16 September 2019

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). This inside information is now considered to be in the public domain.

MYCELX TECHNOLOGIES CORPORATION (AIM: MYX)

Half Year Results Statement

MYCELX Technologies Corporation (“MYCELX” or the “Company”), the clean water technology company providing patented solutions for the Oil and Gas market and commercial industrial markets worldwide, is pleased to announce its interim unaudited results for the six months ended 30 June 2019 for which highlights are set out below.

Financial

- Revenue of $9.1 million (2018 H1: $12.2 million)
- EBITDA of $1.1 million (2018 H1: $2.7 million)
- Profit before tax of $450,000 (2018 H1: profit before tax of $2.1 million)
- Gross profit margin of 55.0% (2018 H1: 51.4%)

Operational

The Company experienced a strong first quarter in 2019 but, as previously announced, has also encountered delays in previously anticipated project bids.

Post Period

  - Nigeria: Achieved second equipment sale into Nigeria to treat produced water
  - Australia: First sale of media to treat hydrocarbons and PFAS contamination; a new market for the Company
    - Underpins revised 2019 financial guidance

Corporate

- Appointment of Tom Lamb as a Non-Executive Director and Chairman of the Compensation Committee
- Following the delay in project bids management took swift action to reduce costs across the Group

Outlook

- Ongoing opportunities in oil and gas despite slower conversion in Saudi Arabia in H2
  - Commence pilot trial in H2 2019 in Saudi Arabia with petrochemical producer

- Strong demand for product offering witnessed in Nigeria – leverage initial sales with other domestic producers

- Allocate resources to leverage opportunities in additional core technology applications with near term revenue expectations
    - MYCELX has invested in further commercialisation of its commercial and industrial applications over the past two years by investing in successful customer trials and establishing distribution platforms to sell into these markets
    - Key applications include pool and spa, air filtration and new technology for agri-business sectors, where MYCELX's core technology brings distinct advantages for removal of oil and other contaminants from water

Commenting on these results, Connie Mixon, CEO, said:

"MYCELX remains well placed to respond to market opportunities in its core market in H2. However, given the challenges currently facing the oil and gas market in the Middle East, we now expect revenue in 2019 to be at the lower end of our current forecast.

As we move into H2, we continue to progress our footprint in the Middle East and expand our scope of activity into new and established commercial and industrial markets to which our unique technology brings distinct advantages. These markets are expected to generate incremental high margin media sales to the business in the near term."

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Chairman's and Chief Executive Officer's Statement

MYCELX is pleased to report the results for the first half of 2019. The Company delivered revenue for the period of $9.1 million, which whilst down year on year, is still up considerably from 2017 and 2016. The Company also reported a net profit for the period, but due to the current environment of the oil and gas market in the Middle East, MYCELX now anticipates full year revenue at the lower end of its guidance.

The Company has a strong track record of reducing costs and optimizing value from its assets. As such, following the dip in bid activity, management took decisive action to reduce expenses associated with the delayed project bids. The measures taken quickly eliminated excess costs. However, the Company continues to have an appropriate headcount, enabling it to take advantage of advanced opportunities in its core markets, whilst also affording the business the flexibility to develop new applications and enter new markets as it looks to expand its global footprint.

Partly due to global macro conditions, a number of the projects MYCELX had expected to be bidding on in Q2 moved to later this year or into 2020. In particular, one of the Company's key clients has not been immune to the effects of the current macro-economic pressures.

During the period, MYCELX continued to execute its strategy of remaining close to existing and target customers and conducting trials with potential customers. This high level of engagement has been a core component of the Company's success in recent years and one which management expects to yield new contract wins in the future. We also continue to work closely with strategic partners in targeted regions such as onshore North America, Saudi Arabia and Australia. These relationships are expected to lead to new sales orders in the near to medium term.

In H1, MYCELX continued to implement its plan of formalizing distributorships with marketing and sales platforms to broaden and accelerate the distribution of its commercial and industrial product lines. Whilst oil and gas remains the core market for the Company, given its size and suitability to our product offering, the Company sees strategic benefit in leveraging a targeted suite of proven products that should help insulate the Company to some extent from the cyclicality of the oil and gas industry.

Post-period end, Brian Rochester, who has acted as a Non-Executive Director and as Chairman of the Compensation Committee of the Company since 1998, decided to step down. Brian has played a pivotal role in the Company's development over the last decade and we would like to thank him for his significant contribution to the business during that time. He will be sorely missed by the Board and we wish him all the best with his future endeavors. We are however pleased that Tom Lamb has decided to join us as a Non-Executive Director. He has assumed the role of Chairman of the Compensation Committee and has become a member of the Audit and Nomination Committees. Tom brings with him a wealth of strategic and operating expertise in the industrial and technology sectors and his track record of leading international businesses and helping companies achieve their growth ambitions will be of paramount importance to MYCELX in the next stage of the Company's development.

<u>Operational Review</u>

Post-period end, we were pleased to build on our recent push into Nigeria and announce the sale of a second installation to a domestic producer. We continue to believe our offering is well suited to the region, as producers require higher quality water and regulators are searching for a new standard in water treatment. MYCELX's patented offering ticks all the boxes and exceeds both parties' requirements. The Company continues to engage with the Department of Petroleum Resources in Nigeria, as it seeks final approval to be the first water treatment system to reach the organisations stringent requirements for discharge in shallow water.

In addition, MYCELX has also sold media to treat hydrocarbons and PFAS contaminated water in Australia.

Financial

Total revenue during the period was impacted by the slowdown in bidding activity during the first half of the year, decreasing by 25% to $9.1 million compared to $12.2 million in the first half of 2018. Revenue from equipment sales and leases decreased by 19% to $2.2 million in the first half of 2019 (2018 H1: $2.7 million), while revenue from consumable filtration media and service decreased 27% to $6.9 million (2018 H1: $9.5 million).

Gross profit decreased by 19% to $5.0 million in the first half of 2019, compared to $6.2 million in the first half of 2018, and gross profit margin increased in the first half of 2019 to 55% (2018 H1: 51%).

Total operating expenses for the first half of 2019, including depreciation and amortisation, increased by 10% to $4.5 million (2018 H1: $4.1 million). The largest component of operating expenses was selling, general and administrative expenses ('SG&A'), which increased by approximately $300,000, or 8%, to $4.2 million (2018 H1: $3.9 million). The increase to SG&A was due to additional staff added in 2018 to support the rapid growth during that year. The expense reductions from prior in the year are expected to reduce total SG&A year over year.

EBITDA was $1.1 million for the first half of 2019, compared to $2.7 million for the first half of 2018. EBITDA is defined as net profit before interest expense, provision for income taxes, and depreciation and amortisation of fixed and intangible assets, including depreciation of leased equipment which is included in cost of goods sold. The Company recorded profit before tax of $450,000 for the first half of 2019, compared to $2.1 million for the first half of 2018. Basic profit per share was nil for the first half of 2019, compared to basic profit per share of 8 cents for the first half of 2018.

As of 30 June 2019, total assets were $26.8 million with the largest assets being property and equipment of $8.1 million, accounts receivable of $6.6 million, $5.8 million of inventory and $4.0 million of cash and cash equivalents, including restricted cash.

Total liabilities as of 30 June 2019 were $3.9 million and stockholders' equity was $22.8 million, resulting in a debt-to-equity ratio of 17%.

The Company ended the period with $4.0 million of cash and cash equivalents, including restricted cash, compared to $5.5 million in total at 30 June 2018. The Company experienced an operating cash outflow of approximately $2.7 million in the first half of 2019, compared to an operating cash outflow of $12,000 for the first half of 2018. However, the Company received a customer payment of $2.4 million on 1 July 2019 right after the end of the period. The Company's net cash position was $2.3 million at 30 June 2019. Net cash is defined as cash and cash equivalents plus restricted cash less the balance on the line of credit and the current and long term note payable.

Outlook

Whilst market activity was subdued during H1, the Company continues to experience slower conversion of opportunities in its core market in H2. We anticipate an increase in activity prior to year end, but due to challenges faced by key customers in the Middle East timing is difficult to predict. It is positive to note that we expect to commence a pilot trial with a petrochemical producer in Saudi Arabia during H2. We see strong demand for our product offering in Nigeria, where we have leveraged our current installation to secure an additional sale in H2. We have developed strategic partnerships who are working with our Middle East business development team to capitalise on our success in the Niger Delta and capture the increasing opportunities in country.

With our expanded distribution network, we expect our push into the commercial and industrial markets to yield results in the near term. The Company will execute a companywide marketing plan to increase our technology's visibility in our core oil and gas market as well as the complimentary commercial and industrial market sectors. We firmly believe the focused marketing plan will result in greater exposure and opportunities over the coming months.

We strive to be the industry leader in clean water technology and believe the foundations we have laid to date will enable us to reach the next stage of our growth trajectory. Finally, we would like to thank all our stakeholders for their continued support and we look forward to updating you on the Company's progress throughout the rest of 2019.

Tim Eggar
Chairman
16 September 2019

Connie Mixon
Chief Executive Officer

MYCELX TECHNOLOGIES CORPORATION
Statements of Operations
(USD, in thousands, except share data)

	Six Months Ended 30 June 2019 (unaudited)	*Six Months Ended 30 June 2018 (unaudited)*	*Year Ended 31 December 2018*
Revenue	**9,066**	**12,160**	**26,952**
Cost of goods sold	4,099	5,913	12,892
Gross profit	**4,967**	**6,247**	**14,060**
Operating expenses:			
Research and development	49	-	-
Selling, general and administrative	4,233	3,895	9,264
Depreciation and amortisation	193	244	438
Total operating expenses	**4,475**	**4,139**	**9,702**
Operating profit	**492**	**2,108**	**4,358**
Other expense			
Loss on disposal of equipment	(2)	-	(3)
Interest expense	(40)	(43)	(85)
Profit before income taxes	**450**	**2,065**	**4,270**
Provision for income taxes	(363)	(527)	(1,200)
Net profit	**87**	**1,538**	**3,070**
Profit per share-basic	**0.00**	**0.08**	**0.16**
Profit per share-diluted	0.00	0.08	0.15
Shares used to compute basic profit per share	**19,178,664**	**18,798,242**	**18,802,981**
Shares used to compute diluted profit per share	**20,521,456**	**20,007,048**	**20,003,251**

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

MYCELX TECHNOLOGIES CORPORATION
Balance Sheets
(USD, in thousands, except share data)

	As of 30 June 2019 (unaudited)	*As of 30 June 2018 (unaudited)*	*As of 31 December 2018*
ASSETS			
Current Assets			
Cash and cash equivalents	3,522	4,974	4,866
Restricted cash	525	525	525
Accounts receivable - net	6,600	5,316	8,225
Unbilled accounts receivable	20	410	20
Inventory - net	5,807	3,717	4,708
Prepaid expenses	218	327	228
Other assets	27	44	42
Total Current Assets	**16,719**	**15,313**	**18,614**
Property and equipment – net	8,145	8,343	8,536
Intangible assets – net	786	809	788
Operating lease asset – net	1,389	-	-
Total Assets	**27,039**	**24,465**	**27,938**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	469	1,786	2,912
Payroll and accrued expenses	566	1,081	1,950
Deferred revenue	-	269	125
Operating lease obligations – current	454	-	-
Note payable – current	95	91	86
Other current liabilities	167	55	153
Total Current Liabilities	**1,751**	**3,282**	**5,226**
Operating lease obligations – long-term	766	-	-
Note payable – long-term	1,691	1,786	1,739
Total Liabilities	**4,208**	**5,068**	**6,965**
Stockholders' Equity			
Common stock, $0.025 par value, 100,000,000 shares authorised, 19,443,750 shares issued and outstanding at 30 June 2019, 18,807,617 shares issued and outstanding at 30 June 2018, and 18,807,617 shares issued and outstanding at 31 December 2018.	486	470	470
Additional paid-in capital	42,299	40,500	40,544
Accumulated deficit	(19,954)	(21,573)	(20,041)
Total Stockholders' Equity	**22,831**	**19,397**	**20,973**

Total Liabilities and Stockholders' Equity	**27,039**	**24,465**	**27,938**

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

MYCELX TECHNOLOGIES CORPORATION
Statements of Stockholders' Equity
(USD, in thousands)

	Common Stock		**Additional Paid-in Capital**	**Accumulated Deficit**	**Total**
	Shares	**$**	**$**	**$**	**$**
Balances at 31 December 2017	**18,788**	**470**	**40,456**	**(23,111)**	**17,815**
Issuance of common stock, net of offering costs	20	-	8	-	8
Stock-based compensation expense	-	-	36	-	36
Net profit for the period	-	-	-	1,538	1,538
Balances at 30 June 2018 (unaudited)	**18,808**	**470**	**40,500**	**(21,573)**	**19,397**
Stock-based compensation expense	-	-	44	-	44
Net profit for the period	**-**	**-**	**-**	1,532	1,532
Balances at 31 December 2018	**18,808**	**470**	**40,544**	**(20,041)**	**20,973**
Issuance of common stock, net of offering costs	636	16	1,615	-	1,631
Stock-based compensation expense	-	-	140	-	140
Net profit for the period	-	-	-	87	87
Balances at 30 June 2019 (unaudited)	**19,444**	**486**	**42,299**	**(19,954)**	**22,831**

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

MYCELX TECHNOLOGIES CORPORATION
Statements of Cash Flows
(USD, in thousands)

	Six Months Ended 30 June 2019 (unaudited)	*Six Months Ended 30 June 2018 (unaudited)*	*Year Ended 31 December 2018*
Cash flow from operating activities			
Net profit	87	1,538	3,070
Adjustments to reconcile net profit to net cash (used in) provided by operating activities:			
Depreciation and amortisation	632	637	1,239
Loss from disposition of equipment	2	-	3
Stock compensation	140	36	80
Change in operating assets and liabilities:			
Accounts receivable - net	1,625	(2,880)	(5,789)
Unbilled accounts receivable	-	(12)	378
Inventory - net	(1,111)	(680)	(2,082)
Prepaid expenses	10	(73)	26
Prepaid operating leases	(169)	-	-
Other assets	15	(11)	(9)
Accounts payable	(2,443)	804	1,930
Payroll and accrued expenses	(1,384)	511	1,380
Deferred revenue	(125)	77	(67)
Other current liabilities	14	41	139
Net cash (used in) provided by operating activities	(2,707)	(12)	298
Cash flow from investing activities			
Payments for purchases of property and equipment	(205)	(132)	(492)
Payments for purchases of intangible assets	(24)	(17)	(23)
Net cash used in investing activities	(229)	(149)	(515)
Cash flow from financing activities			
Net proceeds from stock issuance	1,631	8	8
Payments on notes payable	(39)	(44)	(96)
Net cash provided by (used in) financing activities	1,592	(36)	(88)
Net decrease in cash and cash equivalents	(1,344)	(197)	(305)
Cash and cash equivalents, beginning of period	4,866	5,171	5,171
Cash and cash equivalents, end of period	3,522	4,974	4,866
Supplemental disclosures of cash flow information:			
Cash payments for interest	34	43	92
Cash and non-cash payments for income taxes	434	538	1,128
Non-cash movements of inventory and fixed assets	12	(133)	(459)

Management considered the effect of exchange rate changes on cash and cash equivalents held or due in foreign currency and deemed it immaterial to the statement of cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Nature of business and basis of presentation

Basis of presentation – These interim financial statements have been prepared using recognition and measurement principles of Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP").

The interim financial statements for the six months ended 30 June 2019 and 2018 have not been audited.

Nature of business – MYCELX Technologies Corporation ("MYCELX" or the "Company") was incorporated in the State of Georgia on 24 March 1994. The Company is headquartered in Duluth, Georgia with operations in Houston, Texas, Saudi Arabia, and the United Kingdom. The Company provides clean water technology equipment and related services to the oil and gas, power, marine and heavy manufacturing sectors and the majority of its revenue is derived from the Middle East and United States.

2. Summary of significant accounting policies

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The primary estimates and assumptions made by management relate to the useful lives of property and equipment, volatility used in the valuation of the Company's share-based compensation and valuation allowance on deferred tax assets. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates and the differences may be material to the financial statements.

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

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

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

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

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

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. In situations where an observable SSP does not exist, the residual method is applied and requires significant judgment.

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

Unbilled accounts receivable represents revenue recognised in excess of amounts billed. Deferred revenue represents billings in excess of revenue recognised. Contract retentions are recorded as a component of accounts receivable.

See Note 14 for disaggregation of revenue by geographic region. Timing of revenue recognition for each of the periods presented is shown below:

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Equipment leases recognised over time	1,967	2,300	5,503
Consumable filtration media, equipment sales and service recognised at a point in time	7,099	9,860	21,449
Total revenue	9,066	12,160	26,952

Cash and cash equivalents – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within 90 days of purchase. At 30 June 2019, all of the Company's cash and cash equivalent balances were held in checking and money market accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At 30 June 2019 and 2018, and 31 December 2018, cash in non-U.S. institutions was $4,000, $47,000 and $13,000, respectively. The Company has not experienced any losses in such accounts.

Restricted cash – The Company classifies as restricted cash all cash whose use is limited by contractual provisions. At 30 June 2019 and 2018, and 31 December 2018, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 9) and $25,000 in a Certificate of Deposit to secure the Company's corporate credit card.

Trade accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. The allowance for doubtful accounts at 30 June 2019 and 2018, and 31 December 2018 was $300,000, $150,000 and $300,000, respectively.

Inventories – Inventories consist primarily of raw materials and filter media finished goods as well as equipment to house the filter media and are stated at the lower of cost or net realisable value. Equipment that is in the process of being constructed for sale or lease to customers is also included in inventory (work-in-progress). The Company applies the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progress and finished products inventory include all direct costs, such as labour and material, and those indirect costs which are related to production, such as indirect labour, rents, supplies, repairs and depreciation costs. A valuation reserve is recorded for slow moving or obsolete inventory items to reduce the cost of inventory to its net realisable value.

Prepaid expenses and other current assets – Prepaid expenses and other current assets include non-trade receivables that are collectible in less than 12 months, security deposits on leased space and various prepaid amounts that will be charged to expenses within 12 months. Non-trade receivables that are collectible in 12 months or more are included in long-term assets.

Property and equipment – All property and equipment are valued at cost. Depreciation is computed using the straight-line method for financial reporting over the following useful lives:

Buildings	39 years
Leasehold improvements	1-5 years
Office equipment	3-10 years
Manufacturing equipment	5-15 years
Research and development equipment	5-10 years
Purchased software	1-5 years
Equipment leased to customers	3-10 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalised. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense includes depreciation on equipment leased to customers and is included in cost of goods sold.

Intangible assets – Intangible assets consist of the costs incurred to purchase patent rights and legal and registration costs incurred to internally develop patents. Intangible assets are reported net of accumulated amortisation. Patents are amortised using the straight-line method over a period based on their contractual lives which approximates their estimated useful lives.

Impairment of long-lived assets – Long-lived assets to be held and used, including property and equipment and intangible assets with definite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss, if any, is recognised for the difference between the fair value and carrying value of the assets. Impairment analyses, when performed, are based on the Company's business and technology strategy, management's views of growth rates for the Company's business, anticipated future economic and regulatory conditions, and expected technological availability. For purposes of recognition and measurement, the Company groups its long-lived assets at the lowest level for which there are identifiable cash flows, which are largely independent of the cash flows of other assets and liabilities. No impairment charges were recorded in the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $49,000, $nil and $nil, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $nil, and is recorded in selling, general and administrative expenses.

Rent expense – The Company records rent expense on a straight-line basis for operating lease agreements that contain escalating rent clauses. The deferred rent liability included in other current liabilities in the accompanying balance sheet represents the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

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

The benefit from an uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained upon audit by the relevant authority. For positions that are more than 50 percent likely to be sustained, the benefit is recognised at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained. Where a net operating loss carried forward, a similar tax loss or a tax credit carry forward exists, an unrecognised tax benefit is presented as a reduction to a deferred tax asset. Otherwise, the Company classifies its obligations for uncertain tax positions as other non-current liabilities unless expected to be paid within one year. Liabilities expected to be paid within one year are included in the accrued expenses account.

The Company recognises interest accrued related to tax in interest expense and penalties in selling, general and administrative expenses. During the six months ending 30 June 2019 and 2018, and the year ended 31 December 2018 the Company recognised no interest or penalties.

Earnings per share – Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options. Potentially dilutive shares are excluded from the computation if their effect is antidilutive.

Fair value of financial instruments – The Company uses the framework in ASC 820, Fair Value Measurements and Disclosures, to determine the fair value of its financial assets. ASC 820 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value and expands financial statement disclosures about fair value measurements.

The hierarchy established by ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

- **Level 1**: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- **Level 2**: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- **Level 3**: Unobservable inputs for the asset or liability.

There were no significant transfers into or out of each level of the fair value hierarchy for assets measured at the fair value for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018.

All transfers are recognised by the Company at the end of each reporting period.

Transfers between Levels 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Levels 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety.

The Company’s financial instruments as of 30 June 2019 and 2018, and 31 December 2018 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, and the note payable. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short-term nature of those assets and liabilities. The Company believes it is impractical to disclose the fair value of the note payable as it is an illiquid financial instrument.

Foreign currency transactions – From time to time the Company transacts business in foreign currencies (currencies other than the United States Dollar). These transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency transaction gains or losses are included in selling, general and administrative expenses.

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

Recently issued accounting standards – In May 2014, the Financial Accounting Standards Board ('FASB') and International Accounting Standards Board issued their converged standard on revenue recognition Accounting Standards Update ('ASU') 2014-09, 'Revenue from Contracts with Customers (Topic 606)', as subsequently amended. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognising revenue, the application of which will require significant judgement. ASU No. 2014-09, as amended, was effective for the Company beginning 1 January 2018. The Company applied Topic 606 using the cumulative effect method, recognising the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at 1 January 2018 for all open contracts at 31 December 2017. Based on the analysis completed by the Company, there was no impact to the beginning equity account at 1 January 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which requires lessees to recognise on the balance sheet the assets and liabilities for the rights and obligations created by the leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike prior U.S. GAAP, which required only capital leases be recognised on the balance sheet, the new standard requires both types of leases to be recognised on the balance sheet. The new standard also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company adopted this ASU under a modified retrospective approach on 1 January 2019. This resulted in the recognition of an Operating Lease Right of Use Asset and an Operating Lease Liability of $960K.

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

3. Accounts receivable

Accounts receivable and their respective allowance amounts at 30 June 2019 and 2018, and 31 December 2018:

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Accounts receivable	6,900	5,466	8,525
Less: allowance for doubtful accounts	(300)	(150)	(300)
Total receivable - net	6,600	5,316	8,225

4. Inventories

Inventories consist of the following at 30 June 2019 and 2018, and 31 December 2018:

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*

Raw materials	1,389	864	1,341
Work-in-progress	79	145	-
Finished goods	4,339	2,708	3,367
Total inventory – net	5,807	3,717	4,708

5. Property and equipment

Property and equipment consists of the following at 30 June 2019 and 2018, and 31 December 2018:

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Land	709	709	709
Building	2,724	2,724	2,724
Leasehold improvements	277	354	361
Office equipment	707	697	699
Manufacturing equipment	943	782	898
Research and development equipment	552	514	496
Purchased software	222	222	222
Equipment leased to customers	9,729	9,069	9,674
	15,863	15,071	15,783
Less: accumulated depreciation	(7,718)	(6,728)	(7,247)
Property and equipment – net	8,145	8,343	8,536

During the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately $135,000, $2,000 and $58,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $606,000, $592,000 and $1,167,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was $439,000, $393,000 and $801,000, respectively.

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of $28,000 in 2009 with the possibility of an additional $72,000 based on profits on the sales of a particular product. During 2010, the Company paid $22,000 based on profits on the sales of the product and paid the remaining $50,000 in 2011. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately $55,000, $48,000 and $51,000 as of 30 June 2019 and 2018, and 31 December 2018, respectively.

In addition to the purchased patent, the Company has internally developed patents. Internally developed patents include legal and registration costs incurred to obtain the respective patents. The Company currently holds various patents and numerous pending patent applications in the United States, as well as numerous foreign jurisdictions outside of the United States.

Intangible assets as of 30 June 2019 and 2018, and 31 December 2018 consist of the following:

	Weighted Average Useful lives	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Internally developed patents	15 years	1,318	1,288	1,294
Purchased patents	17 years	100	100	100
		1,418	1,388	1,394
Less accumulated amortisation		(632)	(579)	(606)
Intangible assets – net		786	809	788

Approximate aggregate future amortisation expense is as follows:

Year ending 31 December (USD, in thousands)	
2019	25
2020	51
2021	50
2022	49
2023	41
Thereafter	209

Amortisation expense for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $26,000, $45,000 and $72,000, respectively.

7. Income taxes

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

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Current:			
Federal	-	-	-
Foreign	363	524	1,185
State	-	-	15
Total current provision	363	524	1,200
Deferred:			
Federal	-	-	-
Foreign	-	-	-
State	-	-	-
Total deferred provision	-	-	-
Total provision for income taxes	363	524	1,200

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

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

	30 June 2019	30 June 2018	31 December 2018
Federal statutory income tax rate	21.0%	21.0%	21.0%
State tax rate, net of federal benefit	0.2%	-	0.5%
Valuation allowance	(4.0%)	(18.4%)	(16.7%)
Other	(0.1%)	2.7%	1.5%
Foreign withholding tax	63.6%	20.1%	21.8%
Effective income tax rate	80.7%	25.4%	28.1%

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

	30 June 2019 *US$000*	30 June 2018 *US$000*	31 December 2018 *US$000*
Deferred tax assets			
Net operating loss	3,883	4,266	3,971
Equity compensation	323	292	297
Research and development credits	159	159	159
Allowance for bad debts	64	32	64
Accrued liability	6	2	4
Inventory valuation reserve	-	-	93
Other	92	26	22
Total gross deferred tax asset	4,527	4,777	4,610
Deferred tax liabilities			
Property and equipment	(672)	(568)	(738)
Total gross deferred tax liability	(672)	(568)	(738)
Net deferred tax asset before valuation allowance	3,855	4,209	3,872
Valuation allowance	(3,855)	(4,209)	(3,872)
Net deferred tax asset (liability)	-	-	-

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 30 June 2019, the Company has recorded a valuation allowance of $3.9 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 30 June 2019, the Company has approximately $17.5 million of gross U.S. federal net operating loss carry forwards and $5.2 million of gross state net operating loss carry forwards that will begin to expire in the 2024 tax year.

The FASB issued Interpretation ASC-740-10-25, Income Taxes, an interpretation of ASC-740 which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. Under ASC-740, the impact of an uncertain income tax position on the income tax return must be recognised at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. ASC-740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC-740 applies to all tax positions related to income taxes.

As a result of the adoption and implementation of ASC-740, a tax position is recognised as a benefit only if it is 'more likely than not' that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognised is the largest amount of tax benefit that has a greater than 50 percent likelihood of being realised on examination. For tax positions not meeting the 'more likely than not' test, no tax benefit is recorded. The Company recognises interest and penalties related to tax positions in income tax expense. At 30 June 2019 and 2018, and 31 December 2018, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2015 through 2018 remain subject to examination by federal, state and foreign income tax jurisdictions.

8. Line of credit

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to $500,000. The line of credit is revolving and is payable on demand. In November 2018, the maximum borrowing capacity was increased to $1,875,000. The facility renews annually and is secured by the assignment of a deposit account held by the lender and 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 30 June 2019. There was no balance on the line of credit at 30 June 2019 and 2018, and 31 December 2018. The interest rate on 30 June 2019 and 2018, and 31 December 2018 was 5.50 percent, 4.50 percent and 5.50 percent, respectively. There was no interest expense related to this loan for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018.

9. Note payable

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The note is secured by the property and building. The Company borrowed proceeds of $2,285,908 at a fixed interest rate of 4.45 percent. The loan has a ten year term with monthly payments based on a 20 year amortisation. In addition, there is a one-time payment at the end of the term of the note of approximately $1,400,000. In accordance with the terms of the agreement, the Company is required to keep $500,000 in a deposit account with the lending bank. As of 30 June 2019 and 2018, and 31 December 2018, the Company had restricted cash of $500,000 related to the loan agreement. Future maturities of long-term debt are as follows as of 30 June 2019:

Year ending 31 December (USD, in thousands)	
2019	47
2020	97
2021	102
2022	106
2023	1,434
	1,786

10. Public offering of common stock

Authorised shares and shares issuance

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 $1,631,000.

11. Stock compensation

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

Upon the issuance of these additional shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to a former Chief Financial Officer. In addition, additional stock options were awarded in each year subsequent. The awards of stock options and restricted shares made upon issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the Public Offering. The total number of shares reserved for stock awards and options under this Plan is 1,944,375 with 1,324,542 shares allocated as of 30 June 2019. The shares are all allocated to employees, executives and consultants.

The options granted to Non-Executive Directors, unless otherwise agreed, vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.

Employee options vest over three years with a third vesting ratably each year, partially on issuance and partially over the following 24 month period, or if there is a change in control. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors and one executive vest partially on issuance and will vest partially one to two years later. The remaining Non-Executive Director options expired at the end of 2016.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. Since the Company does not have a sufficient trading history from which to calculate its historical volatility, the Company's expected volatility is based on a basket of comparable companies' historical volatility. As the Company's initial options were granted in 2011, the Company does not have sufficient history of option exercise behavior from which to calculate the expected term. Accordingly, the expected terms of options are calculated based on the short-cut method commonly utilised by newly public companies. The risk free interest rate is based on a blended average yield of two and five year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2018 and 2018 were as follows:

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

The Company assumes a dividend yield of 0.0%.

The following table summarises the Company's stock option activity for the six months ended 30 June 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	$1,536,406
Granted	10,000	$3.20	6.0	$20,800
Exercised	(32,500)	$1.29		
Outstanding at 30 June 2019	1,324,542	$2.46	5.9	$1,534,881
Exercisable at 30 June 2019	1,197,875	$2.50	5.9	

A summary of the status of unvested options as of 30 June 2019 and changes during the six months ended 30 June 2019 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2018	216,667	$1.14
Granted	10,000	$2.08
Vested	(100,000)	$1.57
Unvested at 30 June 2019	126,667	$0.87

As of 30 June 2019, total unrecognised compensation cost of $105,000 was related to unvested share-based compensation arrangements awarded under the Plan.

12. Commitments and contingencies

Operating leases – During 2019, the Company adopted ASU 2016-02 *Leases (Topic 842)*. The Company has operating leases for its offices, yards and warehouses and is applying the provisions of ASU 2016-02 to these leases. The Company is following a modified retrospective approach in the adoption of this ASU resulting in the recognition of an Operating Lease Right of Use (ROU) Asset and an Operating Lease Liability at 1 January 2019 of $960,000. This adjustment is based on the present value of future minimum rental payments of the leases.

As of 30 June 2019, the Operating Lease ROU Asset has a balance of $1,389,000, net of accumulated amortisation of $188,000 and an Operating Lease Liability of $1,220,000, 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 incremental borrowing rate.

The Company's leases do not include any options to renew. The Company's leases mature at various dates through May 2024 and have a weighted average remaining life of 3.51 years.

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

(USD, in thousands)	
2019	140
2020	512
2021	380
2022	133
2023	122
2024	51
Total future maturities	1,338
Portion representing interest	(118)
	1,220

Total lease expense for the six months ended 30 June 2019 and 2018, and the year ended 31 December 2018 was approximately $210,000, $150,000 and $320,000, 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 $11,000 for the six months ended 30 June 2019.

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

13. Related party transactions

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

14. Segment and geographic information

ASC 280-10, *Disclosures About Segments of an Enterprise and Related Information* (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ('CODM') in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer ('CEO'). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 30 June 2019. For the six months ended 30 June 2019, the Company's revenues were generated primarily in the Middle East and the United States ('U.S.'). Additionally, the majority of the Company's expenditures and personnel either directly supported its efforts in the Middle East and the U.S., or cannot be specifically attributed to a geography. Therefore, the Company has only one reportable operating segment.

Revenue from customers by geography is as follows:

(USD, in thousands)	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Middle East	6,870	10,706	23,066
United States	1,607	1,159	2,465
Other	589	295	1,421
Total	9,066	12,160	26,952

Equipment leased to customers by geography is as follows:

(USD, in thousands)	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Middle East	7,946	6,971	7,602
United States	1,186	1,723	1,726
Other	597	375	346
Total	9,729	9,069	9,674

15. Concentrations

At 30 June 2019, one customer with four contracts with four separate plants represented 93 percent of accounts receivable. During the six months ended 30 June 2019, the Company received 85 percent of its gross revenue from two customers, one with four contracts with four separate plants.

At 30 June 2018, one customer with four contracts with three separate plants represented 90 percent of accounts receivable. During the six months ended 30 June 2018, the Company received 88 percent of its gross revenue from one customer with four contracts with three separate plants.

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

16. Subsequent events

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 16 September 2019, the date the interim results were available to be issued, and no events have occurred which require further disclosure.

Forward Looking Statements

This release contains certain statements that are or may be "forward-looking statements". These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar importance. All the statements other than statements of historical facts included in this announcement, 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 announcement, including any forward-looking statements, in the light of new information, change in circumstances or future events.