MYCELX TECHNOLOGIES CORPORATION (AIM: MYX)

Half Year Results Statement

For the six months ended 30 June 2014

MYCELX Technologies Corporation ("MYCELX" or the "Company"), the clean water technology and engineering company providing patented solutions to the Oil and Gas industry and other commercial industrial markets worldwide, is pleased to announce its interim unaudited results for the six months ended 30 June 2014.

Highlights

Financial

- Gross profit margin increased to 57.1% (2013 H1: 54.5%)
- Revenue of $7.5 million (2013 H1: $9.4 million)
- EBITDA of negative $1.8 million (2013 H1: $0.5 million)
- Contracted order book up 16.2% to $8.6 million (2013 H1: $7.4 million)
- Line of credit increased to $10 million for continued expansion of the fast-to-market lease program

Operational

- New contracts, contract extensions and purchase orders
  - Saudi Arabia: two contract extensions with SABIC and a contract with a new customer
  - Kuwait: a new contract with a state owned petrochemical company
  - India: third contract with Oil and Natural Gas Corporation Limited, India
  - Gulf of Mexico: fourth contract with global integrated oil company
- Successful Enhanced Oil Recovery (EOR) trials in the Middle East building on successful trials in North America, Europe, and North Sea
- Management team strengthened through recruitment of General Managers in the MENA and Americas regions
- Opened an additional warehouse location in Houston to pre-stage equipment for the Gulf of Mexico, onshore produced water projects, and South America
- Funded $2 million of fast-to-market lease equipment

Post period end events

- Second contract in Kuwait with a state-owned petrochemical company
- New EOR trial with a major independent exploration and production company in India and continuation of an EOR trial in the Middle East

Outlook

- Total size of pipeline increased 159% to $114 million (2013 H1: $44 million)
- Average size of a pipeline opportunity increased to $2.5 million per opportunity (2013 H1: $1.2 million)
- Future run rate of media revenue expected to rise as seven previously installed projects soon become operational and deliver recurring media sales estimated at $3.5 million annually
- Increased size and complexity of projects continue to present near term forecasting challenges

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

"During the first half of the year we continued to successfully implement our strategy for growth and expand our client base in the key MENA and America regions. Whilst revenue was affected due to end user construction delays in project execution, pushing the recurring media sales to later in 2014 and 2015, these projects will become operational adding conservatively $3.5 million to media sales annually.

The Company built on the success of two EOR produced water installations with additional trials continuing into H2 in the Middle East and India providing further validation for our technology in this important global application.

The investment in fast-to-market lease equipment proved timely for competitive petrochemical and refinery turnaround projects as MYCELX was awarded a lucrative contract which we believe will become a precedent for additional MYCELX water reuse solutions going forward.

We are pleased that our technology is being used in increasingly large and complex projects. The number of projects, large and small, in which the Company is involved, grew dramatically in H1. We have invested in additional high quality personnel as well as made a significant investment in equipment. We are well-positioned to execute further opportunities as we convert our growing new business pipeline which contains some substantial revenue prospects for the second half, the 2015 financial year and beyond. Given the increasing scale and number of our prospective projects, we look forward to the future with increasing optimism; however, forecasting in which period revenue may fall is a challenge for our business in the shorter term."

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Chairman's and Chief Executive Officer's Statement

Introduction

The Company expanded its commercial success in the first half of 2014 with new systems installed for both existing and new customers. The Company also expanded the "fast-to-market" lease program with two new contracts in Kuwait as well as conducting successful trials in the Middle East and the North Sea. The Company saw a dramatic growth in the total business pipeline with an increase in both the number of opportunities and the average project size.

Strategic investment in sales and engineering staff, operational management and infrastructure necessary to support increased service capacity resulted in increased expenditure in the first half of 2014. Uncertain timing of large contract awards and delays in prior installations becoming operational caused a short term decrease in revenues. The Company expects a significant increase in revenues for the second half of 2014 and 2015.

Operational Review

In the first half of 2014, the Company was active across multiple regions particularly in the Middle East, India, North America and Europe. In Saudi Arabia, MYCELX received contract extensions from its largest customer for two equipment leases currently in downstream service and a third system installed in late 2013 became operational. In addition, a contract was placed for a system from a new customer for process water reuse which is highly sought after in regions of water scarcity.

In Kuwait, MYCELX secured a new lease from a state owned petrochemical company which was followed by an additional lease in August for a turnaround project late in the year. The leases include service contracts to operate and maintain the equipment which will result in significant recurring media and service revenue. The new leases further support the Company's decision to aggressively pursue and invest in the 'fast-to-market' lease strategy. MYCELX is ideally suited for these projects because of the flexible and effective MYCELX media deployed as well as the small footprint and ease of operation.

The Company began a trial in the Middle East for EOR produced water building on successful EOR installations the Company has operating in North America and Europe. Treatment of EOR produced water is an important application for producers around the world and we expect these successes to result in further opportunities in this field.

In India, the Company received its third contract from ONGC for a system to treat process water to stringent discharge requirements. The Company also began a trial with a large independent oil company to treat EOR produced water.

In a new geographic area, the North Sea, a trial is underway with a Norwegian oil company to treat a particularly challenging produced water stream.

Leveraging the Company's successes in water reuse applications globally, the Company is executing its onshore produced water reuse strategy. Changes in regulations in North America open the market for deployment of effective technology to treat produced water for reuse. This decreases water acquisition, transportation costs and environmental impact for the end user.

Increased demand from global oil and gas companies located in Houston has led the Company to invest in additional personnel focused on business development, technical services and engineering support. A general manager with extensive water management experience joined to lead the rapidly expanding team in Houston including opening another warehouse location to accommodate new growth opportunities in the Americas. In response to the expansion of lease and service business into multiple countries in the Middle East, the Company hired a general manager with over 20 years of operational experience in the MENA region to manage the robust growth.

In early May, the Company hosted a week of in-house demonstrations and case study reviews during the Offshore Technology Conference in Houston. Potential customers observed real-time processing of their water samples as well as discussed case studies from MYCELX installations and trials in the field. As a result, additional opportunities were added to the sales pipeline.

The Company is expanding the "fast-to-market" lease equipment fleet adding approximately $2.0 million of equipment in the first half of 2014 with an additional $2.5 million expected to be added in the second half of the year.

Financial

Total revenue decreased by 20.2% to $7.5 million for the first half of 2014, compared to $9.4 million in the first half of 2013. This was as a result of the timing for several customer projects. Revenues from equipment sales and leases decreased by 28.2% to $2.8 million for the first half of 2014 (2013 H1: $3.9 million) due to completion of two smaller equipment sales in the first half of 2014 compared to two large equipment sales completed in the first half of 2013. This decrease was partially offset by two new leases starting late in the half year period. Recurring revenues from consumable filtration media and service decreased by 14.5% to $4.7 million (2013 H1: $5.5 million) due to a one-time wastewater treatment project in H1 2013 that did not recur in H1 2014. This decrease was also partially offset by the two new leases that started late in the period. Gross profit margin increased in the first half of 2014 to 57.1% (2013 H1: 54.5%) due to a larger portion of total revenue coming from media sales.

Total operating expenses for the first half of 2014 were $6.3 million (2013: H1 $4.8 million). The largest component of operating expenses was selling, general and administrative (SG&A) expenses. As a result of the Company's commitment to invest in the necessary human resources, infrastructure, and leased equipment, the SG&A expenses included an increase of $530,000 in staff costs, $193,000 in lease equipment maintenance, $175,000 in insurance, accounting costs and bank fees as well as $113,000 in depreciation.

The Company recorded a loss before tax of $2.3 million in the first half of 2014 compared to an income before tax of $0.3 million in the first half of 2013. Basic loss per share was 18 cents, compared to basic earnings per share of nil cents for the previous year.

The Company's continued investment in the fast-to-market lease fleet and an increase in accounts receivable in the Middle East resulted in a decrease in cash in the first half of the year. The $5 million line of credit established in 2013 was increased to $10 million in early 2014 and $2.3 million had been drawn on the line as of 30 June 2014.

Summary and Outlook

We are pleased with the continued progress of the Company particularly the renewal of existing customer contracts, new contracts and successful trials in H1. We naturally do not have control of our customer's timelines and slippage is presently a challenge but the effects of this will dissipate as the installation base increases and cumulative recurring media sales come to fruition and grow. The approach the Company presented at the outset has not changed. We have adapted to the market preference for leased equipment as the timing of sales of capital equipment for use in large projects has suffered from construction delays. Recognition of the Company's unique technology and expertise has continued to build throughout the industry and the superior quality of the MYCELX systems has been demonstrated through the significant contract wins in the first half of the year. We believe the path to long term success and building a global brand is achieved by engaging in large projects which build global recognition even though timelines can be long. We have also had significant success in identifying fast-to-market opportunities where availability of equipment and technology lead to immediate deployment and media sales.

The market for proven technology that can provide clean water in the production process continues to grow as evidenced by our continuously growing pipeline. The Company expects to continue its expansion in established markets and to develop new markets and product applications through increased engineering and sales capacity and a larger modular rental fleet.

MYCELX at its core is a technology company. As such, the Company will continue to innovate and commercialize next generation technology to achieve treatment results not currently found in the market today.

We look to the future with confidence and optimism.

Tim Eggar
Chairman
12 September 2014

Connie Mixon
Chief Executive Officer

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

	Six Months Ended 30 June 2014 (unaudited)	*Six Months Ended 30 June 2013 (unaudited)*	*Year Ended 31 December 2013*
Revenue	**7,482**	**9,423**	**21,379**
Cost of goods sold	3,209	4,285	9,205
Gross profit	**4,273**	**5,138**	**12,174**
Operating expenses:			
Research and development	154	202	479
Selling, general and administrative	5,924	4,439	9,864
Depreciation and amortisation	255	145	340
Total operating expenses	**6,333**	**4,786**	**10,683**
Operating (loss) income	**(2,060)**	**352**	**1,491**
Other expense			
Loss on disposal of equipment	(2)	-	(90)
Interest expense	(101)	(19)	(87)
(Loss) income before income taxes	**(2,163)**	**333**	**1,314**
Provision for income taxes	(176)	(276)	(749)
Net (loss) income	**(2,339)**	**57**	**565**
(Loss) earnings per share-basic	**(0.18)**	**0.00**	**0.04**
(Loss) earnings per share-diluted	(0.18)	0.00	0.04
Shares used to compute basic (loss) income per share	**13,257,734**	**12,995,930**	**13,097,911**
Shares used to compute diluted (loss) income per share	**13,257,734**	**14,249,251**	**14,316,603**

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 2014 (unaudited)	*As of 30 June 2013 (unaudited)*	*As of 31 December 2013*
ASSETS			
Current Assets			
Cash and cash equivalents	1,344	2,845	3,664
Restricted cash	500	600	500
Accounts receivable - net	5,257	4,790	7,431
Unbilled accounts receivable	1,366	808	1,430
Inventory – net	4,697	4,597	3,142
Prepaid expenses	288	275	218
Other assets	128	140	94
Total Current Assets	**13,580**	**14,055**	**16,479**
Property and equipment – net	10,550	8,031	10,542
Intangible assets – net	647	547	574
Total Assets	**24,777**	**22,633**	**27,595**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	1,415	1,913	1,680
Payroll and accrued expenses	1,495	750	1,356
Deferred revenue	58	105	15
Capital lease obligations – current	5	4	4
Line of credit	2,345	-	2,820
Note payable – current	76	73	74
Warrant liability	383	-	383
Other current liabilities	42	45	46
Total Current Liabilities	**5,819**	**2,890**	**6,378**
Note payable – long-term	2,120	2,203	2,165
Capital lease obligations – long-term	7	-	4
Total Liabilities	**7,946**	**5,093**	**8,547**

Stockholders' Equity			
Common stock, $0.025 par value, 100,000,000 shares authorised, 13,257,734 shares issued and outstanding at 30 June 2014 and 31 December 2013 and 100,000,000 shares authorised, 13,161,638 shares issued and outstanding at 30 June 2013.	332	330	332
Additional paid-in capital	27,943	26,823	27,821
Accumulated deficit	(11,444)	(9,613)	(9,105)
Total Stockholders' Equity	**16,831**	**17,540**	**19,048**
Total Liabilities and Stockholders' Equity	**24,777**	**22,633**	**27,595**

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 2012	**12,923**	**324**	**25,799**	**(9,670)**	**16,453**
Exercise of stock options and issuance of shares	125	3	427	-	430
Exercise of stock warrants and issuance of shares	114	3	368	-	371
Stock-based compensation expense	-	-	229	-	229
Net income for the period	-	-	-	57	57
Balances at 30 June 2013 (unaudited)	**13,162**	**330**	**26,823**	**(9,613)**	**17,540**
Exercise of stock options and issuance of shares	46	1	179	-	180
Exercise of stock warrants and issuance of shares	50	1	1	-	2
Stock-based compensation expense	-	-	818	-	818
Net income for the period	-	-	-	508	508
Balances at 31 December 2013	**13,258**	**332**	**27,821**	**(9,105)**	**19,048**
Stock-based compensation expense	-	-	122	-	122
Net loss for the period	-	-	-	(2,339)	(2,339)
Balances at 30 June 2014 (unaudited)	**13,258**	**332**	**27,943**	**(11,444)**	**16,831**

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

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

	Six Months Ended 30 June 2014 (unaudited)	*Six Months Ended 30 June 2013 (unaudited)*	*Year Ended 31 December 2013*
Cash flow from operating activities			
Net (loss) income	(2,339)	57	565
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortisation	597	385	857
Loss from disposition of equipment	2	-	90
Stock compensation	122	229	1,047
Non-cash change in warrant liability	-	-	383
Change in operating assets and liabilities:			
Accounts receivable	2,174	(2,613)	(5,254)
Unbilled accounts receivable	64	(359)	(981)
Inventory - net	(1,555)	(1,633)	(178)
Prepaid expenses	(70)	9	77
Other assets	(34)	-	35
Accounts payable	(265)	112	(121)
Payroll and accrued expenses	139	(85)	521
Deferred revenue	43	(210)	(300)
Other current liabilities	(4)	(18)	(17)
Net cash used in operating activities	(1,126)	(4,126)	(3,276)
Cash flow from investing activities			
Payments for purchases of property and equipment	(581)	(4,563)	(7,629)
Proceeds from sale of property and equipment	-	-	19
Payments on capital lease obligations	(3)	(10)	(12)
Payments for purchases of intangible assets	(92)	(92)	(139)
Net cash used in investing activities	(676)	(4,665)	(7,761)
Cash flows from financing activities			
Net proceeds from stock issuance	-	801	983
Payments on notes payable	(43)	(10)	(47)
Advances from notes payable	-	2,286	2,286
Increase in restricted cash	-	(500)	(400)
Payments on line of credit	(475)	-	-
Advances on line of credit	-	-	2,820
Net cash (used in) provided by financing activities	(518)	2,577	5,642
Net decrease in cash and cash equivalents	(2,320)	(6,214)	(5,395)
Cash and cash equivalents, beginning of period	3,664	9,059	9,059
Cash and cash equivalents, end of period	1,344	2,845	3,664

Supplemental disclosures of cash flow information:			
Cash payments for interest	93	19	87
Cash payments for income taxes	274	237	638
Property and equipment remaining in accounts payable and other current liabilities	43	292	137
Purchase of property and equipment under capital leases	7	-	6

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Nature of business and basis of presentation

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

The interim financial statements for the six months ended 30 June 2014 and 2013 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 provides clean water technology equipment and related services to the oil and gas, power, marine and heavy manufacturing sectors.

2. Summary of significant accounting policies

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and cash equivalents
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 2014 and 2013, and at 31 December 2013, all of the Company's cash and cash equivalent balances were held in noninterest-bearing transaction accounts.

Restricted cash
The Company classifies as restricted cash all cash whose use is limited by contractual provisions. At 30 June 2014 and 2013, and 31 December 2013, the restricted cash balance was $500,000, $600,000 and $500,000, respectively. The balance at 30 June 2014 and 31 December 2013 included $500,000 cash on deposit in a money market account as required by a lender (see Note 9). The balance at 30 June 2013 included an additional $100,000 in a certificate of deposit relating to the Company's Commercial Credit Card Program.

Trade accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. There was no allowance for doubtful accounts for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013.

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 market value. Equipment that is in the process of being constructed for sale to customers is also included in inventory (work-in-progress). The Company applies the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progress and finished products inventory includes all direct costs, such as labor and material, and those indirect costs which are related to production, such as indirect labor, 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 reserve is determined by item based on purchases in the recent past and/or expected future demand. At 30 June 2014 and 2013, and 31 December 2013, the valuation reserve was $21,000, $12,000 and $21,000, respectively.

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

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

Office equipment	5-10 years
Buildings	39 years
Leasehold improvements	1-5 years
Manufacturing equipment	7-15 years
Research and development equipment	7-10 years
Purchased software	1-5 years
Equipment leased to customers	5-10 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalised. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense includes depreciation on leased equipment which 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.

Revenue recognition – The Company's revenue consists of media product and equipment sales. Revenues from media sales are recognised, net of sales allowances, when products are shipped and risk of loss has transferred to customers, collection is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. The Company offers customers the option to lease or purchase their equipment. Lease agreements range from one to twelve months in length and are renewed at the end of each agreement, if necessary. The lease agreements meet the criteria for classification as operating leases; accordingly, revenue on lease agreements is recognised as income over the lease term.

Revenues on long-term contracts related to construction of equipment are recognised on the percentage-of-completion basis using costs incurred compared to total estimated costs. Costs are recognised and considered for percentage completion as they are incurred in the manufacture of the equipment. Therefore, revenues may not be related to the progress billings to customers. Revenues are based on estimates, and the uncertainty inherent in estimates initially is reduced progressively as work on the contract nears completion. Revenues on sales in which equipment is pre-fabricated and stocked in inventory are recognised upon shipment of the equipment to the customer.

Contract costs include all direct labor and benefits, materials unique to or installed to the project, subcontractor costs, as well as costs relative to contract performance such as travel to a customer site and shipping charges. Provision for estimated losses on uncompleted contracts is made in the period in which such losses are probable and estimable. No such provisions have been recognised as of 30 June

2014 and 2013, and 31 December 2013. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognised in the period in which the revisions are determined. Actual results could vary from estimates used in the financial statements.

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

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 2014 and 2013, and the year ended 31 December 2013.

Shipping and handling costs – Consistent with FASB ASC 605-45-50 Shipping and Handling Fees and Costs, the Company classifies shipping and handling amounts billed to customers as revenue, and shipping and handling costs as a component of costs of goods sold.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was approximately $154,000, $202,000 and $479,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was approximately $11,000, $17,000 and $24,000, respectively.

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

Income taxes – Income taxes consist of taxes due plus deferred taxes related primarily to differences between the basis of depreciation, inventory capitalisation, and net operating losses, and timing differences of research and development tax credits for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes also are recognised for operating losses that are available to offset future taxable income and tax credits that are available to offset future federal income taxes. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realised or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company has elected to use the reduced credit method, under section 280C, for calculating federal research and development tax credits. Under this method research and development costs are expensed as incurred.

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 2014 and 2013, and the year ended 31 December 2013 the Company recognised no interest or penalties. The Company's tax years 2010 through 2013 remain subject to examination by federal, state and foreign income tax jurisdictions.

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 and warrants. Potentially dilutive shares are excluded from the computation if their effect is antidilutive.

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

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

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

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

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

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

There were no significant transfers into or out of each level of the fair value hierarchy for assets measured at the fair value for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013.

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 2014 and 2013, and 31 December 2013 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, the note payable, and the warrant liability. 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.

The Company uses Level 3 inputs for its valuation methodology for the warrant liability. The estimated fair value was determined using a Monte Carlo pricing model based on various assumptions (see Note 10). The Company's warrant liability is adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in selling, general and administrative expenses in the statements of operations.

The following table presents the activity for liabilities measured at estimated fair value using unobservable inputs for 30 June 2014 and 2013, and 31 December 2013:

	Warrant Liability *US$000*
Balance at 30 June 2013	**-**
Adjustments to estimated fair value	871
Warrant liability removal due to exercises	(488)
Balance at 31 December 2013	**383**
Adjustments to estimated fair value	-
Warrant liability removal due to exercises	-
Balance at 30 June 2014	**383**

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

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

Recently issued accounting standards – In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual and interim periods beginning on or after 15 December 2016, and early adoption is not permitted. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance. We are currently evaluating the impact of adopting this guidance.

3. Accounts receivable

Accounts receivable and their respective allowance amounts at 30 June 2014 and 2013, and 31 December 2013 follow:

	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Accounts receivable	5,257	4,790	7,431
Less: allowance for doubtful accounts	-	-	-
Total receivable - net	5,257	4,790	7,431

4. Inventories

Inventories consist of the following at 30 June 2014 and 2013, and 31 December 2013:

	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Raw materials	1,601	1,503	1,503
Work-in-progress	1,606	1,900	545
Finished goods	1,511	1,206	1,115
	4,718	4,609	3,163
Less: Inventory reserve	(21)	(12)	(21)
Total inventory - net	4,697	4,597	3,142

5. Property and equipment

Property and equipment consists of the following at 30 June 2014 and 2013, and 31 December 2013:

	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Office equipment	687	400	606
Land	709	709	709
Building	2,710	2,460	2,704
Leasehold improvements	315	274	304
Manufacturing equipment	679	665	652
Construction in progress	243	31	1,248
Research and development equipment	531	310	504
Purchased software	211	92	211
Equipment leased to customers	6,504	4,125	5,077
	12,589	9,066	12,016
Less: accumulated depreciation	(2,039)	(1,035)	(1,474)
Property and equipment – net	10,550	8,031	10,542

During the year ended 31 December 2013, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately $13,000 to reflect the disposal of property, plant and equipment.

Depreciation expense for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was approximately $578,000, $364,000 and $816,000, respectively. Depreciation expense includes depreciation on leased equipment which is included in cost of goods sold. Depreciation expense on leased equipment included in cost of goods sold for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was $341,000, $240,000, and $517,000, respectively.

6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of $28,000 in 2009 with the possibility of an additional $72,000 based on profits on the sales of a particular product. During 2010, the Company paid $22,000 based on profits on the sales of the product and paid the remaining $50,000 in 2011. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately $23,000, $17,000, and $20,000 as of 30 June 2014 and 2013, and 31 December 2013, 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 jurisdiction outside of the United States.

Intangible assets as of 30 June 2014 and 2013, and 31 December 2013 consist of the following:

	Weighted Average Useful lives	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Internally developed patents	15 years	937	798	845
Purchased patents	17 years	100	100	100
		1,037	898	945
Less accumulated amortisation		(390)	(351)	(371)
Intangible assets – net		647	547	574

Approximate aggregate future amortisation expense is as follows:

Year ending 31 December (USD, in thousands)	
2014	17
2015	34
2016	33
2017	27
2018	27

Amortisation expense for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was approximately $19,000, $21,000 and $41,000, respectively.

7. Income taxes

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

	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Current:			
Federal	-	-	8
Foreign	176	276	702
State	-	-	39
Total current provision	176	276	749
Deferred:			
Federal	-	-	-
Foreign	-	-	-
State	-	-	-
Total deferred provision	-	-	-
Total provision for income taxes	176	276	749

The provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 34 percent, primarily due to the effect of certain nondeductible expenses 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 2014	30 June 2013	31 December 2013
Federal statutory income tax rates	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	-	.5%	2.9%
Valuation allowance	(36.6)%	(5.9%)	(17.6%)
Other	(.2%)	-	2.4%
Foreign withholding tax	(5.4%)	54.2%	35.3%
Effective income tax rate	(8.2%)	82.8%	57.0%

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

	30 June 2014 US$000	30 June 2013 US$000	31 December 2013 US$000
Deferred tax assets			
Other	241	31	211
Accrued liability	71	6	72
Charitable contributions	6	6	6
Research and development credits	159	159	159
Equity compensation	690	521	648
Net operating loss	3,301	2,905	2,561
Total gross deferred tax asset	4,468	3,628	3,657
Deferred tax liabilities			
Property and equipment	(806)	(553)	(785)
Total gross deferred tax liability	(806)	(553)	(785)
Net deferred tax asset before valuation allowance	3,662	3,075	2,872
Valuation allowance	(3,662)	(3,075)	(2,872)
Net deferred tax asset	-	-	-

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 2014, the Company has recorded a valuation allowance of $3.7 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 2014, the Company has approximately $9.2 million of gross U.S. federal net operating loss carry forwards that will begin to expire in the 2019 tax year.

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

As a result of the adoption and implementation of ASC-740, a tax position is recognised as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognised is the largest amount of tax benefit that has a greater than 50 percent likelihood of being realised on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognises interest and penalties related to tax positions in income tax expense. At 30 June 2014 and 2013, and 31 December 2013, there was no accrual for uncertain tax positions or related interest.

On 13 September 2013, the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code regarding the deduction and capitalisation of expenditures related to tangible property as well as dispositions of tangible property. These regulations will be effective for the Company's fiscal year ending 31 December 2014. Taxpayers may elect to apply the regulations to tax years beginning on or after 1 January 2012. The Company does not anticipate that the regulations will have a material impact on the Company's consolidated results of operations, cash flows or financial position.

8. Line of credit

In August 2013, the Company entered into a revolving credit facility with a bank that permits it to borrow up to 90 percent of eligible accounts receivable and 75 percent of its eligible inventory with a maximum borrowing of $5 million. In April 2014, the maximum borrowing was increased to $10 million. Borrowings bear interest at a rate per annum equal to the base rate, which is the greater of the Prime Rate in effect on a given day, a rate determined by the lender to be one and one-half percent (1.5%) above Daily One Month LIBOR, or the Federal Funds Rate plus one and one-half percent (1.5%). The facility renews annually and is secured by a first security interest in all of the Company's accounts receivable, general intangibles and inventory. Under terms of the line of credit, the Company is required to maintain a specified fixed charge coverage ratio and debt to intangible net worth ratio, as those terms are defined, and did so throughout 2013 and 2014 and as of 30 June 2014. The balance on the line of credit at 30 June 2014 and 2013, and 31 December 2013 was $2,345,000, $0 and $2,820,000, respectively. The interest rate on 30 June 2014 was 3.25 percent. Interest expense related to this loan for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was $43,000, $0 and $17,000, respectively.

Since 2010, the Company had a bank line of credit that allowed for borrowings up to $400,000. This line of credit was closed in 2013. The line of credit was revolving and payable on demand. The balance on the line of credit at 30 June 2013 and 31 December 2013 was $0. The line of credit carried an interest rate of prime plus 0.30 percent. There was no interest expense related to this loan for the six months ended 30 June 2013 and the year ended 31 December 2013.

9. Notes payable

In April 2011, the Company entered into a lending agreement with a shareholder in the original amount of $1,500,000, payable within 5 days after the Company received at least $15,000,000 in cash proceeds from an equity offering. The note had an interest rate of 10 percent, and the Company issued the shareholder 50,000 warrants to purchase common stock of the Company with an exercise price of $0.01 per share. All of the warrants were exercised in October 2013. The note was recognised net of a discount related to the stock warrants. The balance of this note was converted to common stock in connection with the Company's public offering in August 2011.

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 Company borrowed proceeds of $2,285,908 at a fixed interest rate of 4.45 percent. The loan has a ten year term with monthly payments based on a twenty year amortisation. In accordance with the terms of the agreement, the Company was required to maintain a minimum cash balance of $3 million until a 1.25 fixed charge coverage ratio was achieved. As a result of the financial results during the year ended 31 December 2013, the fixed charge coverage ratio of 1.25 was achieved. Therefore, the minimum cash balance requirement was removed by the holder of the note. The Company is also required to keep $500,000 in a deposit account with the lending bank. As of 30 June 2014, 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 2014:

Year ending 31 December (USD, in thousands)	
2014	31
2015	78
2016	81
2017	85
2018	89
Thereafter	1,832
	2,196

10. Stock compensation

Stock options

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 completion of the Issuance of additional shares in 2011.

Upon the Issuance of these additional shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to the former Chief Financial Officer. In addition, additional stock options were awarded to two employees and a Director in May and September 2012, one employee in January 2013, and certain employees and consultants in September 2013. The awards of stock options and restricted shares made upon the Issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the enlarged share capital. The total number of shares reserved for stock awards and options under this Plan is 1,325,773, with 1,071,275 shares allocated as of 30 June 2014. The shares are allocated as 269,713 shares to Non-Executive Directors and 801,562 shares to employees and executives.

The options granted to Non-Executive Directors upon the Issuance have an exercise price equal to $0.86 per share. All other options granted under the Plan upon the Issuance have an exercise price equal to $3.44 per share. Options granted in May 2012 have an exercise price equal to $3.87 per share, options granted in September 2012 and January 2013 have an exercise price equal to $4.02 per share, and options granted in September 2013 have an exercise price equal to $8.01 per share. Unless otherwise agreed, all options vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.

Employee options either vest over three years with a third vesting ratably each year, or partially on issuance and partially over the following 24 month period. 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. All Non-Executive Director options must be exercised during the course of the 2015 or 2016 calendar years or they will expire and vesting accelerates in the event of a change of control.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. Since the Company does not have a sufficient trading history from which to calculate its historical volatility, the Company's expected volatility is based on a basket of comparable companies' historical volatility. As the Company's initial options were granted in 2011, the Company does not have sufficient history of option exercise behavior from which to calculate the expected term. Accordingly, the expected terms of options are calculated based on the short-cut method commonly utilised by newly public companies. The risk free interest rate is based on a blended average yield of two and five year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2011, 2012 and 2013 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
2011	253,805	05/08/2011	0.34%	3.9 years	45.00%	$0.86	$2.63
	661,188	05/08/2011	0.34%	6 years	45.00%	$3.44	$1.46
2012	26,000	09/05/2012	0.42%	3.9 years	45.00%	$3.87	$1.35
	110,000	09/05/2012	0.42%	6 years	45.00%	$3.87	$1.65
	90,000	13/09/2012	0.42%	6 years	45.00%	$4.02	$1.71
2013	10,000	01/01/2013	0.42%	6 years	45.00%	$4.02	$1.75
	130,000	20/09/2013	1.20%	6 years	55.00%	$8.01	$4.14

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 2014:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Total Outstanding at 31 Dec. 2013	1,072,569	$3.52	5.5	$2,242,935
Granted	-			
Exercised	-			
Forfeited	(1,294)	$3.44		
Total Outstanding at 30 June 2014	1,071,275	$3.52	5.5	$2,241,046
Exercisable at 30 June 2014	678,227			

A summary of the status of unvested options as of 30 June 2014 and changes during the six months ended 30 June 2014 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2013	386,710	$2.11
Granted	-	
Vested	(263,375)	$1.49
Forfeited	-	
Unvested at 30 June 2014	123,335	$3.42

As of 30 June 2014, total unrecognised compensation cost of $238,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Stock warrants

On 29 July 2011, the Company and one of its consultants entered into a warrant agreement for the consultant's assistance in connection with the Company's initial public offering on 4 August 2011. Pursuant to this agreement, the Company agreed to grant to the consultant warrants to subscribe for Common Shares representing 1.5 percent of the total shares outstanding immediately following the initial public offering, or 193,843 warrant shares. The warrant vested upon the Issuance. The exercise price of the warrants is 210 pence per share. The warrants are exercisable in whole or in part at any time in the period between 5 August 2011 and 5 August 2016.

The warrants are exercisable, at the election of the consultant, without payment of the exercise price, for such number of Common Shares as is calculated in accordance with a formula set out in the warrant agreement. In summary, that formula operates by calculating the notional net gain that the shareholder would have made if it had exercised its warrants at the exercise price and then sold its shares at the current market value. The formula then uses the notional net gain to calculate such lesser number of Common Shares that the shareholder would need to acquire (at nil acquisition cost) in order to achieve the same notional net gain. In the event that the shareholder exercises the warrants (or any part) in this manner, the warrants are deemed to have been exercised in respect of such number of Common Shares as would have been required in order to achieve the same notional net gain had the warrants been exercised at the exercise price.

In addition, either the consultant or the Company may elect, in certain circumstances, including a merger or sale of substantially all of the assets of the Company, to receive or provide (as the case may be) a cash payment, in substitution for the warrants, calculated in accordance with a formula set out in the warrant agreement. As a result, the fair value of the outstanding warrants is classified as a liability in accordance with ASC 480, Distinguishing Liabilities from Equity. As discussed in Note 2, the fair value of the warrants is measured utilising a Monte Carlo valuation model with the following assumptions:

	30 June 2014
Closing price per share of common stock	$8.51
Exercise price per share	$3.58
Expected volatility	46.0%
Risk-free interest rate	0.88%
Remaining expected term of underlying securities (years)	2.1

In addition, as of the valuation dates, management assessed the probabilities of future financings assumptions in the Monte Carlo valuation model.

In May 2013, the consultant exercised 113,843 warrants for consideration paid to the Company and proceeds of approximately $371,000 were received. The warrants were revalued as of the date exercised and the change in fair value was recognised to earnings. Included in the 2013 warrant liability is an immaterial amount that was misclassified as equity in the 31 December 2012 financial statements.

11. Commitments and contingencies

Operating and capital leases – The Company has entered into capital lease agreements for equipment through 2017. Equipment under capital leases together with accumulated depreciation at 30 June 2014 and 2013, and 31 December 2013 is as follows:

	30 June 2014 *US$000*	30 June 2013 *US$000*	31 December 2013 *US$000*
Office equipment	33	19	26
Manufacturing equipment	47	47	47
	80	66	73
Less: Accumulated depreciation	(37)	(26)	(31)
Equipment under capital leases – net	43	40	42

The Company entered into an operating lease for equipment in July 2011 for a six month term with monthly lease payments of $15,000. The lease was expanded in January 2012 to include additional equipment and modified to become a monthly lease that is cancellable at any time by return of the equipment. The Company utilised the equipment each month in 2012 and made monthly payments of $30,000. The lease was terminated in January 2013 and the equipment was purchased from the lessor.

The Company entered into an operating lease for a commercial building in Gainesville, Georgia on 1 July 2006. The lease was amended on 19 August 2009. The amended lease commenced December 2009, with monthly payments of approximately $6,000 through June 2011. The lease was amended on 22 March 2011 to extend the term through June of 2013 with monthly payments of approximately $6,000 beginning in July 2011. The amendment also granted a three-year option through June 2016 with monthly payments ranging from approximately $6,000 to $7,000. As discussed in Note 9, the Company purchased property and a building in March 2013 for its manufacturing operations and corporate offices. As such, the option to extend the lease on the property in Gainesville, Georgia was allowed to expire.

The Company entered into an operating lease for additional warehouse space in Gainesville, Georgia on 1 March 2012. The lease was amended on 19 July 2012 to include additional space. The lease is for a period of three years with monthly payments of approximately $4,000.

The Company entered into an operating lease for warehouse and office space in Jubail Industrial City, Kingdom of Saudi Arabia, in May 2012. The lease was for a period of one year at an annual rate of $68,000 and included an option to renew for a period of one year. In May 2013 the lease was extended for 13 months and amended to include additional warehouse and office space at an annual rate of $151,000. In May 2014 a second extension was signed extending the lease to June 2015 at the same annual rate.

In June 2012, the Company entered into an operating lease for an apartment in Jubail Industrial City, Kingdom of Saudi Arabia, to accommodate Company employees visiting the Jubail Industrial City office. The lease was for a period of one year at an annual rate of $36,000. The lease included an option to renew for a period of one year or less. In June 2013, the lease was extended for a period of one year. In June 2014, the lease was extended for another period of one year.

The Company entered into an operating lease for office space in London, United Kingdom in September 2012. The lease was for a period of one year at an annual rate of $33,000. In September 2013, the lease was extended for a period of one year.

The Company entered into an operating lease for a commercial building in Houston, Texas on 11 September 2012. The lease commenced October 2012, with monthly payments of approximately $7,000 through January 2018.

The Company entered into an operating lease for warehouse space in Houston, Texas in May 2014. The lease commenced 1 June 2014, with monthly payments of approximately $9,000 through May 2019.

Future minimum lease payments under the capital and operating leases, together with the present value of minimum lease payments as of 30 June 2014 are as follows:

	Capital Leases US$000	*Operating Leases US$000*
Year Ending 31 December		
2014	3	134
2015	5	192
2016	5	189
2017	1	195
2018	-	116
Thereafter	-	45
Total future lease payments	13	871
Less amount representing interest	(1)	
Net capital lease liability	12	
Less current portion	(5)	
Total long-term portion of capital lease obligations	7	

Rent expense for the six months ended 30 June 2014 and 2013, and the year ended 31 December 2013 was approximately $178,000, $216,000 and $413,000, respectively.

State sales tax – In 2012, the Company determined that it had a liability for state sales tax resulting from activities in states where it did not previously collect sales tax from customers and remit to taxing authorities. The ultimate amount due depended on a number of factors, including the jurisdictional tax rates, the amount of sales to customers who already paid the tax or were exempt, and any penalties and interest. The Company recorded a liability of $120,000 in accrued expenses in 2012 to cover estimated potential exposure relating to the sales tax that should have been collected from its customers and remitted to tax jurisdictions. The Company completed the process of filing voluntary disclosure agreements with state and local taxing authorities and resolved all liabilities in H2 2013 resulting in a gain of $96,000.

12. Related party transactions

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

In April 2011, the Company entered into a borrowing agreement with a shareholder in the original amount of $1,500,000, payable within five days after the Company received at least $15,000,000 in cash proceeds from an equity offering. The note had a stated interest rate of 10 percent, and the Company issued the shareholder 50,000 warrants to purchase common stock of the Company, as further described in Note 9. All of the warrants were exercised in October 2013. The note was recognised net of a discount related to the stock warrant. The effective interest rate relating to this note was 17 percent with consideration of the discount on the issuance of the note. The note was repaid at the time of the public offering of stock in August 2011.

13. Concentrations

At 30 June 2014, one customer with four contracts with three separate plants represented 76 percent of accounts receivable. During the six months ended 30 June 2014, the Company received 71 percent of its gross revenue from one customer with three separate plants.

At 31 December 2013, one customer with four contracts with three separate plants represented 80 percent of accounts receivable. During the year ended 31 December 2013, the Company received 57 percent of its gross revenue from one customer with three separate plants.

At 30 June 2013, three customers represented 95 percent of accounts receivable. During the six months ended 30 June 2013, the Company received 50 percent of its gross revenue from one customer with three separate plants.

14. Subsequent events

Management has evaluated subsequent events through 12 September 2014, 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 import. All the statements other than statements of historical facts included in this announcement, including, without limitation, those regarding MYCELX's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to MYCELX'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 MYCELX 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 MYCELX's present and future business strategies and the environment in which MYCELX 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 MYCELX nor any other person undertakes any obligation (other than, in the case of MYCELX, 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.