

## **MYCELX TECHNOLOGIES CORPORATION (AIM: MYX)**

### **Half Year Results Statement**

**For the six months ended 30 June 2015**

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 2015.

#### **Financial**

- Revenue up 16.0% to \$8.7 million (2014 H1: \$7.5 million)
- Gross profit margin of 51.9% (2014 H1: 57.1%)
- Adjusted EBITDA of negative \$0.5 million (2014 H1: negative \$1.5 million)
- Net cash of \$3.9 million (2014 H1: negative \$2.7 million)
- Line of credit balances reduced 48.6% since December 2014 to \$1.7 million
- Cost control programme implemented and on track to deliver goal of being operationally cash neutral in H2 2015 and cash generative in FY2016

#### **Operational**

- Successful high profile Enhanced Oil Recovery (EOR) trials in the Middle East and India building on operating installations in North America and Europe
- Completed two turnaround projects with an integrated petrochemical plant in Qatar and a SABIC affiliate in Saudi Arabia which underpins fast-to-market lease strategy
- Successful pilot trial with major independent oil and gas producer in Canada
- Contract extension on lease equipment deployed at SABIC

#### **Post period end events**

- Completed first installation for full water recycle and reuse for hydraulic fracturing in West Texas on a lease to purchase basis
- Updated cost reduction initiative and implemented additional expense control measures
- Kimberly Slayton named Interim Chief Financial Officer (CFO) in place of Mark Clark who stepped down as CFO

#### **Outlook**

- Expense control measures will enable the Company to be cash neutral from operations in H2 2015 and supports goal of being operationally cash generative in FY 2016
- Successful paid trials in key geographies with leading operators in Saudi Arabia, India and North America have helped to grow further industry acceptance of MYCELX’s technological advantage, especially in the Enhanced Oil Recovery segment of the market
- Given the tough market conditions, the Company continues to cost effectively pursue revenue generating opportunities and believes that its fast-to-market lease equipment strategy is well suited to current and near term capital deployment by customers

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

“During the first half of the year we continued to focus our strategy for growth in the Middle East, India and Americas regions. Two successful turnaround projects in the MENA region as well as ongoing lease contracts underpinned H1 revenues. These turnaround projects are well suited to MYCELX’s modular, readily available lease equipment with its small footprint and the flexible and effective way in which our media can be deployed. The Company will continue to leverage off its lease equipment fleet by pursuing faster sales cycle projects within the turnaround market in the Middle East and onshore production water in the Americas.

In addition, MYCELX is expanding its footprint in other market segments. We have verified MYCELX’s technological advantage in treating produced water from Enhanced Oil Recovery operations by undertaking multiple paid trials for leading operators in India, the Middle East and Canada. This provides further application opportunities for MYCELX which we are actively pursuing in our key geographies. Other North American opportunities where progress has been made during H1 include water treatment solutions for hydraulic fracturing. The Americas onshore market is increasingly focused on production from wells with lower operational costs. Due to the departure of several oilfield services companies from the water sector there are opportunities to fill the void with MYCELX’s cost effective technology. The Company leveraged strategic relationships and completed successful trials resulting in its first installation of a full water recycle and reuse system for hydraulic fracturing. We expect to build on this success with future installations for cost effective water treatment in the hydraulic fracturing market.

MYCELX continues to progress large and complex projects where it has been undertaking paid trials to refine the water treatment solution to meet customers’ specific requirements. Given market conditions, these projects have progressed at a slow pace but nevertheless continue to generate revenue for MYCELX at a time when other large scale projects elsewhere in the industry have been suspended. Given the future potential of such large scale EOR applications, we will continue to vigorously pursue this global application.

The Company has further refined the evaluation criteria for its project pipeline to ensure all resources expended are cost efficient and geared to market conditions. We have adopted a risk approach to our revenue outlook which together with our cost cutting initiatives means we are on track to achieve our goal of being operationally cashflow neutral in H2 2015 and are well positioned to be cashflow generative in FY2016.”

**For further information please contact:**

**MYCELX Technologies Corporation**

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**Tel: 44 20 7861 3232****Chairman's and Chief Executive Officer's Statement**Introduction

Market conditions during the first half of 2015 continued to be challenging for the oil and gas industry and the associated service sector, with many of the operators exercising stringent capital discipline. In the face of the difficult market, business sales in H1 were nevertheless 16% higher at \$8.7m compared to \$7.5m in the same period last year. Our technology continues to deliver value in an industry that is struggling with significant price dislocation. This is evidenced by continued contract renewals and sales to our core customers, successfully completed turnaround projects, ongoing paid trials, and the recent progress made into the hydraulic fracturing market. Given the Company believes that volatile market conditions will likely continue into 2016, it has taken the prudent steps of implementing cost control measures that enable it to be cash neutral from operations in H2 2015 and to target cash generation from operations for the full year 2016. These initiatives have been targeted and will not hinder the Company's ability to convert its current pipeline into revenue generation.

**Operational Review***Middle East & India*

The Company continued to pursue three key applications in the Middle East and India; process water treatment in downstream petrochemical sector, fast-to-market turnaround maintenance projects and treating produced water during Enhanced Oil Recovery operations.

During H1, one of the Company's existing SABIC customers renewed their operating lease underpinning the expected lease, media and service revenues from the downstream petrochemical sector. The Company's strategy continues to focus on providing process improvements for production efficiency which is highly valued in this sector. This niche application and unique capability is attributable to the small footprint and highly efficient technology MYCELX provides where space is limited and performance is key to ongoing operations.

The Company executed two successful turnaround projects in H1 which it will leverage to pursue this market in H2 and beyond given our technology and expertise has proven to be very effective in this application. The budgets and schedules for these projects are already approved and have more reliable timelines. MYCELX is actively pursuing this market and post period we completed a successful trial with an existing customer to demonstrate the effectiveness of the MYCELX system and expertise during turnaround operations.

As reported previously, MYCELX continues to progress the major project in its near term pipeline with additional paid trials undertaken during the period to further refine their overall clean water solution. In addition to this large scale project, MYCELX is pursuing further opportunities in the Middle East and India for Enhanced Oil Recovery (EOR) applications.

### *North America*

The US onshore market is increasingly focused on production from wells with lower operational costs. Innovative technology such as MYCELX that enables producers to recycle and reuse water while mitigating the need for fresh water during operations is increasingly in demand. Furthermore, MYCELX continues to innovate its systems to lower the cost of operation for the end user by providing remote monitoring capability which reduces manpower costs. During H1 we pursued an opportunity to enter new segments of the US onshore market created by the departure of several oil field services companies whose water treatment options were no longer economically viable. The Company has entered into strategic agreements which it believes will accelerate this fast-to-market opportunity. Following a successful trial that took place in H1, the Company recently completed the first installation for a full water recycle and reuse system with remote monitoring for use with hydraulic fracturing operations. We expect to build on this success for future onshore installations for cost effective water treatment and advanced cost control in the hydraulic fracturing market.

In terms of the Enhanced Oil Recovery applications, MYCELX has been undertaking trials to increase its presence in this segment building on the two successful installations that have been operating more than a year. During the period, the Company completed another successful trial in Canada. Subsequently the Company has received a purchase order for larger scale trials at an independent producer's sites providing further evidence that the Company's proprietary EOR related technology continues to perform well in this important global application. Post period, the Company has also made progress on opportunities in Mexico where it has engaged with a major producer to conduct a paid trial for a produced water application.

### Financial

Total revenue increased by 16.0% to \$8.7 million for the first half of 2015, compared to \$7.5 million in the first half of 2014. Revenue from equipment sales and leases decreased by 28.6% to \$2.0 million for the first half of 2015 (2014 H1: \$2.8 million) due to oil price instability. Revenue from consumable filtration media and service increased by 42.6% to \$6.7 million (2014 H1: \$4.7 million) due to two turnaround petrochemical plant projects in H1 2015 that did not occur in H1 2014. Gross profit margin decreased in the first half of 2015 to 51.9% (2014 H1: 57.1%) due to a larger portion of total revenue coming from turnaround services.

Total operating expenses for the first half of 2015 decreased by 7.9% to \$5.8 million (2014: H1 \$6.3 million). The largest component of operating expenses was selling, general and administrative (SG&A) expenses. As a result of the Company's efforts to reduce total operating expenses, the SG&A expenses decreased due to reductions in staff costs of \$400,000, \$170,000 of consulting and accounting fees offset by an increase of \$60,000 in property and office associated with the new warehouse location in Houston.

The Company recorded a loss before tax of \$1.3 million in the first half of 2015 compared to a loss before tax of \$2.2 million in the first half of 2014. Basic loss per share was 8 cents for the first half of 2015, compared to basic loss per share of 18 cents for the first half of 2014.

Payments towards the lines of credit, payments to complete the expansion of the lease equipment fleet and an increase in accounts receivable in the Middle East resulted in a decrease in cash in the first half of the year.

### Summary and Outlook

In response to continued difficult market conditions, MYCELX has adapted its efforts to enhance its prospects for new contract wins, preserve existing revenue streams and reduce costs to ensure it is operationally cash neutral in H2 2015 and cash generative in FY 2016.

Our rental fleet meets the market preference for leasing equipment to perform trials or meet discharge requirements at a time when capital expenditure has been scaled back or delayed. The ability to deploy equipment quickly has provided us with an additional competitive advantage on top of our technical expertise and smaller footprint size, and has been instrumental in our recent turnaround contract wins as well as deployments in West Texas, Mexico and Saudi Arabia.

Our progress in the Enhanced Oil Recovery segment of the market has further increased industry recognition of MYCELX's unique technology and presents us with exciting new opportunities which we are actively pursuing with paid trials currently underway in India and Canada.

Whilst we do not have control of our customer's timelines or expenditure budgets and project slippage is a challenge facing all oil and gas services companies, MYCELX has adopted a risked approach to its revenue outlook based upon a foundation of recurring media sales and modest increase in the deployment of its rental fleet. On the basis of this risked approach together with our ongoing cost saving programme, we are on track to be operationally cash neutral in H2 2015. Looking to the future, our pursuit of fast-to-market opportunities will allow us to build on top of this baseload revenue generation as will the longer-term large scale projects, where continued paid trials and close interaction with the customer to refine the water treatment indicates progress.

The Company is well positioned to both navigate current market conditions and grow its standing within the industry as a leading innovative technology and services company.

**Tim Eggar**  
Chairman  
10 September 2015

**Connie Mixon**  
Chief Executive Officer

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

	<i>Six Months Ended 30 June 2015 (unaudited)</i>	<i>Six Months Ended 30 June 2014 (unaudited)</i>	<i>Year Ended 31 December 2014</i>
<b>Revenue</b>	<b>8,690</b>	<b>7,482</b>	<b>13,581</b>
Cost of goods sold	4,178	3,209	6,482
<b>Gross profit</b>	<b>4,512</b>	<b>4,273</b>	<b>7,099</b>
<b>Operating expenses:</b>			
Research and development	141	154	443
Selling, general and administrative	5,364	5,924	11,473
Depreciation and amortisation	266	255	519
<b>Total operating expenses</b>	<b>5,771</b>	<b>6,333</b>	<b>12,435</b>
<b>Operating loss</b>	<b>(1,259)</b>	<b>(2,060)</b>	<b>(5,336)</b>
<b>Other expense</b>			
Loss on disposal of equipment	-	(2)	(2)
Interest expense	(78)	(101)	(209)
<b>Loss before income taxes</b>	<b>(1,337)</b>	<b>(2,163)</b>	<b>(5,547)</b>
Provision for income taxes	(225)	(176)	(373)
<b>Net loss</b>	<b>(1,562)</b>	<b>(2,339)</b>	<b>(5,920)</b>
<b>Loss per share-basic</b>	<b>(0.08)</b>	<b>(0.18)</b>	<b>(0.44)</b>
Loss per share-diluted	(0.08)	(0.18)	(0.44)
<b>Shares used to compute basic loss per share</b>	<b>18,638,929</b>	<b>13,257,734</b>	<b>13,574,809</b>
<b>Shares used to compute diluted loss per share</b>	<b>18,638,929</b>	<b>13,257,734</b>	<b>13,574,809</b>

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

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

	<i>As of 30 June 2015 (unaudited)</i>	<i>As of 30 June 2014 (unaudited)</i>	<i>As of 31 December 2014</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7,240	1,344	11,289
Restricted cash	500	500	500
Accounts receivable - net	3,970	5,257	2,610
Unbilled accounts receivable	32	1,366	91
Inventory – net	4,385	4,697	4,980
Prepaid expenses	508	288	528
Deferred tax asset	26	36	50
Other assets	150	128	140
<b>Total Current Assets</b>	<b>16,811</b>	<b>13,616</b>	<b>20,188</b>
Property and equipment – net	12,300	10,550	12,386
Intangible assets – net	773	647	756
<b>Total Assets</b>	<b>29,884</b>	<b>24,813</b>	<b>33,330</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	489	1,415	1,201
Payroll and accrued expenses	1,370	1,495	873
Deferred revenue	-	58	282
Capital lease obligations – current	6	5	5
Lines of credit	1,762	2,345	3,427
Note payable – current	79	76	78
Warrant liability	63	383	63
Other current liabilities	42	42	234
<b>Total Current Liabilities</b>	<b>3,811</b>	<b>5,819</b>	<b>6,163</b>
Note payable – long-term	2,041	2,120	2,088
Capital lease obligations – long-term	5	7	5
Deferred tax liability – long-term	26	36	50
<b>Total Liabilities</b>	<b>5,883</b>	<b>7,982</b>	<b>8,306</b>

**Stockholders' Equity**

Common stock, \$0.025 par value, 100,000,000 shares authorised, 18,770,117 shares issued and outstanding at 30 June 2015, 18,552,803 shares issued and outstanding at 31 December 2014 and 13,257,734 shares issued and outstanding at 30 June 2014.

	469	332	464
Additional paid-in capital	40,119	27,943	39,820
Accumulated deficit	(16,587)	(11,444)	(15,025)
Stock subscription receivable	-	-	(235)
<b>Total Stockholders' Equity</b>	<b>24,001</b>	<b>16,831</b>	<b>25,024</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>29,884</b>	<b>24,813</b>	<b>33,330</b>

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

	Common Stock		Additional	Accumulated	Stock	Total
	Shares	\$	Paid-in Capital \$	Deficit \$	Subscription Receivable \$	\$
<b>Balances at 31 December 2013</b>	<b>13,258</b>	<b>332</b>	<b>27,821</b>	<b>(9,105)</b>	-	<b>19,048</b>
Stock-based compensation expense	-	-	122	-	-	122
Net loss for the period	-	-	-	(2,339)	-	(2,339)
<b>Balances at 30 June 2014 (unaudited)</b>	<b>13,258</b>	<b>332</b>	<b>27,943</b>	<b>(11,444)</b>	-	<b>16,831</b>
Issuance of common stock, net of offering costs	5,295	132	11,654	-	(235)	11,551
Stock-based compensation expense	-	-	223	-	-	223
Net loss for the period	-	-	-	(3,581)	-	(3,581)
<b>Balances at 31 December 2014</b>	<b>18,553</b>	<b>464</b>	<b>39,820</b>	<b>(15,025)</b>	<b>(235)</b>	<b>25,024</b>
Issuance of common stock, net of offering costs	217	5	259	-	235	499
Stock-based compensation expense	-	-	40	-	-	40
Net loss for the period	-	-	-	(1,562)	-	(1,562)
<b>Balances at 30 June 2015 (unaudited)</b>	<b>18,770</b>	<b>469</b>	<b>40,119</b>	<b>(16,587)</b>	-	<b>24,001</b>

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



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

	<i>Six Months Ended 30 June 2015 (unaudited)</i>	<i>Six Months Ended 30 June 2014 (unaudited)</i>	<i>Year Ended 31 December 2014</i>
<b>Cash flow from operating activities</b>			
Net loss	(1,562)	(2,339)	(5,920)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortisation	709	597	1,222
Loss from disposition of equipment	-	2	2
Stock compensation	40	122	345
Non-cash change in warrant liability	-	-	(320)
Change in operating assets and liabilities:			
Accounts receivable	(1,360)	2,174	4,821
Unbilled accounts receivable	58	64	1,339
Inventory - net	595	(1,555)	(1,838)
Prepaid expenses	20	(70)	(310)
Other assets	(10)	(34)	(46)
Accounts payable	(712)	(265)	(479)
Payroll and accrued expenses	496	139	(483)
Deferred revenue	(282)	43	267
Other current liabilities	(192)	(4)	188
<b>Net cash used in operating activities</b>	<b>(2,200)</b>	<b>(1,126)</b>	<b>(1,212)</b>
<b>Cash flow from investing activities</b>			
Payments for purchases of property and equipment	(598)	(581)	(3,024)
Proceeds from sale of property and equipment	-	-	-
Payments for purchases of intangible assets	(36)	(92)	(219)
<b>Net cash used in investing activities</b>	<b>(634)</b>	<b>(673)</b>	<b>(3,243)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from stock issuance	499	-	11,551
Payments on capital lease obligations	(3)	(3)	(5)
Payments on notes payable	(46)	(43)	(73)
Payments on lines of credit	(1,665)	(475)	(1,593)
Advances on lines of credit	-	-	2,200
<b>Net cash used in financing activities</b>	<b>(1,215)</b>	<b>(521)</b>	<b>12,080</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(4,049)</b>	<b>(2,320)</b>	<b>7,625</b>
Cash and cash equivalents, beginning of period	11,289	3,664	3,664
<b>Cash and cash equivalents, end of period</b>	<b>7,240</b>	<b>1,344</b>	<b>11,289</b>

**Supplemental disclosures of cash flow information:**

Cash payments for interest	88	93	191
Cash and non cash payments for income taxes	233	274	445
Property and equipment remaining in accounts payable and other current liabilities	6	43	28
Purchase of property and equipment under capital leases	4	7	7

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 2015 and 2014 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. The primary estimates and assumptions made relate to depreciation and amortization, share-based compensation, deferred taxes and stock warrant valuation. Actual results could differ from these estimates and the differences may be material to the financial statements.

**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 2015, all of the Company’s cash and cash equivalent balances were held in non-interest-bearing transaction accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Net cash is defined as cash and cash equivalents plus restricted cash less the balances on the lines of credit and the current and long term note payable.

**Restricted cash** – The Company classifies as restricted cash all cash whose use is limited by contractual provisions. At 30 June 2015 and 2014, and 31 December 2014, restricted cash included \$500,000 cash on deposit in a money market account as required by a lender (see Note 9).

**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 2015 and 2014, and the year ended 31 December 2014.

**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 or lease to customers is also included in inventory (work-in-progress). The Company applies the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progress and finished products inventory 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 2015 and 2014, and 31 December 2014, the valuation reserve was \$54,000, \$21,000 and \$54,000, 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	3-10 years
Buildings	39 years
Leasehold improvements	1-5 years
Manufacturing equipment	5-15 years
Research and development equipment	5-10 years
Purchased software	1-5 years
Equipment leased to customers	3-10 years

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

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

**Revenue recognition** – The Company's revenue consists of media product and equipment sales. Revenues from media sales are recognised, net of sales allowances and sales tax, 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, net of sales tax, on the percentage-of-completion basis using costs incurred compared to total estimated costs. Costs are recognised and considered for percentage-of-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, net of sales tax, 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 recorded in the period in which such losses are probable and estimable. No such provisions have been recognised as of 30 June 2015 and 2014, and 31 December 2014. 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 2015 and 2014, and the year ended 31 December 2014.

**Shipping and handling costs** – Consistent with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 2015 and 2014, and the year ended 31 December 2014 was approximately \$141,000, \$154,000 and \$443,000, respectively.

**Advertising costs** – The Company expenses advertising costs as incurred. Advertising expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately \$7,000, \$11,000 and \$19,000, 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 other current liabilities in the accompanying balance sheet represents the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

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

primarily dependent on the ability to generate taxable income. A change in the Company's estimate of future taxable income may require an addition or reduction to the valuation allowance.

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

The Company recognises interest accrued related to tax in interest expense and penalties in selling, general and administrative expenses. During the six months ending 30 June 2015 and 2014, and the year ended 31 December 2014 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 and warrants. Potentially dilutive shares are excluded from the computation if their effect is antidilutive. Total common stock equivalents that were excluded from computing diluted net loss per share were approximately 1,193,324, 1,151,274, and 873,053 for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014, respectively.

**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 2015 and 2014, and the year ended 31 December 2014.

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 2015 and 2014, and 31 December 2014 include cash and cash equivalents, accounts receivable, accounts payable, the lines of credit, the note payable, and the warrant liability. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the lines 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 11). 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 2015 and 2014, and 31 December 2014:

	<b>Warrant Liability</b> <i>US\$000</i>
<b>Balance at 30 June 2014</b>	<b>383</b>
Adjustments to estimated fair value	(320)
Warrant liability removal due to exercises	-
<b>Balance at 31 December 2014</b>	<b>63</b>
Adjustments to estimated fair value	-
Warrant liability removal due to exercises	-
<b>Balance at 30 June 2015</b>	<b>63</b>

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

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

**Recently issued accounting standards** – In May 2014, the FASB issued Accounting Standards Update ("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 standards' core principle is that a company will recognise 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 now effective for annual and interim periods of public companies beginning on or after 15 December 2017, 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. The Company is currently evaluating the impact of adopting this guidance.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40)", which provides guidance about disclosing an entity's ability to continue as a going concern. The guidance is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard will be effective for annual periods ending after 15 December 2016, and for interim and annual periods thereafter, with early application permitted. The Company does not expect adoption of this guidance to have a material impact on the Company's financial position or results of operations.

**Reclassifications** – Certain reclassifications have been made to prior years' financial statements to conform to current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

### 3. Accounts receivable

Accounts receivable and their respective allowance amounts at 30 June 2015 and 2014, and 31 December 2014 follow:

	30 June 2015 US\$000	30 June 2014 US\$000	31 December 2014 US\$000
Accounts receivable	3,970	5,257	2,610
Less: allowance for doubtful accounts	-	-	-
Total receivable - net	<u>3,970</u>	<u>5,257</u>	<u>2,610</u>

### 4. Inventories

Inventories consist of the following at 30 June 2015 and 2014, and 31 December 2014:

	30 June 2015 US\$000	30 June 2014 US\$000	31 December 2014 US\$000
Raw materials	1,093	1,601	1,445
Work-in-progress	8	1,606	2,056
Finished goods	<u>3,284</u>	<u>1,490</u>	<u>1,479</u>
Total inventory - net	<u>4,385</u>	<u>4,697</u>	<u>4,980</u>



## 5. Property and equipment

Property and equipment consists of the following at 30 June 2015 and 2014, and 31 December 2014:

	30 June 2015 US\$000	30 June 2014 US\$000	31 December 2014 US\$000
Land	709	709	709
Building	2,724	2,710	2,710
Leasehold improvements	315	315	315
Office equipment	741	687	725
Manufacturing equipment	907	679	841
Research and development equipment	644	531	595
Purchased software	222	211	222
Equipment leased to customers	8,548	6,504	6,620
Equipment available for lease to customers	826	-	-
Construction in progress	-	243	2,294
	<u>15,636</u>	<u>12,589</u>	<u>15,031</u>
Less: accumulated depreciation	<u>(3,336)</u>	<u>(2,039)</u>	<u>(2,646)</u>
Property and equipment – net	<u>12,300</u>	<u>10,550</u>	<u>12,386</u>

Depreciation expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately \$690,000, \$578,000 and \$1,186,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was \$443,000, \$341,000, and \$704,000, 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 \$29,000, \$23,000, and \$26,000 as of 30 June 2015 and 2014, and 31 December 2014, 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 2015 and 2014, and 31 December 2014 consist of the following:

	<i>Weighted Average Useful lives</i>	<i>30 June 2015 US\$000</i>	<i>30 June 2014 US\$000</i>	<i>31 December 2014 US\$000</i>
Internally developed patents	15 years	1,200	937	1,064
Purchased patents	17 years	100	100	100
		<u>1,200</u>	<u>1,037</u>	<u>1,164</u>
Less accumulated amortisation		(427)	(390)	(408)
Intangible assets – net		<u>773</u>	<u>647</u>	<u>756</u>

Approximate aggregate future amortisation expense is as follows:

Year ending 31 December (USD, in thousands)

2015	20
2016	40
2017	33
2018	33
2019	26

Amortisation expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately \$19,000, \$19,000 and \$37,000, respectively.

## 7. Income taxes

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

	<i>30 June 2015 US\$000</i>	<i>30 June 2014 US\$000</i>	<i>31 December 2014 US\$000</i>
Current:			
Federal	-	-	(5)
Foreign	225	176	371
State	-	-	7
Total current provision	<u>225</u>	<u>176</u>	<u>373</u>
Deferred:			
Federal	-	-	-
Foreign	-	-	-
State	-	-	-
Total deferred provision	<u>-</u>	<u>-</u>	<u>373</u>
Total provision for income taxes	<u>225</u>	<u>176</u>	<u>373</u>

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, foreign withholding tax, and changes in valuation allowances.

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

	30 June 2015	30 June 2014	31 December 2014
Federal statutory income tax rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	(1.4%)	-	0.5%
Valuation allowance	(37.9%)	(36.6%)	(36.8%)
Other	(.5%)	(.2%)	-
Foreign withholding tax	(11.1%)	(5.4%)	4.4%
Effective income tax rate	(16.9%)	(8.2%)	(6.7%)

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

	30 June 2015 <i>US\$000</i>	30 June 2014 <i>US\$000</i>	31 December 2014 <i>US\$000</i>
Deferred tax assets			
Net operating loss	5,494	3,301	4,628
Equity compensation	452	690	764
Research and development credits	159	159	159
Accrued liability	10	71	122
Charitable contributions	9	6	7
Other	170	241	188
Total gross deferred tax asset	6,294	4,468	5,868
Deferred tax liabilities			
Property and equipment	(949)	(806)	(952)
Warrants	(3)	-	(3)
Total gross deferred tax liability	(806)	(806)	(955)
Net deferred tax asset before valuation allowance	5,342	3,662	4,913
Valuation allowance	(5,342)	(3,662)	(4,913)
Net deferred tax asset (liability)	-	-	-

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 30 June 2015, the Company has recorded a valuation allowance of \$5.3 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 2015, the Company has approximately \$15.6 million of gross U.S. federal net operating loss carry forwards and \$5.1 million of gross state 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 2015 and 2014, and 31 December 2014, there was no accrual for uncertain tax positions or related interest.

The Company’s tax years 2011 through 2014 remain subject to examination by federal, state and foreign income tax jurisdictions.

## **8. Lines 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 capacity 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 the Company was in compliance as of 30 June 2015 and 2014, and 31 December 2014. The balance on the line of credit at 30 June 2015 and 2014, and 31 December 2014 was \$1,762,000, \$2,345,000 and \$2,927,000, respectively. The interest rate on 30 June 2015 and 2014, and 31 December 2014 was 3.25 percent. Interest expense related to this loan for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was \$30,000, \$43,000, and \$99,000, respectively.

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. The balance on the line of credit at 30 June 2015 and 31 December 2014 was \$0 and \$500,000, respectively. The line of credit is secured by the assignment of a deposit account held by the lender. The line of credit carries a variable interest rate of 0.5 percentage points under an independent index which is the Wall Street Journal Prime and is calculated by applying the ratio of the interest rate over a year of 360 days multiplied by the outstanding principal balance multiplied by the actual number of days the principal balance is outstanding. The interest rate on

30 June 2015 and 31 December 2014 was 2.75 percent. Interest expense related to this loan for the six months ended 30 June 2015 and the year ended 31 December 2014 was \$0 and \$2,000, respectively.

## 9. Notes payable

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The note is secured by the property and building. The Company borrowed proceeds of \$2,285,908 at a fixed interest rate of 4.45 percent. The loan has a ten year term with monthly payments based on a twenty year amortisation. There is a one-time payment at the end of the term of the note of approximately \$1,400,000. In accordance with the terms of the agreement, the Company is required to keep \$500,000 in a deposit account with the lending bank. As of 30 June 2015 and 2014, and 31 December 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 2015:

<u>Year ending 31 December (USD, in thousands)</u>	
2015	32
2016	81
2017	85
2018	89
2019	93
Thereafter	1,740
	<u>2,120</u>

## 10. Public Offering of Common Stock

### *Authorised shares and shares issuance*

In December 2014, the Company issued an additional 5,295,069 shares of common stock for \$2.35 per share. The Company incurred costs in the issuance of these shares of approximately \$657,000. The Company received net proceeds of approximately \$11,786,000. In January 2015, the Company completed the final closing of the share offering and issued 78,977 shares of common stock for \$2.35 per share raising approximately \$186,000.

## 11. 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 a 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, July 2014 and May 2015. 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 enlarged share capital. The total number of shares reserved for stock awards and options under this Plan is 1,877,011 with 1,027,596 shares allocated as of 30 June 2015. The shares are allocated as 99,706 shares to current and former Non-Executive Directors and 927,890 shares to employees, executives and consultants.

The options granted to Non-Executive Directors in August 2011 have an exercise price equal to \$0.86 per share. All other options granted in August 2011 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, options granted in September 2013 have an exercise price equal to \$8.01 per share, options granted in July 2014 have an exercise price equal to \$7.45 per share, and options granted in May 2015 have an exercise price equal to \$2.15 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 and have a ten year life.

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 2014 and 2015 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
<b>2014</b>	100,000	07/08/2014	1.36%	5.5 years	56.00%	\$7.45	\$3.78
<b>2015</b>	299,000	05/20/2015	1.29%	6 years	58.00%	\$2.15	\$1.16

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 2015:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (in years)</b>	<b>Average Grant Date Fair Value</b>
Outstanding at 31 December 2014	1,151,274	\$3.79	5.5	\$2,544,210
Granted	299,000	\$2.15	6.0	\$346,840
Exercised	(170,007)	\$0.86		
Forfeited	(252,671)	\$5.10		
Outstanding at 30 June 2015	1,027,596	\$3.48	5.8	\$1,838,431
Exercisable at 30 June 2015	667,596			

A summary of the status of unvested options as of 30 June 2015 and changes during the six months ended 30 June 2015 is presented below:

<b>Unvested Options</b>	<b>Shares</b>	<b>Weighted-Average Fair Value at Grant Date</b>
Unvested at 31 December 2014	105,002	\$3.83
Granted	299,000	\$1.16
Vested	(3,334)	\$1.65
Forfeited	(66,668)	
Unvested at 30 June 2015	334,000	\$1.47

As of 30 June 2015, total unrecognised compensation cost of \$373,000 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 August 2011 issuance of the shares. 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 2015	30 June 2014	31 December 2014
Closing price per share of common stock	\$2.06	\$8.51	\$2.73
Exercise price per share	\$3.30	\$3.58	\$2.27
Expected volatility	51.0%	46.0%	51.0%
Risk-free interest rate	0.74%	0.88%	0.74%
Remaining expected term of underlying securities (years)	1.1	2.1	1.7

In addition, as of the valuation dates, management assessed the probabilities of future financing 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.

## 12. Employee benefit plan

The Company maintains an active defined contribution retirement plan for its employees (the "Benefit Plan"). All employees satisfying certain service requirements are eligible to participate in the Benefit Plan. The Company makes cash contributions each payroll period up to specified percentages of employees' contributions as approved by the Board of Directors. The Company's contributions to the Benefit Plan for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 were approximately \$52,000, \$50,000, and \$97,000, respectively.

## 13. Commitments and contingencies

**Operating and capital leases** – The Company has entered into capital lease agreements for equipment through 2018. Equipment under capital leases together with accumulated depreciation at 30 June 2015 and 2014, and 31 December 2014 is as follows:

	30 June 2015 US\$000	30 June 2014 US\$000	31 December 2014 US\$000
Office equipment	38	33	33
Manufacturing equipment	47	47	47
	85	80	80
Less: Accumulated depreciation	(49)	(37)	(43)
Equipment under capital leases – net	36	43	37



The Company leases certain facilities and equipment under non-cancelable operating leases which expire at varying times between August 2015 and May 2019. Certain of these leases have escalating rent payments which result in the Company recording a deferred rent liability.

Future minimum lease payments under the capital and operating leases, together with the present value of minimum lease payments as of 30 June 2015 are as follows:

	<i>Capital Leases US\$000</i>	<i>Operating Leases US\$000</i>
Year Ending 31 December		
2015	3	99
2016	6	300
2017	2	307
2018	-	116
2019	-	45
Total future lease payments	<u>11</u>	<u>867</u>
Less amount representing interest	-	
Net capital lease liability	<u>11</u>	
Less current portion	<u>(6)</u>	
Total long-term portion of capital lease obligations	<u>5</u>	

Rent expense for the six months ended 30 June 2015 and 2014, and the year ended 31 December 2014 was approximately \$317,000, \$178,000 and \$453,000, respectively.

#### **14. Related party transactions**

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

#### **15. Segment and geographic information**

ASC 280-10, *Disclosures About Segments of an Enterprise and Related Information* (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 30 June 2015. For the six months ended 30 June 2015, 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. The Company uses Adjusted EBITDA as the profitability measure for making decisions regarding allocating resources and assessing performance. Adjusted EBITDA is net income before interest

expense, provision for income taxes, depreciation and amortisation of fixed and intangible assets including depreciation of leased equipment which is included in cost of goods sold.

Revenues from customers by geography are as follows:

(USD, in thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Middle East	7,210	5,867	10,322
United States	1,060	1,309	2,512
Other	420	306	747
<b>Total</b>	<b>8,690</b>	<b>7,482</b>	<b>13,581</b>

Equipment leased to customers by geography is as follows:

(USD, in thousands)	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
Middle East	6,589	5,142	5,180
United States	1,610	1,094	1,171
Other	349	268	269
<b>Total</b>	<b>8,548</b>	<b>6,504</b>	<b>6,620</b>

## 16. Concentrations

At 30 June 2015, two customers, one with three contracts with three separate plants represented 81 percent of accounts receivable. During the six months ended 30 June 2015, the Company received 82 percent of its gross revenue from two customers, one with four contracts with three separate plants.

At 31 December 2014, two customers, one with four contracts with three separate plants, represented 78 percent of accounts receivable. During the year ended 31 December 2014, the Company received 65 percent of its gross revenue from one customer with three separate plants.

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.

## 17. Subsequent events

As part of the Company's on-going cost reduction initiatives, the Company has negotiated with its auditors to control the cost of its annual audit by undertaking the process at a later date than in previous years. As a result, the Company intends to release its preliminary unaudited full year results at the beginning of May. In accordance with AIM Rule 19, MYCELX will publish its annual report before the end of June and the Board has agreed that the next AGM should be scheduled to take place on 13 July 2016.

Management has evaluated subsequent events through 10 September 2015, the date the interim results were available to be issued, and no other 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 the Company's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Company's products and services) are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and therefore undue reliance should not be placed on such forward-looking statements. There are a number of factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future and such assumptions may or may not prove to be correct. Forward-looking statements speak only as at the date they are made. Neither the Company nor any other person undertakes any obligation (other than, in the case of the Company, pursuant to the AIM Rules for Companies) to update publicly any of the information contained in this announcement, including any forward-looking statements, in the light of new information, change in circumstances or future events.