific discharge levels and contaminant removal as well as operational run time.

MYCELX provides customers with a new standard in clean water and air treatment and an enhanced ability to protect the environment.

1

REVOLUTIONARY TECHNOLOGY

The polymer and its applications are protected by 38 Global patents

2

RECURRING MEDIA SALES

Polymer is infused into purpose built back-washable media and standard filters

3

STANDARDISED EQUIPMENT

Our media is housed inside MYCELX designed equipment or specially modified standard vessels

5

ENHANCED CUSTOMER PERFORMANCE

The end result is oil free water that allows MYCELX's clients to consistently meet their discharge requirements, regulations, cost savings and improve production uptime

4

ENGINEERED SOLUTIONS BASED ON EXTENSIVE WATER EXPERTISE

Our engineers design tailor-made systems which meet our customers' requirements in terms of overall economics, frequency of media changeouts and whether they wish us to handle maintenance of the installation

What Makes Us Different

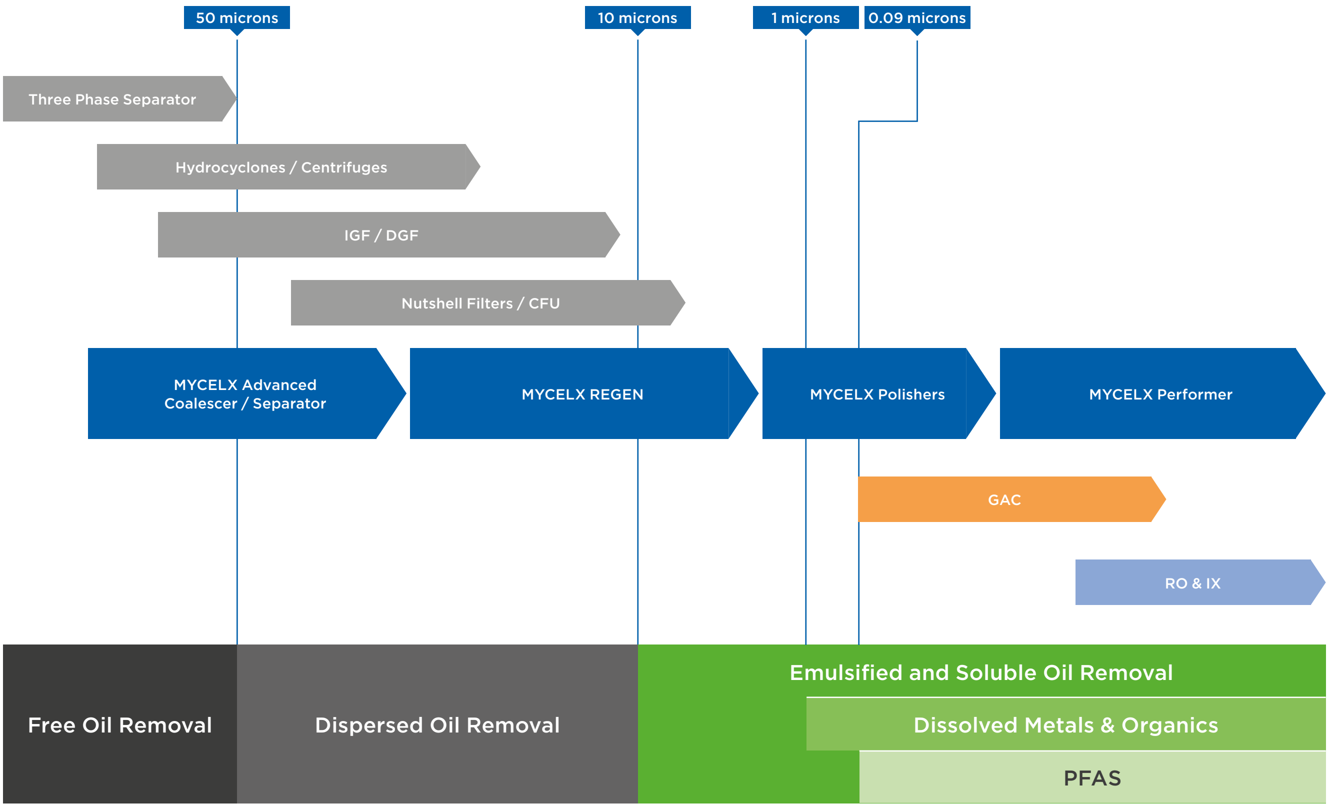
Bridging the Technology Gap Where Others Fail

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

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

The ability to remove droplet sizes below 10 microns sets MYCELX apart from the rest of the conventional technologies 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.

MYCELX offers a total treatment solution for its customers, or can be retrofitted into existing infrastructure. The methods of oil and gas production as well 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 as industry's demands evolve.



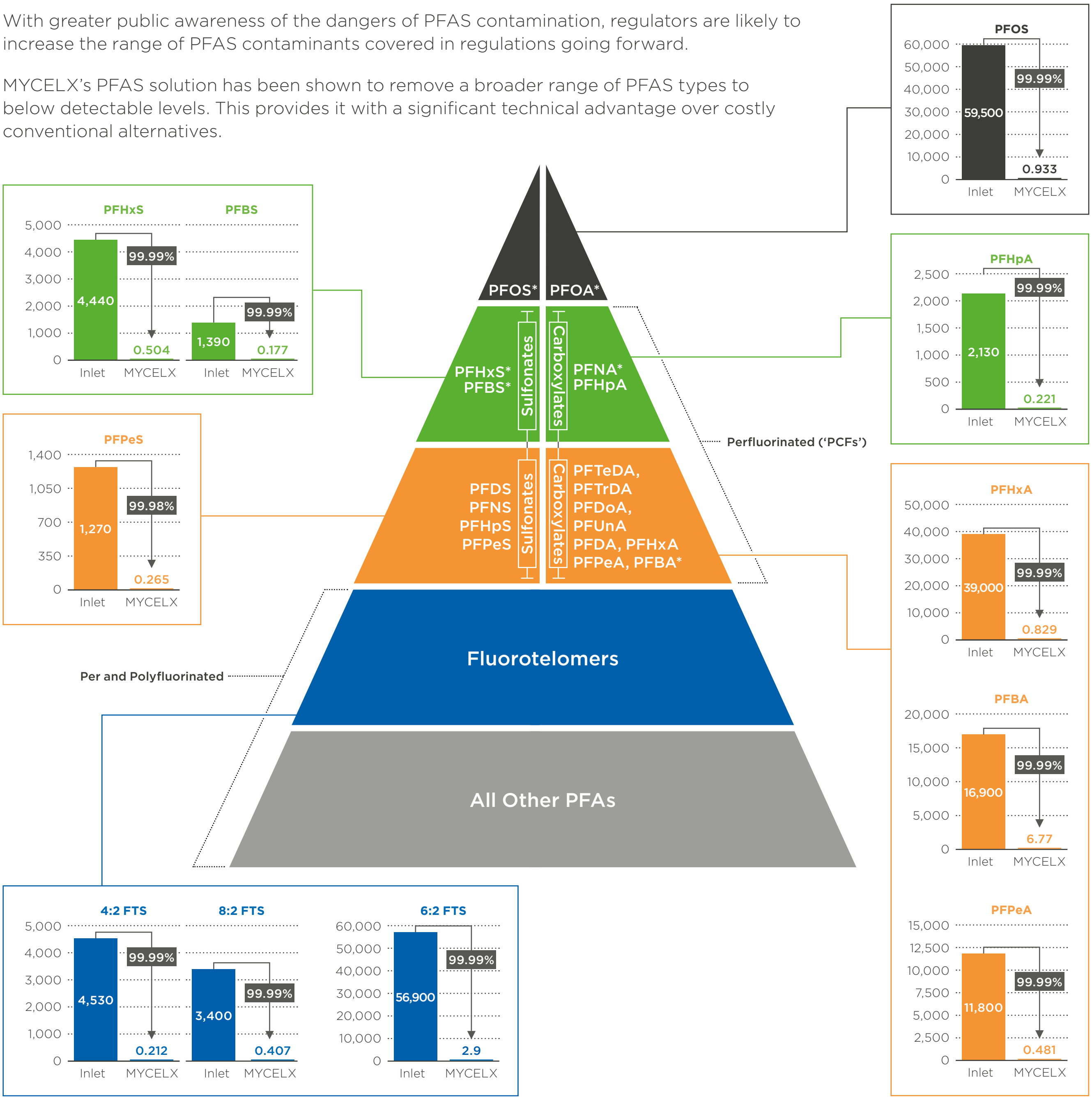
Fit for the Future

Smarter and More Efficient Solutions for PFAS

MYCELX solutions' superior removal capability creates solutions which are more robust and that will remain effective as regulations become more stringent.

With greater public awareness of the dangers of PFAS contamination, regulators are likely to increase the range of PFAS contaminants covered in regulations going forward.

MYCELX's PFAS solution has been shown to remove a broader range of PFAS types to below detectable levels. This provides it with a significant technical advantage over costly conventional alternatives.



Our Business Model

We deploy our assets to pursue our strategic goals

Driven by our clear purpose & values	We deploy our key assets	What we do and how we make money

Our Purpose

To reduce the environmental impact of industry through science and our unique technology.

Our Vision

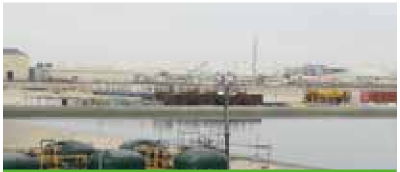
MYCELX aims to be the new standard in clean water and air treatment.

Our Aims and Values

- Safety
- Protect the Environment
- Future-proof Systems
- Cost Effective Solutions
- Performance Optimisation
- Local Support
- Value Realisation

Technology and IP

People & Culture



Fixed Assets

Reputation & Relationships

Design

Our experts use our patented technology to design and engineer robust treatment systems that meet the client's specific needs.

Capital Sales

Our solutions can be tailor-made and manufactured for sale. Due to our small footprint such sales may be to retrofit existing systems or as part of a new greenfield build.

Rental Fleet

We are able to provide equipment for temporary or long-term rental solutions. In Saudi Arabia we have a team that operates and maintains rental deployments 24/7.

Recurring Media

Our patented technology solutions comprise MYCELX patented media which will lead to recurring media sales.

Overview of our Achievements

1 million hours without LTI

38+ patents issued

13 countries with MYCELX systems

We create and secure value for all our stakeholders

...Our competitive advantages	...Value we create for all stakeholders
Patented Technology	**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.
Best-in-class Performance and Competitive Pricing	**Shareholders** Our robust business model has enabled MYCELX to grow into a company with a strong reputation and industry traction. As broad adoption is achieved, it will be possible to unlock further potential value for all stakeholders.
Smaller Footprint	**Local Communities** Benefit from the improved environmental standards, and MYCELX full support for local content initiatives in terms of employment and supply chain creation/local manufacture.
Better understanding of water characteristics	**Employees** We are committed to develop and train our people and to keep them safe and healthy. As and when further business growth is achieved, additional opportunities will become available for our employees.
Strong reputation and After-Sales Support	**Environment** Our smart solutions mean that clients can meet stricter environmental regulations cost effectively – improving overall adherence and protection.
Problem Solving Attitude and Continuous Improvement Approach	
Strong R&D capability	

100%
performance guarantees achieved

>200m
barrels of water treated

20+
specific treatment applications

<5ppm
discharge spec for Nigeria

Our Strategy

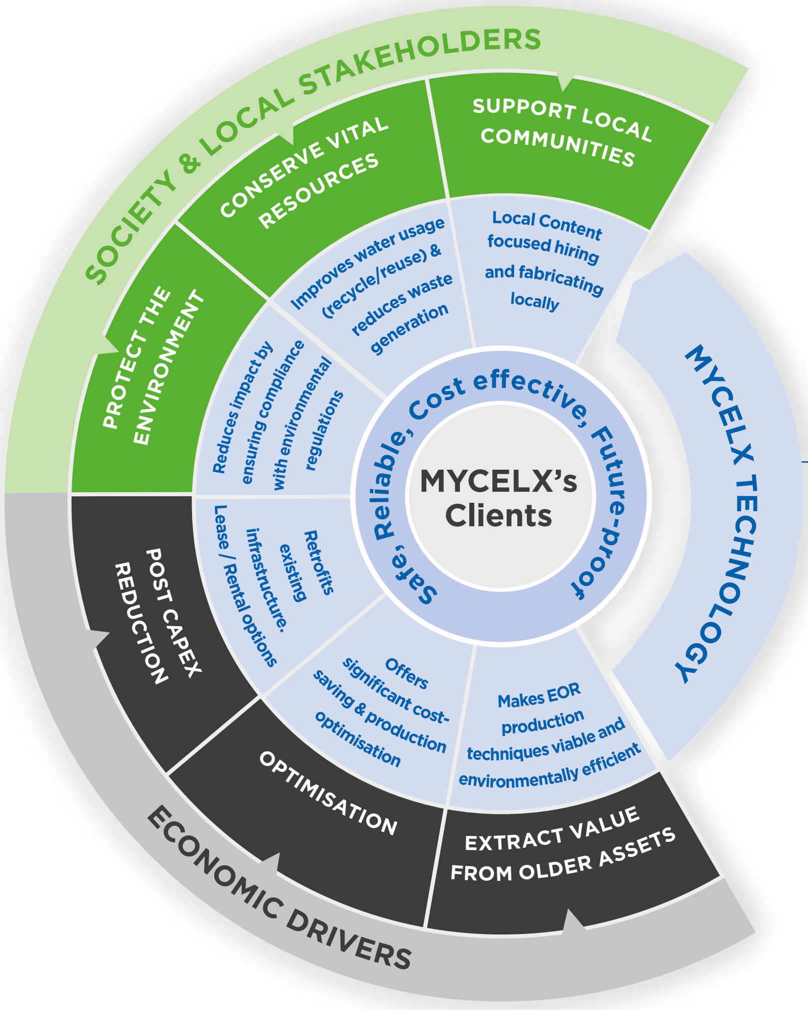
Supporting our clients' ambitions with our superior, sustainable solutions

MYCELX Technology solutions provide a shield for our clients from the increasingly complicated demands from society and local stakeholders as well as the challenging current economic drivers.

MYCELX's safe, reliable and future-proof solutions ensure that our customers can reduce water and energy usage and reuse or safely dispose treated water that meets the highest regulatory standards. An example of how society and local stakeholders have demanded enhanced clean water treatment to protect the environment and lives is seen in the growing response to PFAS groundwater contamination.

A Strategy Focused on Growth

MYCELX has developed a range of key applications across its focus markets and has pursued a strategy to gain widespread adoption by first proving technical superiority, usually through in-field trials, then gaining industry acceptance with installations or awards and finally leveraging those installations to obtain critical mass and become the new standard for treatment.



	Key Applications
Downstream	PROCESS WATER
	INDUSTRIAL WASTEWATER
	TURNAROUNDS
Upstream onshore	PRODUCED WATER TREATMENT
	REGEN RETROFIT
Upstream offshore	EXCURSION MANAGEMENT
	EARLY PRODUCTION
PFAS & others	PFAS GROUNDWATER
	OTHERS

ACHIEVEMENTS TO DATE

GOALS

Proven Technical Superiority	Industry Acceptance	Leverage Position to Obtain Critical Mass	Near-term Priorities
Have displaced conventional tech at world's largest ethylene complex since 2011	Systems in place in multiple petrochemical companies globally. Recognised with industry award	Invited to establish global contract framework agreement with leading petrochemical company	**Secure global contract agreement**
Broad range of wastewater applications proven in trial work	In plant wastewater treatment systems successfully used to meet multiple emergency rapid response requirements		**Work with customers to deliver recycle/reuse solutions to reduce wastewater disposal**
Demonstrated ability to treat contamination levels that were >10,000x higher than regulation	Successful turnarounds undertaken in Saudi Arabia, Kuwait and Qatar	Established partnership with leading turnaround support services company to target full turnaround market in Saudi Arabia	**Establish multi-year pipeline of turnaround projects across GCC**
Only Technology approved for discharge into shallow water of Niger Delta (<5ppm)	Multiple project wins in Nigeria and trials around the globe		**Secure further Nigerian project wins and gain traction with other global producers**
Successfully trialed with producers in Canada, Oman and India	Acknowledged by industry leaders as the next generation solution for Produced Water Treatment	Technology chosen for water treatment on leading EOR study at major National Oil Producer	**Replace Nutshell with REGEN Retrofit on a 500,000bbl/day system**
Successfully deployed on several Gulf of Mexico platforms	Incorporated into the design of Jack St Malo Platform by Chevron		**Dedicated Business Development initiative to expand footprint in Gulf of Mexico and other offshore opportunities**
Used by Schlumberger on several Early Production projects			**Secure further Early Production opportunities using lease or capital model**
Analysis demonstrates broad PFAS removal to below detectable limits	Several Australian installations both on military and industrial locations		**Secure several US based PFAS projects**
Lab and in-field testing shows successful applications in Mercury removal, air filtration and agri-business applications			**Secure channel partners to pursue these non-core applications**

Our Investment Case

At a time when companies are focused on their environmental impact, MYCELX's patented technology enables businesses to meet their sustainability targets

1

RELEVANT TECHNOLOGY FIT FOR THE FUTURE

- Owner and manufacturer of revolutionary, patented MYCELX technology that is a leap forward in cost effective water treatment over conventional approaches
- MYCELX tackles the toughest industrial water and air treatment challenges ensuring clients' environmental directives are met
- Our technology covers a very broad range of applications including oil and gas, groundwater remediation, commercial marine, power and air filtration
- Flexibility of the technology means water can be treated to below detectable levels of contamination or to a client's specific needs

2

YEARS OF EXPERIENCE HELPING CLIENTS ACHIEVE THEIR ENVIRONMENTAL PROTECTION GOALS

- Operational in the Middle East since 2011 providing sustainable, cost effective water treatment for closed loop production and recycle and reuse
- Since 2018 installed on close-to-shore platforms in Nigeria ensuring producers meet their environmental protection goals
- Installed on Chevron's state of the art platform, Jack/St. Malo in 2018 in the Gulf of Mexico providing clean water management in keeping with Chevron's sustainability goals
- Protecting the most environmentally sensitive waters of the Galapagos Islands since 2008 ensuring compliance with IMO (International Maritime Organization) mandate of no oil contamination discharge to the sea

4

CONTINUOUS INNOVATION

- We innovated differentiated, leading edge technology to treat groundwater contaminated with PFAS with systems currently operating
- Product development in 2020 on REGEN, our regenerable filter media, allowing REGEN drop-in into existing production systems as a replacement to Nutshell filter media saving waste and water
- Robust filter product innovation in 2020 significantly increasing oil capture capacity ensuring producers meet or exceed their water treatment discharge levels

3

GROWING THE BUSINESS

- Expect to return to growth in 2021 continuing to build momentum over the coming years
- Expand the footprint in the Middle East as we meet the demands of significantly increased focus on sustainable, cost effective water treatment
- Increasing our Business Development presence in Houston and the Middle East with additional hires
- Focused marketing initiatives supported by our new website and business development team

5

FINANCIAL METRICS

- Strong cash position with no debt after note payable and line of credit paid in full with proceeds from sale of Duluth property subsequent to year end
- Robust business modal based on recurring revenue
- Healthy margins allowing for flexibility on contract bidding

Financial Review

Due to the combined impact of COVID-19 and the well-publicised issues facing the oil and gas industry, total revenue decreased 40% to $7.1 million for 2020, compared to $11.9 million for 2019. Revenue from equipment sales and leases decreased by 55% to $4.3 million for 2020 (FY19: $9.5 million) and revenue from consumable filtration media and service increased by 17% to $2.8 million (FY19: $2.4 million).

Gross profit decreased by 74% to $1.6 million (FY19: $6.1 million) and gross profit margin decreased to 23% (FY19: 51%). The decrease in profit margin was the result of a large inventory reserve for slow moving and obsolete inventory.

Total operating expenses for 2020, including depreciation and amortisation, decreased by 10% to $7.6 million (FY19: $8.5 million). The largest component of operating expenses was selling, general and administrative ('SG&A') expenses, which decreased by 6% to $7.3 million (FY19: $7.8 million) as the Company implemented a series of company-wide cost saving measures.

Depreciation and amortisation within operating expenses decreased by 20% to $310,000 (FY19: $386,000), primarily due to older equipment reaching the end of its useful life.

EBITDA was negative $4.2 million, compared to negative $1.2 million in 2019. 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 $5.8 million in 2020, compared to a loss before tax of $2.5 million in 2019. Basic loss per share was 31 cents in 2020, compared to basic loss per share of 15 cents in the previous year.

As of 31 December 2020, total assets were $19.1 million with the largest assets being property and equipment of $6.8 million, inventory of $5.6 million, $3.8 million of cash and cash equivalents including restricted cash and $1.5 million of accounts receivable.

Total liabilities as of 31 December 2020 were $5.3 million and stockholders' equity was $13.8 million, resulting in a debt-to-equity ratio of 38%.

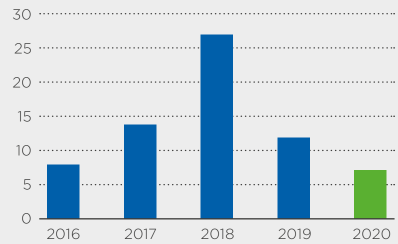
The Company used $1.5 million of cash in operations in 2020 (FY19: $1.9 million used in operations). The Company used $159,000 in investment activities compared to $867,000 for 2019. In 2020, the Company's financing activities included net proceeds of $997,000 from advances on the line of credit, $401,000 from a forgivable loan, and $96,000 paid towards debt.

Post the period end, the Company completed the sale of its building in Duluth, Georgia, USA for a total consideration of $5.4 million. The Company recognised a financial gain of approximately $2.5 million on the sale of the property and net cash proceeds were approximately $2.8 million. The Note Payable and line of credit were paid in full and $500,000 of cash was reclassified from restricted cash. The sale enabled the Company to right-size its office space needs across its main operating locations and provided cash proceeds which will be used for working capital purposes to support the business needs.

Kimberly Slayton
Chief Financial Officer
25 May 2021

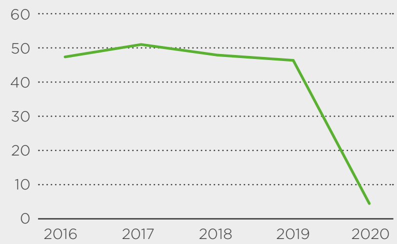
GOALS & KEY PERFORMANCE INDICATORS

Revenue ($m):



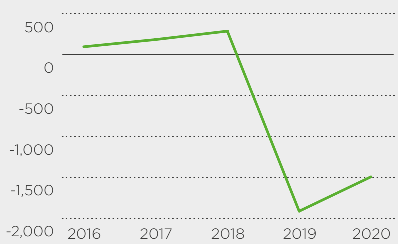
Revenues were impacted by the global pandemic and disruption in our core markets.

Gross Operating Margin (%):



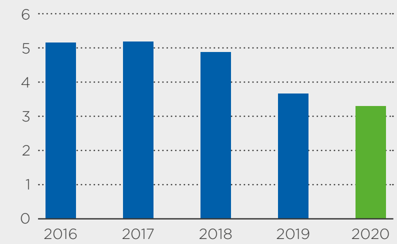
Gross margins were impacted by a large inventory reserve applied because of slow moving inventory.

Cash flow from Operations (US $000):



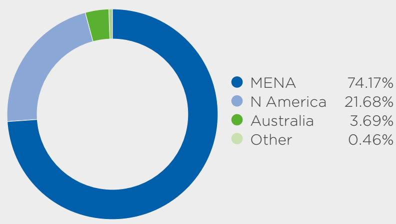
Our concerted efforts to manage costs and drive the business forward has reduced the cash used in operations.

Cash and Cash Equivalents ($m):



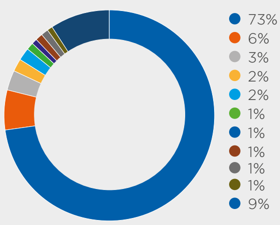
The Company continued to preserve the cash position during the pandemic and has bolstered it post period end with the sale of the Duluth property.

Geographical Diversification



The geographical split of revenues is a reflection of the state of the core market during the disruption from the pandemic.

Client Diversification



Currently top 10 customers make up 91% of Company revenue. These large customers are industry leaders. As we pursue our strategy of gaining industry acceptance and critical mass, the client mix will improve as a consequence.

Principal Risks and Uncertainties

RISK	Additional Funds	Retaining Key Personnel	Existing Products and Service Optimisation	Reliance on Certain Key Manufacturers
DESCRIPTION	Should the Company require additional funds in order to carry out its strategy, there can be no assurance that the Company will be able to raise such additional capital on favourable terms or at all.	The contribution of the existing Executive Directors, senior management team members and certain key employees to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth.	The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost effective and timely basis, specifically including further development of the REGEN market for which the Company holds significant inventory as disclosed in the financial statements.	The Company relies on certain key manufacturers for the fabrication of the Company's equipment in accordance with the specifications of the Company's customers.
MITIGATION	Following the sale of the Duluth property, the Company is in a robust cash position.	The Company continuously monitors and reviews compensation and benefits offered to its employees. The Company desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.	The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.	To attempt to manage this risk, the Company has expanded the number of manufacturers it uses that are capable of conducting manufacture on similar terms. However, any disruption in the Company's relationship with a manufacturer could affect pending orders placed with that manufacturer and result in transition costs and delays.

	Competitive Market	Customer Diversification	Oil & Gas Industry Cycles	Geopolitical Risk
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

Committee Membership

Appointed

2011

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 U.K. Oil & Gas Authority. Mr. Eggar holds an MA from Cambridge University and is qualified as a barrister.

Current Appointments

Mr. Eggar is currently Chairman of the U.K. Oil & Gas Authority and Chairman of Gipsy Hill Brewing Company.

Connie Mixon

Chief Executive Officer and Director

Committee Membership

Appointed

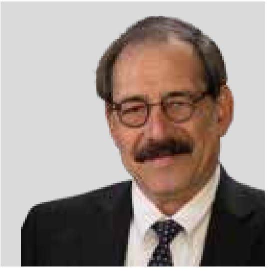
2004

Background & Experience

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.

Current Appointments

None.



Haluk (Hal) Alper

President, Chief Science Officer and Director

Committee Membership

Appointed

1994

Background & Experience

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. 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

Committee Membership

Appointed
2019

Background & Experience
Mr. Schnabl joined the MYCELX Board as a Non-Executive Director and Senior Independent Director, and as Chairman of the Audit Committee and a member of the Compensation and Nomination Committees in January 2019. Mr. Schnabl 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.

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

Tom Lamb
Non-Executive Director

Committee Membership

Appointed
2019

Background & Experience
Mr. Lamb joined the MYCELX Board as a Non-Executive Director, Chairman of The Compensation Committee and a member of the Audit and Nomination Committees 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 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.

Current Appointments
Mr. Lamb is currently CEO of TWR/Pharos-API, a navigational equipment company focused on the Oil & Gas and other markets.

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

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 AIM Rule 26, the Board has 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 25 May 2021.

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 12 to 15 of this Annual Report.

2. Seek to understand and meet shareholder needs and expectations

At the Company's Annual Meeting, usually held in London, the Chairman and Chief Executive Officer are available before and after the meeting for further discussions with shareholders. A meeting with U.S. 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. A number of such meetings took place in 2020 by way of video conference.

Special arrangements will be in place for the 2021 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 12 and 13 of this Annual Report.

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

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

The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness on an ongoing basis.

The system is designed to manage rather than eliminate the risk of failure to achieve the Company's strategic objectives, and cannot provide absolute assurance against material misstatement or loss. The key risk management processes and internal control procedures include the following:

- The involvement of the Executive Directors in day-to-day operations.
- Clearly defined responsibilities and limits of authority.
- A system of financial reporting, forecasting and budgeting. Budgets are prepared annually for the business based upon a multi-year strategic plan narrowed to a current year tactical plan to take advantage of current opportunities and address near term risks. Reviews occur through the management structure culminating in a Company budget which is considered and approved by the Board. Company management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are monitored and the reasons for significant variances are reviewed.
- An ongoing process for identifying, evaluating and seeking to manage significant risks across the Company.

Maintain a Dynamic Management Framework

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

The Board of the Company consists of three Non-Executive Directors with relevant experience to complement the two Executive Directors and to provide an independent view to the Executive Directors. The Non-Executive Directors are Tim Eggar (Chairman), Tom Lamb and André Schnabl. The two Executive Directors are Connie Mixon (Chief Executive Officer) and Haluk Alper (President and Chief Science Officer).

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

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 has served three consecutive three year terms of office as of August 2020, and has notified the Board of his intention not to stand for re-election as a Director at the Company's Annual Meeting on 7 July 2021. Following Mr. Eggar's retirement, the Board has resolved that Mr. Lamb will be appointed as Company Chairman.

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.

Following Mr. Eggar's retirement, the Company will continue to have two independent Non-Executive Directors as required under the QCA Code. The Board intends to consider the appointment of a further Non-Executive Director in due course.

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

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

Internal Advisory Responsibilities

The Company is incorporated in the State of Georgia, United States, and the role of Company Secretary is carried out by the U.S. based Chief Financial Officer. An experienced qualified U.K. based individual performs the role of Assistant Secretary, and provides a sounding board for the Board on U.K. regulatory issues. In addition, the Company relies on its external U.S. and U.K. 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 who wish to stand 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, all of which are available on the Company's website.

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 2020. 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, copies of which are available on the Company's website.

Board Committees

The Company has established an Audit Committee, a Compensation Committee, a Nomination and Governance Committee and an Executive Committee. The minutes of the committees are circulated to the Board, and the committee chairs also report to the Board on the outcome of committee meetings at the subsequent Board meeting. All of the committees annually review and re-adopt their terms of reference. The committees have 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 2020.

The role of the Committee is set out in its Terms of Reference which are available on the Company's website.

Further information on the work of the Audit Committee can be found on page 30.

The Audit Committee met formally twice in 2020. 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. 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 three times in 2020. 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. Further information on the work of the Compensation Committee can be found on pages 32 to 34.

Nomination and Governance Committee

The members of the Nomination and Governance Committee are Tim Eggar (Chairman), Tom Lamb and André Schnabl. 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 2020 evaluation were presented to the Board in January 2021, 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 twice in 2020. Both of the Committee meetings were attended by all of the Committee members.

Further information on the work of the Nomination Committee can be found on page 31.

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
25 May 2021

Directors' Report

for the year ended 31 December 2020

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 2020 and up to the date of signing the financial statements.

Tim Eggar (Chairman)

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

Connie Mixon (Chief Executive Officer)

André Schnabl (Non-Executive Director and Senior Independent Director)

Tom Lamb (Non-Executive Director)

Kimberly Slayton was appointed as Chief Financial Officer and Secretary on 16 March 2016. Ms. Slayton reports to, but is not a member of, the Board of Directors.

Biographical details of the Directors are shown on pages 22 and 23.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders. Tim Eggar was appointed Company Chairman and a Director since August 2011, and has notified the Board of his intention not to stand for re-election as a Director at the Company's Annual Meeting on 7 July 2021. Following Mr. Eggar's retirement, Mr. Lamb will be appointed as Company Chairman.

2021 Annual Meeting

Special arrangements will be in place for the 2021 Annual Meeting due to COVID-19. Further information will be set out in the Notice of 2021 Annual Meeting which will be mailed to Shareholders together with this Annual Report. Any change concerning those arrangements will be announced through the London Stock Exchange, and published on the Company's website.

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 32 to 34. It includes details of Directors' remuneration, interests in the Common Shares of the Company and share options.

Corporate Governance

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

Going Concern

Having considered the Company's funding position and financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, revenue forecasts and the latest working capital forecasts. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. 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 2020 are set out in Note 11 to the financial statements. At 25 May 2021, a total of 19,443,750 Common Shares were outstanding. At 25 May 2021, 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:

Octopus Investments	15.82%
Connie Mixon	12.81%
Canaccord Genuity Wealth Management	10.68%
Hargreaves Lansdown Nominees	6.58%
Hal Alper	6.49%
Artemis Investment Management	6.26%
Redmayne Nominees Limited	5.10%

Directors' Statement as to Disclosure of Information to Auditors

The Directors who served as members of the Board at 31 December 2020 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, who 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
25 May 2021

Audit Committee Report

for the year ended 31 December 2020

Committee Members

The members of the Audit Committee are currently André Schnabl (Chair) and Tom Lamb. Meetings are normally held not less than three times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

Roles and Responsibilities

Under its Terms of Reference, which can be found on the Company's website, the Audit Committee reviews inter alia

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.

Committee Meetings

Meetings are attended by committee members, and the Chairman, Chief Executive Officer, Chief Financial Officer and external auditors are invited as appropriate. The committee normally meets at least once a year with the external auditors without the Executive Directors being present.

Both committee members attended each of the two meetings held during the year ended 31 December 2020.

Financial Information

The Company prepares detailed budget and working capital projections, which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Financial Statements

The Audit Committee has considered the integrity of the Company's 2020 financial statements and reviewed the appropriateness of its critical accounting policies and the judgements made in applying them. The year-end financial statements were reviewed and discussed with Deloitte & Touche LLP, and the committee concluded that in its view the statements were fair, balanced and understandable, and recommended their adoption to the Board.

Significant Areas

The significant reporting matters and judgements considered by the committee during the year included:

- Going concern – see page 28, for consideration for the Board regarding going concern
- Valuation of assets (inventory)
- COVID-19

Audit Review

The Audit Committee monitors the Group's relationship with the external auditor, Deloitte & Touche LLP, to ensure that external independence and objectivity has been maintained. The committee has reviewed Deloitte & Touch LLP's audit process, the findings from the audit of the 2020 financial year, and the effectiveness of the external audit process. The committee reviewed the quality and cost effectiveness of the external audit, and the independence and objectivity of the auditors.

External Audit

Deloitte & Touche LLP have provided audit services to the Company since 2019.

The Audit Committee reviews annually the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditors. Audit performance is reviewed annually and audit partner rotation requirements are observed.

The Committee obtained confirmation from Deloitte & Touche LLP that their independence and ethics policies complied with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and the rules and standards of the US Securities and Exchange Commission and the Public Company Accounting Oversight Board, and that they are independent and maintain internal safeguards to ensure their objectivity. No contractual obligations exist that restrict the Company's choice of external auditor and the committee is satisfied that the external auditor remains independent.

Non-Audit Services

The committee has established policies determining the non-audit services that the external auditors can provide and the procedures required for approval of any such engagement, and on the engagement of any former employees of the auditors.

Deloitte & Touche LLP was engaged to perform the 2020 audit for fees of $170,000 (2019: $175,000) and was also engaged to perform tax work in Saudi Arabia and audit related services in 2020.

Internal Audit

There is currently no formal internal audit function in place which the Audit Committee has concluded is appropriate given the size and complexity of the business and the mitigating controls in place. The committee will continue to keep under review the need for the Group to introduce such a function.

Approved on behalf of the Audit Committee by:

André Schnabl
Chairman, Audit Committee
25 May 2021

Nomination Committee Report

for the year ended 31 December 2020

Committee Members

The members of the Nomination Committee are currently Tim Eggar (Chair), André Schnabl (Senior Independent Director) and Tom Lamb (Non-Executive Director).

Committee Meetings

Meetings are held not less than twice a year and are attended by all committee members. The Chief Executive Officer may also be invited as appropriate.

All committee members attended two meetings held during the year ended 31 December 2020.

Roles and Responsibilities

Under its Terms of Reference, which can be found on the Company's website, the Nomination Committee inter alia

- reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and makes recommendations to the Board with regard to any changes.
- gives full consideration to succession planning for Directors, officers and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future.
- keeps under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace.
- reviews the results of the Board performance evaluation process that relate to the composition of the Board.
- considers the re-appointment of Non-Executive Directors at the conclusion of their specified term of office.
- approves the re-election by shareholders of Directors under the annual re-election provisions of the Company's byelaws.
- reviews annually the time required from Non-Executive Directors and officers.
- considers Director independence under the corporate governance code.

Significant Areas

The significant matters considered by the committee during the year included succession planning for the position of Company Chairman. Tim Eggar was originally appointed to the Board in August 2011 and has now served three consecutive three-year terms of office. Tim Eggar has notified the Board of his intention not to stand for re-election as a Director at the Company's Annual Meeting on 7 July 2021. Following Mr. Eggar's retirement, the Board has resolved that Mr. Lamb will be appointed as Company Chairman.

Approved on behalf of the Nomination Committee by:

Rt. Hon. Tim Eggar
Committee Chairman
25 May 2021

Directors' Remuneration Report

for the year ended 31 December 2020

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. Due to the continuing economic impact of the COVID-19 pandemic and the need for the Company to conserve its funds, no bonuses were paid in respect of 2020.

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 percent 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. Ms. Mixon's base salary was further reduced to $275,000 with effect 1 October 2020. On 1 January 2021, Ms. Mixon's base salary was partially restored to $350,000.

Hal Alper

Mr. Alper entered into an employment agreement with the Company on 29 July 2011 to serve as its President and Chief Science Officer and to serve on the Board of Directors. The employment agreement provides for, among other things: (i) salary of $225,000 and a technology incentive bonus between $75,000 and $150,000 per year; (ii) grant of 163,017 options to purchase Common Shares vesting ratably over a three-year period; (iii) a three-year term (automatically renewing for successive one-year periods) and no termination without cause by either party; and (iv) Company ownership of intellectual property developed by Mr. Alper: (a) until 4 August 2013; or (b) that relates to the Company's principal business or the mercury filtration technology, and a Company option to purchase any intellectual property developed by Mr. Alper that is developed after 4 August 2013 and does not relate to the principal business or the mercury filtration technology. The terms of purchase are that Mr. Alper will be entitled to receive three percent on gross sales of products relating to that intellectual property, six percent on license fees received by the Company for the license of such intellectual property and a non-refundable royalty equal to the amount of $100,000 for each new and distinct area of business covered by such intellectual property. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

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 percent 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 percent 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. Mr. Alper's base salary was further reduced to $171,000 with effect 1 October 2020. On 1 January 2021, Mr. Alper's base salary was partially restored to $200,000.

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. As Tim Eggar has been Company Chairman and a Director since August 2011, he has notified the Board of his intention not to stand for re-election as a Director at the Company's Annual Meeting on 7 July 2021. Following Mr. Eggar's retirement, Mr. Lamb will be appointed as Company Chairman.

Directors' Remuneration

The Directors' Remuneration for 2020 was as follows:

	Salary And Director's Fees $US	Benefits In Kind $US	Performance Related Bonus $US	2020 Total $US	2019 Total $US
Non-Executive Chairman					
Tim Eggar	$50,588	–	–	$50,588	$57,000
Executive					
Connie Mixon	$315,846	$16,604	–	$332,450	$514,829
Hal Alper	$188,167	$20,855	–	$209,022	$256,573
Non-Executive					
Andre Schnabl	$40,825	–	–	$40,825	$46,000
Tom Lamb	$40,825	–	–	$40,825	$19,500

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 25 May 2021 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)]	2,490,469	12.81
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.

Directors' Remuneration Report continued

for the year ended 31 December 2020

Share Options

Options over Common Shares awarded to Directors under the Omnibus Performance Incentive Plan in place on 31 December 2020 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

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

Tom Lamb
Chairman, Compensation Committee
25 May 2021

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
25 May 2021

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of MYCELX Technologies Corporation (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2020 and 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MYCELX Technologies Corporation as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years ended December 31, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 25, 2021

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2020	2019
Revenue	7,104	11,908
Cost of goods sold	5,512	5,822
Gross profit	1,592	6,086
Operating expenses:		
Research and development	64	352
Selling, general and administrative	7,271	7,754
Depreciation and amortisation	310	386
Total operating expenses	7,645	8,492
Operating loss	(6,053)	(2,406)
Other income (expense)		
Gain upon extinguishment of debt	404	–
Loss on disposal of equipment	–	(13)
Interest expense	(117)	(80)
Loss before income taxes	(5,766)	(2,499)
Provision for income taxes	(328)	(460)
Net loss	(6,094)	(2,959)
Loss per share – basic	(0.31)	(0.15)
Loss per share – diluted	(0.31)	(0.15)
Shares used to compute basic loss per share	19,443,750	19,312,664
Shares used to compute diluted loss per share	19,443,750	19,312,664

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

Balance Sheets

(USD, in thousands, except share data)

As at 31 December:	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	3,292	3,647
Restricted cash	500	500
Accounts receivable – net	1,479	3,987
Inventory	5,642	6,141
Prepaid expenses	84	218
Other assets	107	387
Total Current Assets	11,104	14,880
Property and equipment – net	6,756	8,016
Intangible assets – net	790	798
Operating lease asset – net	482	808
Total Assets	19,132	24,502
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	473	786
Payroll and accrued expenses	540	503
Contract liability	745	–
Customer deposits	492	864
Operating lease obligations – current	175	282
Note payable – current	102	97
Line of credit	997	–
Total Current Liabilities	3,524	2,532
Operating lease obligations – long-term	275	484
Note payable – long-term	1,541	1,642
Total Liabilities	5,340	4,658
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 19,443,750 shares issued and outstanding at 31 December 2020 and 2019.	486	486
Additional paid-in capital	42,400	42,358
Accumulated deficit	(29,094)	(23,000)
Total Stockholders' Equity	13,792	19,844
Total Liabilities and Stockholders' Equity	19,132	24,502

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

Statements of Stockholders' Equity

(USD, in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	$	$	$	$
Balances at 31 December 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
Stock-based compensation expense	–	–	42	–	42
Net loss for the period	–	–	–	(6,094)	(6,094)
Balances at 31 December 2020	19,444	486	42,400	(29,094)	13,792

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2020	2019
Cash flow from operating activities		
Net loss	(6,094)	(2,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortisation	1,427	1,269
Loss from disposition of equipment	–	13
Inventory reserve adjustment	1,061	168
Gain upon extinguishment of debt	(401)	–
Stock compensation	42	199
Change in operating assets and liabilities:		
Accounts receivable – net	2,508	4,238
Unbilled accounts receivable	–	20
Inventory	(562)	(1,506)
Prepaid expenses	134	10
Prepaid operating leases	10	(42)
Other assets	280	(345)
Accounts payable	(313)	(2,126)
Payroll and accrued expenses	37	(1,447)
Contract liability	745	(125)
Customer deposits	(372)	734
Other current liabilities	–	(23)
Net cash used in operating activities	(1,498)	(1,922)
Cash flow from investing activities		
Payments for purchases of property and equipment	(110)	(805)
Payments for internally developed patents	(49)	(62)
Net cash used in investing activities	(159)	(867)
Cash flows from financing activities		
Net proceeds from stock issuance	–	1,588
Net proceeds from exercise of stock options	–	43
Payments on notes payable	(96)	(86)
Proceeds from notes payable	401	–
Advances on line of credit	2,875	–
Payments on line of credit	(1,878)	–
Net cash provided by financing activities	1,302	1,545
Net decrease in cash, cash equivalents and restricted cash	(355)	(1,244)
Cash, cash equivalents and restricted cash, beginning of year	4,147	5,391
Cash, cash equivalents and restricted cash, end of year	3,792	4,147
Supplemental disclosures of cash flow information:		
Cash payments for interest	117	74
Cash payments for income taxes	247	496
Non-cash movements of inventory and fixed assets	–	96

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 10) that matures in March 2023 and access to a line of credit (Note 8) that renews annually. However, the Note and the line of credit were paid in full, and $500,000 of cash was reclassified from restricted cash post the period end when the Company completed the sale of its building in Duluth, Georgia, USA for total consideration of $5.4 million. The sale enabled the Company to right-size its office space needs across its main operating locations and provided cash proceeds, after repayment of the Note Payable and line of credit, of $2.8 million which will be used for working capital purposes to support the business needs. 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.

There has been a significant economic impact in the regions in which the Company operates due to the global pandemic. 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. 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 current uncertainty, 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, 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 contract liability.

Sales tax charged to customers is presented on a net basis within the 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. Contract liability represents billings in excess of revenue recognised. Contract liability at 31 December 2020 included $745,000 to be recognised as revenue in 2021. There were no unbilled accounts receivable at 31 December 2020 and 2019, and no contract liability at 31 December 2019.

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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

Year Ending 31 December (USD, in thousands)	Equipment Leases, Turnkey Arrangements, and Services Recognised Over Time		Consumable Filtration Media, Equipment Sales and Service Recognised at a Point in Time	
	2020	2019	2020	2019
Middle East	5,181	3,931	88	4,324
United States	–	1	1,394	2,448
Other	3	–	321	916
Total revenue recognised under ASC 606	5,184	3,932	1,803	7,688
Total revenue recognised under ASC 842	117	288	–	–
Total revenue	5,301	4,220	1,803	7,688

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 years ended 31 December 2020 and 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 2020, all of the Company's cash, cash equivalent and restricted cash 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 2020 and 2019, cash in non-U.S. institutions was $83,000 and $7,000, 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. At 31 December 2020 and 2019, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 10).

Reconciliation of cash, cash equivalents and restricted cash at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Cash and cash equivalents	3,292	3,647
Restricted Cash	500	500
Total cash, cash equivalents and restricted cash	3,792	4,147

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 2020 and 2019 was $33,000 and $nil, respectively.

Inventories – Inventories consist primarily of raw materials and filter media finished goods as well as equipment to house the filter media and are stated at the lower of cost or net realisable value. Equipment that is in the process of being constructed for sale or lease to customers is also included in inventory (work-in-progress). The Company applies the Average Cost method to account for its inventory. Manufacturing work-in-progress and finished products inventory include all direct costs, such as labour and material, and those indirect costs which are related to production, such as indirect labour, rents, supplies, repairs and depreciation costs. A valuation reserve is recorded for slow moving or obsolete inventory items to reduce the cost of inventory to its net realisable value. The Company determines the valuation by evaluating expected future usage as compared to its past history of utilisation and future expectations of usage. At 31 December 2020 and 2019, the Company had REGEN related inventory of 34 percent and 27 percent of the total inventory balance, respectively. The inventory is associated with efforts to expand into the Enhanced Oil Recovery market that the Company has identified as a large global market.

Change of Accounting Principle – On 30 September 2019, the Company changed its inventory accounting method from the FIFO (first in; first out) 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	5–10 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 2020 and 2019.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2020 and 2019 was approximately $64,000 and $352,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2020 and 2019 was $nil and is recorded in selling, general and administrative expenses.

Rent expense – 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.

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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

The 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 2020 and 2019 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 1,348,638 for the year ended 31 December 2020 and there were no adjustments to net income available to stockholders as recorded on the statement of operations.

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	
	2020	**2019**
Basic weighted average outstanding shares of common stock	19,443,750	19,312,664
Effect of potentially dilutive stock options	–	–
Diluted weighted average outstanding shares of common stock	19,443,750	19,312,664
Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock	1,348,638	1,324,968

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 2020 or 2019.

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 2020 and 2019 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 fair value of the note payable approximates face value.

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 12).

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.

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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. The Company adopted this guidance effective 1 January 2020. The adoption of this new guidance did not have a material impact on the 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.

3. Accounts Receivable

Accounts receivable and their respective allowance amounts at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Accounts receivable	1,512	3,987
Less: allowance for doubtful accounts	(33)	–
Total receivable – net	1,479	3,987

4. Inventories

Inventories consist of the following at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Raw materials	2,158	2,125
Finished goods	3,484	4,016
Total inventory	5,642	6,141

5. Property and Equipment

Property and equipment consist of the following at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Land	709	709
Building	2,724	2,724
Leasehold improvements	277	277
Office equipment	710	707
Manufacturing equipment	930	926
Research and development equipment	551	551
Purchased software	222	222
Equipment leased to customers	10,009	9,378
Equipment available for lease to customers	89	617
	16,221	16,111
Less: accumulated depreciation	(9,465)	(8,095)
Property and equipment – net	6,756	8,016

During the years ended 31 December 2020 and 2019, the Company removed property, plant and equipment and the associated gross and accumulated depreciation of approximately $nil and $369,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2020 and 2019 was approximately $1,370,000 and $1,217,000, 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 2020 and 2019 was $1,117,000 and $883,000, respectively.

Notes to the Financial Statements continued

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 $64,000 and $58,000 as of 31 December 2020 and 2019, 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. In 2020, there was $49,000 of new internally developed patents and fees on patents in progress.

Intangible assets as of 31 December 2020 and 2019 consist of the following:

	Weighted Average Useful Lives	31 December 2020 US$000	31 December 2019 US$000
Internally developed patents	15 years	1,405	1,356
Purchased patents	17 years	100	100
		1,505	1,456
Less accumulated amortisation		(715)	(658)
Intangible assets – net		790	798

Internally developed patents include approximately $353,000 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)	
2021	57
2022	57
2023	50
2024	47
2025	47
Thereafter	179

Amortisation expense for the years ended 31 December 2020 and 2019 was approximately $57,000 and $52,000, respectively.

7. Income Taxes

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

	31 December 2020 US$000	31 December 2019 US$000
Current:		
Federal	–	–
Foreign	320	462
State	8	(2)
Total current provision	328	460
Deferred:		
Federal	–	–
Foreign	–	–
State	–	–
Total deferred provision	–	–
Total provision for income taxes	328	460

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 2020	31 December 2019
Federal statutory income tax rate	21.0%	21.0%
State tax rate, net of federal benefit	(0.4%)	3.8%
Valuation allowance	(24.0%)	(28.9%)
Other	2.0%	0.3%
Foreign withholding tax	(4.4%)	(14.6%)
Effective income tax rate	(5.8%)	(18.4%)

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 2020 US$000	31 December 2019 US$000
Deferred tax assets		
Net operating loss	5,589	4,660
Equity compensation	327	324
Research and development credits	159	159
Right of use liability	97	168
Inventory valuation reserve	358	132
Other	22	16
Total gross deferred tax asset	6,552	5,459
Deferred tax liabilities		
Property and equipment	(635)	(687)
Right of use asset	(104)	(178)
Total gross deferred tax liability	(739)	(865)
Net deferred tax asset before valuation allowance	5,813	4,594
Valuation allowance	(5,813)	(4,594)
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 2020, the Company has recorded a valuation allowance of $5.8 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 31 December 2020, the Company has approximately $25.2 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 2031 when the current year net operating losses will expire. As of 31 December 2019, the Company had 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.

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.

On 27 March 2020, the U.S. Government enacted the Coronavirus Aid, Relied, and Economic Security Act (the "CARES Act"). The CARES Act includes, but is not limited to, tax law changes related to (1) accelerated depreciation deductions for qualified improvement property placed in service after 27 September 2017, (2) reduced limitation of interest deductions, and (3) temporary changes to the use and limitation of NOLs. There was no material impact of the CARES ACT to the Company's income tax provision for 2020.

The Company's tax years 2017 through 2020 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 2020. The balance on the line of credit at 31 December 2020 and 2019 was $997,000 and $nil, respectively. The interest rate on 31 December 2020 and 2019 was 4.50 percent and 4.75 percent, respectively. Interest expense related to this loan was $38,000 and $nil for the years ended 31 December 2020 and 2019, respectively. See the subsequent events Note 17 for a description of the settlement of this debt balance after the balance sheet date.

9. Paycheck Protection Program Loan

On 16 April 2020, the Company was granted a loan from Pinnacle Bank, the Company's existing lender, in the amount of approximately $401,000, pursuant to the Paycheck Protection Program ('PPP Loan'), Title I of the CARES Act, which was enacted 27 March 2020. The PPP Loan issued to the Company matures on 16 April 2022 and bears interest at a fixed rate of 1 percent per annum and may be prepaid in whole or in part without penalty. No interest payments are due within the initial six months of the PPP Loan. The interest accrued during the initial six-month period is due and payable, together with the principal, on the maturity date. The Company used all proceeds from the PPP Loan to retain employees, maintain payroll and make lease and utility payments to support business continuity during the COVID-19 pandemic. All or a portion of the PPP Loan may be forgiven by the Small Business Administration ('SBA') upon application by the Company and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the twenty-four-week period beginning on the date of receipt of the PPP Loan with certain stipulated restrictions. On 8 December 2020, the Company's PPP Loan was forgiven in full, including all principal and interest outstanding as of the date of the forgiveness. Any amount forgiven when the Company was legally released as the primary obligor under the loan was recognised in the Statement of Operations as a gain upon the extinguishment of the loan.

10. 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 2020 and 2019 was $2.9 million and $2.9 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 2020 and 2019, 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 2020:

Year Ending 31 December (US$000)	
2021	102
2022	107
2023	1,434
	1,643

See the subsequent events Note 17 for a description of the settlement of this debt balance after the balance sheet date.

Notes to the Financial Statements continued

11. 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.

12. 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. The total number of shares reserved for stock options under this Plan is 2,916,563 with 1,324,338 shares allocated as of 31 December 2020. 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 2020 and 2019 were as follows:

	Number of Options Granted	Grant Date	Risk-free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
2019	10,000	28/02/2019	2.58%	6.0 years	72.00%	$3.20	$2.08
	50,000	04/11/2019	1.65%	6.0 years	76.00%	$0.68	$0.45
2020	325,000	06/08/2020	0.17%	5.7 years	77.00%	$0.45	$0.29

The Company assumes a dividend yield of 0.0 percent.

The following table summarises the Company's stock option activity for the years ended 31 December 2020 and 2019:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
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
Granted	325,000	$0.45	5.7	$0.29
Forfeited	(375,204)	$1.97		
Outstanding at 31 December 2020	1,324,338	$2.04	5.8	$1.01
Exercisable at 31 December 2020	959,338	$2.61	5.9	

The total intrinsic value of the stock options exercised during the years ended 31 December 2020 and 2019 was approximately $nil and $29,000, respectively.

A summary of the status of unvested options as of 31 December 2020 and changes during the years ended 31 December 2020 and 2019 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
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
Granted	325,000	$0.29
Vested	(70,000)	$1.33
Forfeited	(58,334)	
Unvested at 31 December 2020	365,000	$0.34

As of 31 December 2020, total unrecognised compensation cost of approximately $58,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the years ended 31 December 2020 and 2019 was approximately $42,000 and $199,000, respectively.

Notes to the Financial Statements continued

13. Commitments and Contingencies

Operating leases – As of 31 December 2020, the Operating Lease ROU Asset has a balance of $482,000, net of accumulated amortisation of $555,000, and an Operating Lease Liability of $449,000, which are included in the accompanying balance sheet. The weighted average discount rate used for leases accounted for under ASU 2016-02 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 2.99 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
2021	192
2022	120
2023	122
2024	51
Total future maturities	485
Portion representing interest	(36)
	449

Total lease expense for the years ended 31 December 2020 and 2019 was approximately $315,000 and $313,000, respectively.

Total cash paid for leases for the years ended 31 December 2020 and 2019 was $313,000 and $322,000, respectively.

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 $130,000 and $156,000 for the years ended 31 December 2020 and 2019, respectively.

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

14. Related Party Transactions

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

15. Segment and Geographic Information

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ('CODM') in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer ('CEO'). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 31 December 2020. For the year ended 31 December 2020, 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)	2020	2019
Middle East	5,269	8,255
United States	1,511	2,737
Other	324	916
Total	7,104	11,908

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

Year Ending 31 December (USD, in thousands)	2020	2019
Middle East	3,127	4,321
United States	4,109	4,390
Other	2	113
Total	7,238	8,824

16. Concentrations

At 31 December 2020, one customer with three contracts represented 72 percent of accounts receivable. During the year ended 31 December 2020, that same customer, along with the Company's second largest customer, account for 78 percent of its gross revenue.

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.

Notes to the Financial Statements continued

17. Subsequent Events

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 25 May 2021, the date the financial statements were available to be issued, and no events have occurred which require further disclosure other than the following:

In December 2020, Congress enacted the Consolidated Appropriations Act, 2021. The Act is an approximately $900 billion COVID-19 relief package and includes $284 billion for a second round of the Paycheck Protection Program (PPP). In January 2021, the Company applied for and was approved for a second PPP loan in the amount of approximately $401,000 with an interest rate of 1 percent and a maturity date of January 2026. The Company anticipates meeting the requirements for forgiveness of the loan as laid out in the Act.

In March 2021, the Company completed the sale of its building in Duluth, Georgia, USA, for total consideration of $5.4 million enabling the Company to right-size its office space needs across its main operating locations. The Company recognised a financial gain of approximately $2.5 million on the sale of the property and net cash proceeds were approximately $2.8 million. The Note Payable and line of credit were paid in full and $500,000 of cash was reclassified from restricted cash.

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.

Notes

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