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.

27 May 2020

MYCELX TECHNOLOGIES CORPORATION

("MYCELX" or the "Company")

Final Results for the year ending 31 December 2019

MYCELX Technologies Corporation (AIM: MYX), the clean water technology company providing patented solutions for the Oil and Gas market and commercial industrial markets worldwide, announces its audited results for the year ended 31 December 2019.

Highlights

Financial

- Revenue of $11.9 million (2018: $27.0 million)
- Gross profit of $6.1 million (2018: $14.1 million)
- EBITDA of negative $1.2 million (2018: $5.6 million)
- Net loss of $3.0 million (2018: net profit of $3.1 million)
- Total operating expenses reduced by 12% year-on-year

Operational

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

Corporate

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

Connie Mixon, Chief Executive Officer of MYCELX Technologies Corporation said:

"Whilst we experienced a strong first quarter in 2019, global macro events led to a number of project delays and a slowdown in bidding activity, which impacted our financial performance during the year. However, despite the conditions, we were able to sign a number of new contracts during the period, in addition to extending two existing contracts in our core market of Saudi Arabia. We maintained our strategy of remaining close to existing and target customers and conducting trials with potential customers, which we believe will deliver results in due course.

In 2020, we now face of some of the most challenging conditions we have ever encountered, with the onset of a global pandemic and lower oil prices and have gone to great lengths to protect our employees and safeguard our financial position by installing a number of cost saving initiatives across the Company. In terms of our operations, we remain busy and are actively speaking to our customers and vendors regarding new and currently active projects. I would like to thank all our stakeholders for their ongoing support and I look forward to updating our investors on progress throughout the rest of 2020."

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Notes to Editors

MYCELX is a revolutionary oil-free water technology company solving the world's toughest oil removal problems in the oil and gas industry. The systems are based upon scientific breakthrough for a completely different approach to permanent oil removal. The Company created the patented MYCELX polymer using innovative molecular cohesion for removing oil from water far beyond what conventional systems have ever achieved. MYCELX systems remove oil to critically low levels in a much smaller physical footprint than conventional systems and in a virtually fail-safe process.
www.mycelx.com

Chairman’s Statement

Strengthening foundations and footprint with focus on resilience and operational efficiency

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

In2019, MYCELX further consolidated its position as one of the world’s leading clean water technology companies by widening its footprint with sales to the oil and gas industry in Nigeria and Australia and pursuing opportunities in industrial and commercial markets. With a focus on adding value to our customers, we continue to provide them with innovative, patented solutions for their water treatment needs that are both cost-effective and production enhancing.

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

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

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

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

Outlook

Given the uncertain economic environment that has been created by the coronavirus pandemic, it is critical that MYCELX focuses on providing its clients with cost-saving solutions that will help them achieve optimal operational efficiency. As a company, we will continue to leverage our strong reputation and widening footprint to pursue opportunities both in core markets as well as opening new frontiers in the commercial and industrial sectors. We are fortunate to have an existing footprint in countries and companies operating at the lowest part of their respective industry cost curves. Whilst we expect to see a global economic slowdown over the coming year, our core markets and key customers will continue to operate and require our solutions although potentially at lower production levels. The

Company has taken specific employee safety and cost saving actions in light of COVID-19 and plunging oil prices to ensure the team members remain safe while following effective guidelines and the Company is poised to move quickly when the unprecedented global market disruption eases.

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

Board of Directors Composition

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

Our Strategic Report

Our 2019 strategic report was reviewed and approved by the Board on 26 May 2020.

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

Chief Executive's Statement

A year of solid performance against a challenging macro backdrop

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

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

Operational Performance

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

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

Looking to the Future

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

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

Safety

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

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

Statements of Operations

(USD, in thousands, except share data)

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

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

Balance Sheets

(USD, in thousands, except share data)

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

Total Stockholders' Equity	19,844	20,973
Total Liabilities and Stockholders' Equity	24,502	27,938

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

Statements of Stockholders' Equity

(USD, in thousands)

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

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	**2019**	**2018**
Cash flow from operating activities		
Net (loss) profit	(2,959)	3,070
Adjustments to reconcile net (loss) profit to net cash provided by operating activities:		
Depreciation and amortisation	1,269	1,239
Loss from disposition of equipment	13	3
Stock compensation	199	80
Change in operating assets and liabilities:		
Accounts receivable – net	4,238	(5,789)
Unbilled accounts receivable	20	378

Inventory – net	(1,338)	(2,082)
Prepaid expenses	10	26
Prepaid operating leases	(42)	–
Other assets	(345)	(9)
Accounts payable	(2,126)	1,930
Payroll and accrued expenses	(1,447)	1,380
Deferred revenue	(125)	(60)
Customer deposits	734	123
Other current liabilities	(23)	9
Net cash (used in) provided by operating activities	(1,922)	298
Cash flow from investing activities		
Payments for purchases of property and equipment	(805)	(492)
Payments for internally developed patents	(62)	(23)
Net cash used in investing activities	(867)	(515)
Cash flows from financing activities		
Net proceeds from stock issuance	1,588	–
Net proceeds from exercise of stock options	43	8
Payments on notes payable	(86)	(96)
Net cash provided by (used in) financing activities	1,545	(88)
Net decrease in cash, cash equivalents and restricted cash	(1,244)	(305)
Cash, cash equivalents and restricted cash, beginning of year	5,391	5,696
Cash, cash equivalents and restricted cash, end of year	4,147	5,391
Supplemental disclosures of cash flow information:		
Cash payments for interest	74	92
Cash payments for income taxes	496	1,128
Non-cash movements of inventory and fixed assets	96	(459)

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

Notes to the Financial Statements

1. Nature of Business and Basis of Presentation

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

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

Liquidity – The Company meets its day-to-day working capital and other cash flow requirements through operations and loan facilities. The Company has a Note Payable (Note 9) that matures in March 2023 and access to a line of credit (Note 8) that renews annually. The Company actively manages its financial risk by operating Board-approved financial policies that are designed to ensure that the Company maintains an adequate level of liquidity and effectively mitigates financial risks. Currently due to fears over the spread of COVID-19 there has been a significant economic impact in the regions in which the Company operates. Further, for several reasons including COVID-19, there has been a significant decrease in oil demand and therefore a fall in prices. Considering the Company's customer base is concentrated in the Oil and Gas industry, this could have a significant impact on future demand for the Company's clean water technology. Whilst it is too early to predict the impact to the Company's operations, the extent of the effect on the Company's operational and financial performance will depend on future developments, including the duration, spread, and intensity of the pandemic, and governmental, regulatory and private sector responses.

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

The Company's contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Judgment is required to determine stand-alone selling price ('SSP') for each distinct performance obligation. The Company develops observable SSP by reference to stand-alone sales for identical or similar items to similarly situated clients at prices within a sufficiently narrow range.
All equipment sold by the Company is covered by the original manufacturer's warranty. The Company does not offer an additional warranty and has no related obligations.

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

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

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

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

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

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

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

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

Accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. The allowance for doubtful accounts at 31 December 2019 and 2018 was $nil and $300,000, respectively, as the Company wrote off the balances reserved at 31 December 2018 during 2019 and no other amounts were reserved during 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Earnings per share – Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options. Potentially dilutive shares are excluded from the computation if their effect is antidilutive. Total common stock equivalents consisting of unexercised stock options that were excluded from computing diluted net loss per share were approximately 1,324,968 for the year ended 31 December 2019 and there were no adjustments to net income available to stockholders as recorded on the income statement.

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

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

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

The hierarchy established by ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

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

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

Level 3: Unobservable inputs for the asset or liability.

There were no transfers into and out of each level of the fair value hierarchy for assets measured at fair value for the years ended 31 December 2019 or 2018.

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

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

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

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

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

Recently issued accounting standards – In February 2016, the Financial Accounting Standards Board ('FASB') issued ASU 2016-02, 'Leases (Topic 842)', which requires lessees to recognise on the balance sheet the assets and liabilities for the rights and obligations created by the leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike prior U.S. GAAP, which required only capital leases be recognised on the balance sheet, the new standard requires both finance and operating leases to be recognised on the balance sheet. The new standard also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company adopted this ASU under a modified retrospective approach on 1 January 2019 adopting the standard only from the beginning of the adoption year with a cumulative-effect adjustment recorded as of 1 January 2019, which resulted in no impact to the statement of stockholders' equity. This resulted is the recognition of an Operating Lease Right of Use Asset and an Operating Lease Liability of $1,076,000 and $1,042,000, respectively. The Company adopted the standard with the 'package of three' practical expedient as stated in ASC 842 upon adoption in evaluating its adoption impact from a lessee perspective.

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

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

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

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

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

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

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

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

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

3. Accounts Receivable

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

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

4. Inventories

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

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

5. Property and Equipment

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

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

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

Depreciation expense for the years ended 31 December 2019 and 2018 was approximately $1,217,000 and $1,167,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the years ended 31 December 2019 and 2018 was $883,000 and $801,000, respectively.

6. Intangible Assets

During 2009, the Company entered into a patent rights purchase agreement. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately $58,000 and $51,000 as of 31 December 2019 and 2018, respectively.

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

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

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

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

Approximate aggregate future amortisation expense is as follows:

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

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

7. Income Taxes

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

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

Current:		
Federal	–	–
Foreign	462	1,185
State	(2)	15
Total current provision	460	1,200
Deferred:		
Federal	–	–
Foreign	–	–
State	–	–
Total deferred provision	–	–
Total provision for income taxes	460	1,200

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

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

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

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

	31 December 2019 US$000	**31 December 2018 US$000**
Deferred tax assets		
Net operating loss	4,660	3,971
Equity compensation	324	297
Research and development credits	159	159

Right of use liability	168	–
Allowance for bad debts	–	64
Accrued liability	–	4
Inventory valuation reserve	132	93
Other	16	22
Total gross deferred tax asset	5,459	4,610
Deferred tax liabilities		
Property and equipment	(687)	(738)
Right of use asset	(178)	–
Total gross deferred tax liability	(865)	(738)
Net deferred tax asset before valuation allowance	4,594	3,872
Valuation allowance	(4,594)	(3,872)
Net deferred tax asset (liability)	–	–

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 31 December 2019, the Company has recorded a valuation allowance of $4.6 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

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

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

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

8. Line of Credit

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to $500,000. The line of credit is revolving and is payable on demand. In November 2018, the maximum borrowing capacity was increased to $1,875,000. The facility renews annually and is secured by the assignment of a deposit account held by the lender and a second deed to the property owned by the Company in Duluth, Georgia. The line of credit carries a floating rate of interest equal to the lender's

Prime Rate and is subject to change any time the Prime Rate changes. Under terms of the line of credit, the Company is required to maintain a minimum cash balance and a specified cash flow coverage ratio, as those terms are defined, and the Company was in compliance as of 31 December 2019. There was no balance on the line of credit at 31 December 2019 and 2018. The interest rate on 31 December 2019 and 2018 was 4.75 percent and 5.50 percent, respectively. There was no interest expense related to this loan for the years ended 31 December 2019 and 2018.

9. Note Payable

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The note is secured by the property and building from which the Company continues to operate. The carrying amount of the property and building as of 31 December 2019 and 2018 was $2.9 million and $3.0 million, respectively. Upon selling the collateral, the Company is required to repay the term loan in full. The lender is not allowed to sell the collateral during the term of the loan. The Company borrowed proceeds of $2,285,908 at a fixed interest rate of 4.45 percent. The loan has a 10 year term with monthly payments based on a 20 year amortisation. This will result in a one-time balloon payment at the end of the term of the note of approximately $1,400,000 during 2023. In accordance with the terms of the agreement, the Company is required to keep $500,000 in a deposit account with the lending bank. As of 31 December 2019 and 2018, the Company had restricted cash of $500,000 related to the loan agreement. Future maturities of long-term debt are as follows as of 31 December 2019:

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

10. Public Offering of Common Stock

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

11. Stock Compensation

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

Upon the issuance of these shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to a former Chief Financial Officer. In addition, additional stock options were awarded in each year subsequent. The awards of stock options and restricted shares made upon issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the Public Offering.

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

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

Any options granted to Non-Executive Directors, unless otherwise agreed, vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.
Employee options vest over three years with a third vesting ratably each year, partially on issuance and partially over the following 24 month period, or if there is a change of control, and expire on the tenth anniversary date of the grant. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors and one Executive vest partially on issuance and will vest partially one to two years later. The remaining Non-Executive Director options expired at the end of 2016 on the five year anniversary date of the grant.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. The Company's expected volatility is calculated as the historical volatility of the Company's stock over a period equal to the expected term of the awards. The expected terms of options are calculated using the weighted average vesting period and the contractual term of the options. The risk free interest rate is based on a blended average yield of two and five year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2019 and 2018 were as follows:

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

The Company assumes a dividend yield of 0.0%.

The following table summarises the Company's stock option activity for the years ended 31 December 2019 and 2018:

Stock Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**	**Average Grant Date Fair Value**
Outstanding at 31 December 2017	1,222,042	$2.31	5.9	$1.07
Granted	150,000	$3.03	5.7	$1.57
Exercised	(20,000)	$0.44		
Forfeited	(5,000)	$0.75		
Outstanding at 31 December 2018	1,347,042	$2.43	5.9	$1.14

Granted	60,000	$1.10	6.0	$0.72
Exercised	(32,500)	$1.29		
Outstanding at 31 December 2019	1,374,542	$2.40	5.7	$1.13
Exercisable at 31 December 2019	1,206,208	$2.49	6.0	

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

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

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

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

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

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

12. Commitments and Contingencies

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

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

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

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

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

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

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

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

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

13. Related Party Transactions

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

14. Segment and Geographic Information

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker ('CODM') in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer ('CEO'). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 31 December 2019. For the year ended 31 December 2019, the Company's revenues were generated primarily in the Middle East and the United States ('U.S.'). Additionally, the majority of the Company's expenditures and personnel either directly supported its efforts in the Middle East and the U.S., or cannot be specifically attributed to a geography. Therefore, the Company has only one reportable operating segment.

Revenue from customers by geography is as follows:

Year Ending 31 December (USD, in thousands)	2019	2018
Middle East	8,255	23,066
United States	2,737	2,465
Other	916	1,421
Total	11,908	26,952

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

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

15. Concentrations

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

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

16. Subsequent Events

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

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

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

Forward Looking Statements

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