22 September 2020

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 unaudited interim results for the six months ended 30 June 2020.

Highlights

Operational

- Company continues to see headwinds in its key markets due to the ongoing impact of COVID-19 and a lower oil price environment
- Despite challenging macro backdrop, MYCELX remains operationally active across all its sites
- Awarded a contract extension with SABIC with an estimated value up to $1.8 million
- Purchase Order with a SABIC affiliate with an estimated value up to $0.8 million
- Running a trial at a SABIC affiliate, which has the potential to generate further revenues

Financial

- Revenue of $3.6 million (2019 H1: $9.1 million)
- Gross profit margin of 45.3% (2019 H1: 54.8%)
- EBITDA of negative $1.9 million (2019 H1: +$1.1 million)
- Net loss of $2.8 million (2019 H1: $0.1 million net profit)
- MYCELX implemented significant cost saving measures due to COVID-19 pandemic

Outlook

- While there were project awards in the Middle East in H1, the Company continues to see challenges in its core markets due to the ongoing impact of COVID-19 and the lower oil price environment, however the Company continues to actively pitch and seek new opportunities within its core channel:
    - Middle East – bidding activity is ongoing but timing of project awards remains unpredictable. Customer maintenance schedules can be erratic in the current environment meaning sustaining consistent operations is proving challenging.

    - Nigeria – the Company intend to leverage initial sales with other domestic producers

- The Company is also pursuing opportunities for additional core technology applications with future revenue expectations:
    - MYCELX has assessed opportunities for other 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 air filtration, Per and Polyfluoroalkyl Substances ("PFAS") and new technologies for agri-business sectors, where MYCELX's core technology brings distinct advantages for the 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 H2 2020 and beyond, however we are not immune to the ongoing challenges facing the global oil and gas market. We were pleased to secure a number of new purchase orders and contract extensions during H1 2020, and will continue to leverage our success to win future business in the Middle East.

As we move into H2, we anticipate continued unpredictability of project awards and are experiencing a challenging operational environment. We will stay close to our customers, progress our footprint in the Middle East and expand our scope of activity into new and established commercial and industrial markets. Our unique technology is well suited to these applications and we expect these opportunities 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 reports its H1 2020 results today, amid a highly challenging macro-economic landscape that is arguably one of the most testing periods in the Company's history. During H1, our focus was on safeguarding the welfare of our staff and ensuring the resilience of the business. We are pleased to report that our team have done an excellent job of managing the headwinds created by COVID-19. Against this backdrop and the associated unprecedented issues it has presented to all businesses, we are encouraged by the green shoots that are starting to emerge indicating project bidding opportunities that were presented in H1 may start to progress more meaningfully later in the year.

In H1, the Company delivered revenue of $3.6 million with a net loss of $2.8 million. Whilst we made a strong start to the year, these numbers are significantly down on H1 2019. This is a result of the global macro events, which included a collapse in the oil price, leading to a number of project delays and a slowdown in bidding activity. As and when we see bidding activity resume, we are confident of signing new purchase orders, due to our industry leading technology, which helps our clients maintain environmental standards and generate cost savings for them.

Operational Review

Following considerable time spent on Research & Development ("R&D"), one positive development in the first half of the year was a number of product breakthroughs. Arguably the most important development has been the engineering, design and commercialisation of a retrofit package that enables MYCELX's RE-GEN media technology to be placed into existing, installed filter systems that are failing in the field. This step change in performance not only improves the efficiency and throughput of the water treatment system, but it also reduces the capital cost to the client, as they do not need to purchase new equipment to reap the benefits of the superior technology. At a time when costs are a focus for all oil and gas producers, the opportunity to improve production and lower costs makes for a compelling offering.

Due to the oil price downturn and the COVID-19 pandemic, the Company took decisive action to protect its employees and reduce costs across the business. We stopped all non-essential work travel and installed a work from home policy, wherever possible. We chose to expand on our previously actioned cost saving measures, implementing a 15% pay cut across the business, except for hourly rate employees. The measures we put in place have both safeguarded the welfare of our workforce and preserved MYCELX's liquidity position.

Despite the measures we applied, we were able to remain operationally functional across all of our active sites. We were also able to secure a new contract win and a contract extension during the period. In May, we announced the award of a new purchase order for an emergency response project with a SABIC affiliate, which had an estimated value to the Company of up to $0.8 million. We were also awarded a contract extension with SABIC for a leased water treatment system in the Middle East. The value of the extension was up to $1.8 million, with MYCELX also pursuing advanced opportunities in the region to run a trial at a SABIC affiliate which, if awarded, has the potential to generate additional incremental revenues for the Company in 2020.

These purchase orders not only demonstrate the strength of the Company's relationship with SABIC, but they also reaffirm the success of our expansion into Saudi Arabia in recent years. The Middle East remains one of MYCELX's core markets, but we also continue to make progress in our other regions of operation.

Financial Review

Total revenue in the period was impacted by the slowdown in bidding opportunities during the first half of the year, decreasing by 60% to $3.6 million compared to $9.1 million in the first half of 2019. Revenue from equipment sales and leases decreased by 45% to $1.2 million in the first half of 2020 (2019 H1: $2.2 million), while revenue from consumable filtration media and service decreased 65% to $2.4 million (2019 H1: $6.9 million).

Gross profit decreased by 68% to $1.6 million in the first half of 2020, compared to $5.0 million in the first half of 2019, and gross profit margin decreased in the first half of 2020 to 45% (2019 H1: 55%).

Total operating expenses for the first half of 2020, including depreciation and amortisation, decreased by 7% to $4.2 million (2019 H1: $4.5 million). The largest component of operating expenses was selling, general and administrative expenses ('SG&A'), which the Company successfully decreased by approximately $200,000, or 5%, to $4.0 million (2019 H1: $4.2 million) as the Company reduced costs due to the oil price downturn and the COVID-19 pandemic.

EBITDA was negative $1.9 million for the first half of 2020, compared to $1.1 million for the first half of 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 $2.6 million for the first half of 2020, compared to profit before tax of $450,000 for the first half of 2019. Basic loss per share was 14 cents for the first half of 2020, compared to basic profit per share of nil for the first half of 2019.

As of 30 June 2020, total assets were $22.6 million with the largest assets being property and equipment of $7.5 million, inventory of $6.8 million, $4.8 million of cash and cash equivalents (including restricted cash) and $1.2 million of accounts receivable.

Total liabilities as of 30 June 2020 were $5.5 million and stockholders' equity was $17.1 million, resulting in a debt-to-equity ratio of 32%.

The Company ended the period with $4.8 million of cash and cash equivalents, including restricted cash, compared to $4.0 million in total at 30 June 2019. The Company generated approximately $0.7 million cash from operations in the first half of 2020, compared to an operating cash outflow of $2.7 million for the first half of 2019. The Company used $25,000 in investment activities compared to $229,000 in the first half of 2019. In the first half of 2020, the Company's financing activities included $48,000 paid towards debt.

The Company has a $1.88 million bank line of credit that is available and can be used for working capital purposes to support the business if required.

Outlook

We would like to thank all our stakeholders for their continued support during what has been a difficult period for all of those involved in the oil and gas market. Due to the tireless efforts of our workforce, the stabilising of global oil prices and the measures that we moved quickly to put in place, MYCELX is well positioned to benefit from a future uptick in bidding activity. We continue to work through the current high level of market uncertainty and will keep the market appraised on developments over the course of the coming months.

Tim Eggar
Chairman
22 September 2020

Connie Mixon
Chief Executive Officer

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

	Six Months Ended 30 June 2020 (unaudited)	*Six Months Ended 30 June 2019 (unaudited)*	*Year Ended 31 December 2019*
Revenue	**3,641**	**9,066**	**11,908**
Cost of goods sold	1,993	4,099	5,822
Gross profit	**1,648**	**4,967**	**6,086**
Operating expenses:			
Research and development	55	49	352
Selling, general and administrative	3,985	4,233	7,754
Depreciation and amortization	163	193	386
Total operating expenses	**4,203**	**4,475**	**8,492**
Operating (loss) profit	**(2,555)**	**492**	**(2,406)**
Other expense			
Loss on disposal of equipment	-	(2)	(13)
Interest expense	(62)	(40)	(80)
(Loss) profit before income taxes	**(2,617)**	**450**	**(2,499)**
Provision for income taxes	(162)	(363)	(460)
Net (loss) profit	**(2,779)**	**87**	**2,959**
(Loss) profit per share-basic	**(0.14)**	**0.00**	**(0.15)**
(Loss) profit per share-diluted	(0.14)	0.00	(0.15)
Shares used to compute basic profit per share	**19,443,750**	**19,178,664**	**19,312,664**
Shares used to compute diluted profit per share	**19,443,750**	**20,521,456**	**19,312,664**

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 2020 (unaudited)	*As of 30 June 2019 (unaudited)*	*As of 31 December 2019*
ASSETS			
Current Assets			
Cash and cash equivalents	4,255	3,522	3,647
Restricted cash	500	525	500
Accounts receivable - net	1,208	6,600	3,987
Unbilled accounts receivable	100	20	-
Inventory - net	6,821	5,807	6,141
Prepaid expenses	485	218	218
Other assets	387	27	387
Total Current Assets	**13,756**	**16,719**	**14,880**
Property and equipment – net	7,453	8,145	8,016
Intangible assets – net	778	786	798
Operating lease asset – net	658	1,389	808
Total Assets	**22,645**	**27,039**	**24,502**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	963	469	786
Payroll and accrued expenses	1,019	566	503
Customer deposits	888	-	864
Operating lease obligations – current	241	454	282
Note payable – current	100	95	97
Other current liabilities	401	167	-
Total Current Liabilities	**3,612**	**1,751**	**2,532**
Operating lease obligations – long-term	343	766	484
Note payable – long-term	1,592	1,691	1,642
Total Liabilities	**5,547**	**4,208**	**4,658**
Stockholders' Equity			
Common stock, $0.025 par value, 100,000,000 shares authorised, 19,443,750 shares issued and outstanding at 30 June 2020, 30 June 2019, and 31 December 2019.	486	486	486
Additional paid-in capital	42,391	42,299	42,358
Accumulated deficit	(25,779)	(19,954)	(23,000)
Total Stockholders' Equity	**17,098**	**22,831**	**19,844**
Total Liabilities and Stockholders' Equity	**22,645**	**27,039**	**24,502**

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 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	-	-	140	-	140
Net profit for the period	-	-	-	87	87
Balances at 30 June 2019 (unaudited)	**19,444**	**486**	**42,299**	**(19,954)**	**22,831**
Stock-based compensation expense	-	-	59	-	59
Net loss for the period	-	-	-	(3,046)	(3,046)
Balances at 31 December 2019	**19,444**	**486**	**42,358**	**(23,000)**	**19,844**
Stock-based compensation expense	-	-	33	-	33
Net loss for the period	-	-	-	(2,779)	(2,779)
Balances at 30 June 2020 (unaudited)	**19,444**	**486**	**42,391**	**(25,779)**	**17,098**

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 2020 (unaudited)	*Six Months Ended 30 June 2019 (unaudited)*	*Year Ended 31 December 2019*
Cash flow from operating activities			
Net (loss) profit	(2,779)	87	(2,959)
Adjustments to reconcile net (loss) profit to net cash provided by (used in) operating activities:			
Depreciation and amortisation	607	632	1,269
Loss from disposition of equipment	-	2	13
Stock compensation	33	140	199
Change in operating assets and liabilities:			
Accounts receivable - net	2,779	1,625	4,238
Unbilled accounts receivable	(100)	-	20
Inventory - net	(680)	(1,111)	(1,338)
Prepaid expenses	(267)	10	10
Prepaid operating leases	(30)	(169)	(42)
Other assets	-	15	(345)
Accounts payable	177	(2,443)	(2,126)
Payroll and accrued expenses	516	(1,384)	(1,447)
Deferred revenue	-	(125)	(125)
Customer Deposits	24	-	734
Other current liabilities	401	14	(23)
Net cash provided by (used in) operating activities	681	(2,707)	(1,922)
Cash flow from investing activities			
Payments for purchases of property and equipment	(17)	(205)	(805)
Payments for internally developed patents	(8)	(24)	(62)
Net cash used in investing activities	(25)	(229)	(867)
Cash flow from financing activities			
Net proceeds from stock issuance	-	1,631	1,588
Net proceeds from exercise of stock options	-	-	43
Payments on notes payable	(48)	(39)	(86)
Net cash (used in) provided by financing activities	(48)	1,592	1,545
Net increase (decrease) in cash, cash equivalents and restricted cash	608	(1,344)	(1,244)
Cash, cash equivalents and restricted cash, beginning of period	4,147	5,391	5,391
Cash, cash equivalents and restricted cash, end of period	4,755	4,047	4,147
Supplemental disclosures of cash flow information:			
Cash payments for interest	63	34	74
Cash payments for income taxes	162	434	496
Non-cash movements of inventory and fixed assets	-	12	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 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 2020 and 2019 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.

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. The Company actively manages its financial risk by operating Board-approved financial policies that are designed to ensure that the Company maintains an adequate level of liquidity and effectively mitigates financial risks.

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

Given the future uncertainty, the Company performed a downside scenario sensitivity analysis taking into account the potential for continuation of low oil prices and uncertainty around COVID-19, whilst considering revenues already under contract and adjusting only for cost of goods sold.

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

2. Summary of significant accounting policies

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

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

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

Sales tax charged to customers is presented on a net basis within the 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 fulfiled the performance obligation prior to billing.

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

The Company’s contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Judgment is required to determine stand-alone selling price (‘SSP’) for each distinct performance obligation. The Company develops observable SSP by reference to stand-alone sales for identical or similar items to similarly situated clients at prices within a sufficiently narrow range.

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

Unbilled accounts receivable represents revenue recognised in excess of amounts billed. Deferred revenue represents billings in excess of revenue recognised. Unbilled accounts receivable at 30 June 2020, 30 June 2019 and 31 December 2019 was $100,000, $19,542 and nil, respectively. There was no deferred revenue at 30 June 2020, 30 June 2019 and 31 December 2019.

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

	Equipment leases, turnkey arrangements, and services recognised over time			**Consumable filtration media, equipment sales and service recognised at a point in time**		
(USD, in thousands)	30 June 2020	30 June 2019	31 December 2019	30 June 2020	30 June 2019	31 December 2019
Middle East	2,586	2,557	3,931	48	4,313	4,324
United States	-	-	1	646	1,452	2,448
Other	1	-	-	260	589	916
Total revenue recognised under ASC 606	2,587	2,557	3,932	954	6,354	7.688
Total revenue recognised under ASC 842	100	155	288	-	-	-
Total revenue	2,687	2,712	4,220	954	6,354	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 six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, the Company did not have any costs to obtain a contract and any costs to fulfil a contract were inconsequential.

Cash, cash equivalents and restricted cash – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At 30 June 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 30 June 2020 and 2019, and 31 December 2019, cash in non-U.S. institutions was $7,000, $4,000 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 30 June 2020 and 2019, and 31 December 2019, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 10). The restricted cash balance at 30 June 2019 also included $25,000 in a Certificate of Deposit to secure the Company's corporate credit card.

Reconciliation of cash, cash equivalents and restricted cash at 30 June 2020 and 2019, and 31 December 2019:

	30 June 2020	30 June 2019	31 December 2019
	US$000	*US$000*	*US$000*

Cash and cash equivalents	4,255	3,522	3,647
Restricted cash	500	525	500
Total cash, cash equivalents and restricted cash	4,755	4,047	4,147

Accounts receivable – 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 2020 and 2019, and 31 December 2019 was $nil, $300,000 and $nil, respectively, as the Company wrote off the balances reserved at 31 December 2018 during 2019 and no other amounts were reserved in 2019 or during the first six months of 2020.

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

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

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

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

Building	39 years
Leasehold improvements	Lease period or 1-5 years (shorter of)
Office equipment	3-10 years
Manufacturing equipment	5-15 years
Research and development equipment	5-10 years
Purchased software	Licensing period or 5 years (whichever is shorter)
Equipment leased to customers	3-10 years

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

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

Impairment of long-lived assets – Long-lived assets to be held and used, including property and equipment and intangible assets with definite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss, if any, is recognised for the difference between the fair value and carrying value of the assets. Impairment analyses, when performed, are based on the Company's business and technology strategy, management's views of growth rates for the Company's business, anticipated future economic and regulatory conditions, and expected technological availability. For purposes of recognition and measurement, the Company groups its long-lived assets at the lowest level for which there are identifiable cash flows, which are largely independent of the cash flows of other assets and liabilities. No impairment charges were recorded in the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $55,000, $49,000 and $352,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was $nil and is recorded in selling, general and administrative expenses.

Rent expense – In 2018, under ASC 840, the Company recorded rent expense on a straight-line basis for operating lease agreements that contain escalating rent clauses. The deferred rent liability included in other current liabilities in the accompanying balance sheet represented the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

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

Income taxes – The provision for income taxes for 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. 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 2020 and 2019, and the year ended 31 December 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 1,311,973 for the six months ended 30 June 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:

	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Basic weighted average outstanding shares of common stock	19,443,750	19,178,664	19,312,664
Effect of potentially dilutive stock options	-	1,342,792	-
Diluted weighted average outstanding shares of common stock	19,443,750	20,521,456	19,312,664
Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock	1,374,542	-	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 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 2020 and 2019, and the year ended 31 December 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 30 June 2020 and 2019, and 31 December 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, restricted cash, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short-term nature of those assets and liabilities. The Company believes it is impractical to disclose the fair value of the note payable as it is an illiquid financial instrument.

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

Stock compensation – The Company issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date is expensed, based on the Company's estimate of shares that will eventually vest, on a straight-line basis over the vesting period. Fair value for the share awards representing equity interests identical to those associated with shares traded in the open market is determined using the market price at the date of grant. Fair value is measured by use of the Black Scholes valuation model (see Note 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 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 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 in the recognition of an Operating Lease Right of Use Asset and an Operating Lease Liability of $1,076,000 and $1,042,000, respectively. The Company adopted the standard with the 'package of three' practical expedient as stated in ASC 842 upon adoption in evaluating its adoption impact from a lessee perspective.

Lessor Contracts

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

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

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

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

In November 2016, the FASB issued ASU 2016-18, 'Statement of Cash Flows (Topic 230): Restricted Cash', that changes the presentation of restricted cash and cash equivalents on the statement of cash flows. The Company adopted this guidance effective 1 January 2019 using the retrospective transition method and has applied its content to the statement of cash flows for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 presented herein.

In August 2018, the FASB issued ASU 2018-13, 'Fair Value Measurement (Topic 820): Disclosure Framework', which removes, modifies and adds to the disclosure requirements on fair value measurements in Topic 820. The amendments on changes in unrealised gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. 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 30 June 2019 and 2018, and 31 December 2018:

	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Accounts receivable	1,208	6,900	3,987
Less: allowance for doubtful accounts	-	(300)	-
Total receivable - net	1,208	6,600	3,987

4. Inventories

Inventories consist of the following at 30 June 2020 and 2019, and 31 December 2019:

	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Raw materials	4,139	1,389	2,125
Work-in-progress	359	79	-
Finished goods	2,323	4,339	4.016
Total inventory – net	6,821	5,807	6,141

5. Property and equipment

Property and equipment consists of the following at 30 June 2020 and 2019, and 31 December 2019:

	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Land	709	709	709

Building	2,724	2,724	2,724
Leasehold improvements	277	277	277
Office equipment	710	707	707
Manufacturing equipment	930	943	926
Research and development equipment	551	552	551
Purchased software	222	222	222
Equipment leased to customers	9,842	9,729	9,378
Equipment available for lease to customers	163	-	617
	16,128	15,863	16,111
Less: accumulated depreciation	(8,675)	(7,718)	(8,095)
Property and equipment – net	7,453	8,145	8,016

During the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately $nil, $135,000 and $369,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $580,000, $606,000 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 six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was $444,000, $439,000 and $883,000, respectively.

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately $61,000, $55,000 and $58,000 as of 30 June 2020 and 2019, and 31 December 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.

Intangible assets as of 30 June 2020 and 2019, and 31 December 2019 consist of the following:

	Weighted Average Useful lives	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Internally developed patents	15 years	1,363	1,318	1,356
Purchased patents	17 years	100	100	100
		1,463	1,418	1,456
Less accumulated amortisation		(685)	(632)	(658)
Intangible assets – net		778	786	798

Internally developed patents includes approximately $365,000 for costs accumulated for patents that have not yet been issued and are not depreciating.

Approximate aggregate future amortisation expense is as follows:

Year ending 31 December (USD, in thousands)	
2020	27
2021	54
2022	53
2023	45
2024	44
Thereafter	191

Amortisation expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $27,000, $26,000 and $52,000, respectively.

7. Income taxes

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

	30 June 2020 *US$000*	30 June 2019 *US$000*	31 December 2019 *US$000*
Current:			
Federal	-	-	-
Foreign	162	363	462
State	-	-	-2
Total current provision	162	363	460
Deferred:			
Federal	-	-	-
Foreign	-	-	-
State	-	-	-
Total deferred provision	-	-	-
Total provision for income taxes	162	363	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:

	30 June 2020	30 June 2019	31 December 2019
Federal statutory income tax rate	21.0%	21.0%	21.0%
State tax rate, net of federal benefit	0.3%	0.2%	3.8%
Valuation allowance	(22.5%)	(4.0%)	(28.9%)
Other	(0.1%)	0.1%	0.3%
Foreign withholding tax	(4.9%)	63.6%	(14.6%)
Effective income tax rate	(6.2%)	80.7%	(18.4%)

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

	30 June	30 June	31 December

	2020 *US$000*	2019 *US$000*	2019 *US$000*
Deferred tax assets			
Net operating loss	5,249	3,883	4,660
Equity compensation	331	323	324
Research and development credits	159	159	159
Right of use liability	128	-	168
Allowance for bad debts	-	64	-
Accrued liability	-	6	-
Inventory valuation reserve	132	-	132
Other	17	92	16
Total gross deferred tax asset	6,016	4,527	5,459
Deferred tax liabilities			
Property and equipment	(683)	(672)	(687)
Right of use asset	(144)	-	(178)
Total gross deferred tax liability	(827)	(672)	(865)
Net deferred tax asset before valuation allowance	5,189	3,855	4,594
Valuation allowance	(5,189)	(3,855)	(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 30 June 2020, the Company has recorded a valuation allowance of $5.2 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 2020, the Company has approximately $23.5 million of gross U.S. federal net operating loss carry forwards and $4.4 million of gross state net operating loss carry forwards that will begin to expire in the 2024 tax year and will continue through 2030 when the current year net operating loss will expire.

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

The Company's tax years 2016 through 2019 remain subject to examination by federal, state and foreign income tax jurisdictions.

8. Line of credit

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to $500,000. The line of credit is revolving and is payable on demand. In November 2018, the maximum borrowing capacity was increased to $1,875,000. The facility renews annually and is secured by the assignment of a deposit account held by the lender and a second deed to the property owned by the Company in Duluth, Georgia. The line of credit carries a floating rate of interest equal to the lender's Prime Rate and is subject to change any time the Prime Rate changes. Under terms of the line of credit, the Company is required to maintain a minimum cash balance and a specified cash flow coverage ratio, as those terms are defined, and the Company was in compliance as of 30 June 2020. There was no balance on the line of credit at 30 June 2020 and 2019, and 31 December 2019. The interest rate on 30 June 2020 and 2019, and 31 December 2019 was 4.50 percent, 5.50 percent and 4.75 percent, respectively. Interest expense related to this loan was $24,000, $nil and $nil for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019, respectively.

9. Paycheck Protection Program Loan ('PPP')

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 intends to use all proceeds from the PPP Loan to retain employees, maintain payroll and make lease and utility payments to support business continuity throughout 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. Due to uncertainties with respect to loan forgiveness calculations and government pronouncements with respect to eligibility, the Company did not recognise any loan forgiveness as of 30 June 2020 and has classified the loan in other current liabilities as it expects to earn loan forgiveness by the end of the covered period. No assurance can be given that the Company will obtain forgiveness of the PPP Loan in whole or in part.

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. They carrying amount of the property and building as of 30 June 2020 and 2019, and 31 December 2019 was $2.9 million, $3.0 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 30 June 2020 and 2019, and 31 December 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 30 June 2020:

Year ending 31 December (USD, in thousands)	
2020	49
2021	102
2022	107

2023	1,434
	1,692

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 1,299,542 shares allocated as of 30 June 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 in control, and expire on the tenth anniversary date of the grant. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors and one Executive vest partially on issuance and will vest partially one to two years later. The remaining Non-Executive Director options expired at the end of 2016 on the five year anniversary date of the grant.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. The Company's expected volatility is calculated as the historical volatility of the Company's stock over a period equal to the expected term of the awards. The expected terms of options are calculated using the weighted average vesting period and the contractual term of the options. The risk free interest rate is based on a blended average yield of two and five year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2019 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 years	72.00%	$3.20	$2.08
	50,000	04/11/2019	1.65%	6 years	76.00%	$0.68	$0.45

The Company assumes a dividend yield of 0.0%.

The following table summarises the Company's stock option activity for the six months ended 30 June 2020:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2019	1,374,542	$2.40	5.9	$1.13
Forfeited	(75,000)	$1.26		
Outstanding at 30 June 2020	1,299,542	$2.46	5.9	$1.19
Exercisable at 30 June 2020	1,131,208	$2.51	5.9	

The total intrinsic value of the stock options exercised during the six months ended 30 June 2020 and 2019, and 31 December 2019 was approximately $nil, $29,000 and $29,000, respectively.

A summary of the status of unvested options as of 30 June 2020 and changes during the six months ended 30 June 2020 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2019	168,334	$0.76
Vested	(53,333)	$1.60
Forfeited	(58,334)	
Unvested at 30 June 2020	56,667	$0.64

As of 30 June 2020, total unrecognised compensation cost of $29,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the six months ended 30 June 2020 and 2019, and 31 December 2019 was approximately $32,000, $140,000 and $199,000, respectively.

13. Commitments and contingencies

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

As of 30 June 2020, the Operating Lease ROU Asset has a balance of $658,000, net of accumulated amortisation of $418,000 and an Operating Lease Liability of $584,000, 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 3.20 years.

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

(USD, in thousands)	Future Lease Payments
2020	115
2021	227
2022	120
2023	122
2024	50
Total future maturities	634
Portion representing interest	(50)
	584

Total lease expense for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was approximately $159,000, $210,000 and $313,000, respectively.

Total cash paid for leases for the six months ended 30 June 2020 and 2019, and the year ended 31 December 2019 was $198,000, $208,000 and $312,000, 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 $78,000, $11,000 and $156,000 for the six months ended 30 June 2020 and 2019, and 31 December 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 30 June 2020. For the six months ended 30 June 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:

(USD, in thousands)	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Middle East	2,634	6,870	8,255
United States	746	1,607	2,737
Other	261	589	916
Total	3,641	9,066	11,908

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

(USD, in thousands)	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
Middle East	3,327	3,447	3,241
United States	594	851	663
Other	-	18	-
Total	3,921	4,316	3,904

16. Concentrations

At 30 June 2020, one customer with three contracts represented 91 percent of accounts receivable. During the six months ended 30 June 2020, the Company received 80 percent of its gross revenue from four customers.

At 30 June 2019, one customer with four contracts 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.

At 31 December 2019, one customer with four contracts represented 89 percent of accounts receivable. During the year ended 31 December 2019, that same customer accounted for 85 percent of the Company's gross revenue.

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 22

September 2020, 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.