MyCelx

Clean Water Technology

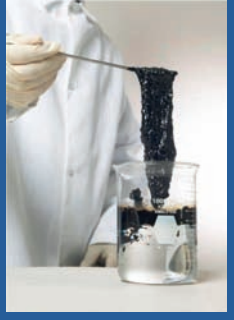
Admission to the Alternative Investment Market

Numis Securities Limited
Nominated Adviser and Broker









THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the contents of this document or the action you should take, you should consult an independent adviser authorised under the UK's Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document, which comprises an admission document for the purpose of the AIM Rules, has been prepared in accordance with such rules. This document does not comprise a prospectus for the purposes of the UK prospectus Rules and has not been approved by or filed with the UK's Financial Services Authority.

MyCelx Technologies Corporation, whose registered office address is set out on page 11, and the Directors of the Company, whose names and functions appear on page 11 of this document, both individually and collectively, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure this is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the whole of the issued Common Shares to be admitted to trading on AIM, a market operated by the London Stock Exchange. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two of the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

The whole of this document should be read. Your attention is particularly drawn to the section entitled "Risk Factors" set out in Part II of this document.

MyCelx Technologies Corporation

(Incorporated in the State of Georgia, USA, Control Number K407884)

Placing of 5,753,298 new Common Shares and 72,892 Sale Shares at 210p per share

and

Admission to trading on AIM

Nominated Adviser and Broker

Numis Securities Limited

The Placing is conditional on Admission taking place on or before 4 August 2011 (or such other date as the Company and Numis Securities Limited may agree, being not later than 18 August 2011). The New Common Shares will rank *pari passu* in all respects with the Existing Common Shares in issue on Admission and will rank in full for all dividends and other distributions declared, paid or made on the Common Shares after Admission.

Numis Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as nominated adviser and broker to the Company in relation to the Placing and Admission. No liability whatsoever is accepted by Numis Securities Limited for the accuracy of any information or opinions contained in this document or the omission of any material information for which it is not responsible. Numis Securities Limited will not regard any other person as its customer and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising in relation to the contents of this document or any matter, transaction or arrangement referred to in it. Numis Securities Limited is not making any representation or warranty, express or implied, as to the contents of this document.

THE COMMON SHARES HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES (THE "STATE ACTS") AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO US PERSONS (OTHER THAN DISTRIBUTORS) UNLESS SUCH SHARES ARE REGISTERED UNDER THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS IS AVAILABLE. HEDGING TRANSACTIONS INVOLVING THE COMMON SHARES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT.

The Placing described in this document is only being made in the United Kingdom. In particular, this document does not constitute an offer to sell for, or the solicitation of an offer to buy or subscribe for, Common Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into or to persons that are residents or citizens of the United States, Canada, Australia, South Africa, the Republic of Ireland or Japan (together the "Prohibited Territories"). The Common Shares have not been, and will not be, registered under applicable laws of the Prohibited Territories. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

FORWARD-LOOKING STATEMENTS

ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, CONTAINED IN THIS ADMISSION DOCUMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS". IN SOME CASES, FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMS SUCH AS "MAY", "INTEND", "MIGHT", "WILL", "SHOULD", "COULD", "WOULD", "BELIEVE", "ANTICIPATE", "EXPECT", "ESTIMATE", "ANTICIPATE", "PREDICT", "PROJECT", "POTENTIAL", OR THE NEGATIVE OF THESE TERMS, AND SIMILAR EXPRESSIONS. SUCH FORWARD LOOKING STATEMENTS ARE BASED ON ASSUMPTIONS AND ESTIMATES, AND INVOLVE RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE THE ACTUAL RESULTS, FINANCIAL CONDITION, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEW FACTORS MAY EMERGE FROM TIME TO TIME THAT COULD CAUSE THE COMPANY'S BUSINESS NOT TO DEVELOP AS IT EXPECTS, AND IT IS NOT POSSIBLE FOR THE COMPANY TO PREDICT ALL SUCH FACTORS. GIVEN THESE UNCERTAINTIES, PROSPECTIVE INVESTORS ARE CAUTIONED NOT TO PLACE ANY UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS. EXCEPT AS REQUIRED BY LAW OR APPLICABLE REGULATION, THE COMPANY DISCLAIMS ANY OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS IN THIS ADMISSION DOCUMENT TO REFLECT FUTURE EVENTS OR DEVELOPMENTS.

INDUSTRY AND MARKET DATA

Information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to the Company's business contained in this document consists of estimates based on data and reports complied by professional organisations and analysts using data from other external sources, and on the Company's knowledge of its proposed industry. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, requiring the Company to rely on internally developed estimates. The Company takes responsibility for compiling, extracting and reproducing market or other industry data from external sources, including third parties or industry or general publications but neither the Company nor Numis Securities Limited has independently verified that data. The Company cannot assure you of the accuracy and completeness of, and takes no further responsibility for, such data.

CURRENCY PRESENTATION, PLACING PRICE AND CURRENCY OF PLACING PROCEEDS

The Company prepares its financial statements in US dollars. The US dollar amounts referred to in section 12 of Part I of this document (Reasons for Admission and Use of the Proceeds) have been translated from pounds sterling using the following exchange rate £1.00:US$1.6332 (being the *Financial Times* closing mid-point rate on 28 July 2011, the latest practicable date prior to publication of this document). The Placing Shares will be settled in pounds sterling. All amounts received from the Placing will be in pounds sterling and, net of fees, commissions and expenses, are intended to be converted into US dollars by Numis Securities before transmission to the Company. The actual exchange rate in effect at the date(s) the net pounds sterling proceeds are exchanged into US dollars may differ from the exchange rate prevailing at the date of this document. As a result, the total net proceeds (after conversion) received by the Company may differ from the amount anticipated in this document.

CONTENTS

DEFINITIONS

In this document, except where the context requires otherwise, the expressions set out below shall bear the following meanings:

"**Admission**"	the admission of the whole issued and to be issued Common Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
"**affiliate**"	an affiliate of an issuer, defined in Rule 144 as a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer
"**AIM**"	the AIM market operated by the London Stock Exchange
"**AIM Rules**"	the AIM Rules for Companies published by the London Stock Exchange
"**AIM Rules for Nominated Advisers**"	the AIM Rules for Nominated Advisers published by the London Stock Exchange
"**Articles**" or "**Articles of Incorporation**"	the articles of incorporation of the Company
"**Audit Committee**"	the audit committee of the Board which, at the date of this document, comprises William Donges and Brian Rochester
"**Board**" or "**Directors**"	the directors of the Company whose names appear under the heading "Directors" on page 11 of this document, and "**Director**" shall mean any one of them
"**Bylaws**"	the bylaws of the Company
"**City Code**"	the UK City Code on Mergers and Takeovers
"**Common Shares**"	shares of common stock in the capital of the Company with a par value of $0.025 per share
"**Company**" or "**MyCelx**"	MyCelx Technologies Corporation, a company incorporated under the GBCC
"**Compensation Committee**"	the compensation committee of the Board, which at the date of this document, comprises William Donges, Ian Johnson and Brian Rochester
"**Conversion Shares**"	the 437,353 new Common Shares to be issued to John Mansfield Sr. pursuant to the conversion of his loan to the Company, further details of which are set out in paragraph 5.6 of Part VIII of this document
"**CREST**"	the electronic system for the holding and transfer of shares in dematerialised form operated by Euroclear UK & Ireland Limited
"**Depositary Interests**"	depositary interests representing an entitlement to Common Shares issued by a depositary
"**Director Shares**"	34,157 new Common Shares proposed to be issued to Tim Eggar and Ian Johnson at a price of 105 pence per share as described in paragraph 8.2 of Part VIII of this document

"**Disclosure and Transparency Rules**"	the Disclosure and Transparency Rules made by the FSA under Part VI of the Financial Services and Markets Act 2000
"**distributor**"	any underwriter, dealer or other person who participates, pursuant to a contractual arrangement, in a distribution of the Placing Shares
"**dollars**" or "**$**"	the lawful currency of the United States of America
"**EIS**"	an Enterprise Investment Scheme for the purposes of Part 5 of the UK Income Tax Act 2007
"**Enlarged Share Capital**"	the issued share capital of the Company immediately following Admission as enlarged by the issue of the New Common Shares
"**Executive Committee**"	the executive committee of the Board which, at the date of this document, comprises Tim Eggar, John Mansfield, Sr. and Connie Mixon
"**Existing Common Shares**"	the 6,545,002 Common Shares of $0.025 each in issue at the date of this document
"**First Tranche Placing Shares**"	the 952,290 Placing Shares proposed to be issued by the Company to certain VCT and EIS investors
"**FSA**"	the UK Financial Services Authority
"**FSMA**"	the UK Financial Services and Markets Act 2000
"**GBCC**"	the Georgia Business Corporation Code or any successor law of the State of Georgia
"**GCC**"	the Gulf Corporation Council countries in the Middle East
"**HMRC**"	HM Revenue & Customs of the UK
"**IFRS**"	International Financial Reporting Standards, a body of standards adopted by the International Accounting Standards Board
"**Internal Revenue Code**"	the US Internal Revenue Code of 1986
"**IRS**"	the US Internal Revenue Service
"**London Stock Exchange**"	London Stock Exchange plc
"**New Common Shares**"	the 6,377,871 new Common Shares proposed to be issued by the Company comprising the Placing Shares, the Director Shares, the Conversion Shares and the Plan Shares
"**Nomination and Governance Committee**"	the nomination and governance committee of the Board which, at the date of this document, comprises Tim Eggar, John Mansfield, Sr. and Dale Threadgill
"**non-affiliate**"	a person who is not an affiliate
"**Numis Securities**"	Numis Securities Limited
"**Officers**"	the officers of the Company from time to time and "**Officer**" shall mean any one of them
"**Official List**"	the official list of the UK Listing Authority
"**offshore transaction**"	an "offshore transaction" as defined in Regulation S

"**Placing**"	the conditional placing of the Placing Shares and the Sale Shares by Numis Securities at the Placing Price pursuant to the Placing Agreement
"**Placing Agreement**"	the conditional agreement dated 29 July 2011 between the Company, the Directors and Numis Securities relating to (amongst other things) the Placing, further details of which are set out in paragraph 12.1 of Part VIII of this document
"**Placing Price**"	210 pence per New Common Share
"**Placing Shares**"	the 5,753,298 new Common Shares proposed to be issued by the Company pursuant to the Placing Agreement, which includes the First Tranche Placing Shares, the Second Tranche Placing Shares and the Third Tranche Placing Shares
"**Plan**"	the 2011 Omnibus Performance Incentive Plan adopted by the Company on 6 June 2011, details of which are set out in paragraph 3.1 of Part VIII of this document
"**Plan Shares**"	the 153,063 new Common Shares to be issued as restricted stock pursuant to the Plan
"**Registrar**"	Capita Registrars (Guernsey) Limited
"**Regulation D**"	Regulation D under the US Securities Act
"**Regulation S**"	Regulation S under the US Securities Act (Rules 901 to 905 and the Preliminary Notes)
"**Rule 144**"	Rule 144 under the US Securities Act
"**Sale Shares**"	the 72,892 existing Common Shares (in aggregate) proposed to be purchased by the Company from the Selling Shareholder pursuant to the Selling Shareholder's Agreement and then placed with investors pursuant to the Placing
"**SDRT**"	stamp duty reserve tax
"**SEC**"	the US Securities and Exchange Commission
"**Second Tranche** Shares) **Placing Shares**"	the 738,000 Placing Shares (not being First Tranche Placing proposed to be issued by the Company to certain VCT investors
"**Selling Shareholder**"	Hal Alper
"**Selling Shareholders Agreement**"	the conditional agreement dated 29 July 2011 between the Company and Mr. Haluk Alper, further details of which are set out in paragraph 12.1 of Part VIII of this document
"**Shareholder**"	a holder of Shares
"**Shares**"	the Common Shares
"**sterling**" or "**£**"	the lawful currency of the UK
"**Third Tranche Placing Shares**"	all Placing Shares other than the First Tranche Placing Shares and the Second Tranche Placing Shares

"**Treasury Regulations**"	the US Treasury Regulations promulgated under the Internal Revenue Code
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UKLA**" or "**UK Listing Authority**"	the United Kingdom Listing Authority, being the FSA acting in its capacity as the competent authority for the purposes of FSMA
"**US**", "**USA**" or "**United States**"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"**US Exchange Act**"	the US Securities Exchange Act of 1934 and the regulations promulgated thereunder
"**US GAAP**"	US Generally Accepted Accounting Principles, used to prepare, present and report financial statements
"**US Securities Act**"	the US Securities Act of 1933 and the regulations promulgated thereunder
"**US Person**"	has the meaning set forth in Regulation S and includes: (i) any natural person resident in the United States; (ii) any partnership or corporation organised or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a US Person; (iv) any trust of which any trustee is a US Person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the United States; and (viii) any partnership or corporation if: (a) organised or incorporated under the laws of any foreign jurisdiction; and (b) formed by a US Person principally for the purpose of investing in securities not registered under the US Securities Act, unless it is organised or incorporated and owned, by accredited investors (as defined in Regulation D) who are not natural persons, estates or trusts
"**VAT**"	Value-Added Tax
"**VCT**"	a Venture Capital Trust for the purposes of Part 6 of the UK Income Tax Act 2007.

GLOSSARY OF TECHNICAL TERMS

"**advanced coalescer units**"	liquid Coalescer or advanced oil water separator incorporated MyCelx cohesion technology for free and finely dispersed oil in water removal
"**compact flotation units**" or "**CFUs**"	flotation unit utilising air bubbles and cyclonic flow dynamics for separation of oil and solids from produced water
"**conversion/cracking process**"	an hydrocarbon production process which converts heavier hydrocarbons to smaller chain or lighter hydrocarbons which become precursors or building blocks for the final product
"**dissolved gas flotation vessel**" or "**DGF**"	flotation unit utilising air bubbles in a saturated solution created with help of vacuum to separate oil and solids from produced water
"**effluent treatment plant**"	a centralised wastewater plant that treats water generated from industry and municipalities
"**E&P**"	exploration and production
"**hydrocarbon**"	oil and petroleum based organic compounds
"**hydrocyclone**"	solids and liquids separation equipment utilising rotary flow of fluid to facilitate separation based on specific gravity difference
"**hydrophobic**"	water repellent
"**induced air flotation vessel**" or "**IAF**"	flotation units which utilise mechanically induced and dispersed air bubbles for separation of oil and solids from water
"**induced gas flotation vessel**" or "**IGF**"	flotation units which utilise mechanically induced and dispersed gas bubbles for separation of oil and solids from water
"**macro porous polymer-barbed hydrocarbon extraction**" or "**MPPE**"	oil water separation units utilising oleophilic polymer bead to extract oil from water
"**oleophilic**"	affinity for oil
"**polisher**" or "**tertiary treatment**"	system or process to handle the trace hydrocarbon contamination coming through the secondary oil water separation processes to enable the achievement of the final discharge standards
"**polymer**"	viscous long chain hydrocarbons with repetitive units in a particular sequence
"**ppm**"	parts per million or milligrams per litre
"**process water**"	water containing oils and hydrocarbons generated as a waste or by-product of a hydrocarbon processing or manufacturing operation
"**produced water**"	water co-produced result of oil and gas production onshore and offshore

"**PWT**"	producted water treatment
"**reverse osmosis**" or "**RO**"	desalination equipment for removal of dissolved salts and solids
"**substrate**"	engineered base or media for further surface modification
"**viscoelastic**"	property of a fluid where the viscosity of fluid increases upon shear
"**water soluble organics**" or "**WSOs**"	hydrocarbons in produced and process water that are dissolved or stably dispersed in water. Examples are benzene, toluene, ethylbenzene and xylenes (**BTEX**); polyaromatic hydrocarbons; organic acids; and dissolved oils.

PLACING STATISTICS

Placing Price per Placing Share	210 pence
Number of Existing Common Shares in issue prior to Admission	6,545,002
Number of Placing Shares	5,753,298
– Number of First Tranche Placing Shares	952,290
– Number of Second Tranche Placing Shares	738,000
– Number of Third Tranche Placing Shares	4,063,008
Number of Sale Shares to be purchased by the Company from the Selling Shareholder and then placed with investors pursuant to the Placing	72,892
Number of New Common Shares to be issued by the Company*	6,377,871
Number of Common Shares in issue immediately following Admission	12,922,873
Number of Placing Shares as a percentage of the Enlarged Share Capital	44.5%
Market capitalisation following the issue of the New Common Shares at the Placing Price	£27,138,033
Estimated gross proceeds of the Placing of the Placing Shares	£12,081,926
Estimated net proceeds of the Placing of the Placing Shares receivable by the Company	£10,220,676
ISIN	USU624551078

*Includes the Director Shares, Conversion Shares and the Plan Shares.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Issue of First Tranche Placing Shares	by 11.59 p.m. on 2 August 2011
Issue of Second Tranche Placing Shares	by 11.59 p.m. on 3 August 2011
Admission and commencement of dealings in the Existing Common Shares and the New Common Shares	8 a.m. on 4 August 2011
Despatch of definitive share certificates in respect of the Placing Shares	By 18 August 2011

Each of the times and dates in the above timetable is indicative only and subject to change. All times are London times unless otherwise stated.

DIRECTORS, SECRETARIES AND ADVISERS

Directors	Tim Eggar *(Non-Executive Chairman)* John Mansfield Sr. *(Non-Executive Vice Chairman)* Haluk Alper *(President and Chief Science Officer)* William Donges *(Non-Executive Director)* Ian Johnson *(Non-Executive Director)* Connie Mixon *(Chief Executive Officer)* David Pattillo *(Chief Financial Officer)* Brian Rochester (*Non-Executive Director)* Dr. Dale Threadgill (*Non-Executive Director)*
Secretary	David Pattillo
Registered Office *(and address for Directors)*	470-B Woods Mill Road Gainesville GA 30501 USA
Website	www.mycelx.com
Nominated Adviser and Broker	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT UK
Auditors	Rushton & Company 726 South Enota Drive, Suite A Gainesville GA 30501 USA
Reporting Accountants	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU UK
UK Solicitors to the Company	Addleshaw Goddard LLP Milton Gate 60 Chiswell Street London EC1Y 4AG UK
US Lawyers to the Company	Sutherland, Asbill & Brennan LLP 999 Peachtree Street, NE Atlanta GA 30309-3996 USA

UK Solicitors to the Nominated Adviser and Broker	Shepherd and Wedderburn LLP Condor House 10 St. Paul's Churchyard London EC4M 8AL UK
Registrars	Capita Registrars (Guernsey) Limited Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH

KEY INFORMATION

This summary highlights information contained elsewhere in this document. This summary does not contain all of the information investors should consider before investing in the Common Shares. The following information is extracted from, and should be read in conjunction with, the full text and contents of this document. Prospective investors should read the whole document and not rely solely on the information contained in this "Key Information" section or any other summarised information in this document. In particular, prospective investors should consider carefully the risk factors set out in Part II of this document.

THE BUSINESS

The Company is a "clean water" IP-driven technology company which provides novel water treatment solutions to the oil and gas, power, marine and heavy manufacturing sectors. The MyCelx solutions are proven to be highly effective, are reasonable in cost to customers and have in recent years been financially profitable for MyCelx. The MyCelx solutions have been installed successfully at the facilities of leading industry operators around the globe. The focus of the Company is now directed at the commercial application of MyCelx solutions in the upstream and downstream oil and gas industry. The MyCelx solutions entail the use of a system (a "coalescer" or a "polisher," or a combination thereof), which the Company sells or rents directly to each customer and which employs consumable filtration media supplied by the Company to the customer on a recurring basis. The system is capable of reducing hydrocarbon contamination to a level of 0 to 10 parts per million ("ppm"). The demand for the Company's technology is shown by its prospect pipeline and the Directors believe the technology is potentially "disruptive" because it is significantly more effective than its existing competition and it satisfies a customer need to produce "clean water" and protect the environment which is increasingly a regulatory and industry priority.

MyCelx has invented a new compound[(1)] which consists of a patented chemical polymer (the MyCelx polymer) which is infused in the consumable media and produces treatment results that compare favourably to existing competition in effectiveness, cost and footprint. The MyCelx polymer and its use are protected by patents and other intellectual property rights. The defining difference of the MyCelx polymer as compared with alternative technologies currently available is that it is capable of permanently, immediately and reliably removing from water free, emulsified and dissolved hydrocarbons upon contact to levels between 0-10ppm. The MyCelx polisher represents a substantial improvement over other so-called "tertiary" systems which typically achieve results between 30 and 50ppm, and with a larger footprint requirement. In summary, the Directors believe that the MyCelx products provide an innovative, cost-effective solution for oil, gas and petrochemical companies to effectively manage both produced water (which is the largest wastestream resulting from the oil and gas production process) and downstream process water (which results from petrochemical and refining operations).

The Company's revenues are based on a combination of upfront sales or rental income for the supply of the MyCelx equipment, plus recurring revenue from subsequent sales of MyCelx consumable filtration media which are used with that equipment. While customer consumption rates may vary based on a number of factors, the consumable filtration media are needed and must be purchased by customers from MyCelx on a recurring basis for so long as they deploy the MyCelx equipment. Annual sales of consumable filtration media may constitute between 35 per cent. and 200 per cent. or more of the original polisher equipment sales.

(1) See the Patent Report, page 2, *et seq*, prepared by Sutherland Asbill & Brennan LLP set out in Part IV of this document.

STRATEGY, MARKETS AND STRENGTHS

MyCelx products serve both the produced water and process water industries. The annual turnover of the produced water industry in 2010 has been estimated at $41 billion by Douglas-Westwood. During oil production an average of 3-10 barrels of hydrocarbon-contaminated water are typically produced for every barrel of oil recovered. Through their ability to reduce hydrocarbon levels in produced water to 0-10ppm reliably, efficiently and at reasonable cost, the MyCelx products enable exploration and production ("**E&P**") companies to meet increasingly stringent environmental requirements regarding the discharge of produced water which are imposed by regulation or adopted by the industry.

Besides produced water resulting from oil and gas production, the Company's products are also used in the process water market. On average 0.9 barrels of process water are created for every barrel of petroleum product produced. MyCelx systems are used in refineries to ensure that process water can be recycled and reused by reverse osmosis systems for refinery processes and cooling and heating systems. Reverse osmosis systems tend to fail when they encounter water with hydrocarbon contamination. Therefore, MyCelx systems perform a process-critical function of reliable hydrocarbon removal to between 0 and 10ppm. The ability to recycle and re-use water is particularly valuable in arid areas such as the Middle East and Australia where water is scarce and highly valuable.

MyCelx's water treatment solutions enable facility operators to meet industry and regulatory standards for discharge. These standards are expected to become stricter and more pervasive as countries and the petrochemical industry respond to environmental concerns while pursuing more challenging types of production. The regulatory considerations have a particularly significant impact on deepwater offshore drilling, for example, where MyCelx products have a major advantage over competing products not only because of performance factors but also because of the MyCelx products' relatively low cost and efficient footprint. According to the Offshore Produced Water Gamechanger Report 2010-2014 conducted by Douglas-Westwood and OTM Consulting, 69 per cent. of respondents cited environmental regulatory factors as the key driver of innovation in the field of produced water management.

The Company has passed the critical stages of research and development, proof of technology and proof of market and early commercialisation, and can now demonstrate successful implementation at a number of prominent projects for leading industry customers.

SELECTED FINANCIAL INFORMATION

The following table sets out key financial information relating to the Company for the three years ended 31 December 2010. The figures have been extracted without material adjustment from the historical financial information on the Company set out in Part VI Section B of this document.

	Years ended 31 December		
	2008	*2009*	*2010*
	$000	*$000*	*$000*
Revenue	2,673	2,562	4,302
Gross profit	1,774	1,551	2,314
Operating income	328	225	389
Income before income taxes	299	208	375
Net income	350	179	339
Total stockholders' equity	479	809	1,148

CURRENT BUSINESS TRENDS AND PROSPECTS

Over the last three financial years, the Company has sold its products primarily in North America, Asia, Australia, Middle East and North Africa ("**MENA**") and Europe. Customers in 2010 were split approximately 50/50 between end-users and intermediaries. End-users include such companies as

BP and Anadarko Petroleum Corporation ("**Anadarko**"). Intermediaries who have bought or quoted MyCelx systems include engineering, procurement and construction ("**EPC**") companies such as Mustang Engineering (which serves Chevron North America) and global water treatment companies.

Until the Company hired an experienced business development manager in June 2010, its sales were achieved primarily through industry referrals and the recognition of its superior technology. Since the time that the MyCelx Clean Water System was introduced in 2002, the Company has attained major commercial milestones:

Year	*Milestone*
2002	Design for the MyCelx Clean Water System introduced
2004	Received Lloyd's Register Certification of MyCelx oil water separation process and equipment for discharge performance
2004-2005	Installation of first MyCelx Clean Water System at BP facility
2005-2007	Received Lloyd's Register Certification for performance of stormwater treatment technology
2007-2008	Installation of first MyCelx Polisher at Anadarko facility in Utah, US natural gas production sites
2008-2009	Installation of MyCelx Clean Water System at Ibn Sina National Methanol Company (a SABIC affiliate), of Al-Jubail Industrial City, Saudi Arabia
2009-2011	Contract execution and installation of MyCelx Polisher at Russian power plant
	Installation of Clean Water System at BP Zhuhai Chemical Co, China
2010	Installation of Mobile MyCelx Polisher at QatarGas II petrochemical facility in Ras Laffan
	MyCelx selected by Chevron to design and deliver a produced water treatment system for Chevron's new "state of the art" Jack/St. Malo floating deepwater production facility in the Gulf of Mexico
	Pilot study in the Gulf of Mexico for Anadarko
2011	Execution of master services agreement with Chevron; purchase by Chevron of MyCelx Polisher for installation on existing platform in Gulf of Mexico
	Rental contract for MyCelx Polisher signed with SABIC affiliate Saudi Kayan

THE PLACING

Numis has conditionally agreed, as agent for the Company, to use its reasonable endeavours to place 5,753,298 new Common Shares at the Placing Price and, to the extent that it does not place such shares, to itself subscribe as principal for such new Common Shares at the Placing Price. The Placing Shares will represent 44.5 per cent. of the Enlarged Share Capital of the Company following Admission and are being placed by Numis with institutional and EIS investors. In addition, the Company has agreed to issue 34,157 new Common Shares (in aggregate) to Tim Eggar and Ian Johnson at a price of 105 pence per share in connection with their appointments to the Board and in accordance with their letters of appointment referred to at paragraphs 8.2(a) and 8.2(e) of Part VIII of this document. In addition, 72,892 Sale Shares are being purchased by the Company from the Selling Shareholder and then placed with investors pursuant to the Placing. The Placing of the Placing Shares will raise approximately £12,081,926 for the Company (and an additional £35,865 will be raised by the issue of the Director Shares) (before commissions and expenses).

The Placing of the Placing Shares will be conducted in three separate tranches over three Business Days to enable the investors in the First Tranche Placing Shares and the Second Tranche Placing Shares to benefit from certain tax reliefs available to VCT and EIS investors.

Further details of the VCT scheme and the EIS regime are set out in paragraph 23 of Part I of this document.

It is intended that the Company will issue the First Tranche Placing Shares to the persons nominated to the Company in accordance with the Placing Agreement with effect from no later than 11.59 p.m. on 2 August 2011, being two days prior to Admission. The issue of the First Tranche Placing Shares will not be conditional on Admission. It is intended that the Company will issue the Second Tranche Placing Shares and the Third Tranche Placing Shares to the persons nominated to the Company in accordance with the Placing Agreement with effect from no later than 11.59 p.m. on 3 August 2011, being one day prior to Admission. The issue of the Second Tranche Placing Shares will not be conditional on Admission. The issue of the Third Tranche Placing Shares will be conditional on Admission.

Investors should be aware of the possibility that as the First Tranche Placing Shares might be issued (or the First Tranche and Second Tranche Placing Shares are issued) and that none of the remaining Placing Shares are issued. Investors should also be aware that Admission might not take place. Consequently, even if the First Tranche Placing Shares (or the First Tranche Placing Shares and the Second Tranche Placing Shares) have been issued, there is no guarantee that the placing of the Second Tranche Placing Shares and/or Third Tranche Placing Shares (as the case may be) will become unconditional. The working capital statement set out in paragraph 13 of Part VIII of this document assumes that all of the Placing Shares are issued and that Admission takes place. If all of the Placing Shares are not issued and Admission does not take place the Company will not be able to implement the strategy and growth plans as outlined in this document.

Further details of the Placing Agreement are set out in paragraph 12.1 of Part VIII of this document.

The Common Shares have not been registered under the US Securities Act of 1933, as amended (the "**US Securities Act**") or any securities laws of any state of the United States (the "**State Acts**") and may not be offered or sold in the United States or to US Persons (other than distributors) unless such shares are registered under the US Securities Act and any applicable State Acts, or an exemption from the registration requirements of the US Securities Act and any applicable State Acts is available. Hedging transactions involving the Common Shares may not be conducted unless in compliance with the US Securities Act.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company has experienced early success with global oil and gas companies as well as petrochemical processors and refiners and is now focusing on accelerating its growth by securing the capital necessary to:

- establish a global presence strategy;
- fund sales and engineering strategically around the globe to address existing and growing pipeline;
- undertake a global marketing initiative to establish a more visible presence in key markets around the globe;
- expand the equipment rental programme;

- expand manufacturing plant and equipment to upgrade the consumable manufacturing programme;
- fund research & development of new MyCelx applications;
- repay a bank loan of $0.4 million; and
- fund accounts receivable and inventory.

PART I

INFORMATION ON THE COMPANY AND THE PLACING

1. INTRODUCTION

The Company is a "clean water" IP-driven technology company which provides novel water treatment solutions to the oil, gas, and petrochemical industry, as well as power, marine and heavy manufacturing sectors. The Company is currently focused on pursuing commercial opportunities present in the produced water and process water treatment sub-sector of the oil, gas and petrochemical service industries. The Company's business model is centred on an innovative solution that combines equipment supplied by MyCelx (a "coalescer," a "polisher," or a combination of the two) with the use of consumable filtration media supplied by MyCelx which must be replaced on a recurring basis. This consumable filtration media is infused with the patented MyCelx polymer which is a new compound invented by the Company's chief science officer. The Company's business thus combines the exclusivity of an IP-based solution with long-term recurring revenue, analogous to a "subscription" or "razorblade" business model.

The distinguishing feature of the MyCelx solutions is the use and operation of consumable filtration media which is infused with the patented MyCelx polymer. Owing to the chemical properties described in section 5 of this Part I, the consumable filtration media is able to permanently, immediately and reliably remove free, emulsified and dissolved hydrocarbons upon contact, to produce water with hydrocarbon levels between 0-10ppm. Alternative technologies are unable to permanently remove hydrocarbons and can often suffer from desorption of previously removed hydrocarbons. The Directors believe the technology is potentially "disruptive" because it is significantly more effective than its existing competition and it satisfies a customer need to produce "clean water" and protect the environment which is increasingly a regulatory and industry priority.

The Company's customers include global oil and gas companies as well as petrochemical processors and refiners. Over the last three years, the Company has sold its products in North America, Asia, Australia, Middle East and North Africa and Europe. Customers in 2010 were split approximately half as to end-users, such as BP and Anadarko Petroleum, and half intermediaries, such as global water treatment companies and Mustang Engineering (an EPC company serving Chevron North America).

The Company is the owner, manufacturer and master distributor of the patented MyCelx solutions, including the consumable filtration media. The Company's products are protected by a portfolio of patents and other intellectual property, which have been improved and extended to new uses so as to cover all major lines of business of the Company. While the patent for the Company's original polymer composition expires in 2013, the solutions offered by the Company are protected or covered by later-expiring patents as well as by proprietary know-how which is separate from the scope of the patents. The Company's patent portfolio includes filtration products for removal of organic compounds expiring in 2025, filtration products for storm water, bilge water and produced water expiring in 2025 and systems for the protection of reverse osmosis membranes expiring in 2025.

The Company has experienced early success with global oil and gas companies as well as petrochemical processors and refiners and is now focusing on accelerating its growth by securing the capital necessary to:

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- expand the equipment rental programme;
- expand manufacturing plant and equipment to upgrade the consumable manufacturing programme;
- fund research & development of new MyCelx applications;
- repay a bank loan of $0.4 million; and
- fund accounts receivable and inventory.

2. BACKGROUND AND HISTORY

In the wake of the 1989 Exxon Valdez disaster, MyCelx co-founder Haluk (Hal) Alper engaged in basic research and discovery leading to the invention of an earlier version of the polymer that is central to the current MyCelx products. Initially, the business intended for the new invention was open water spill products.

In 1994, Mr. Alper joined with John Mansfield Sr., an experienced oil executive who founded and grew Mansfield Oil, a multibillion dollar US oil distribution business headquartered in Gainesville, Georgia, USA. Together they founded the Company in 1994 to conduct further research and development and test the technology in new markets. Between 1994 and 1996, the Company focused on early versions and applications of the MyCelx polymer for open water oil spills. Early composition of matter patents were issued between 1995 and 1998. The Company obtained a patent for infusing the MyCelx polymer into filtration media in 2001 which is valid until 2019. Additional patents expiring between 2019 and 2025 will continue to protect the use and application of the MyCelx polymer in the core lines of business of the Company after the early patents expire.

In its early history, the Company pursued a business of deploying technical and engineering personnel to provide expert systems in which the MyCelx technology was customised and adapted to numerous purposes. The Company's products were successful in engineering and performance terms and it gradually acquired well recognised customers. The Company's first major commercialisation of the product occurred in 2003, and was followed in 2004 with Lloyd's Register certification for oil removal performance and the first sale of equipment to BP's "downstream" business. In 2007, the Company made its first "upstream" oil and gas sale to Anadarko Petroleum, one of its largest installations to date. Subsequent major adopters of the MyCelx solution include Saudi Basic Industries Corporation ("**SABIC**") in 2009, and Chevron Corporation ("**Chevron**") and Qatargas in 2010.

In the middle of 2010, the Company intensified its marketing focus by standardising its solutions and focusing on larger revenue targets in the oil and gas industry. With limited staff and funding, during the last 12 months, the Company has been successful in increasing its pipeline, both in terms of in number of projects and potential value per project. For further details refer to section 9 of this Part I below. Three recent major contracts wins (two with Chevron in the Gulf of Mexico and one with SABIC affiliate Saudi Kayan in Saudi Arabia) are evidence of the success of this strategy. The Company is poised to capitalise on this rapidly expanding prospect pipeline and focused marketing plan.

Year	*Milestone*
2002	Design for the MyCelx Clean Water System introduced
2004	Received Lloyd's Register Certification of MyCelx oil water separation process and equipment for discharge performance
2004-2005	Installation of first MyCelx Clean Water System at BP facility
2005-2007	Received Lloyd's Register Certification for performance of stormwater treatment technology

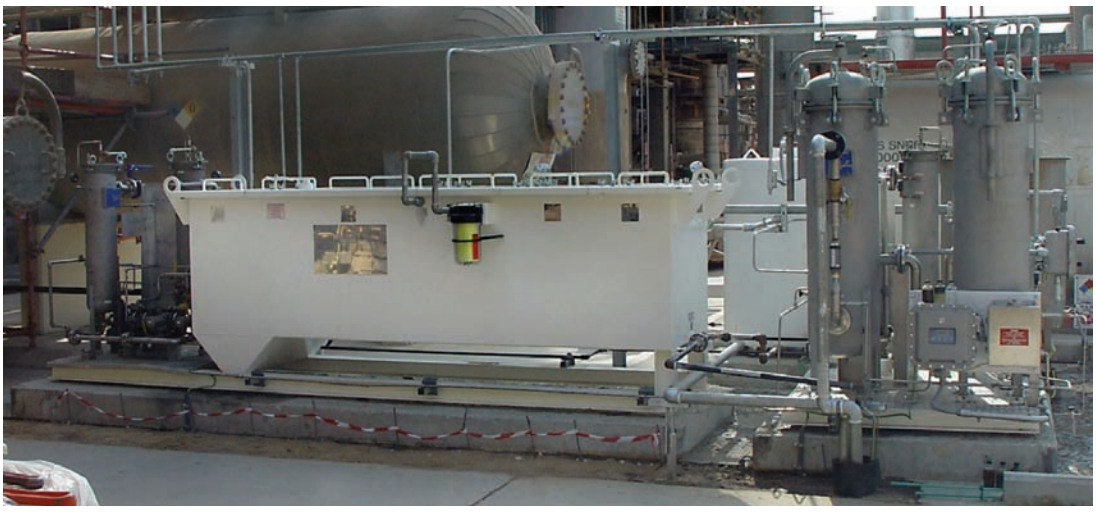
Year	*Milestone*
2007-2008	Installation of first MyCelx Polisher at Anadarko facility in Utah, US natural gas production sites
2008-2009	Installation of MyCelx Clean Water System at Ibn Sina National Methanol Company (a SABIC affiliate), of Al-Jubail Industrial City, Saudi Arabia
2009-2011	Contract execution and installation of MyCelx Polisher at Russian power plant
	Installation of Clean Water System at BP Zhuhai Chemical Co, China
2010	Installation of Mobile MyCelx Polisher at QatarGas II petrochemical facility in Ras Laffan
	MyCelx selected by Chevron to design and deliver a produced water treatment system for Chevron's new "state of the art" Jack/St. Malo floating deepwater production facility in the Gulf of Mexico
	Pilot study in the Gulf of Mexico for Anadarko
2011	Execution of master services agreement with Chevron; purchase by Chevron of MyCelx Polisher for installation on existing platform in Gulf of Mexico
	Rental contract for MyCelx Polisher signed with SABIC affiliate Saudi Kayan

3. MYCELX SOLUTIONS

Each version of the MyCelx solution consists of system equipment that is supplied by the Company, which may be a "coalescer," a "polisher" or a combination of the two. When fitted with consumable MyCelx polymer-infused media substrate, the equipment operates to separate hydrocarbons, such as oil, from water. The MyCelx consumable filtration media must be replaced on a recurring basis, the frequency of which depends on the type and use of the system and, more particularly, the volume and composition of the hydrocarbons present in the produced water or process water requiring treatment.

The combination of the MyCelx system consists of a "coalescer," followed by a "polisher" and is branded "MyCelx Clean Water System." The hardware is designed by the Company and manufactured under contract for the Company.

- **The MyCelx Coalescer**



MyCelx Clean Water System at SABIC petrochemical facility (Coalescer shown in centre)

The MyCelx Coalescer is proprietary equipment, using MyCelx consumable filtration media, that improves the water treatment process by controlling the amount of hydrocarbon contamination entering the polisher. The Coalescer uses the MyCelx substrate to agglomerate (or "coalesce") small oil droplets to form larger droplets, making them more buoyant and easier to separate from the water. The unit is capable of removing 98 per cent. pure oil from water during the separation process. The extracted oil can in some cases be re-used in the plant as a source of energy.

- **The MyCelx Polisher**

MyCelx Polisher at Qatargas in Ras Laffan

The MyCelx Polisher is proprietary equipment consisting of three vessels (or a multiple of three), each of which houses a different type or formulation of MyCelx consumable filtration media installed in the final stage of the water treatment process. The MyCelx Polisher does not require pumps or electricity, nor does it produce sludge waste. It can be installed in new facilities or used as a "bolt-on" (i.e., a retrofitted addition) in existing water treatment systems to improve water treatment performance or address sudden discharge problems. The MyCelx Polisher occupies the smallest footprint and has the lowest weight of any competing technology currently available.[1] The Directors believe that this offers competitive advantages in situations where space and weight are constrained, such as on an offshore oil rig.

(1) Please see page 14 of the Douglas Westwood report.

Three stage MyCelx Polisher

While a majority of the existing installations of the Company's solutions are Polishers, the current pipeline is evenly divided between projects involving the MyCelx Polisher and projects involving a combination of the MyCelx Coalescer and the MyCelx Polisher.

Consumable Filtration Media

The defining characteristic of the MyCelx filtration media is that it is capable of permanently, immediately and reliably removing hydrocarbons from water to reduce hydrocarbon levels to between 0-10ppm.

MyCelx filters within single vessel of the MyCelx Polisher and MyCelx Polisher being loaded with MyCelx filters on site

With any MyCelx solution a customer purchases and uses different formulations and types of MyCelx consumable filtration media, all of which consist of filters or filtration material

infused with the patented MyCelx polymer. Types of media sold by the Company include: (i) the hydrocarbon removal matrix (or "**HRM filter**") which is the basic filter technology; and (ii) the emulsion breaker (or "**EB filter**") for removal of emulsified oils and emulsion breaker 3.0 for the most difficult hydrocarbons. These products are employed in both the MyCelx Coalescer and the MyCelx Polisher.

In addition the Company has in the past developed other filtration materials which operate independently of coalescers and polishers such as the Snippet product and PermaKleen product, which can be deployed to remove bulk oils in certain installations. For specialised uses Versimat (used to clean up oil spills), Skimmer Socks (which are used to clean water in swimming pools and spas) and OilArrest air filters (used for removal of oil mist in plant air) will continue to be available from the Company.

Certification

MyCelx technology has been recognised to meet low hydrocarbon contamination by several regulatory authorities and classification societies.

- **IMO MEPC 107(49) compliant**

  MyCelx solutions have been tested and approved by the US Coast Guard as meeting the requirements set out by the International Maritime Organisation's ("IMO") Resolution MEPC.107 (49). This IMO resolution, which was adopted in July 2003, requires that ships should only discharge water that meets a 15ppm or better contamination standard. Notably, the current resolution requires the removal of not only free oil as the previous regulation IMO MEPC 60 (33) stipulated, but was extended to include emulsified oils. This new requirement has reduced the number of separators that shipping companies can choose from. This certification encompasses testing and approval to regulatory standards of the IMO which is required for worldwide use in the shipping industry.

- **ISO 9001:2000**

  In July 2008, MyCelx received a Management System Certificate from Det Norske Veritas and the ANSI-ASQ National Accreditation Board (ANAB) acknowledging that it conformed with ISO 9001:2000 in the manufacture of filtration products to separate oil from water and air. MyCelx has been awarded this ISO 9001:2000 certification and the subsequent ISO 9001:2008 certification which replaced it, because it has demonstrated that its facility and production process ensures its ability to consistently provide a product that meets applicable regulatory requirements and quality control standards.

- **Lloyd's Register**

  MyCelx is certified by Lloyd's Register to achieve hydrocarbon removal from bilgewater to less than 5ppm oil-in-water discharge. In addition, MyCelx's PermaKleen product achieved 99.9 per cent. removal of total petroleum hydrocarbons in tests, which have been certified by Lloyd's Register.

4. STRATEGIC ALIGNMENT OF THE MYCELX TECHNOLOGY WITH E&P SECTOR TRENDS

Compliance with increasingly strict produced water treatment ("PWT") discharge regulations

Regulatory requirements concerning discharge levels of hydrocarbons in water released into the environment are becoming increasingly stringent across the globe. According to the Offshore Produced Water Game-changer Report 2010-14 conducted by Douglas-Westwood and OTM Consulting, 69 per cent. of respondents cited environmental regulatory factors as the key driver of innovation in the field of water management. In the wake of the BP Macondo spill in the Gulf of Mexico in 2010, hydrocarbon pollution of the environment is the subject of increased public awareness, and government regulators and industry are focusing on more effective ways to monitor

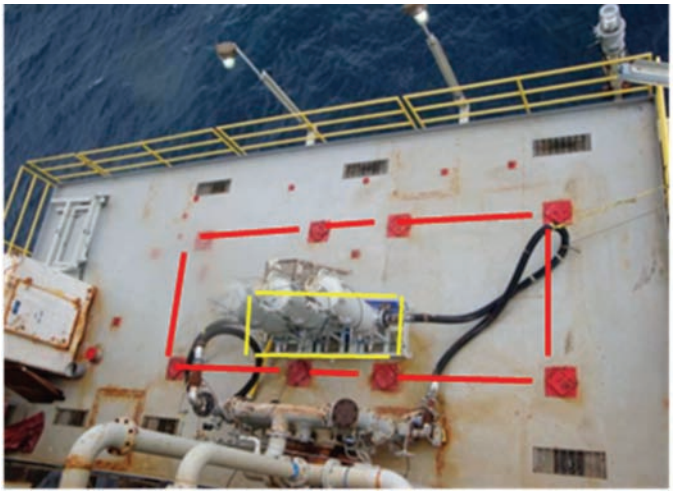
and reduce that pollution. In response to this trend, E&P companies in the Gulf of Mexico have publicly stated their aspirations to achieve lower than regulation levels of hydrocarbon content in discharged waters. Similar responses from E&P companies have been witnessed elsewhere.

The Directors believe that MyCelx products are able to ensure that E&P companies will consistently meet not only current regulatory requirements but also meet any currently anticipated future regulations and current aspirations of certain leading E&P companies, because the technology is capable of reducing hydrocarbon levels in produced water to between 0-10ppm.

Recognition by leading E&P companies of MyCelx's superior PWT capability can be seen from MyCelx polisher units being added as "bolt-ons" to existing treatment trains (i.e., as a retrofit addition) where alternative technologies have failed to meet regulatory standards or end-user requirements.

Smaller footprint and lower weight

The cohesive properties exhibited by the MyCelx polymer underlie the ability of MyCelx solutions to operate at a competitive advantage to alternative incumbent technologies in terms of equipment footprint and weight. Cohesion is not subject to water absorption or desorption, and the cohesive phenomenon is not limited by the available surface area of the consumable filtration media, as is the case with adsorbent technology. As a result, MyCelx consumer filtration media bind a quantity of oil up to six times the weight of the MyCelx media, without becoming water-logged. By way of comparison, some organoclay technologies may absorb up to 88 per cent. of their own weight in hydrocarbons or 100 per cent. by volume. Retention of water by alternative technologies can lead to such equipment becoming heavy and inefficient. The greater effectiveness of the MyCelx polymer with regard to the amount of media required and the fact that it does not suffer from water-logging, means that equipment tends to be smaller in footprint size and weight. This can be seen in the photograph below where the MyCelx Polisher occupies one sixth of the footprint that was taken up by the prior adsorbent technology. On offshore oil rigs where platform space and weight may be key considerations for rig managers and designers, the lighter and smaller MyCelx equipment presents an attractive alternative to incumbent technologies.



MyCelx footprint on an Offshore Oil Rig Platform

Space is critical: MyCelx oil removal technology footprint for offshore produced water is significantly smaller than its competition. In this picture, the MyCelx Polisher for the final stage of produced water treatment is within the yellow oval, while the red outline is the footprint for the activated carbon system prior to the MyCelx installation The MyCelx footprint is 1/6th the size of the prior system.

Particular applicability to PWT from deepwater offshore drilling

In deepwater production, produced water has a high concentration of water soluble organics (WSOs), which are hydrocarbon particles that are dissolved, rather than suspended, in water. Due to their size, WSOs are not always removed by traditional treatment methods and therefore the hydrocarbon content of the water after the filtration process can be significantly higher than regulations permit. Currently, chemicals (acids) represent the primary means of removing WSOs from produced water. Large quantities of acids are required to remove WSOs, which can cause piping to corrode. Levels of WSOs in the Gulf of Mexico's produced waters are especially high according to tests conducted at newer deepwater production facilities. The Directors believe that high capacity platforms such as may be found in the Gulf of Mexico would benefit from compact, low-cost, efficient treatment processes to comply with current and future water quality regulations because the high volume of oil produces a high volume of water but the platform space and weight capacity available for water treatment is limited.

The Directors believe that MyCelx's ability to treat produced water with WSOs effectively was the reason for the decision of Chevron, the third largest operator in the Gulf of Mexico, to select the Company to design and deliver a produced water treatment system for the new Jack/St. Malo floating production facility in the Gulf of Mexico. The design requirements for the facility specify an overboard discharge limit that is lower than the current average monthly overboard discharge limit set by the US Environment Protection Agency ("**EPA**") of 29ppm. The Directors believe that WSOs contained in offshore produced water have proven difficult for alternative water treatment technologies to remove reliably and/or cost effectively. According to MyCelx's press release which was approved by Chevron, Chevron chose the Company because it is one of the few companies providing technology that can guarantee low levels of oil and grease discharge in a consistent manner through an economically viable process, under conditions that involve very high volumes of production.

5. POLYMER CHARACTERISTICS AND PROPERTIES

Cohesion technology – instantaneous and permanent hydrocarbon removal

Laboratory Demonstration of Oil Cohesion resulting from use of MyCelx polymer

The Company's technology operates on the principle of chemical cohesion. Once a hydrocarbon particle has come into contact with the media the cohesive property of the media is transferred to the particle so that it in turn can attract other hydrocarbon particles. The cohesive properties of the MyCelx polymer enable the consumable filtration media to remove hydrocarbons from water instantaneously and permanently upon contact. This phenomenon is the defining difference between alternative oil removal solutions which rely on some combination of mechanical or gravity separation or absorption or adsorption techniques.

With the MyCelx technology, the cohesive properties of the media continue after the surface area of the media is contacted and coated by hydrocarbons. As long as pollutant oils are present, the cohesion phenomenon can continue to attract oil and permanently bind hydrocarbons of up to six times the weight of the media before the occurrence of "breakthrough". Breakthrough occurs when hydrocarbons escape or leach from a filter. Once hydrocarbons have been extracted from produced water, the attractive force of the cohesion results in permanent removal of the hydrocarbons.

Hydrophobic (water repellent)

The MyCelx polymer exhibits hydrophobic properties, which means that the polymer repels water. Thus, the MyCelx polymer-infused filtration media repels water and will not become waterlogged, regardless of the length of time that the media is in contact with or submerged in water. This feature also enables the media to be consumed only by oil and other contaminants. Because the filter does not retain water, it retains only the hydrocarbon contamination, giving the filter in use less weight and mass in comparison to alternative technologies that become saturated with water.

Viscoelastic (allows low pressure drop)

The MyCelx polymer also exhibits viscoelastic properties, which means that oil and hydrocarbons that come into contact with MyCelx-infused media densify as water sheers through the filtration media. These properties are responsible for ensuring that there is minimal pressure drop across the filtration media, a key failing of certain alternative technologies.

No waste by-products from polymer manufacture

The MyCelx polymer is synthesised from naturally occurring oils under certain laboratory conditions with 100 per cent. conversion of the raw material components into the polymer, resulting in no waste by-products from the MyCelx manufacturing process.

Alternative technologies

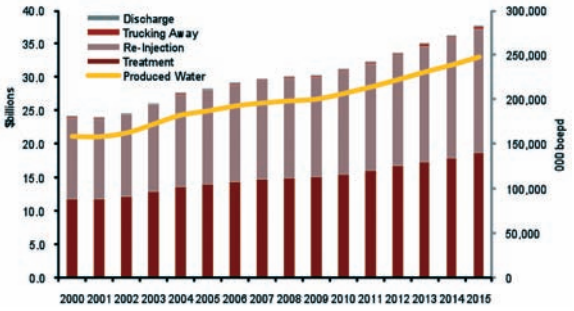
Alternative commercial technologies tend merely to be refinements of three relatively dated technologies that do not exhibit cohesion, water repellent properties, or densification. These are generally: (i) gravity or mechanical separation; (ii) adsorbents; and (iii) absorbents (or a combination of the above).

6. KEY MARKETS AND MYCELX SOLUTIONS: PRODUCED WATER (UPSTREAM) AND PROCESS WATER (DOWNSTREAM)

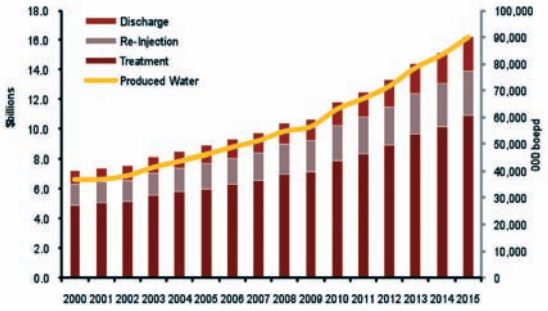
Produced water

Produced water is water from underground formations that is brought to the surface during oil and gas production. As produced water has been in contact with hydrocarbon-bearing formations, it contains free and dissolved hydrocarbons and other WSOs and therefore must be treated before it is disposed of in order to meet regulatory requirements. Produced water is the largest by-product or wastestream produced during hydrocarbon recovery by E&P companies. For every barrel of oil produced, it is estimated that between 3 and 10 barrels of hydrocarbon-contaminated water are produced. US wells, which are typically further in their production lifespan than the global average, have been reported to produce up to 9 barrels of water for each barrel of oil produced onshore, or an average "water cut" of 90 per cent. For oil wells in the US nearing the end of their

production lifespan, water can comprise as much as 98 per cent. of lifted flow. According to Douglas-Westwood, an independent energy consultancy, the global market for PWT in 2010 was estimated at $41 billion, and is currently forecast to grow annually at 4.6 per cent., reaching $54 billion by 2015. These figures are based on certain assumptions. You are referred to the Douglas-Westwood report in Part III of this document. A key component of this growth will be the expansion of deepwater oil production to meet increasing global carbon fuel demands.



Global: Onshore Produced Water Expenditure 2000-2015



Global: Offshore Produced Water Expenditure 2000-2015

Source: Douglas-Westwood

Treating produced water reduces the profitability of virtually all oil wells, especially in mature oil fields with high water cuts, which now contribute around 70 per cent. of global oil production. The cost of this treatment represents a key economic factor in determining the ongoing operation of oil wells: when the cost of treating the volume of produced water from the well exceeds the economic benefit of the oil produced, the well will typically be shut down. The Directors believe that the Company's PWT technology is more cost-efficient than alternative technologies and potentially offers hydrocarbon producers the opportunity to extend the life of their maturing wells and thereby enhance their recovery rates.

As E&P companies move towards deepwater offshore production to meet increasing global hydrocarbon demand, specific issues related to that form of hydrocarbon production will affect the PWT market. The Directors believe that the MyCelx technology is one of the few technologies that can cost-effectively solve the WSO issue presented by deepwater offshore production.

Produced water typically undergoes four treatment stages, each of which reduces the level of hydrocarbon contamination by an order of magnitude. The **primary** treatment typically reduces hydrocarbons from the thousands to the hundreds of ppm. **Secondary** treatment will then typically reduce levels to between 50 and 200ppm. **Tertiary** treatment, also known as "polishing", will typically reduce levels to below 50ppm. Douglas-Westwood has described a conceptual fourth treatment stage in order to cater for the additional capabilities offered by the MyCelx solution. The fourth treatment stage arises when the tertiary stage fails to deliver an effluent water that complies with local discharge standards; this **quaternary** stage can reduce hydrocarbon contamination from 0-10ppm.

MyCelx Solutions (Upstream) for Produced Water

The MyCelx Coalescer and the MyCelx Polisher are both solutions for the produced water treatment train.

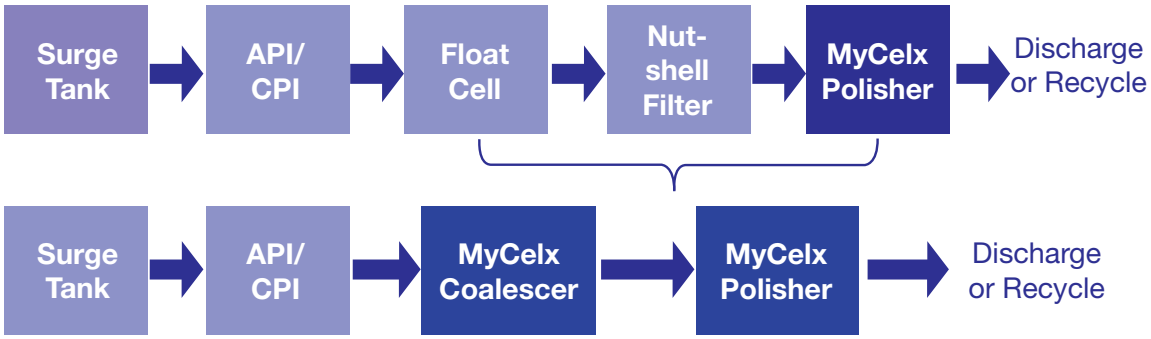
MyCelx Polishers are used in the **tertiary** treatment stage for produced water treatment. To date, the Company has primarily sold MyCelx Polishers as a final stage water treatment (tertiary or quaternary) product to E&P operators and EPC companies for installation as either a retro-fit or on a stand-alone basis to act as a failsafe to ensure compliance with regulatory discharge water hydrocarbon levels. In these instances MyCelx Polishers function as a final water treatment solution

that not only ensures regulatory compliance but also removes oil and emulsified WSOs which may remain in produced water after conventional tertiary treatment methods.

MyCelx Coalescers fulfil a secondary/tertiary treatment function, reducing hydrocarbon content of the produced water by agglomerating smaller droplets or emulsified oils into larger droplets for separation. The MyCelx Coalescer forms part of a combination package along with a MyCelx Polisher, which MyCelx now sells under the brand of the "MyCelx Clean Water System".

MyCelx products can streamline the produced water treatment train:

MyCelx Polisher used as Conventional Polishing Unit



MyCelx Coalescer/Polisher as Secondary/Tertiary Treatment

Source: Company presentation

In some cases, onshore oil and gas production operators will choose to recycle or re-use the produced water generated by their facilities and will subject the effluent water to a reverse osmosis ("**RO**") process. This recycling and re-use of water is more common in the downstream oil and gas industry but the same issues apply – namely if there are still sufficient hydrocarbon traces left in the produced water prior to it reaching an RO system, then the system will fail. According to Douglas-Westwood, MyCelx Polishers are currently the only non-chemical solution now existing capable of achieving the low hydrocarbon levels required for the proper functioning of RO systems.

Process water

Process water is produced in the conversion/cracking process undertaken at refineries and petrochemical plants. Refineries and other petrochemical plants use substantial volumes of water for processing, cooling and heat. Many of the processes applied to the crude oil generate process water which downstream operators seek to recycle and re-use. To clean the process water of contaminants that can damage industrial systems, a conventional method of treating downstream water is RO, which is estimated to be used in 65 per cent. of the world's refineries.

In 2010, it is estimated that 74 million barrels per day of petroleum products were produced by the world's 700 refineries. A typical refinery uses 0.9 barrels of water for every barrel of petroleum products produced. Any hydrocarbon content in water can cause industrial systems to shut down. Permanent removal of hydrocarbons to levels necessary for the proper functioning of RO systems is therefore crucial to downstream facilities.

MyCelx Solutions (Downstream) for Process Water

The Company sells the MyCelx solutions to treat process water that is necessary for key functions in the petrochemical and refining industry worldwide. According to Douglas-Westwood, the MyCelx solution is the only technology capable of removing hydrocarbons without chemicals to levels required for the proper functioning of RO systems. Alternative technologies involve the use of

chemicals which need to be extracted after the removal of the hydrocarbons as they can damage the RO system membranes.

Petrochemical plants utilise large volumes of water on a daily basis. One of MyCelx's clients in the Middle East, which the Directors' believe to be typical of petrochemical plants in the region, reports that approximately 120 cubic metres of process water must be treated each hour.

An advantage of the MyCelx solution for process water is that its small footprint allows a customer to place a unit directly at the source of contamination of the water stream and provide a "point source" solution before the contaminated water enters or is merged with further waterstreams.

The Company has sold the MyCelx Clean Water System to treat process water at the point source at a SABIC (Ibn Sina) MTBE (Methyl tert-butyl ether) petrochemical plant located in Al Jubail City, KSA. The solution provided to SABIC by MyCelx included a backwashable strainer, 5-stage MyCelx Coalescer, a MyCelx Polisher, and an inline oil content monitor. The system effectively handles the facility's process water from the indicated source of contamination, reducing oil concentration levels to less than 1ppm. It is pure enough to be re-used by the operators. Based on its installation and use of the MyCelx solution as a point service solution for water treatment, SABIC and the Company received a Sustainable Technology Innovation of the Year nomination for the 2010 Platt's Global Energy Awards.

MyCelx solutions have also been sold to Qatargas for installation in Ras Laffan and a major US refinery located in Illinois as a bolt-on (i.e., retrofit) solution to ensure the smooth operation of RO systems. MyCelx's bolt-on systems have several key strengths as a solution to RO system performance limitations: (i) they can easily be retrofitted into existing RO systems; (ii) they are skid-mounted and occupy a small footprint; (iii) they do not require the use of additional chemicals to remove hydrocarbons, which reduces the overall treatment cost as no chemicals need to be removed prior to RO; and (iv) they reliably remove oil to levels below 1ppm and thus reduce the rate of membrane degradation and hence maintenance and replacement costs.

Further details on the produced and processed water treatment industry, competitor technologies and MyCelx's comparative position can be found in the report titled *Market Assessment for Oil & Gas Produced and Waste Water Treatment* prepared by Douglas-Westwood for the Company and set out in section Part III of this document.

Other industries

The Company has developed and sold applications of its MyCelx solution for other industries, including power and utilities, commercial marine, heavy industry and manufacturing and storm water sectors which it plans to continue to offer in the future.

The Company provides water treatment technology to the United States Army Corp of Engineers which is responsible for the construction and maintenance of hydroelectric dams in the United States. The installed projects include the Bonneville Dam, Dalles Lock and Dam and the Grand Coulee Dam. In 2010, MyCelx was also contracted by a global EPC contractor for the power industry to provide the final water treatment for a new power plant in Russia.

The Company sells commercial marine bilgewater treatment systems under the trademark brand BilgeKleen™. The BilgeKleen™ systems are sold to major shipping companies such as Wilhelmsen Ships Services, as well as the United States Coast Guard, United States National Oceanic and Atmospheric Association vessels, United States Navy, the Province of Quebec for the government-operated high speed ferries and vessels servicing the extremely environmentally-sensitive Galapagos Islands. Of note, MyCelx's bilgewater systems are certified by Lloyd's Register for performance standards of less than 5ppm oil-in-water discharge as well as holding the International Maritime Organization ("**IMO**") 107 (49) certification. This certification encompasses testing and approval to regulatory standards of the IMO which is required for worldwide use in the shipping industry.

Storm water discharge regulations continue to evolve, particularly in the United States. The Company has installed two large storm water treatment systems at a global oil refining company to handle flow equivalent to a 100-year storm event or 8,500 gallons per minute, as well as the storm water treatment systems for Constitution Square in Washington, DC and for an international automobile manufacturing plant. The MyCelx product sold into this market is branded "StormPure™". The StormPure™ product has been performance certified by Lloyd's Register for removal of oil and other contaminants in storm water, enabling safe and reliable discharge.

The Company's industrial air purification products are sold under the brand name of "OilArrest™". Products in this range have been sold to an international automobile manufacturer to remove oil mist in plant air and to protect plant equipment from oil contaminate degradation. They have also been sold to a metal fabrication plant and to precision instrument manufacturers, as well as to a national archives building requiring clean air for the protection of manuscripts. The Company purchases readily available, standard size industrial air filters and treats the filters with the MyCelx polymer. The standard sizing allows end users to replace existing air filters with MyCelx OilArrest™ filters with no alteration or change to the air handling systems or equipment. The Directors believe that the OilArrest™ product line potentially has broad application for hospitals, clean rooms, protection of precision instruments and cabin air.

While the solutions were adopted in the above sectors by recognised industry users, these segments are not the prime focus of the Company at this time. The Directors may decide to increase the Company's focus in these areas at a future time once the Company has rolled out its solutions more broadly in the PWT and process water markets.

7. INDUSTRY COMPETITION

Secondary treatment: alternative technologies

Secondary treatment solutions that are used in onshore and offshore upstream production consist of single or multi-cell induced gas flotation vessel ("**IGF**"), in horizontal or vertical configurations. An alternative onshore technology also exists in the form of a dissolved gas flotation vessel ("**DGF**").

- ***Induced gas flotation vessel/dissolved gas flotation (Mechanical/gravity separation)***

  Flotation technology involves the introduction of gas bubbles into the produced water. As these bubbles rise they lift the oil droplets and solid particles to the surface, eventually reaching the top of the vessel from where they can be skimmed off. IGF and DGF differ in the method of creating the bubbles, but the principle of the technology remains the same. IGFs are typically smaller than DGFs which is why they are preferred on space-constrained offshore platforms. Vertical column flotation units are preferred to horizontal units by offshore operators for the same reason.

  Comparison to MyCelx Solutions

  As with all mechanical/gravity separation technology, IGF, induced air flotation ("**IAF**") and CFUs are limited in the droplet size that they are able to remove from produced water. Therefore, even though IGF, IAF, DGFs and CFUs currently cost approximately twice the price of a MyCelx Coalescer, they are unable to achieve the same level of results as MyCelx with regards to emulsified oils.

  Tertiary treatment: alternative technologies

  Current tertiary treatment options are based on adsorption technology, and therefore suffer from the relatively weak attraction exhibited by the adsorbent in the presence of hydrocarbons. A common adsorbent media for onshore oil and gas is walnut shell media filters, often augmented with acids. Offshore tertiary treatment solutions include carbon or clay media filters, which are also augmented with acids.

- ***Nutshell filters***

  Nutshells, notably walnut shells, have a propensity for hydrocarbon coalescence and filtration and have been in use for the past half century. Usually placed downstream from a hydrocyclone (a type of centrifugal device), walnut shell filters are typically housed in a vessel occupying a large footprint. Free oil and suspended solids are removed as produced water passes through the media bed.

  For more complicated produced waters, including those with WSOs, the MyCelx solutions are more capable of removing smaller micron contaminants than walnut shell filters. At Anadarko Petroleum's Vernal Utah site, a MyCelx Polisher has been installed to follow a nutshell filter because the nutshell filter on its own was unable to produce a 'no visible sheen' discharge.

  A typical MyCelx Polisher occupies one third or less of the space of the footprint of one walnut shell filter.

- ***Activated carbon filtration***

  One of the oldest forms of produced water treatment, activated carbon filtration requires bulky equipment and is prone to inefficiency due to water absorption. As with nutshell filters, carbon filtration technology suffers from the key failing of adsorption technology – affinity of adsorbents for oils and hydrocarbons is weak and they absorb large quantities of water. Adsorbents also tend to desorb and lose effectiveness as they waterlog, requiring large amounts of filtration media to remove a relatively small amount of pollutant. The Directors believe that the use of carbon technology on offshore platforms will be limited in future due to its inability to deal with WSOs.

  MyCelx is able to remove free, dispersed, emulsified and soluble oils up to 0-10ppm, whereas activated carbon is only able to remove emulsified oils.

  MyCelx occupies up to a third of the footprint of an activated carbon filtration unit as demonstrated by the photograph in Part I paragraph 4.

  Combination formats

  Combination formats combine gravity separation, adsorption and coalescence technologies. The multistage adsorption and separation process uses a reusable petroleum adsorbent, which is a polyurethane-based oleophilic, hydrophobic, non-toxic, media coalescing agent. Produced water passes through cartridges containing the adsorbent and hydrocarbons are coalesced into larger oil droplets which float to the top of the device.

  This combination of old technologies has not been able to eliminate any of their respective deficiencies. Although more efficient than carbon or nutshell filters, it remains unable to deal with WSOs, and any hydrocarbons removed are prone to de-sorption during the process.

8. BUSINESS MODEL

The Company's business model is based on the sale and use of a patent-protected solution that combines the sale or rental of MyCelx equipment supplied by the Company (a "coalescer," a "polisher," or a combination of the two) with the subsequent recurring revenue from sales of MyCelx consumable filtration media. First the Company sells its MyCelx systems with consumable filtration media, and thereafter continues to sell consumable filtration media on a long-term, recurring basis. The media must be replaced at regular intervals based on projected change-out or earlier if the treatment train operating ahead of the MyCelx system experiences upset conditions (such as an increase in hydrocarbon discharge) so that the MyCelx media is consumed faster.

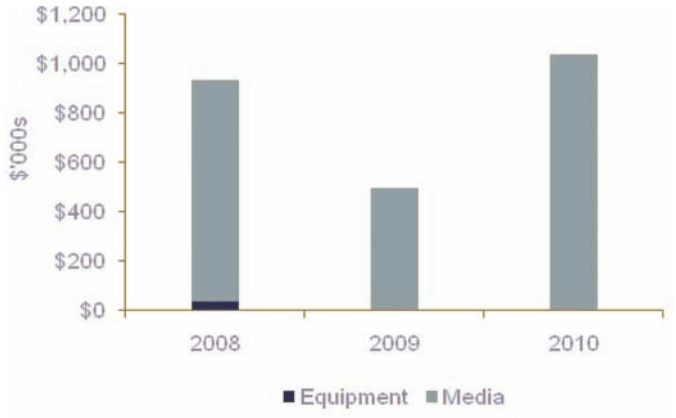
Recurring revenue

While the Company's annual media sales are on average 35 per cent. to 200 per cent. of the original equipment sales, the frequency and amount of the recurring revenue varies according to

such factors as the type of equipment (polisher or coalescer), the use of the equipment (as part of the treatment train, or as a failsafe in case of upset conditions), the volume of produced water or process water requiring treatment, the hydrocarbon content of the produced water or process water (which is in turn dependent on both the nature of the fluid and on the other treatment facilities already in place) and the relevant discharge requirements. The Directors believe its customers have found that the MyCelx solution, combining the initial purchase and the recurring purchase of consumable filtration media, represents a cost-effective solution on an "all-in" basis.

An example of the recurring purchase of consumable filtration media is seen in the graph below which shows the revenue streams from one project for a key customer. It should be noted that this example is no indication of the size of revenue streams that may come from other current or future installations.

Revenue from a major customer for one project



Source: Company presentation

Upset conditions and the failure of upstream equipment results in higher than anticipated media use. The Company's rental programme generates rental income and consumable media sales, utilising primarily polishing systems and allowing rapid deployment for emergency situations. Rental systems are also employed by end-users to evaluate the Company's solution within the plant or production facility before procurement.

The initial sale and implementation

The Company offers standard solutions but also designs and customises its systems to meet the specifications of any customer. MyCelx contracts third-party manufacturers to fabricate its hardware systems. Should the project require custom design, the Company engages engineers who work with the equipment fabricators to design, engineer and build equipment to required specifications.

Typically, the Company works with its customers to prepare an engineering design (mechanical and electrical) for equipment to meet the specifications provided by each customer. The Company has standard equipment models that are available for use, and also has engineering staff who are able to produce a custom design if required by the customer. The Company has arrangements in place with several fabricators who manufacture the Company's equipment. The Company has identified additional fabricators in different parts of the world which are qualified to manufacture the Company's equipment if required. The fabricator is responsible for quality control in connection with its production of equipment. The Company and/or a representative of the customer will participate in factory testing before the equipment is shipped to the customer site. Additional quality control and testing are provided by the Company or the customer at the customer's site in connection with the implementation of the equipment.

The consumable filtration media generally consists of standard filters which the Company can procure from several sources. The Company takes delivery of the standard filters in bulk at the Company's facilities and, using its own staff, infuses and treats the filters with the MyCelx polymer in order to produce the MyCelx consumable filtration media. There are various types and formulations of consumable filtration media that may be produced and sold, depending on the type of application and the nature of the customer's requirements. The MyCelx polymer is produced by the Company.

Rental equipment

The Company may in some instances rent or lease equipment to the end user as a fast-to-market strategy, using the customer's operational expenditure budget to circumvent the capital expenditure budget cycle that can slow the sale process. The nature of water treatment in the oil and gas industry, as well as most other industries, is that upset conditions (i.e., unexpected problems) and process equipment failure are commonplace. When this occurs end users want prompt, effective solutions to avoid slowdown or shutdown of operations. The Company has been successful in providing rental equipment to industry on a limited basis and the Directors believe that the rental model offers opportunities to generate sales for the MyCelx products. It provides a platform for proof of the technology and is an immediate solution that can either remain in service or be removed and replaced with a complete MyCelx system. The Company's intention is to build a rental fleet that will be positioned in strategic areas around the world, such as the Middle East, Australia and Canada, to facilitate rapid installation in response to customer requirements.

9. CURRENT TRADING, PROSPECTS AND PIPELINE PROPOSALS

Over the last three financial years, the Company has sold its products in North America, Asia, Australia, MENA and Europe. Customers in 2010 were split approximately half end-users, such as BP and Anadarko Petroleum, and half intermediaries, such as global water treatment companies and Mustang Engineering (an EPC company serving Chevron North America).

During the financial year ended 31 December 2010, a significant majority of the Company's revenues (72 per cent.) occurred in the Americas. Asia and MENA were the other chief regions of revenue stream, accounting for 15 per cent. and 11 per cent. of the Company's revenues, respectively. The remainder of the Company's revenues (2 per cent.) were achieved from sales in Australia.

The Company's active Prospects for 2011 (i.e. those inquiries that the Company considers have a reasonable chance of migrating to order book status) demonstrate a significant shift towards the MENA region, which the Company expects to comprise 57 per cent. of its annual revenue for that period. By contrast, the Company's dependency on sales in the Americas is expected to fall to 34 per cent. for the same period. The Company expects its remaining revenue to come from Asia, Australia (each accounting for 4 per cent. of revenue) and India (accounting for 1 per cent. of revenue).

Until recently, sales have predominantly resulted from industry referrals and recognition of the Company's technology, rather than substantial active marketing efforts. As a result, sales to date have been relatively limited. Revenues for the year ended 31 December 2010 were $4.3 million, generating a gross profit of $2.31 million and profit after tax of $0.34 million. These revenues consisted principally of sales of MyCelx polishers and related media. The historic gross margins experienced over the last three financial years for equipment have ranged between 41-60 per cent., and 59-71 per cent. on filtration media. In June 2010, the Company initiated more active business development efforts, resulting in an increase in its prospect pipeline. The term "prospects" for these purposes includes initial expressions of interest from potential customers. They are not firm orders, and there is no guarantee that all or any prospects will become orders. The Company's prospects increased from 18 prospects in May 2009 with an average initial purchase order value of $65,777 to 14 prospects in May 2010 with an average initial purchase order value of $421,213 to 52 prospects in May 2011. The four most recent contracts secured by the Company in its key

upstream and downstream markets, from its flagship Jack-St Malo contract win in November 2010, have had an average initial purchase order value of $617,000. The current list of prospects predominantly comprises potential projects with initial purchase order values ranging between $300,000 and $2 million. Having thus proven the solution through early commercialisation efforts and obtained the validation of sales to well recognised customers, the Directors believe that Company should be able to exploit this rapidly expanding prospect pipeline.

The Company's sales cycle is variable and depends on the circumstances of individual clients and their product requests. The sales cycle can range from one month for a rental of a pre-manufacture unit to 18 months for a new build bespoke project.

Prospect pipeline conversions

In the opinion of the Directors, the Company is at too early a stage in the commercialisation of its products for it to have established a consistent rate of conversion of its pipeline projects into revenue to extrapolate into the future. However, over the course of the last 12 months a high percentage of potential sales enquiries received continue to be developed through the sales cycle. It should be noted that the majority of these orders emanate from existing customers (as opposed to being generated by the Company through active marketing efforts). The Directors believe that, with the addition of a sales force and engineers located on the ground in the Company's key target markets, and with the development of the rental model which reduces the initial capital outlay on the part of the customer, the Company will be able to generate a high conversion rate in the future.

10. GROWTH STRATEGY

Oil and gas services

The Company expects sales to the oil and gas industry to continue to be the principal driver of growth and revenues in the future. The growth strategy centres on fulfilling a crucial need in the oil and gas industry for effectively treating water associated with oil and gas production as well as petrochemical and refining processes. According to analysis by Douglas-Westwood, about 85 per cent. of the daily output of water from offshore production (which was 63 million barrels per day in 2010) is discharged and therefore has to be treated. Deepwater offshore production adds further challenges to water treatment. The oil and hydrocarbons found in the deepwater production are more difficult to treat for discharge and represent a particular challenge for the oil companies but present a large opportunity for the Company, since the MyCelx Clean Water Systems are capable of treating the water to exceed worldwide discharge regulations. The Company's growth strategy is to accelerate the penetration of key geographic regions where the Company currently has relationships and installed projects as well as opportunities currently in the sales pipeline.

The Company has installations in the following geographic regions or has relationships and near term proposals to entities in these regions:

- Gulf Cooperation Council (**GCC**) countries in the Middle East;
- Gulf of Mexico and Americas;
- Australia;
- India; and
- Asia.

Given the global applicability of its products, the Company's potential markets are worldwide. However, the Directors are intent on managing the Company's growth trajectory carefully, and in consequence are currently focusing on selective opportunities in the regions described below. The Directors intend to assess further expansion opportunities on their merits.

(i) ***GCC Countries***

The Company currently has two installations in the Middle East. The first installation is at Ibn Sina, a SABIC affiliate, and the other is at Ras Laffan for Qatargas. The Company has recently secured a contract for a third installation with another SABIC affiliate, Saudi Kayan. The Directors believe this displays a potential to sell ongoing products to its previous customers. In the Middle East, water is scarce and water treatment is often expensive, so the Directors believe that the Company has a good opportunity to promote its solutions that enable water to be recycled and re-used or discharged within strict regulations.

For example, Al-Jubail Industrial City I (operated by SABIC and its affiliates) consists of 16 petrochemical plants each with water treatment challenges and high costs of operation due to the volume of water used in their processes.

The Company has spent two years working with SABIC to achieve early adoption and, with the above mentioned projects, the Directors believe the current circumstances represent the right time to scale up and add professionals to service its potential client base in the region, assist in seeking to close outstanding proposals, train technicians on the MyCelx systems and technology and aim to identify all MyCelx opportunities within the region. The proposed new hires will consist of sales management, engineering, and technicians in Al Jubail City and Dubai. The Company expects to continue to partner with global water companies when appropriate to engineer complementary equipment solutions. The Directors believe that adding professionals in the region will greatly enhance the closure rate as well as give the Company the ability to respond quickly to enquiry, especially the urgent applications where a rental unit positioned in-country could be deployed rapidly.

(ii) ***Gulf of Mexico and the Americas***

Building on the success in onshore installations with Anadarko Petroleum in Utah, the Company has achieved a level of acceptance with Chevron in the Gulf of Mexico that has resulted in additional contracts for offshore platforms. Notable is the agreement for MyCelx to design and deliver a produced water treatment system for Chevron's new state of the art platform, Jack/St. Malo. MyCelx Clean Water Systems will be the fail-safe equipment to ensure compliance with the discharge regulations in the Gulf of Mexico and no sheen at discharge. Additionally, MyCelx has successfully completed final stage trials with a major US independent producer and awaits a final contract decision.

Highlighting the success in the Gulf of Mexico, the Company recently received a *Spotlight on New Technology* Award at the 2011 Offshore Technology Conference in Houston, Texas for the MyCelx Clean Water System. The award is given in recognition of proven technology that has important and broad interest in the oil and gas industry.

The US Rocky Mountains region, where the Company has installations treating water from conventional gas production, is another area of focus. The Company has several installations in Vernal, Utah for Anadarko Petroleum, in Wyoming for Red Desert and in Colorado for EnCana Corporation and The Williams Companies Inc. This region has stringent discharge regulations and is closely monitored by the individual states and the US EPA.

Two geographic areas in which the Company is engaged and is in the early stages of trials are Canada, the Alberta oil sands in particular, and Marcellus Shale in the north eastern United States. Both of these areas can be characterised as early stage for almost all participants because the environmental regulations are under development and, in the case of Marcellus Shale, subject to public debate. The Directors believe that, with concerted effort and manpower, both of these regions are potential growth areas for the Company given the need for low-level oil removal. The Company's engineering group is currently engaged in setting up trials with a major Canadian gas producer in conjunction with a global water treatment company. Additionally, the Company is working in partnership with Texas A&M

University in Marcellus Shale to design the system to manage components of the produced water found in that region.

In order to further the Company's success in the Gulf of Mexico, and the US Rocky Mountains geographic areas, as well as open the market in South America, the Company currently plans to open an office in Houston, Texas with a warehouse/office combination in Galveston, Texas to store rental equipment. This will enable the Company to seek to expand on present successes with the super major and major independent oil companies, as well as to provide the manpower to pursue opportunities in South America.

The Company currently employs a sales manager in New York State who is responsible for development of the Canadian and North East US market. The Company expects to have a dedicated sales representative and warehouse for Marcellus Shale to cover companies producing specifically in the Pennsylvania and New York region, assuming environmental regulations are adopted.

(iii) ***Australia***

The Company has had a distributor in western Australia for seven years. The distributor has dedicated many years to working with large global oil companies interested in MyCelx systems to treat offshore produced water and developing relationships in the metal fabrication and mining industry. The Company and the distributor performed equipment demonstrations in March 2011. The success illustrates how demonstrations of the Company's technology have accelerated the evaluation and adoption process resulting in greater prospects within the offshore oil and gas sector. Subsequently, the team is expanding the technology's capability with short term trials scheduled within the mining industry.

(iv) ***India***

The Company has begun promoting the technology to the largest oil and gas producers and EPC companies in India. Producers there are instituting strict water quality standards for the recycling and re-use of water in environmentally sensitive areas. The Company is demonstrating significant cost effective solutions and using a replacement technology for traditional solutions in effluent treatment plants. Downstream operations are currently evaluating the Company's technology in on-going trials for RO protection within the refinery/petrochemical gate.

(v) ***Asia***

Enquiries received and research conducted by the Company indicate that there are significant opportunities in both upstream and downstream applications relating to difficult to treat water due to high oily water emulsions. The Company is current testing various water samples from the region as an initial step in engineering the appropriate cost effective solution. Initial enquiry has come from Indonesia, Malaysia and Vietnam.

11. PATENT SUMMARY

The Company's technology is protected through a combination of patents and trade secrets. To date, there are a total of four MyCelx issued patent families (Families 1-4), with three additional patent families pending (Families 5-7). While the earliest US expiration date is for the first and second family of patents, which will reach maturity in June 2013 (2019 in non-US countries), subsequent families of patents have US expiration dates ranging from April 2023 to July 2025. The latest technology filtration devices that include improved MyCelx polymer compositions extend patent coverage of a wide range of MyCelx polymer filtrations devices until July 2025. Since the time of the discovery and patenting of the Company's earliest version of the MyCelx polymer, the Company has improved and adapted the polymer to new uses so as to cover all major lines of business of the Company. Thus, while the patent for the Company's original polymer composition expires in the US in 2013, the Company uses and sells substantially improved and refined polymer

compositions protected by the additional intellectual property of the Family 4 patents (US expiration in 2025) and by MyCelx trade secrets and know-how.

The Directors are of the belief that the Company's intellectual property is appropriately protected through these patent families and trade secrets which relate to improvements and refinements to various aspects of the technology. It should also be noted that the Company does not rely on any third party for any specialist products.

Even if the patents in Families 1, 2 and 4 (as described in the Patent Report set out in Part IV of this document) expire or for any other reason do not apply in particular countries, the Directors believe it would not be possible for a competitor to produce consumable filtration media using the MyCelx polymer described in the early patents or an equivalent polymer[(2)] in a way that could demonstrate performance equivalent to MyCelx's current products. The Company's refinements and specialisation in chemistry and manufacture of the consumable filtration media, relating to such matters as polymer precursor selection, chemical ratios, the manner of polymer application and curing methodologies, which are essential to MyCelx's current line of products, are non-obvious and protected as trade secrets which are not affected by the expiration of patents. The strength and importance of these subsequent improvements and specialisation are substantial. Furthermore, continuing research by the Company has produced next generation technology for which extended patent protection is being sought by MyCelx, such as described in Families 6 and 7 in the Patent Report in Part IV of this document. The inventions described in the Families 6 and 7 patent applications, which are not yet in commercial use, have been found to increase performance by a significant factor in relation to existing products. The patents generally cover new compositions and filtration media and multiple means for using the MyCelx polymer in different business applications.

Your attention is drawn to the patent report set out in Part IV and the risk factors set out in paragraph 4 of Part II of this document.

12. REASONS FOR ADMISSION AND USE OF THE PROCEEDS

The Directors believe that the Company is currently at the threshold of transforming from an R&D company that has enjoyed early commercial success trialling its products into an established supplier of produced water and process water treatment to the oil and gas industry. In order to achieve this transformation and significant market penetration, it will be necessary to obtain funds to increase the size of the sales force and technical team to prosecute the current pipeline of projects, and actively pursue additional projects for which the Company has been asked to submit tenders. Funds will also be used to execute the rental model, to ensure that the Company has an adequate balance sheet to participate in large projects globally, and to provide support for further research and development on new applications for MyCelx.

The Directors believe that its admission to AIM and the establishment of regional offices in key territories will raise the profile of the Company and its technology in the oil and gas services market.

The Company is seeking funds to:

- establish a global presence strategy;
- fund sales and engineering strategically around the globe to address existing and growing pipeline;
- undertake a global marketing initiative to establish a more visible presence in key markets around the globe;
- expand the equipment rental programme;

(2) Filed first patent on basic elementary chemistry patent application. Current applications all involve advanced chemistry.

- expand manufacturing plant and equipment to upgrade the consumable manufacturing programme;
- fund research & development of new MyCelx applications;
- repay a bank loan of $0.4 million; and
- fund accounts receivable and inventory.

The net proceeds of the IPO will be $16,692,408 which will be applied principally to:

Sales and marketing: $7.5 million

- Expansion of the sales force and technical team to prosecute existing strong and growing pipeline and identify all future applications of MyCelx technology.
- Pursue a global marketing initiative to support global footprint.
- Open remote sales offices in strategic locations globally.

Operations: $4.4 million

- Increase the engineering team.
- Expand equipment rental programme.
- Expand manufacturing plant and equipment for consumable media product.
- Fund R&D for further applications of MyCelx technology.

Additional Working Capital for the business following admission: $4.8 million

- Have sufficient working capital to meet expenditure associated with the pursuit and execution of a larger number of prospects.
- Repay $0.4 million in loans.

The Placing Shares will be settled in pounds sterling. All amounts received from the Placing will be in pounds sterling and, net of fees and expenses, are intended to be converted into US dollars by Numis Securities before transmission to the Company. The total net proceeds (after conversion) received by the Company may differ from the amount anticipated in this document. You are referred to the notice headed "Currency presentation, placing price and currency of placing proceeds" on page 2 of this document and the risk factor set out at paragraph 2.4 of Part II of this document.

13. SUMMARY OF FINANCIAL INFORMATION

The following table sets out key financial information relating to the Company for the three years ended 31 December 2010. The figures have been extracted without material adjustment from the historical financial information on the Company set out in Part VI Section B of this document.

	Years ended 31 December		
	2008	*2009*	*2010*
	$000	*$000*	*$000*
Revenue	2,673	2,562	4,302
Gross profit	1,774	1,551	2,314
Operating income	328	225	389
Income before income taxes	299	208	375
Net income	350	179	339
Total stockholders' equity	479	809	1,148

14. DIRECTORS, OFFICERS AND EMPLOYEES

On Admission, the Board will comprise the following Directors:

Tim Eggar (aged 59), *Non-Executive Chairman*

Tim Eggar joined MyCelx as Non-Executive Chairman in June 2011. Mr. Eggar was a member of Parliament in the United Kingdom from 1979 to 1997 and served in a number of ministerial positions including Minster for Energy from 1992 to 1996. He has 29 years' of extensive international experience in the oil and gas industry including being Global Head of ABN AMRO's Global Energy Corporate Finance Group, Chief Executive Officer of Monument Oil and Gas plc, Chairman of Harrison Lovegrove, Chairman of Indago Petroleum plc, and non-executive director of Rockwell Petroleum Inc. He is currently Chairman of Nitol Solar Ltd., Chairman of Cape plc and 3 Legs Resources plc. Tim holds an MA from Cambridge University and is qualified as a barrister.

John Mansfield Sr. (aged 79), *Founder and Non-Executive Vice Chairman*

John co-founded the Company with Hal Alper in 1994, and was instrumental in the Company's early development, providing funding and serving as Chairman of the Board of Directors until June 2011. John has extensive experience of the Oil and Gas industry, having founded Mansfield Oil Company in 1957, which is today one of the largest petroleum distributors in the United States. In 2010, Mansfield Oil was ranked by Forbes Magazine as the 73rd largest private company in the United States with revenues of over $4 billion. John is Connie Mixon's father.

Haluk (Hal) Alper (aged 54), *Founder, President and Chief Science Officer*

Hal co-founded the Company with John Mansfield Sr. in 1994. An inventor of chemistries and chemical processes, Hal has been responsible for numerous patents, including 36 in MyCelx oil removal chemistry and related applications. He has led the research and development of the Company since inception. He has developed many products and processes currently in use in electrochemistry, polymer chemistry and environmental technology.

A published author with over fifty scientific and technical papers to his credit, Hal is a member of numerous professional societies, including NYAS (New York Academy of Sciences), AAAS (American Association for the Advancement of Science), ASNE (American Society of Naval Engineers), SNAME (Society of Naval Architects and Marine Engineers), NDIA (National Defense Industrial Association), AFS (American Filtration and Separation Society), ACS (American Chemical Society), AICHE (American Institute of Chemical Engineers), WEF (Water Environmental Federation) and the Planetary Society.

In addition to being a Director of the Company, Hal is co-chair of the Society of Naval Architects' and Marine Engineers' Technical and Research Committee panel (EC-3) on Oily Wastewater and Bilgewater, is on the editorial board of Filtration News Magazine and also serves on the technical advisory board of Environmental Protection Magazine.

William Henry Donges (aged 62), *Non-Executive Director*

William (Bill) Donges joined the board of MyCelx in 2008. He is the founder and CEO of MySnapCam and has previously served as the Chief Executive Officer of technology start-up companies and midsized manufacturing and material science companies. Bill is a graduate of the US Naval Academy and served six years on active duty and sixteen years in the Naval Reserves as Commanding Officer. Bill also holds an MBA from DePaul University/University of Detroit/Mercy.

Ian R. Johnson (aged 58), *Non-Executive Director*

Ian joined the Board of MyCelx in June 2011. From 1999 until 2006, Mr. Johnson was Chief Executive Officer of Biotrace International plc, a leading provider of rapid microbiology testing systems and reagents. Biotrace became a public company in 1993 and was listed on the main market of the London Stock Exchange until its acquisition by 3M in December 2006. Mr. Johnson was the co-founder of Biotrace and, prior to becoming CEO, served as its Technical Director from

1988 to 1996, and as its Marketing and Development Director from 1996 to 1999. Since leaving Biotrace he has served as a director of a number of companies, including Chairman of Evans Analytical Group and AOI Medical Inc., both AIM listed companies. Mr. Johnson is currently Chairman of Finance Wales PLC and Celsis Group Ltd and a non-executive director of life science companies, Lumora Ltd and Ruskinn Group. Mr. Johnson studied at University College Cardiff, obtaining an Honours Degree and a M.Sc. by thesis in Microbiology. He is a chartered biologist, a member of the Institute of Biology and the Institute of Directors and is the author of numerous publications and patents in the field of rapid microbiology.

Connie Mixon (aged 56), *Chief Executive Officer*
Connie joined MyCelx in 2004 and was responsible for rapidly developing the commercial and financial infrastructure to provide MyCelx products to a global customer base. Prior to joining MyCelx in 2004, Connie was Director for Global Markets for Deutsche Bank. Her career with investment banks included pioneering Deutsche Bank's institutional presence in the southern region of the US. Before her tenure at Deutsche Bank, Connie was Vice President at Donaldson, Lufkin & Jenrette, part of the Credit Suisse group of companies. Connie holds an MBA from Emory University and a BA in politics from Wake Forest University. Connie is married to Mark Mixon, the Company's Chief Business Development Officer and Senior Vice President.

David Pattillo (aged 51), *Chief Financial Officer*
David served as a financial advisor to MyCelx from June 2010 as the Company was exploring ways to finance its growth, and was appointed CFO of MyCelx in January 2011. Prior to joining, David was CEO of PODO Technology and served as CFO of Harry's Farmers Market, a company that he helped guide from start-up through an IPO on NASDAQ. David has public company reporting experience as CFO at Harry's Farmers Market. David holds an MBA from the University of Georgia and a BS in Industrial Management from Clemson University.

Brian Kevin Rochester (aged 46), *Non-Executive Director*
Brian Rochester joined the board of MyCelx in 1998. He is currently the Executive Vice-President of Rochester Associates, a land surveying and civil engineering firm based in Gainesville, Georgia, and has extensive experience in marketing and business development for the firm throughout the United States and internationally. Mr. Rochester is a graduate of The Citadel, Charleston, South Carolina, where he graduated with a degree in Civil Engineering in 1987.

Dale Threadgill (aged 68), *Non-Executive Director*
Professor Threadgill joined the board of MyCelx in 1998. He is currently the Director of the Faculty of Engineering at the University of Georgia and holds a PhD in Engineering (Agricultural) from Auburn University, specialising in irrigation systems and water quality/conservation. He also has over 30 years' experience working with inventors and intellectual property.

15. SENIOR MANAGEMENT

Mark Mixon (aged 54), *Chief Business Development Officer and Senior Vice President*
Mark Mixon joined MyCelx in July 2010, having previously been the National Sales Manager for Commercial and Industrial accounts for Mansfield Oil Company. Mr. Mixon brings over 20 years of sales experience in downstream petroleum distribution marketing to some of the largest end-user accounts in the US. He led the growth of the commercial and industrial division of Mansfield Oil to over $2 billion in annual sales. Mark has a BS in Industrial Management from the Georgia Institute of Technology and an MBA from Georgia State University.

16. CORPORATE GOVERNANCE

The Company complies with the applicable corporate governance regime in Georgia. The Company is governed by and complies with the GBCC.

The Board of the Company comprises six non-executive Directors with relevant experience to complement the three executive Directors and to provide an independent view to the executive Directors. The Company has established an Audit Committee, a Compensation Committee, a Nomination and Governance Committee and an Executive Committee with the following roles:

Audit Committee

The initial members of the Audit Committee are William (Bill) Donges (chairman) and Brian Rochester. Meetings will be held not less than twice a year. The role of the committee is to consider matters relating to the appointment of the Company's auditors and their independence and review the integrity of the Company's annual and interim reports, preliminary results announcements and any other formal announcement relating to its financial performance. The committee will also review the effectiveness of the Company's system of internal control and compliance procedures.

Compensation Committee

The initial members of the Compensation Committee are Ian Johnson (chairman), Bill Donges and Brian Rochester. The primary duty of the committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's executive Directors, the officers and such other members of the executive management as it is designated to consider. The remuneration of the non-executive Directors is a matter for the Chairman and the Company's executive directors. No Director or officer may be involved in any decisions as to their own remuneration.

Nomination and Governance Committee

The initial members of the Nomination and Governance Committee are Tim Eggar (Chairman), John Mansfield, Sr. and Dale Threadgill. The Nomination and Governance Committee is responsible for identifying and nominating members of the Board, recommending directors to be appointed to each committee of the Board and the chair of such committees and overseeing the evaluation of the Board.

Executive Committee

The initial members of the Executive Committee are Connie Mixon (Chairman), Tim Eggar and John Mansfield, Sr. The Executive Committee has the power to perform all functions of the Board between meetings of the full Board, except as otherwise provided by the GBCC.

Share dealing code

The Company has adopted a share dealing code for Directors and key employees which the Directors believe appropriate for an AIM quoted company. The Company will comply with Rule 21 of the AIM Rules for Companies relating to directors' dealings and applicable employees.

17. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a physical certificate and transferred otherwise than by a written instrument. However, due to restrictions on transfer under the US Securities Act, the New Common Shares must be held in certificated form for a period of at least 12 months following Admission. As described below, Depositary Interests representing the Placing Shares and the Sale Shares are, however, expected to be eligible for admission to CREST after the end of the 12 month period. The Placing Shares and the Sale Shares are not, and will not be, registered under the US Securities Act or any securities laws of any state of the United States and may not be offered or sold in the United States or to US Persons unless such shares are registered under the US Securities Act and any applicable securities laws of any state of the United States or an exemption from such registration requirements is available. The certificates representing the Placing Shares and the Sale Shares will bear a legend to that effect and to the effect that: (i) transfers are prohibited except in accordance

with the provisions of Regulation S, pursuant to an effective registration statement under the US Securities Act and any applicable securities laws of any state of the United States or pursuant to an available exemption from such registration; and (ii) that hedging transactions may not be conducted unless in compliance with the US Securities Act. Accordingly, settlement of transactions in the New Common Shares and the Existing Common Shares following Admission will not take place within the CREST system.

Although the Common Shares will not be immediately eligible for settlement through CREST following Admission, the Company has arranged for Capita Registrars in its capacity as Depositary to issue Depositary Interests in respect of the Placing Shares and the Sale Shares after the end of the initial one year distribution compliance period which are expected to be eligible for admission to CREST after the expiry of the initial one year period following Admission. As provided in the Company's Bylaws, after the expiration of the one-year distribution compliance period, any shareholder seeking to hold his shares in uncertificated form and to transfer his shares in uncertificated form must send the Company's transfer agent and registrar a certification in form and substance satisfactory to the Company that: (a) it acquired the shares in compliance with Rule 903 of Regulation S or in a trade in compliance with Rule 904 of Regulation S; (b) it is not an "affiliate" of the Company as defined in the US Securities Act; and (c) it will not sell the securities in the United States without complying with applicable United States securities laws, together with any additional documents or certifications the Company may reasonably request to demonstrate compliance with applicable law.

18. CITY CODE

The Company is not subject to the City Code because its registered office and its place of central business are outside the UK, the Channel Islands and the Isle of Man. As a result, certain of the protections that are afforded to shareholders under the City Code, for example in relation to a takeover of a company or certain stake holding activities by shareholders, do not apply to the Company. Certain provisions have recently been inserted into the Articles of Incorporation which adopt similar procedures to the City Code in the event of any party (or parties acting in concert) obtaining 30 per cent. or more of the voting rights attaching to the issued Common Shares of the Company, but there is no assurance that the courts of the State of Georgia, USA will uphold or allow the enforcement of these provisions. Further details relating to these provisions are set out at paragraph 4.2(h) of Part VIII of this document.

19. PRE-EMPTIVE RIGHTS

Shareholders do not have pre-emption rights under Georgia law over further issues of shares of the Company, except to the extent that such right is expressly granted to such stockholder in the certificate of incorporation, and the Company shall have no obligation to provide any pre-emptive rights to its shareholders. Where circumstances permit, the Directors intend to consult with Numis Securities (for so long as it remains nominated adviser to the Company) each time the Company proposes to offer new shares of the Company for cash as to whether its shareholders should be provided with the opportunity to participate in such offering. The Company cannot, however, give shareholders any assurance that a right to participate will be given in any particular circumstance or at all.

20. DIVIDEND POLICY

The Company has never declared or paid cash dividends on its capital stock and does not intend to in the foreseeable future.

21. LOCK-IN ARRANGEMENTS

Pursuant to the Placing Agreement, each of the Directors has entered into a lock-in arrangement with the Company and Numis pursuant to which each has agreed, save with the prior written consent of the Company and Numis: (i) not to dispose of any of their holding of Common Shares

at any time during the period commencing on the date of Admission and ending immediately prior to first anniversary of the Admission Date; and thereafter (ii) not to dispose of any of their holding of Common Shares other than through a broker suggested by Numis until the second anniversary of Admission.

In addition, holders of 3,617,112 Common Shares as at the date of this document have entered into lock-up arrangements with the Company and Numis pursuant to which each has agreed, save with the prior written consent of the Company and Numis: (i) not to dispose of any of their holding of Common Shares at any time during the period commencing on the date of Admission and ending immediately prior to the first anniversary of the Admission Date; and thereafter (ii) not to dispose of any of their holding of Common Shares other than through such broker as Numis may suggest until the second anniversary of Admission.

William A. Gudenrath and William F. Gudenrath, holders of 5,085 Common Shares at the date of this document have entered into lock-up arrangements with the Company and Numis pursuant to which each has agreed, save with the prior written consent of Numis and the Çompany, not to dispose of any of their holdings of Common Shares at any time during the period commencing on the date of Admission and ending immediately prior to the first anniversary of the Admission Date.

Further details of the Placing Agreement and the lock-in arrangements are set out at paragraph 12 of Part VIII.

22. THE PLACING

Numis has conditionally agreed, as agent for the Company, to use its reasonable endeavours to place 5,753,298 new Common Shares at the Placing Price and, to the extent that it does not place such shares, to subscribe itself for such new Common Shares at the Placing Price. The Placing Shares will represent 44.5 per cent. of the Enlarged Share Capital of the Company following Admission and are being placed by Numis with institutional investors including, in the case of some of the First Tranche Placing Shares and all of the Second Tranche Placing Shares, certain VCT investors and, in the case of some of the First Tranche Placing Shares, certain EIS investors. In addition, the Company has agreed to issue 34,157 new Common Shares (in aggregate) to Tim Eggar and Ian Johnson at a price of 105 pence per share in connection with their appointments to the Board and in accordance with their letters of appointment referred to at paragraphs 8.2(a) and 8.2(e) of Part VIII of this document. In addition, 72,892 Sale Shares are being purchased by the Company from the Selling Shareholder and then placed with investors pursuant to the Placing. The Placing of the Placing Shares will raise approximately £12,081,926 for the Company (and an additional £35,865 will be raised by the issue of the Director Shares) (before commissions and expenses).

The Placing Agreement is conditional, *inter alia*, on Admission and on the Placing Agreement not being terminated in accordance with its terms prior to Admission. The New Common Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing issued Common Shares. All placees will be issued with Shares in certificated form. It is expected that certificates will be despatched by post within 10 working days of the date of Admission.

Application will be made for the Company's Common Shares to be admitted to trading on AIM. It is expected that dealings in the Company's Common Shares will commence on AIM on 4 August 2011.

It is intended that the unconditional allotment of the First Tranche Placing Shares and the Second Tranche Placing Shares will take place on 2 August and 3 August respectively. Neither of those allotments will be conditional on Admission. The allotment of the Third Tranche Placing Shares will also take place on 3 August 2011 and such allotment will be conditional on Admission.

Investors should be aware of the possibility that: (a) the First Tranche Placing Shares might be issued and that none of the remaining Placing Shares are issued; and (b) the First Tranche Placing Shares and Second Tranche Placing Shares might be issued and the Third Tranche Placing Shares might not be issued. Investors should also be aware that Admission might not take place. Consequently, even if the First Tranche Placing Shares (or the First Tranche Placing Shares and the Second Tranche Placing Shares) have been unconditionally allotted, there is no guarantee that the placing of the Second Tranche Placing Shares and/or the Third Tranche Placing Shares (as the case may be) will become unconditional.

Further details of the Placing Agreement and the Selling Shareholder's Agreement are set out in paragraph 12.1 of Part VIII of this document.

23. VCT AND EIS INVESTORS

The Company intends to apply for confirmation from HMRC that the Company is a qualifying company for the purposes of the VCT legislation and the EIS legislation. As at the date of this document, no such application has been submitted.

Among other things, the VCT legislation and EIS legislation provides that, at all times from the date of issue of shares to EIS investors and VCT investors, the company seeking to qualify under the legislation must have a permanent presence in the United Kingdom which may include at least one individual based in the United Kingdom with authority to enter into binding contracts on behalf of the company. The Company has appointed a UK business development manager. The role of the UK business development manager is to develop business opportunities in the United Kingdom and to service projects in the Middle East. Until appropriate permanent office space is found in the United Kingdom, the Company's permanent establishment will be located at the offices of its UK lawyers, Addleshaw Goddard, located at Milton Gate, 60 Chiswell Street, London EC1Y 4AG, UK.

Neither the Company nor the Directors give any warranties or undertakings that VCT or EIS qualifying status will be available or that, if given, such relief or status will not be withdrawn. Should the law regarding VCT or EIS investments change then any reliefs or qualifying status previously obtained may be lost.

Eligibility for certain VCT and EIS tax reliefs is also dependent on a shareholder's own position and not just that of the Company.

Investors seeking to take advantage of any reliefs available under the VCT or EIS regimes should seek individual advice in order that they fully understand how the rules apply in their individual circumstances. You are referred to the risk factors set out at paragraph 1.4 of Part III of this document.

24. TAXATION

Your attention is drawn to paragraph 17 of Part VIII of this document. These details are intended only as a general guide to the current tax position under UK and US taxation law. Investors should consult their own independent financial advisers concerning the tax effects of an investment in the Common Shares.

25. FURTHER INFORMATION

Prospective investors should read the whole of this document which provides additional information on the Company and the Placing and not rely on summaries or individual parts only. In particular, the attention of prospective investors is drawn to Part II which contains a summary of the risk factors relating to an investment in the Company.

PART II

RISK FACTORS

An investment in the Common Shares involves a degree of risk. Prospective investors should consider carefully the risk factors set out below, together with all of the other information contained in this document, before investing in the Common Shares. Should any of the following events or circumstances occur, the Company's business, operating results, financial condition and future operations could be materially adversely affected. In such a case, the market price of the Common Shares could decline and an investor might lose all or part of his or her investment.

The following factors do not purport to be an exhaustive list nor explanation of all the risk factors involved in investing in the Company and they are not set out in any order of priority. In particular, the Company's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements. Additionally, there may be other risks of which the Directors are not aware, or which they currently believe to be immaterial, which may, in the future, adversely affect the Company's business and the market price of the Common Shares.

Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them and, if they are in any doubt, should consult with an independent financial adviser authorised under FSMA who specialises in advising on the acquisition of shares and other securities.

1. RISKS RELATING TO THE COMMON SHARES

1.1 Investment risk and AIM

Prior to Admission there has been no public market for the Common Shares, nor have they ever been traded, quoted or dealt on any securities market. Notwithstanding the fact that an application will be made for the Common Shares to be traded on AIM, this should not be taken as implying that there will be a "liquid" market in the Common Shares or that the Common Shares will in the future be traded on AIM. An investment in the Common Shares may therefore be difficult to realise.

The AIM Rules are less demanding than the rules relevant to the Official List and investments in shares traded on AIM carry a higher degree of risk than investments in shares quoted on the Official List. AIM has only been in existence since 1995 and its future success and the liquidity in the market for Common Shares cannot be guaranteed.

The Company cannot assure investors that the Company will always retain a listing on AIM. If it fails to retain such a listing, certain investors may decide to sell their Common Shares, which could have an adverse impact on the price of the Common Shares. Additionally, if, in the future, the Company decides to obtain a listing on another exchange in addition to AIM, the level of liquidity of the Common Shares traded on AIM could decline.

1.2 Trading and liquidity in the Common Shares

An investment in the Common Shares is highly speculative and subject to a high degree of risk. Prospective investors should be aware that the value of the Common Shares may go down as well as up and that the market price of the Common Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their Common Shares may be influenced by a number of factors, some or all of which may be outside the Company's control. The lock-in arrangements described in paragraph 12 of Part VIII will likely reduce the liquidity during the period within which they are in effect.

Stock markets have also from time to time experienced extreme price and volume fluctuations, which have affected the market price of securities and which have been unrelated to the operating performance of the companies whose securities were affected. These broad market fluctuations, as well as general economic and political conditions, could have a material adverse effect on the market price of the Common Shares. Investors may therefore realise less than, or lose all of, their original investment.

1.3 **Dividends**

The Company has never declared a cash dividend and does not intend to pay dividends in the foreseeable future. Future dividends, if any, will depend on, among other things, the Company's future profits, financial position, working capital requirements, general economic conditions and other factors that the Directors deem significant from time to time.

1.4 **VCT and EIS investments**

The Company has not yet applied for confirmation from the HMRC that the Company qualifies as a qualifying company for the purpose of the legislation relating to VCT and EIS investments but intends to do so as soon as reasonably practicable. Neither the Company nor the Directors give any warranties or undertakings that VCT or EIS qualifying status will be available or that, if given, such relief or status will not be withdrawn. Should the law regarding VCT and EIS investments change then any reliefs or qualifying status previously obtained may be lost.

Whilst the Company cannot guarantee to conduct its activities in a way to allow it to maintain its status as a qualifying VCT and EIS investment, the Directors intend, so far as possible, to do so. Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves VCT and EIS qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such relief or status claimed by any Shareholder.

The funds raised from the investment by a VCT or EIS must be employed in a qualifying trade within two years of investment.

Investors seeking to take advantage of any reliefs available under the VCT or EIS regime should seek individual advice in order that they fully understand how the rules apply in their individual circumstances.

2. RISKS RELATING TO THE COMPANY

2.1 **Transition from early stage of development**

Even though the Company has been in existence since 1994, it is still at a relatively early stage of development, with only 18 employees and very limited sales and marketing efforts to date. The Company plans to utilise a substantial portion of the proceeds from the Placing and issue of Director Shares to transition from what can be viewed as primarily a research and development company to a mature company with a sales and marketing focus. There is a risk that the Company will be unable to execute successfully this strategy, and its failure to do so would likely have a material adverse effect on the Company.

2.2 **Transition to publicly quoted company**

The consequence of the Company becoming a publicly quoted company whose shares are admitted to trading on AIM, a market of London Stock Exchange plc, is that it will require some changes in operations or controls, increased awareness of the requirements of being a publicly quoted company and a requirement to ensure that staff satisfy a number of new requirements, including the AIM Rules, disclosure and financial reporting requirements and enhanced corporate governance. While current Company management includes officers with US public company experience and experience with the regulation of securities and the

Board will make every effort to successfully manage the transition, there can be no assurance that the Company will be able to successfully manage the transition, and its failure to do so could have a material adverse effect on the Company's business, financial condition and/or operating or financial results.

2.3 **Dependence on availability of capital**

Should the Company require additional funds in order to carry out its investment strategy, there can be no assurance that the Company will be able to raise such additional capital on favourable terms or at all. Any additional capital raised by issuing Shares may be dilutive to the Shareholders and any debt financing, if available, may require the Company to be bound by financial covenants that could limit the Company's operations. If the Company is unable to obtain additional funding as needed, it may be required to reduce the scope of, or even terminate, its operations.

2.4 **Currency and foreign exchange risk**

The Placing Shares will be settled in pounds sterling. All amounts received from the Placing will be in pounds sterling and, net of fees and expenses, are intended to be converted into US dollars by Numis Securities before transmission to the Company. The Company's functional currency is US dollars. As a result, the total net proceeds (after conversion) received by the Company may differ from the amount anticipated in this document.

The international scope of the Company's business operations exposes it to the risk of fluctuations in currency markets. The Company's assets are denominated in US dollars and the Company's financial information is presented in US dollars. Some of the Company's expenses such as salaries will be denominated in dollars, but others will be in sterling and other currencies. Returns of capital and, if paid, dividends will be denominated in sterling. The Company does not currently engage in any currency hedging. The Company may in the future hedge some of its exposure to non-US dollar currencies through forward foreign exchange contracts or through other financial products, thought it currently has no plans to do so. While hedging may reduce currency risk, it is not possible to hedge fully or perfectly against currency fluctuations and the Company may also elect to forego hedging to save the attendant expense.

2.5 **Litigation**

Other than the intellectual property infringement allegation brought by Vigilant Marine Systems LLC against the Company, which is more fully described in paragraph 11.1 of Part VIII of this document, the Directors are not aware of any material legal proceedings which have been threatened or commenced against the Company.

Legal proceedings may however arise from time to time in the course of the Company's business. The Directors cannot preclude that litigation may be brought against the Company and that such litigation could have a material adverse effect on the financial condition or results or operations of the Company.

3. RISKS RELATING TO THE COMPANY'S BUSINESS

3.1 **Long and variable sales cycle**

The amount of revenue that the Company will recognise in any period is difficult to predict because of the length of the sales cycle of most of its products. Customers often expend significant time and effort in evaluating and testing the Company's products. This customer evaluation process frequently results in a sales cycle of several months or more, and after evaluation, a potential customer may not purchase a Company product. As a result, the Company's sales and operating results may vary significantly and unexpectedly from period to period, which could cause volatility in the price of the Shares.

Whilst the Company may invest in added sales and engineering personnel in order to reduce the length and variability of its sales cycle and increase its ability to support a higher volume of bids, contract proposals, and pilot projects, there is no guarantee that this will result in a shortened or more predictable sales cycle or greater sales. In such an event, the additional overhead cost incurred by the Company not recovered through added revenue would have a negative impact on the Company's working capital position. In addition, if the Company expands its rental model through the manufacture of a significant rental inventory, the costs of that inventory would negatively affect working capital until the inventory is put in service and the cost recovered. The commitment of working capital to these areas of expansion could hinder the Company's ability to pursue other marketing opportunities and execute its growth plans.

3.2 **Product liability**

The business of the Company may expose it to potential product liability risks that are inherent in the research, development, manufacturing, marketing, sale and use of its products and future products. Although the Company has never had any product liability claims in the past, the Company does have product liability insurance in place. The Company supplies its products to operators, and it is the operators primarily which are responsible for testing and monitoring the systems.

While the Directors believe that the current levels of coverage are sufficient for its current products, there can be no assurance that the level of insurance carried now or in the future will be adequate to cover the financial damages resulting from a product liability claim or judgment. Any product liability claim or judgment which exceeds the Company's insurance coverage limits could have a material adverse effect on the Company's business, financial conditions, results, operations and cash flows. Insurance coverage is increasingly expensive and the Company may not have, and it may not be able to maintain, adequate protection against potential liabilities. If the Company is unable to maintain insurance at an acceptable cost or otherwise protect against potential product liability claims, it could be exposed to significant liabilities, which may materially and adversely affect its business and financial position.

3.3 **Reliance on key personnel**

The contribution of the existing executive Directors and senior management team members, particularly Hal Alper (President and Chief Science Officer) to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth. Although measures are in place to reward and retain key individuals, the Directors cannot give assurances that members of the senior management team and the executive Directors will remain with the Company. The loss of one or more of these individuals could have a material adverse effect on the business. The Company has key person insurance in place to cover the loss of the services of Mr. Hal Alper.

The officers and senior executives named above are each parties to employment agreements with the Company that have a minimum term of between one and three years, renewing automatically, and require prior notice of three months to six months if they are to be terminated without cause at the end of any then-current term. These employment agreements contain restrictive covenants that prohibit the employee from engaging in certain types of competition following the termination of employment. The laws of particular states in the US may limit the enforceability or remedies for breach of fixed-term employment agreements or restrictive covenants, so there is a risk that an officer or senior executive could terminate his or her employment or even compete if judicial remedies are limited. Each other US employee of the Company is employed "at will", as is customary in the US, and hence more readily able to terminate their employment and/or compete with the Company after they are no longer employed.

The departure of a significant number of employees over a short period of time would likely have a material adverse effect on the Company.

In light of the Company's growth plans, it will also be required to recruit and retain significant numbers of additional personnel in the future, some in key management positions. There can be no guarantee that it will able to recruit or retain such personnel, which would restrict its ability to meet its growth plans.

3.4 **Development of technology**

If competitors introduce new technologies, or if new standards or practices emerge, the Company's existing technologies and systems may become obsolete. The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost-effective and timely basis. Developing the Company's technology and product range entails significant technical and business risk. The Company may use or procure new technologies ineffectively or fail to adapt its systems to customer requirements or emerging industry standards. If the Company faces material delays in introducing new products, services or enhancements, it may be put at a competitive disadvantage.

3.5 **Market acceptance of current and new products**

The future profitability of the Company will depend upon the successful development, marketing and sales of its existing product line and other new products. To date, Company sales have been limited, and developed slowly as the Company has sought to gain product acceptance within its target markets. The ability to increase sales for existing and new products will depend upon many factors, some of which are beyond the control of the Company, including market acceptance of its technology and products, the ability to manufacture and to price products at levels competitive with competing products, downturns affecting industries in which the products are sold and the availability and price of raw materials.

The Company's key products are competing against established technologies often supplied by large multinational services companies with existing relationships with the Company's current and potential customers. In addition the oil and gas industry is sometimes regarded as a slow adopter of new technology, which can delay the uptake of innovative solutions such as the ones offered by MyCelx. Despite the acceptance of the Company's products by major customers within the oil and gas industry, and an increasing pipeline of potential prospects, any combination of these factors could impede the take-up of the Company's products and inhibit its growth.

Market acceptance of existing and new products will also depend on a variety of factors, including demonstrating their efficacy and safety, their relative cost and their other advantages as compared to current or future alternative products. Among other factors, no assurances can be given that:

- the products will achieve or sustain revenue growth or profitability;
- enhancements to products and other applications can be successfully developed;
- demand for and market acceptance of products and enhancements will grow or continue; or
- the products of the Company will successfully compete with the products of others.

To the extent that demand for the products does not develop or continue due to competition, poor product performance, negative assessments by customers of the financial resources and expertise of the Company, technological change or other factors, the results of operations of the Company will likely be materially adversely affected.

3.6 **Limited sales history for key products**

The Company is reliant primarily on sales of MyCelx Polishers and Coalescers, and the media sales associated therewith, for its future sales growth. It is envisaged that these products will be mostly targeted towards the upstream oil and gas industry and downstream petrochemical industry. To date, sales by the Company of coalescers in combination with polishers has been limited. While the sale of polishers alone may compensate for any lack of sales of coalescers depending on the requirements and media consumption of each customer, the Company's focus on sales of coalescers would have to be adjusted and sales efforts redirected in such a case.

3.7 **Loss of major customers**

The success of the Company depends to some extent on the continuation of satisfactory commercial relationships with the Company's major customers. There can be no guarantee that those relationships will continue satisfactorily in the future.

3.8 **Reliance on key suppliers**

The Company relies on certain key manufacturers for the fabrication of MyCelx equipment in accordance with the specifications of the Company's customers. While the Company has identified other manufacturers that it believes are capable of conducting manufacture on similar terms, any disruption in the Company's relationship with a manufacturer could affect pending orders placed with that manufacturer and result in transition costs and delays.

3.9 **Competition**

The Company operates in a competitive market and it can be expected that the competition will continue and/or increase in the future both from established competitors and from new entrants to the market. The Company's competitors include companies with greater financial, technical and other resources than the Company. Such competitors may compete directly with the Company for clients and industry personnel and may be in a better position than the Company to compete for future business opportunities. These may include major services companies that currently sub-contract the Company's services to the end customer, but which may in the future develop competitive products in-house.

In order to be successful in the future, the Company will need to continue to respond promptly and effectively to the challenges of changing customer requirements. An inability to devote sufficient resources to the development of its products and services in order to achieve this, the development of more aggressive competition in the market in which the Company operates and/or the introduction of new entrants in those markets could each lead to a material adverse effect on the Company's business, financial condition and operating results and could negatively affect the price of the Common Shares.

3.10 **Status of arrangements with clients and contract risk**

The contract documentation between the Company and each customer may differ on a case-by-case basis because of customs and conventions in the relevant market and the industry. While the Company currently follows the practice of securing binding purchase orders for each sale of equipment or media, the purchase order, depending on its terms, may present risk if the customer attempts to delay or avoid payment or to terminate the order with or without cause. Contractual performance can also be affected by factors beyond the control of the Company or its customer, such as Acts of God, governmental regulation, or disruption to the project from other factors, which a customer may claim will excuse its

performance of the requirements of the purchase order. Any business that is conducted through long-lead purchase contracts carries a risk of disputes or litigation owing to changes in requirements or other decisions of the customer, financial factors affecting the customer, or quality factors. While the Company intends to follow good commercial practices to avoid or mitigate these risks, the delay, cost and uncertainties of the dispute process and litigation could have a negative impact on the Company.

3.11 **Volatility of the price of oil**

Historically, the oil and gas industry has been subject to "boom-and-bust" cycles. Recession-induced downturns can affect the development of various oil and gas projects, particularly high-cost projects such as those relating to oil sands, deepwater offshore and liquefied natural gas. Projects which are held up during recessions are generally revived as the economy recovers; however the deferral in projects can create a gap in the revenues and earnings for oil field services and technologies companies. As the Company's media sales are in general a function of equipment sales, a deferral in projects may have a lasting material adverse effect on media sales.

High-cost oil projects like deepwater offshore and oil sands typically depend on high oil prices. The market price of oil is affected by numerous factors which are beyond the Company's control. These include international supply and demand, international economic trends, the rate of inflation, global or regional political events as well as a range of other market forces. Should oil prices fall and remain low for a prolonged period for any reason including, for example, a lasting economic disruption in China, high cost oil projects may be scaled down, deferred or cancelled, and this could have a material adverse effect on the Company's revenues and profits.

3.12 **Oil supply disruptions**

Historically, oil supply is subject to periodic disruption due to political unrest or insurrection, sabotage or terrorism, nationalist policies, accident or embargo. These events generally prove to be transient; however they can cause material reductions in production and are often difficult or impossible to predict. A disruption in oil supply can cause significant fluctuations in oil prices which, in turn, could have a material adverse effect on the Company's business.

4. RISKS RELATING TO THE COMPANY'S INTELLECTUAL PROPERTY RIGHTS

4.1 **Limited duration of patent protection**

All patents have a limited duration of enforceability. With some exceptions, notably US patents that are extended due to delays caused by the patent office, patents have a duration of 20 years from the filing date. Once a patent expires, the invention disclosed in the patent may be freely used by anyone without accounting to the patent owner. The Company strives to achieve patent improvements, new uses or new formulations relating to the underlying inventions; however, there is no certainty that any improvement, new use or new formulation will be patented to extend the protection of the underlying invention or to provide additional coverage to protect the invention adequately. As a result, the public may have the right freely to use the invention of an expired patent.

4.2 **Enforceability of the Company's intellectual property rights**

The Company relies on a combination of patents, copyright, trademark and trade secrecy laws, confidentiality procedures and contractual provisions to protect its intellectual property rights. The Company attempts to protect its products, documentation and other written materials under patent, trade secret and copyright laws. The Company has rights under a number of US and foreign patents and provisional rights under its pending patent applications. However, these measures provide only limited protection and the Company may not be able to detect unauthorised use or take appropriate steps to enforce its intellectual

property rights, particularly in foreign countries where the laws may not protect its proprietary rights as fully as in the US. Despite the Company's efforts to protect its intellectual property rights, there are a number of factors that could affect its ability to protect its intellectual property rights, including the following:

(a) laws and contractual restrictions may not be sufficient to prevent misappropriation of the Company's technology or to deter others from developing similar technologies;

(b) effective patent, trademark, copyright and trade secret protection may be unavailable or limited or may not have been applied for in foreign countries;

(c) patent rights which the Company holds and any patents that issue on pending applications may be challenged, invalidated, infringed, circumvented or held unenforceable;

(d) policing the unauthorised use of the Company's products and trademarks is difficult, expensive and time-consuming, and the Company may be unable to determine the extent of any unauthorised use; and

(e) other companies may claim common law trademark rights based upon state or foreign laws that precede the US registration of the Company's trademarks.

Any reduction in the scope of any of the patents or of the rights granted thereunder will have an adverse competitive impact on the Company. The Company intends to protect its patent rights against infringement through negotiation and litigation, if necessary. Such litigation is costly and may not be successful. The Company has limited financial resources with which to pursue enforcement actions. If the Company is unsuccessful or is unable to take appropriate action to enforce its rights, the Company's business could be materially adversely affected.

Your attention is drawn to the patent report set out in Part IV of this document.

4.3 **Protection of the Company's intellectual property**

Failure to protect intellectual property could harm brand and reputation and adversely affect the Company's ability to compete effectively. Further, enforcing or defending intellectual property rights, including trademarks, patents, potential patents, copyrights and trade secrets, could result in the expenditure of significant financial and managerial resources. The Company has focused its patent filings in jurisdictions which it deems most commercially relevant for particular products or to achieve a desired business objective. The Directors believe this approach is a cost-effective way to pursue protection in particular markets identified as strategically important. However, this leaves geographic gaps in intellectual property protection that can be exploited by competitors. Details of the territories in which patent protection has been obtained or sought is set out in the patent report in Part IV of this document. In addition, there can be no assurance that other parties will not assert infringement claims against the Company, and the Company may have to pursue litigation against other parties to assert its rights. In addition, any event that would jeopardise the Company's proprietary rights or any claim of infringement by third parties against the Company or members of its management could have a material adverse effect on the Company's ability to market or to sell its products and may be costly and unsuccessful.

Your attention is drawn to the patent report set out in Part IV of this document.

4.4 **Third party intellectual property rights**

The Company's commercial success will depend significantly on its ability to operate without infringing patents and proprietary rights of third parties. A number of companies, universities and research institutions may have filed patent applications or may have been granted patents

that cover technologies similar to the technologies owned by or licensed to the Company. The existence of third party patent applications and patents could significantly reduce the coverage of the patents owned by or licensed to the Company and may limit the Company's ability to obtain meaningful patent protection. The Company may be unaware of third party applications or patents even if the application is published or the patent is issued.

If patents containing competitive or conflicting claims are issued to third parties, the Company may be enjoined from pursuing research, development or commercialisation of products or may be required to obtain licences, if available, to these patents or to develop or obtain alternative technology. In addition, other parties may duplicate, design around or independently develop similar or alternative technologies. If another party controls patents or patent applications covering any part of the Company's technology or products, the Company may not be able to obtain the rights which it would need to those patents or patent applications in order to commercialise its technology or products. Finally, in addition to the Company's licence agreements and patent rights, the Company relies and will rely on trade secrets and proprietary know-how to protect its intellectual property rights. While the Company does take precautions to protect its know how and trade secrets, there can be no assurance that a third party will not develop products using the same or substantially similar technology or that a third party will not implement a manufacturing process which is the same or substantially similar to the Company's manufacturing process in a territory in which the Company does not have appropriate intellectual property protection. Further, these efforts may not be sufficient to protect its rights or to prevent a third party from patenting similar technology. Although the Directors believe that its products, services and technology do not infringe on any proprietary rights of others, any infringement claim against the Company, with or without merit, could result in costly litigation or might require the Company to enter into a royalty or licensing agreement, the terms of which might not be favourable to the Company.

4.5 **Patent infringement**

The Company's success depends in part upon it not infringing intellectual property rights owned by third parties. On the basis of international searches carried out by various patent offices during the patent examination process, the Company is not aware of any patent applications filed or patents obtained by third parties covering technologies similar to those used by the Company. However, there is no certainly that such might not potentially exist in a relevant country.

Disputes regarding ownership and infringement are not uncommon in competitive industries that establish and assert intellectual property rights. When claims are made on the basis of such disputes, it is typical for counterclaims also to be asserted. As the owner of intellectual property rights, the Company expects to enforce its rights, including through litigation. Litigation can involve significant costs which are difficult to quantify. Such costs if substantial or the unexpected possibility of an adverse outcome could negatively affect the Company's business prospects, financial condition or results of operation.

5. RISKS RELATING TO THE COMPANY'S POSITION AS A US-INCORPORATED COMPANY

5.1 **Application of UK and US legislation**

The Company is incorporated under the laws of the State of Georgia, United States. Accordingly, a significant amount of the legislation in England and Wales regulating the operation of companies does not apply to the Company. In addition, the laws of the State of Georgia will apply in respect to the Company and those laws may provide for mechanisms and procedures that would not otherwise apply to companies incorporated in England and Wales. The rights of the Shareholders are governed by Georgia law and by the Company's Articles of Incorporation and Bylaws, which may differ from the typical rights of shareholders in the UK and other jurisdictions.

Companies with any class of equity securities held by 500 or more record holders, wherever resident, and more than $10 million in assets are required to register under the US Exchange Act and file periodic and other reports. Such registration would also cause the Company to become subject to the Sarbanes-Oxley Act of 2002 ("**SOX**"), which provides certain requirements for US public companies' boards' practices, public disclosure and accounting firms. Although the Company does not anticipate that it will reach 500 record holders as a result of the Placing, it will not be able to control how many record holders it will have in the future, and the 500 record holder threshold may be exceeded. Compliance with the US Exchange Act and SOX would entail significant additional expense and diversion of management and could have a material adverse effect on the Company.

5.2 **Takeover regulation**

As a Georgia-incorporated company, the Company will not be subject to, and therefore the Company and its Shareholders will not benefit from the protections offered by, the City Code (as administered by the UK's Panel on Takeovers and Mergers). The Company's Articles of Incorporation contain provisions modelled upon the UK Takeover Code.

5.3 **Restrictions on transfer under the US Securities Act**

The Placing Shares and the Sale Shares have not been and will not be registered under the US Securities Act, or the securities acts of any state of the US, in connection with the Placing or Admission. The Placing Shares and the Sale Shares are being offered only to non-US Persons outside the US in transactions not subject to the registration requirements of the US Securities Act in reliance on Regulation S, further details of which are set out in Part VII of this document. The Placing Shares and the Sale Shares are "restricted securities" as defined in Rule 144. Purchasers of the Placing Shares and the Sale Shares may not offer, sell, pledge or otherwise transfer the Placing Shares or the Sale Shares in the United States or to, or for the account or benefit of, any US Person unless such offer, sale, pledge or transfer is registered under the US Securities Act or any exemption from the registration requirements thereof is available. Hedging transactions involving the Placing Shares or the Sale Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act.

Only the Company is entitled to register the offer and the sale of the Placing Shares and the Sale Shares under the US Securities Act and the Company has no obligation to do so. The Company can give no assurances that an exemption from the registration requirements of the US Securities Act and any applicable state securities acts will be available to any purchasers of the Placing Shares or the Sale Shares. When issued, the Placing Shares and the Sale Shares will be in certificated form and the certificates issued in respect of the Placing Shares and the Sale Shares will bear a legend describing restrictions on transfer and prohibiting hedging transactions in the Placing Shares and the Sale Shares unless in compliance with the US Securities Act and any applicable state securities acts. Each purchaser of the Placing Shares or the Sale Shares will be required to agree, among other things: (i) that it is not (and is not buying for the account or benefit of) a US Person; (ii) to re-offer or resell the Placing Shares or the Sale Shares only in accordance with the provisions of Regulation S, pursuant to an effective registration statement under the US Securities Act and any applicable state securities acts or pursuant to any available exemption from the registration requirements of the US Securities Act and any applicable state securities acts; and (iii) not to engage in hedging transactions with regard to such securities unless in compliance with the US Securities Act. The Company's Bylaws provide that it will refuse to register any transfer of shares not made in acordance with the foregoing restrictions. Please refer to Part VII of this document for further details of the transfer restrictions applicable to the Placing Shares and the Sale Shares. The above restrictions severely restrict purchasers of Placing Shares or the Sale Shares from reselling such shares in the US or to a US Person.

In addition, as described in paragraph 17 of Part I of this document, the Placing Shares and the Sale Shares cannot at this stage be traded through CREST. Therefore, the Placing Shares and the Sale Shares will have a lower liquidity than might otherwise exist if the Placing Shares and the Sale Shares were held in CREST and were not subject to such restrictions. These requirements may have an adverse effect on whether, or the rate at which a trading market for those Placing Shares and the Sale Shares develops. A purchaser may require a discount to the current market price of the Placing Shares or the Sale Shares due to the restrictions on the transfer of such Shares. In the event that the market for the Placing Shares and the Sale Shares outside the United States does not develop or becomes illiquid, purchasers of such Shares may be unable to access the market within the United States due to the restrictions on transfer of such Shares.

6. FORWARD-LOOKING STATEMENTS

Certain statements within this document, particularly those concerning the Company's or management's beliefs, expectations, plans or strategy, may constitute forward-looking statements. Any such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements speak only as of the date of this document and there can be no assurance that the results and events contemplated by such forward-looking statements will, in fact, occur. The Company and the Directors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein or to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, save as required to comply with any legal or regulatory obligations (including the AIM Rules).

PART III

COMMERCIAL DUE DILIGENCE REPORT

Market Assessment for Oil & Gas Produced and Waste Water Treatment

29 July 2011

Douglas Westwood

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Douglas – Westwood

July 29, 2011

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Market Review of MyCelx Technologies

MyCelx Technologies Corporation (the "Company") engaged Douglas-Westwood LLC, a New York registered company, to review the Company's markets and conduct due diligence on certain of its completed and pending projects. The report ("Report"), briefly summarized below, contains our key findings.

Our firm, Douglas-Westwood, is a leading global consultancy in market research and commercial due diligence related to oil field services technology. Our clients include leading global corporates providing oil fields services and related technologies. In addition, we support transactions working for or with leading investment banks and private equity funds.

Douglas-Westwood LLC has been paid professional fees for the work in preparing this Report. Neither the firm nor any of its employees has any financial interest in MyCelx Technologies Corporation, the matters which are the subject of this report, or the AIM admission document that will be published by MyCelx ("Admission Document"). The Report contributing consultants include the following: Steven Kopits, Managing Director of Douglas Westwood LLC. He leads Douglas-Westwood projects in the Americas and has a background in strategic management consulting and investment banking. Steven has assisted more than 100 companies in market analysis, business planning and related financial modelling throughout a range of industries including energy, manufacturing, power and maritime shipping. Rod Westwood is Head of Research at the firm, responsible for the firm's sector forecasts. Marcel Negherbon acted as contributing analyst, providing market research and analytical support.

Other than in furnishing this Report, Douglas-Westwood LLC has no involvement in the writing of the Admission Document; consent is granted for this Report to be incorporated into the Admission Document, with inclusion of Douglas-Westwood's name, and the contents of the Report are authorized to be used for compliance with AIM rules. We are responsible for the contents of the Report and have taken reasonable measures and care to ensure that the information and opinions herein are in accordance with the facts, and that there are no omissions likely to affect its import, subject to limitations as described in the Report in the Disclaimer and the section entitled "Key Limitations and Considerations".

Executive Summary & Conclusions

Introduction: The Company, its Technology and Markets

MyCelx Technologies (the "Company") retained Douglas-Westwood to assess the Company's key markets and conduct due diligence on the Company's completed projects and backlog. This Report contains our findings.

MyCelx manufactures equipment and media used in the treatment of water contaminated with free or emulsified oils. The Company's two key product offerings are coalescers and polishers. MyCelx coalescers compete in the secondary and tertiary treatment markets, and are used to capture free and emulsified oils for future processing. Polishers are used to clean water for final disposal, and compete in the tertiary/quaternary segment of the market. Polishers use filters which must be replaced from time to time. These filters, also referred to in this report as "media", represent an on-going operating expense to the customer and a key source of revenue for the Company.

The MyCelx Molecule

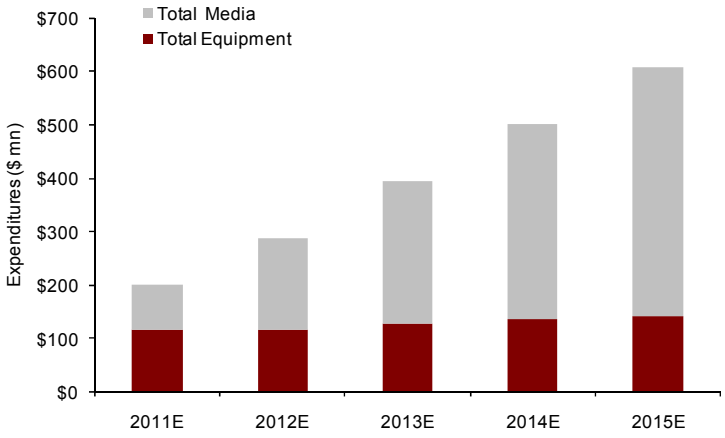
The key to the Company's solutions is its patented MyCelx molecule, which the Company notes:

- cohesively bonds free and emulsified hydrocarbons on contact
- is viscoelastic (allowing low operating pressure drop, not blocking flow)
- permanently binds hydrocarbons through chemical affinity, and
- does not retain water

These characteristics mean that the MyCelx media can capture and remove both free and emulsified oils to very low levels; that MyCelx filters resist clogging due to hydrocarbon build-up and are not consumed except when drawing hydrocarbons from water; and that the media will largely prevent hydrocarbons from pass through even when the filter is already substantially loaded with filtrate.

Global Oil & Gas Produced Water and Wastewater Treatment Market

In this report we have assessed the market for produced water and wastewater treatment for certain segments and applications (see in particular Sections 4 and 5 of this Report). In particular, we focus on sizing the market for secondary and tertiary treatment applications where the Company has a competitive solution, which we refer to as the "Potential Market". The Potential Market (or market potential or other similar term) refers to the part of the market that we consider the Company could hypothetically realize under optimal conditions, that is, assuming full customer awareness and acceptance, the ability of the Company to successfully serve its clients across the globe, and a materially unchanged market environment in other respects. Actual performance is likely to be less, particularly in earlier years, because the market awareness, client willingness to accept MyCelx as a supplier, and the Company's operational capabilities are still developing, among other reasons.



Potential Equipment and Media Market – 2011-2015
Based on Cumulative Equipment Sales
Source: Douglas Westwood

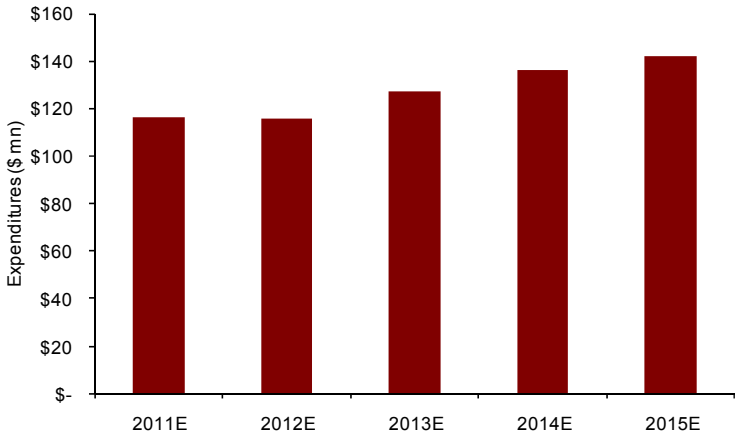
In this report, we consider only the "Primary Market" explicitly. The Primary Market is defined as produced water treatment from upstream operations onshore (including oil sands) and offshore; and petroleum refinery process and wastewater treatment, including reverse osmosis pre-treatment. We have not prepared forecasts for other potential markets such as desalination for potable water, ethanol production, enhanced oil recovery, or industrial, mining or geothermal markets. Nor have we assessed Company products other than coalescers, used for intermediate oil-water separation, and polishers, used to treat water immediately prior to disposal. References to "Potential Markets" or similar terms will imply Primary Potential Markets, unless otherwise noted.

Using the definitions above, we project the Potential Primary Market for produced water and wastewater treatment, for both equipment and media, at approximately $2 billion for the 2011-2015 period.

The Potential Primary Market for the Company is estimated at approximately $200 million in 2011, growing to about $600 million in 2015, including new equipment and media sales. Media sales are a function of all previous equipment sales, as equipment purchasers are assumed to buy filters throughout the forecast period. Thus, the potential market for media sales projected for 2015 are a function of achieving equipment sales potential in previous years.

Primary Market Potential – Capital Equipment (Capex)

The Company's Potential Primary Market for capital equipment is estimated at $640 million for the 2011-2015 period. In 2011, the Company's Potential Market for capital equipment is projected to be about $115 million; and in 2015, about $140 million, a 22% increase. The Company's full Market Potential represents 8% of global produced water, including both onshore and offshore projects, by 2015.



Potential Capital Equipment Market - 2011-2015
Source: Douglas-Westwood

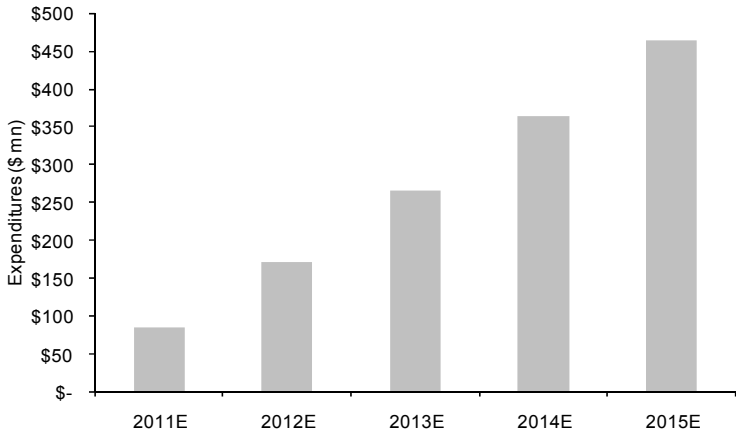
Primary Market Potential – Media (Opex)

For the 2011-2015 period, Company's Potential Primary Market for media is estimated at $1.3 billion.

In 2011, the potential market is about $80 million, and increases nearly fivefold to $450 million in 2015.

The media market we present here is a function of all previous equipment sales, as equipment purchasers in any year are assumed to buy filters throughout the forecast period. The 2015 market, for example, is the total of media consumption derived from all potential equipment sales during 2011-2015.

If equipment sales develop more quickly or slowly than the Potential Market outlook, then long-term media sales potential will vary up or down accordingly.



Potential Media Market - 2011-2015
Source: Douglas-Westwood

The Development of the Company's Products and Markets

In this study, we refer to "polishers" and "coalescers". MyCelx coalescers compete in the secondary and tertiary treatment markets, and are used to capture free and emulsified oils for future processing. Polishers are used to clean water for final disposal, and compete in the tertiary/quaternary segment of the market. Polishers use filters which represent an operating expense to the customer and which from time to time must be replaced and disposed of. Our Report refers exclusively to these two products, with the understanding that the Company is developing additional products as of the date of this Report.

The Company finds itself in a period of dynamic development in all of its products, applications and industries. Market potential, therefore, is a moving target.

Upstream Markets – Offshore and Onshore

The Company's success, particularly in the offshore oil and gas business, arises from the MyCelx polisher's (the "Polisher's") low weight and small footprint of the system and its ability to reduce hydrocarbon contamination below legal requirements, and indeed, to a "no visible sheen" level. In addition, the capital costs of the unit are highly competitive, and operating costs are acceptable, although filter costs may be substantial if upstream equipment like hydrocyclones or float cells are either ineffective or inconsistent in reducing hydrocarbons to the levels of which such equipment is capable in principle.

The Bidding List, the Company's list of pending projects judged to have at least a 25% chance of consummation as of May 1st, shows rapid development of this business with existing clients, consistent with interviewee statements indicating that the Company's offering was unique and offered key competitive advantages for operators. The MyCelx unit would appear to have the potential to become the "standard" solution offshore and for certain downstream applications in the next few years.

Due to the inability of traditional upstream equipment to meet their nominal performance capabilities, the Company has developed a coalescer ("Coalescer") to target this market segment. This Coalescer is approximately 1/3-1/4 of the cost of a competing hydrocyclone or float cell (IGF/IAF) system, and thus has a substantial cost advantage.

In addition, the Company reports that the Coalescer, using the MyCelx technology, is capable of processing a wide range of oil in water, up to 10,000 ppm without causing an upset condition, where raw oil escapes the unit and is passed down the line to the next piece of equipment. Further, operators typically use chemicals like clarifiers and demulsifiers to remove oil from water, and water from oil. Clarifiers create sludge, while demulsifiers can create a pad of residue, both of which require shutting down the system for cleaning. The MyCelx Coalescer promises to reduce and possibly eliminate such problems through lower chemical use, representing cost savings to operators sufficient to justify the installation of a Coalescer in many cases.

To date, the Company has sold a single coalescer, for a downstream application, to SABIC in Saudi Arabia. In addition, the Company reports it has sold 16 for use on ships for bilge water. For purposes of this Report, the Coalescer can be considered a new product for the Company in the oil and gas sector.

Our diligence reveals that at least two of the Company's existing "blue chip" customers are in the process of evaluating or certifying the Coalescer for use in their own operations. This is important in that these clients already have operating experience with the Company's Polisher, and that such experience is sufficient to prompt an active interest in the Coalescer.

Downstream Markets – Petroleum Refineries

The Company has sold MyCelx polishers to several industrial markets, for example, as treatment for drainage in power plants. However, the core of the Company's business appears to be emerging around process water issues in refineries and gas processing plants, notably for pre-treatment of reverse osmosis systems; processing of oil-contaminated wastewater; and as a safety device to protect cooling and boiler water systems.

Our diligence of the Bidding List reveals the Company is performing particularly well in the reverse osmosis segment. Reverse osmosis ("RO") is used either when fresh water is unavailable or when highly purified water is necessary for a system or process.

Fresh water is typically scarce in arid climates like deserts, such as the Middle East or Australia. In some jurisdictions, water may be difficult to access for regulatory issues. In such cases, water must be drawn from alternative sources, for example, seawater or saline aquifers, or from re-cycled waste water. This water must be processed to remove solids, hydrocarbons and other contaminants, and a popular means of doing so is RO.

Further, refinery boilers and cooling water systems require highly purified water to insure optimal performance and prevent damage or degradation of equipment. In general, this implies using either an RO system or acquisition of pure water from a third party provider. MarTech Systems estimates that 30-50% of US refineries have RO systems, with a much higher percentage in refineries in other countries.

RO systems are particularly vulnerable to hydrocarbons, and even trace amounts can result in material performance degradation. Thus, systems using seawater with even the potential for trace hydrocarbon contamination, refineries re-cycling waste water, and refineries looking to prevent or remediate potential cooling or boiler water from hydrocarbon contamination are potential customers. Today, for such applications, the MyCelx Pollisher appears to be the best, and possibly only, solution in the marketplace for very small droplet size dispersed oil or water soluble organics. Thus, for any RO system with the potential for even trace contamination of hydrocarbons, the MyCelx polisher has, in our judgment, the potential to emerge as the "standard" solution. Our diligence of the Company shows rapidly developing relationships with partners GE Water and Siemens Water Technology in the Middle East , and these attest to the Polisher's potential.

As stated above, MyCelx has placed a Coalescer at SABIC, a Saudi petrochemicals firm. This is used for local water treatment. That is, water from a specific process stream is treated before being homogenized with other, less contaminated process streams. This reduces water treatment costs in aggregate. Such applications should emerge at other refineries and processing plants.

A MyCelx Polisher serves two of the megatrains at Qatargas LNG plant at the Ras Laffan complex in Qatar. This system is used to protect the vast quantities of cooling water used in LNG production there. When the system is compromised, for example, from a leak across a heat exchanger, the Polisher can be engaged to remove hydrocarbons, thereby insuring system integrity. Such an application is typically referred to as sidestream filtration, in which a small portion of the water flow is processed on each pass, thereby meeting purity standards overall. Such systems can be operated on an intermittent or continuous basis, as required.

Finally, our diligence suggests that MyCelx is finding traction as a treatment system for sour water strippers. In most cases, oil contains some portion of sulfur compounds, and these compounds are present in either produced water from upstream or waste water from refineries. In some cases, water soluble organics may also be present either from oil streams or as a result of water processing. These WSOs can cause fouling of heat exchangers and a

resulting performance degradation. As MyCelx is virtually unique in its ability to remove WSOs, this looks to be a promising application for the Company over time.

Oil sands have similar characteristics, with the Canadian government increasingly looking to compel oil sands operators to re-cycle water. Removing various organic compounds will prove a significant challenge, and MyCelx looks well-positioned to find a roll in this segment.

Major Projects Review

We conducted more than 20 interviews regarding the Company's completed and pending projects, markets, technologies and competition. These materially confirmed to us the Company's statements regarding project status, description, and cost. The key findings:

- The Company's MyCelx offering is unique in the marketplace. Neither our primary research nor any of the interviewees were able to identify competing products or services which were able to remove free oil or water soluble organics to a level below 1 ppm.
- The Company's technology has lower weight, smaller footprint, and lower capital expenditures than competing technologies. Total cost of ownership promises to be lower for MyCelx technologies, although, in some cases, interviewees felt that the in the case of heavy loading, filter media usage was comparatively high.
- In certain applications, for example, offshore water polishing respondents felt that MyCelx had a substantial probability of emerging as the "standard" technology/solution.
- The Company is winning repeat business from key customers like Chevron and Anadarko, and has several projects pending with major oil and water companies.
- The pace of orders from repeat customers is accelerating; the pace of orders appears to be accelerating overall.
- All customers interviewed had a positive view of both the Company and the MyCelx technology.
- The Company boasts a Blue Chip roster of clients, prospective clients, partners and referring companies. These include Chevron, Anadarko, Woodside, BP, Technip, Bechtel, GE Water, Siemens Water, SABIC and Qatargas.

Without exception, we found partners and customers pleased, and indeed, enthusiastic about the Company and its products. Some representative quotes from customers:

Onshore field operator:

- "Most of the suppliers just want to sell filters, but MyCelx is very on top of the solutions end of it, too."
- "For [us], in our area, that's the only alternative that we've found that's approved…to prevent oil sheen, MyCelx is the way to go."

Large oil company project engineer:

- For intermittent use, there is "not much that can beat MyCelx."

Procurement Engineer, EPC company:

- "They were really great!"
- "I would love to work with them on another project."

Douglas – Westwood

Client / Partner	Country	Project Type
Qatargas	Qatar	Protection of cooling wate system for LNG plant
SABIC	Saudi Arabia	Local treatment of waste water at petrochem plant
Chevron	USA	Tertiary treatment for Jack / St. Malo offshore platform
Anadarko	USA	Treatment of waste water prior to discharge to pond
BP	USA	Treatment of oily waste water at refinery
Bechtel Pow er/ENKA	Russia	De-oiling of waste and drainage water at power plant
Overseas Shipping Group	USA	Slops water treatment for shipping company

Selected MyCelx Oil & Gas Projects
Source: MyCelx

Technology Comparison

Parameters	MyCelx System	Oil Water Separator	Air Flotation Cells	Clay / Carbon / Nutshell	Ceramic Membranes	Chemicals
Mode of oil removal	• Physiochemical-chemical affinity	• Physical separation	• Physical separation	• Physical adsorption	• Sieve Separation	• Chemical treatment
Market Segment	• Offshore secondary and tertiary treatment • Onshore non-reinjection markets (evaporation ponds, oil sands) • Downstream R.O pre-treatment, process water, waste water	• Onshore and offshore primary treatment • Downstream	• Onshore, offshore upstream • Compact flotation prevalent offshore • Downstream	• Primarily onshore upstream • Limited offshore	• For ceramic filters, upstream re-injection markets, where removal of solids is key consideration	• Onshore, offshore • Downstream • In general, chemicals are commonly used to meet limits when secondary and tertiary equipment are unable to do so
Removes free oils to 0-10 ppm	• Yes	• No	• No	• Yes	• Yes	• Yes
Removes Water Soluble Organics	• Yes	• No	• No	• No	• Yes	• Yes
Limitations of oil removal	• Removes free oils and WSOs to 0-10 ppm, lower in certain instances	• Removes only free and semi-emulsified oil • Primary treatment to approx. 100 ppm for free oils only	• Removes only free and semi-emulsified oil. • May require chemicals, creating sludge and waste	• Fouls and plugs with oil • Saturates with water; when saturated desorbs oil causing oil sheen	• Plugs with solids and any free or emulsified oils • Expensive, not really geared to MyCelx segments	• May cause corrosion, generate sludge or film requiring cleaning • Potentially expensive
Capital Cost	X	3-10 X	4 X	2-4 X	10 X	1 X
Operating Costs (Includes maintenance and waste disposal)	Y	1 Y Same as MyCelx Coalescer (does not compete against Polisher)	1-2 Y Same as MyCelx Coalescer (depending on chemicals used)	2-3 Y	3-7 Y	2-5 Y
Footprint and Size	Z	20 Z	5 Z	5 Z	10 Z	1-2 Z

Key Limitations and Considerations

References in this report (including in this Executive Summary) to the Company's Potential Market (or market potential or other similar term) refer to the part of the market that we consider the Company could hypothetically realize under optimal conditions, that is, assuming full customer awareness and acceptance, the ability of the Company to successfully serve its clients across the globe, and a materially unchanged market environment in other respects. Actual performance is likely to be less, particularly in earlier years, as market awareness, client willingness to accept MyCelx as a supplier, and the Company's operational capabilities are still developing, among other reasons.

References to the Company's Potential Market (or market potential or similar terms) do not, and are not intended to, give any indication whatsoever of forward-looking sales or revenues by the Company.

- There is no guarantee that any projects referred to in this report as being on a "Bidding List" or under discussion or negotiation will be successfully concluded.
- There is no guarantee that the Company's sales and marketing team will be able to successfully exploit the relevant markets, and there can be no assurance that the Company will achieve sales or generate revenues in all or any of the relevant markets referred to in this report.
- The Company's future revenues will depend on many factors including those set out elsewhere in this document. You are referred to the section entitled "Risk Factors" on pages 45 to 55 of the offering document.

Our diligence of the Company shows strong customer satisfaction and loyalty, a conviction that the MyCelx has a unique solution for certain challenges, and a consensus view that the MyCelx solutions are cost-effective. Notwithstanding, the Company's technology is only now finding broader acceptance in the industry, and certain aspects of the Company's pricing and performance cannot yet be said to have an established track record. As a consequence, our market forecasts are subject to uncertainties and limitations:

- Our market forecasts do not consider the impact of any possible recession or economic downturn.
- Although the company has several coalescers in commercial maritime and groundwater applications; to date, the Company has sold a single coalescer for the oil and gas industry, to SABIC of Saudi Arabia. Our review of the Company's Bidding List – the list as of May 1st, 2011 of pending projects which the Company believes have at least a 25% chance of consummation – shows additional coalescers under consideration with various current and potential clients. These coalescers are anticipated to represent a significant portion of the potential equipment market. If coalescers do not attain widespread market acceptance, the potential market will be commensurately reduced.
- Lower coalescer sales would not necessarily affect media sales, as filters are used primarily in polishers.
- Media sales are dependent on equipment sales in current and prior years. If such sales do not occur, media sales will be lower.
- Current practices regarding MyCelx unit use is still evolving. In some cases, customers use MyCelx units in stand-by mode or intermittently. Such practices could reduce media sales. On the other hand, some clients use MyCelx polishers more

frequently than anticipated, because the convenience and safety of using the unit continuously outweighs filter cost considerations.

- The impact of coalescer sales on polisher filter sales remains to be determined.
- We have prepared forecasts only for certain markets segments, for the Primary Markets as described in "Section 1 Market Definitions". We have not prepared forecasts for other market segments, including geothermal, ethanol plants, power plants, industrial facilities, desalination plants for drinking water, or mining projects. Nor have we prepared forecasts for other applications of MyCelx technologies, including spill clean-up or air filtration. Other markets or applications could prove to be material.
- Our forecasts for the Company's potential markets assume unit prices in excess of those historically achieved by MyCelx (although visible in the Bidding List, in some cases). MyCelx capital cost is significantly below that of some competitors, and this may provide pricing power to the Company. However, if the Company is successful, competitors may adjust pricing in response.
- Further, the Company will become the *de facto* monopoly provider of filters for customers to whom it has sold polishers. This may provide the Company pricing power for filters. However, if the Company is unable to expand pricing, then the potential market may prove smaller than forecasted.
- We have not reviewed the efficacy of the technology nor technical and operating claims of the Company beyond interviews conducted with customers and industry experts as disclosed below. These interviews have been uniformly positive both with respect to the technology and the Company.
- Any statements about performance of MyCelx technology or MyCelx projects not otherwise attributed should be attributed to Company management.
- We have not reviewed the Company's intellectual property rights, including patents.

Section 1: The Company

MyCelx Treatment Solutions - Overview

MyCelx offers produced water treatment solutions for upstream and downstream oil & gas, as well as other industries. In essence, the Company's offering today comprises coalescers and polishers. Both employ the Company's patented and proprietary MyCelx molecule.

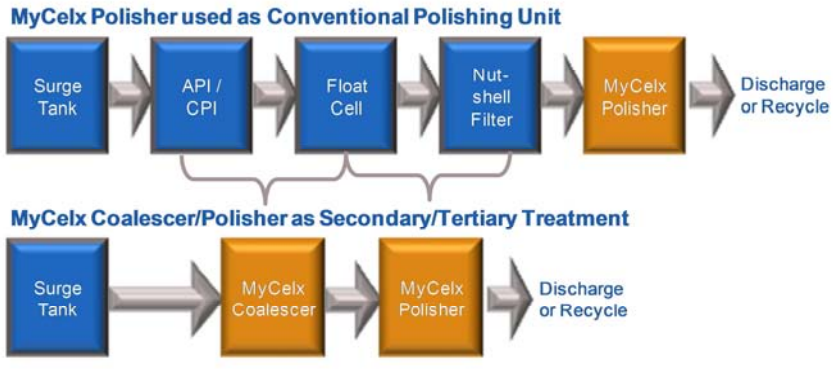
The MyCelx Molecule

The core of the solutions offered by the company resides in the viscoelastic MyCelx molecule, the key properties of which are that it:

- cohesively bonds free and emulsified hydrocarbons on contact
- is viscoelastic (allowing low operating pressure drop, not blocking flow)
- Is characterized by chemical affinity which permanently binds hydrocarbons, and
- does not retain water

The Company asserts that the MyCelx polymer has the ability to bind together and coagulate hydrocarbons, specifically altering oils and semi volatile organics into a water repellant mass. The molecule promotes viscoelasticity, which allows a MyCelx filter to capture large amounts of oil without developing pressure or blocking flow. Thus, when the molecule is embedded into filter media, it enables efficient capture of oil, without developing differential pressure across the filter until filter efficacy is exhausted.

Hydrocarbons will naturally tend to cohere due to the affinity of similar molecules for each other, a phenomenon called cohesion. Cohesion relies only on the mutual attraction of like molecules for each other, and the process will continue long after all surface area is contacted and coated. The MyCelx molecule promotes such cohesion, and, as long as pollutant oils are present, the cohesion phenomena continues to attract oil when in the presence of MyCelx. Cohesion is not subject to water absorption or desorption, and cohesive phenomena are not limited by the available surface like an adsorbent. These properties allow MyCelx media to bind a quantity of oil equal to six times the weight of a MyCelx filter, without becoming water-logged, accordingly to Company research.



MyCelx Treatment vs Conventional Treatments
Source: MyCelx Technologies Corporation

The MyCelx Polisher

The Company's lead product today is its polisher, the final piece of treatment equipment which prepares water for discharge into the environment. This is traditionally referred to as "tertiary treatment". Beyond this, the MyCelx polisher also functions as the last line of defense against water soluble organics (WSO) which may still be present in produced water after a tertiary treatment stage; thus we could call it a quaternary treatment system in some cases. Other tertiary systems includes filter media like activated carbon or chemicals, primarily acids. Activated carbon will typically reduce free oils to the 5 ppm range but be largely ineffective against WSOs. Acids may eliminate many WSOs, but require tuning through the separation systems to insure optimal results. Further, acid requires specialized storage, may corrode equipment and can be quite costly. Moreover, acids may not be fully effective for older, outdated or poorly maintained equipment water treatment. As a consequence, for those operators wishing to minimize chemical use, the MyCelx unit appears to be a unique alternative to minimize free and emulsified oils in produced water.

MyCelx's Polisher for Qatargas Refinery
Source: MyCelx Technologies Corporation

Coalescers

Coalescers represent the emerging product for the Company. These operate in the secondary treatment function with influent at up to 10,000 ppm oil and effluent achieving 20 ppm free and dispersed oil.

Unlike polishers, which require filters, MyCelx coalescers work with multi-stage media packs which allow for the removal of free and emulsified oils for further processing, rather than disposal.

In some instances, polishers and coalescers are combined to achieve both secondary and tertiary treatment for a customer. For example, MyCelx's SitePure line (top, next page) comprises a backwashable filter, 5 Stage Advanced Coalescer/ Separator, a Polisher, and an Inline Oil Content Monitor.

MyCelx's SitePure Solution installed at SABIC Petrochemical Plant
(Coalescer in middle)
Source: MyCelx Technologies Corporation

Market Definitions

Market Segments

We segment the Company's market into three categories: the Primary Markets, Secondary Markets, and other markets.

Primary Markets

Primary markets include those quantitatively analyzed for this Report. These include, for upstream, offshore and onshore produced water, the latter including oil sands. Primary Markets also cover downstream applications, notably pre-treatment for reverse osmosis systems, waste water treatment, and cooling and boiler water treatment. Segments gained inclusion in the Primary Market if they were related to oil and gas production and if they were visible, either as completed projects or as multiple projects on the Bidding List, the list of possible and pending projects provided by the Company as of May 1st, 2011.

Secondary Markets

Secondary Markets include petrochemicals and ethanol production, and non-oil and gas related applications like desalination for drinking water, industrial applications, the power and mining industries, and environmental spill remediation. They have not been assessed quantitatively for this Report, although the may prove material in the future.

Other Markets

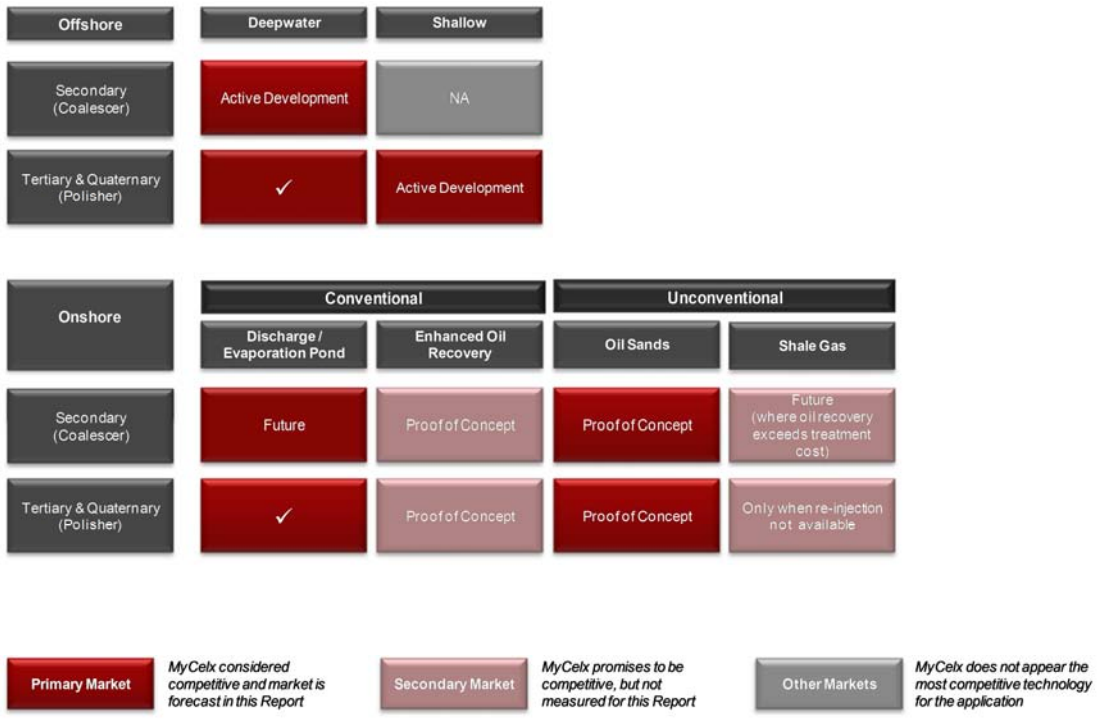
These are markets neither assessed for this Report nor believed material to the Company in the future.

Market Potential

Market Potential is the potential market size for MyCelx products based on Primary Markets *alone*. The market sizing differs from a business plan forecast, for example, in that the Market Potential does not account for either market acceptance and uptake nor for the operational capabilities of the Company, among other 'real world' factors.. The Company appears to be gaining market acceptance quite rapidly, but we have not made any forecast of the likely pace of market penetration.

Hypothetically, the Company could access the entire Potential Market, assuming all potential clients were aware of the Company, prepared to accept MyCelx as a supplier, and that MyCelx could serve these customers in a timely fashion at the appropriate service levels. Of course, the Company does not meet these criteria today, and may never. The Potential Market represents rather our estimates of the market which the Company might reach for the applications assessed in an idealized case. In practice, however, actual sales are likely to be some portion of the Potential Market, keeping in mind that the Potential Market covers only those industries and applications comprising the Primary Market. New market segments have been emerging even during the course of this engagement, and therefore the Primary Markets may well not encompass the entire potential of the Company in the future.

Market Segments - MyCelx Upstream Markets



Market Segments - MyCelx Downstream Markets

Brand Awareness

In many ways, the Company has already achieved a high degree of awareness, in part through a developing track record of successful projects. The Company is well know by Chevron, Anadarko, Qatargas and Saudi Basic Industries (SABIC). However, many operators do not yet know the Company or do not yet consider it sufficiently established to be qualified as an approved vendor.

The Company is also known at certain EPC contractors and has executed projects with Bechtel, Chiyoda Technip Joint Venture, MWH Global, Jacobs, and Mustang Engineering; and the Company has been or is currently in contact with Worley Parsons, Technip and KBR. It is also partnering with GE Water and Siemens Water on a number of Middle Eastern projects. Thus, the Company is both well-known and active with key operators, engineering firms and strategic partners in some areas.

At the same time, brand awareness seems virtually nil for those companies not already in direct contact with MyCelx. We contacted senior produced water managers at a large EPC firm and a leading oil field services firm, both in Houston. Neither was aware of the Company. We also contacted a senior technical manager for a RO membrane manufacturing company, and he was also unaware of MyCelx.

This picture is consistent with a rapid growth company which is already working with the most discriminating clients, but which is still off the radar of senior managers active in the industry, and it would suggest additional growth opportunities going forward.

MyCelx Pricing and Profits

MyCelx, despite being a small development-stage company, has managed modest profits in the last two years. This suggests that even historical pricing levels may be adequate to sustain the Company.

However, the Company should benefit from all of increasing economies of scale, larger project sizes and pricing power over time. The Bidding List shows evidence of an increase in average project sizes. As the pace of orders has accelerated, so have project sizes grown, doubling from 2010 to 2011 (per the Bidding List), and from 2011 to 2012 (again per the List). This reflects both increasing project sizes and stronger pricing, with coalescers playing a significant role in this development.

Given prices of competing systems and based on interviews with actual and potential customers, the Company would appear to be well-positioned to increase capital equipment pricing substantially over current levels over time. Our diligence does not reflect commensurate upside potential in media selling prices; however, once a client has purchased MyCelx equipment, the Company should be well-positioned to secure prices consistent with profitable operation.

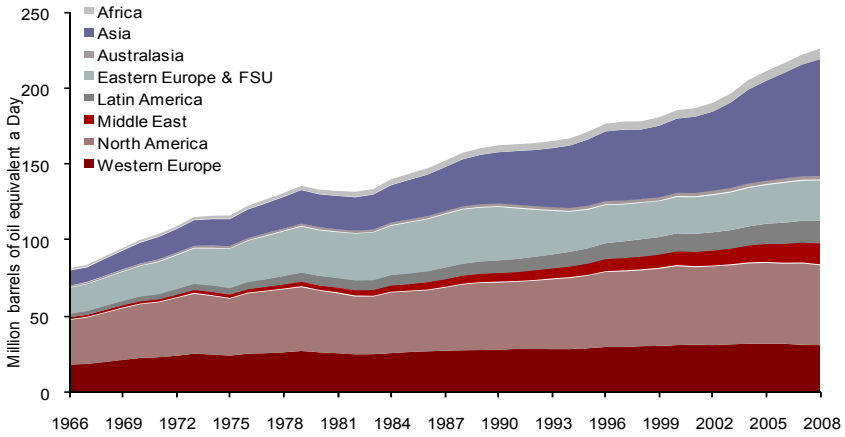
Intellectual Property Patents

#	Patent #	Patent Description	Description and Application
1	5,437,793	Composition Chemistry Patent	Initial MyCelx Chemistry Patent.
2	5,698,139	Composition Chemistry Patent	Expand 5,437,793 to more general categories of components and compositions.
3	5,749,925	Transfer of unique properties to substrates	Basis of spill products and filtration products.
4	5,837,146	Reaction Chemistry	Further formulation and Composition - Applies to all markets.
5	5,961,823	Spill Remediation Products	Further formulation and methods of production and embodiments of spill and other infused substrates.
6	422,050	Spill boom design for Sheen Devil	Design Patent for Spill Products.
7	6,180,010	Removal of Organics Using Filtration Media	Use of MyCelx media in filter devices - Applies to all markets.
8	6,337,016	Removal of Oils from Storm water	Apparatus, configurations and compositions for removal of dispersed and non-dispersed oils in storm water and other drainage.
9	6,475,393	Composition for Removal of Specific pollutants	Applicable to bilge water, produced water, condensation and other similar streams.
10	6,491,822	Protection of Membranes from Organic fouling	Embodiments and composition of MyCelx technology for protection of R.O. and other membrane filtration devices from organic fouling.
11	6,805,727	Method of Filtering Contaminants from Air	Applicable to removal of oil mists such as nerve gas, VOCs, etc from air.
12	7,264,721	Viscosity Gradient and Solubilization Technology	Next generation includes embodiments and compositions for production of viscosity gradient and solubilization MyCelx technology for removal of solubilized organic compounds and bio-fluids.
13	7,264,722	Viscosity Gradient and Solubilization Technology	Next generation includes embodiments and compositions for production of viscosity gradient and solubilization MyCelx technology for removal of solubilized organic compounds and bio-fluids.

Patents held by MyCelx - 2011
Source: MyCelx Technologies Corporation

Section 2: Macro Drivers - Global Oil & Gas Industry

Global Energy Demand



Global Energy Demand 1966-2008
Source: BP Review of World Energy 2009

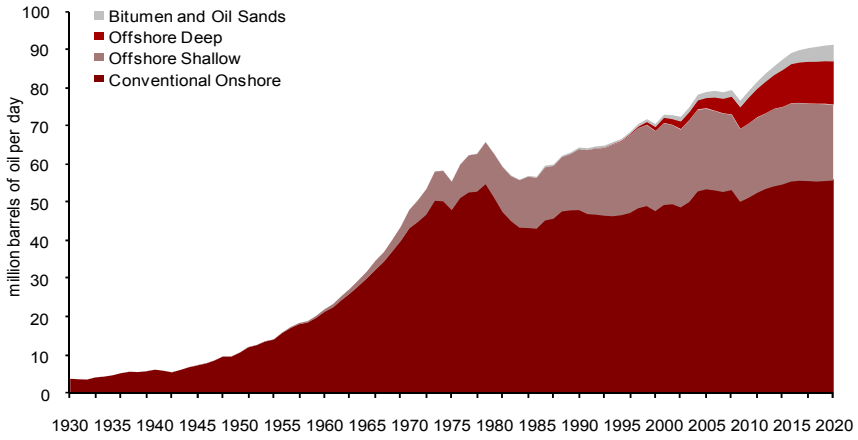
The underlying driver for all activity, both onshore and offshore, is the growth in global energy demand which, for the medium term at least, means demand for hydrocarbons (predominantly oil and gas), which constituted 59% of global energy demand in 2009. Over the long term, the trend towards increasing energy consumption is clear. Global annual energy consumption has more than tripled over the past fifty years, driven mainly by demand growth in developing economies. According to the BP Statistical Review, global energy demand grew from 186 million barrels of oil equivalent per day (boe/d) in 2000 to 224 million boe/d in 2009, representing a compounded annual growth rate (CAGR) of 2.1%

However, 2008 saw primary energy consumption decrease in a number of countries, primarily the advanced economies, due to the global financial crisis.

Over the longer term, the U.S. Department of Energy Information Administration (EIA) forecasts marketed energy demand to grow to 324 million boe/d by 2030, representing a CAGR of 1.8% of 2009 levels.

Since China began its recent phase of economic development in 1991, its primary energy consumption has grown at a rate that has eclipsed all other users.

Global Oil Supply



Global Oil Supply 1930-2020
Source: Douglas-Westwood

According to BP Statistical Review, over the period 2000 to 2009, China's primary energy consumption grew from 19.4 to 43.7 million boe/d, a CAGR of 9.4% (compared to -0.6% and 0.4% in the US and Russia respectively for the same period). The IEA has stated that China surpassed the US in 2010 as the world's largest consumer of energy.

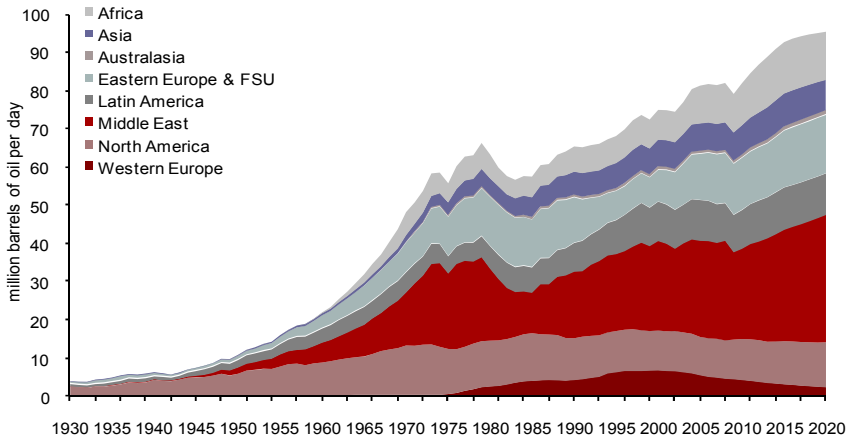
Despite improvements in energy efficiency, usage growth in the developing countries is expected to maintain an upward pressure on demand. The EIA has forecast that global annual oil consumption will grow at a CAGR of 1.0% from the approximately 86 million barrels per day (bpd) in 2010 to 104 million bpd in 2030, assuming the oil supply were adequate to meet this demand.

Oil supply pressure

At the end of 2008 there were 230 countries and territories in the world; 43% of these (100) now produce oil and natural gas liquids, have produced them in the past or are expected to produce them in the future (at commercial levels).

However, 66 countries, including the UK, USA and Russia, are already well past their production peak (greater than five years) while the remainder will see a peak within the next 25 years. We are therefore likely to see global oil production peak by the middle of the next decade (DWL estimate 2023).

Hydrocarbon Production Trends - Oil



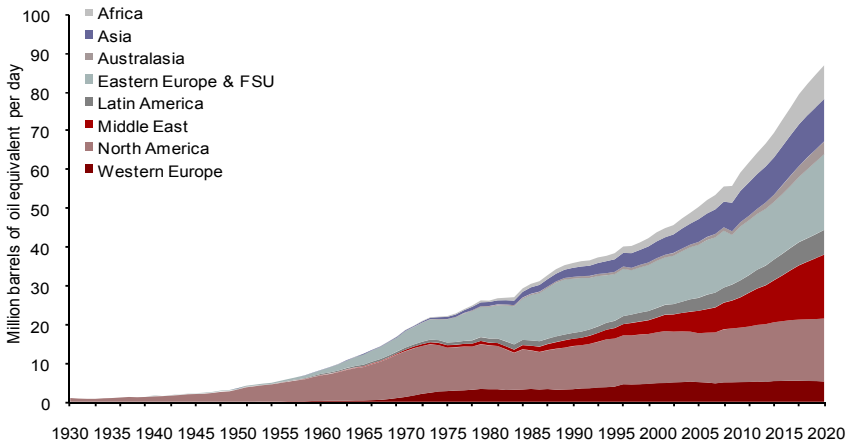
Global Oil Production 1930-2020
Source: Douglas-Westwood

The Middle East is the dominating power in oil production worldwide, producing over 25 million bpd. Eastern Europe & FSU (primarily Russia) produce just over half that of the Middle East, and have to date produced 16% of the world's oil; compared to 26% in the Middle East and 24% in North America. All regions except Western Europe (which peaked in 2000) and North America (1973) will continue to see their production grow; although, as discussed previously, the global peak is not far off (DWL estimate 2023).

The majority of the giant oil fields – where the 'easiest' and largest reserves of oil are held – are now mature (in the UK, the ten biggest fields contributed nearly half of the region's oil). Un-drilled giant fields still exist, but sharply reduced discovery rates are expected compared to the 1960s when the discovery rate peaked. Nowadays, the majority of new giant fields are located in deep waters. In the next decade more deepwater giants may be discovered but inevitably the rate of discovery will continue to decline as fresh areas to explore diminish.

Therefore, in the future, an increasing supply of oil will come from offshore, although in light of the recent oil spill in the US Gulf of Mexico, North America may see reduced activity and higher costs in the short to medium term.

Natural Gas



Global Gas Production 1930-2020
Source: Douglas-Westwood

Eastern Europe & the Former Soviet Union countries (FSU) dominate the gas market, producing 14.3 million boepd of which Russia contributes 76% with the remainder of Eastern Europe & FSU producing 24% or 3.4 million boepd. Russia has produced some 146 million boe since the start of its gas production in the 1930s. North America is also a significant producer of natural gas and contributed 23% of global supply in 2008.

The growing importance of gas is clear to see; the potential peak is much later than that of oil; DWL estimates 2032. The abundance of natural gas, coupled with its environmental soundness and multiple applications across the electricity generation, residential, commercial and industrial sectors, and its growing value in the transport sector, means that it will play a progressively more central role in meeting global demand for energy over the next two decades.

Indeed, gas is the only viable fuel that can link the largely carbon-based global energy supply that we use today, to a renewables-based energy supply that will have to be used in the future. Although oil continues to dominate the transport industry because of its convenience and the lack of suitability of other fuels, gas is often the fuel of choice in the power generation sectors, rather than coal, oil or nuclear.

Reserves

	2002	2003	2004	2005	2006	2007	2008
ExxonMobil	2496	2516	2571	2523	**2681**	2616	2404
BP	2018	2121	2531	**2562**	2475	2414	2410
PetroChina	2109	2119	2233	2270	2276	2312	2379
Shell	2359	**2379**	2253	2093	2030	1899	1771
Petrobras	1533	1701	1661	1847	1908	1920	1996
Chevron	**1897**	1823	1737	1701	1759	1783	1676
Total	1589	1661	**1695**	1621	1506	1509	1456
ConocoPhillips	891	1237	1242	1447	**1698**	1644	1367
ENI	921	981	1034	**1111**	1079	1020	1026
StatoilHydro	1112	1132	**1135**	1102	1058	1054	1056
Peak Year?							

Annual Crude Oil Production – Selected Oil Majors – mmb/d

Source: *Petroleum Review,* May 2009

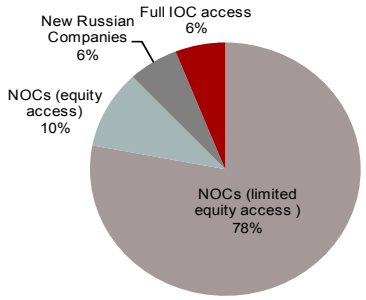
National Oil Companies (or NOCs) are state owned bodies that operate as an instrument of the government and, as such, will tend to act in the best interest of their sovereign nation. NOCs control the majority of global oil reserves, and some are not willing to co-operate with International Oil Companies (IOCs) on an equity sharing basis. As a result, a large proportion of the global oil reserves are difficult for the IOCs to access.

The majority of any future production increases are also likely to come from NOCs as there is significant evidence to suggest that the majority of IOCs (see table above) have past peak production and are now in decline

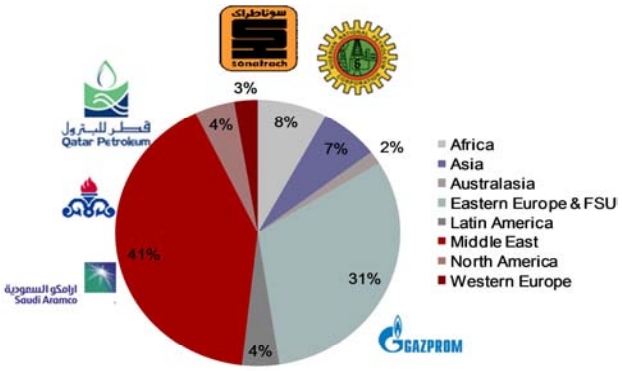
Increasingly, IOCs are using their own technology and expertise in offshore and difficult wells as a bartering tool in order to secure reserves from a highly nationalised energy environment.

In some cases NOCs have little option but to co-operate with IOCs, particularly when tackling highly complex multi-billion dollar gas processing projects such as LNG export terminals. This has been the case in Qatar, where Qatar Petroleum has formed joint venture companies such as the Ras Laffan LNG Co (Rasgas) and the Qatar LNG Co (Qatargas) – which together have successfully completed several world-class projects. At present it should be noted that Qatar does not allow IOCs to hold more than a 49% stake in any of its projects.

The National Iranian Oil Company had looked set to pursue several LNG projects in conjunction with IOCs over the coming years; however, these are progressing extremely slowly due to US economic sanctions.



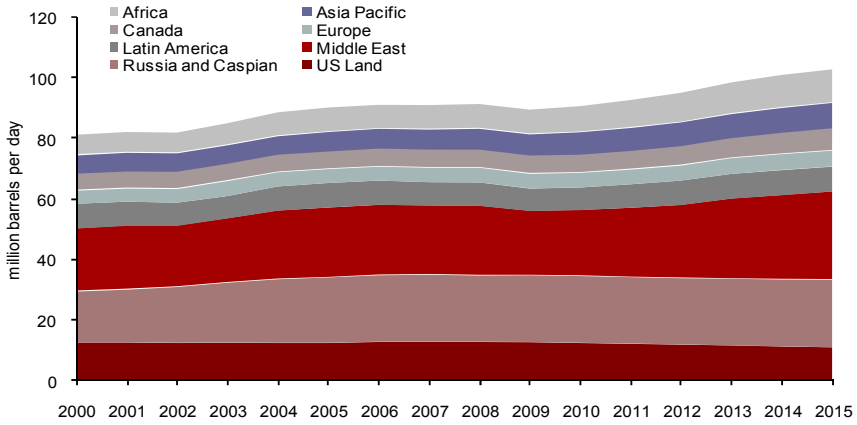
Control of Global Oil and Gas Reserves 2009
Source: Offshore Technology



Proven Gas Reserves by Region
Source: BP

Upstream O&G – Production

Onshore Oil and Gas Production



Onshore Oil and Gas Production 2000-2015
Source: Douglas-Westwood

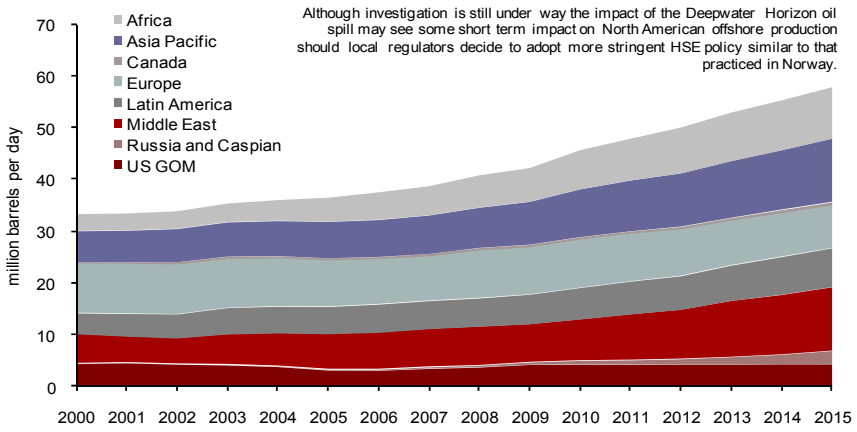
mbbl/day	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Africa	6.6	6.7	6.6	7.0	7.6	8.0	7.7	7.8	8.0	8.0	8.5	9.1	9.6	10.3	10.7	11.0
Asia Pacific	6.1	6.2	6.1	6.1	6.2	6.4	6.6	6.7	7.0	7.1	7.4	7.7	7.9	8.1	8.3	8.5
Canada	5.7	5.6	5.7	5.8	5.9	5.9	6.1	6.0	6.1	6.1	6.1	6.2	6.5	6.7	7.1	7.5
Europe	4.3	4.3	4.5	5.0	4.7	4.6	4.6	4.7	4.8	4.8	4.8	4.9	5.0	5.2	5.2	5.2
Latin America	8.2	8.0	7.7	7.5	8.1	8.2	8.1	7.8	7.8	7.5	7.6	7.8	8.2	8.2	8.3	8.3
Middle East	20.9	21.2	20.4	21.4	22.8	23.3	23.4	23.1	23.2	21.4	21.9	23.1	24.3	26.7	28.1	29.4
Russia and Caspian	16.8	17.4	18.4	19.8	21.1	21.5	22.0	22.1	21.9	22.1	22.0	21.9	21.9	22.0	22.1	22.3
US Land	12.4	12.4	12.3	12.3	12.2	12.3	12.6	12.6	12.6	12.5	12.3	12.0	11.7	11.4	11.1	10.8
Total	**81.1**	**82.0**	**81.8**	**84.8**	**88.5**	**90.2**	**91.0**	**90.9**	**91.3**	**89.5**	**90.6**	**92.7**	**95.1**	**98.6**	**101.0**	**103.0**

Onshore Oil and Gas Production 2000-2015
Source: Douglas-Westwood

Onshore global gas and oil production is set to continue increasing into the future, from 2011 to 2015 we forecast an 11% increase. The chart shows the affect the global recession had upon onshore production rates from 2008-2009 onwards, lowering production figures that had

an upwards trend. The increase differs between the regions, with greater development occurring in regions such as Africa, Latin America, and the Caspian than Europe and the Middle East.

Offshore Oil and Gas Production



Offshore Oil and Gas Production 2000-2015
Source: Douglas-Westwood

mbbl/day	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Africa	3.2	3.3	3.4	3.6	4.0	4.6	5.3	5.7	6.3	6.6	7.7	8.1	9.0	9.5	9.8	10.1
Asia Pacific	6.0	6.2	6.4	6.6	6.8	7.0	7.2	7.4	7.8	8.3	9.2	9.8	10.3	11.0	11.5	12.2
Canada	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Europe	9.6	9.7	9.7	9.5	9.4	9.1	8.8	8.7	9.3	9.2	9.5	9.3	9.1	8.8	8.6	8.4
Latin America	4.1	4.4	4.6	5.1	5.2	5.3	5.5	5.4	5.5	5.7	6.1	6.3	6.5	6.8	7.3	7.5
Middle East	5.7	5.1	5.0	5.9	6.4	6.9	7.2	7.4	7.6	7.4	8.0	8.9	9.6	10.9	11.6	12.4
Russia and Caspian	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4	0.6	0.7	0.9	1.4	1.7	2.5
US GOM	4.3	4.5	4.2	4.1	3.8	3.1	3.0	3.4	3.7	4.2	4.2	4.2	4.2	4.2	4.3	4.3
Total	**33.2**	**33.3**	**33.8**	**35.3**	**35.9**	**36.4**	**37.5**	**38.7**	**40.8**	**42.2**	**45.7**	**47.9**	**50.1**	**53.0**	**55.4**	**57.9**

Offshore Oil and Gas Production 2000-2015
Source: Douglas-Westwood

Global offshore oil & gas production, which currently stands at 45.7 million bpd, is predicted to grow steadily over the forecast period, reaching 57.9 million bpd in 2015.

The Middle East currently accounts for around 20% of global offshore oil production and is forecast to increase its production by 40% in the next five years to around 8 million bpd.

Currently Asia and Western Europe are the largest offshore gas producing regions both with production of 4.7 million boepd in 2009. Each region is expected to grow during the forecast period, however, Western Europe is predicted to grow at a much slower rate than other regions and will be overtaken by the Middle East in 2014.

Oil Price – Drivers & Forward Assumptions

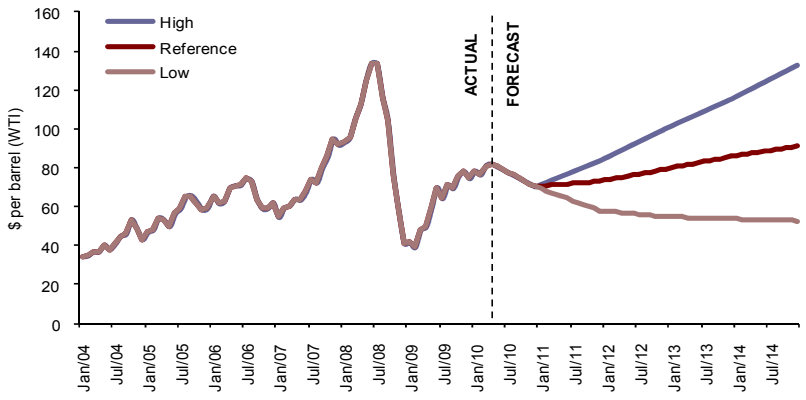
In July 2008, oil prices reached a record peak of over $140 per barrel, following five years of price appreciation averaging 28% per annum. This price escalation was driven primarily by constraints in global production capacity at a time of rapidly increasing demand. Several supply and demand factors contributed to volatility during 2008:

Supply

- Production decline – adding incremental output capacity is a difficult task for oil producers as they have to first overcome natural decline from existing basins which the IEA estimates at 5.1% per year for post-plateau, non-OPEC fields, representing a decline of 2.4 million bpd/year. Including OPEC declines, we estimate global decline rates at around 3 million bpd per year. On a global basis, 66 of a total of 100 producing countries are past peak production and are still witnessing a continued decline in output. In the period leading up to July 2008, it is believed that most producers were producing at maximum output and had no spare capacity to bring to the market to meet demand.
- Geopolitics – historic tensions between neighbouring nations in key oil producing regions can cause significant price volatility. Militant attacks on infrastructure such as platforms and pipelines can also shut in millions of barrels of daily production – such as those witnessed in Nigeria in recent years. Threats of strikes in oil producing nations (such as Venezuela) can also impact production and the fear of disruption helps support high oil prices.
- Accidents & unpredictable disruptions (force majeure or human error) – including the recent oil spill in the US Gulf of Mexico, can have an impact on upstream activities and costs both regionally and globally.

Demand

- Weak US dollar – high oil prices are supported by a weak dollar, as investors purchase oil in an effort to hedge against inflation and producers drive the prices at which they will supply upwards.
- Historical demand growth – to 2008, rapid demand growth for hydrocarbons has tested limits of overall production capacity, putting significant upward pressure on prices. This is particularly the case from India and China where the rapid GDP growth and large populations drive petroleum and refined product demand.

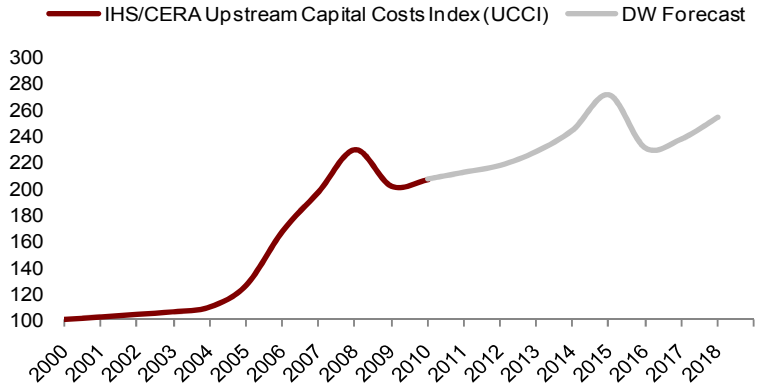


Global Oil Price 2004-2015
Source: EIA

Oil Price Outlook

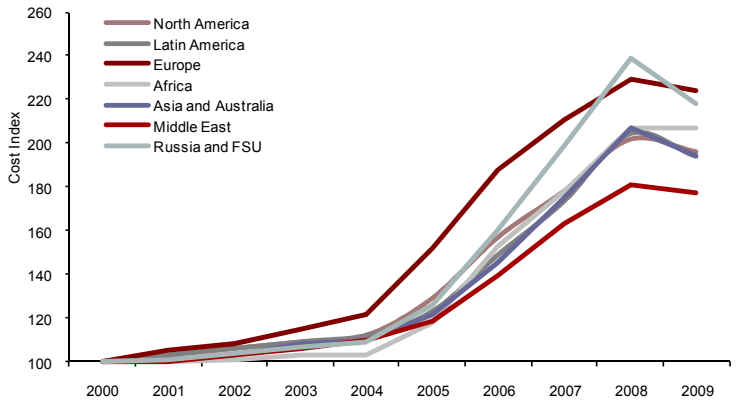
- The Brent crude oil price was approximately $118 per barrel on June 10, 2011.
- We believe that incremental growth in the oil supply will be both difficult and expensive. Today, the marginal barrel of oil is produced around $65/barrel, representing a potential price floor.
- On the demand side, the great majority of countries are able to increase consumption at oil prices less than $75/barrel. Therefore, if oil prices are below this level, global consumption will tend to increase, quite possibly faster than the global oil supply.
- Above approximately $90/barrel, the OECD countries (the advanced economies) appear unable to hold consumption levels. At this price level, only the emerging economies may be able to increase oil consumption.
- Our analysis suggests that the emerging economies may be unable to materially increase consumption much above $105 / barrel.
- As oil prices now exceed the carrying capacity of most of the world's economies, a downward adjustment to $95-105 / barrel would appear warranted. We note, however, that such prices stresses often end in oil shocks and recessions.

Oil Prices & Industry Cost Trends



CERA Offshore Upstream Cost Index 2000-2009
Source: CERA

Buoyant oil prices have caused rampant cost inflation in the upstream oil & gas sector over the past decade. Since 2000, global energy demand has grown rapidly, driven largely by the modernization of the large Asian economies of China and India. This growth in demand coupled with concerns of future oil supplies resulted in rapid growth in oil prices. This, in turn, caused a peak price of $147 per a barrel in July 2008 – representing absolute growth of 419% over average prices at July 2003. High oil prices lead to the bidding up of prices for both capital assets like drilling rigs and oil field services. This price inflation (as well as the impact of qualitative improvements) drove the increase of capital costs, as shown by the Cambridge Energy Research Associates (CERA) upstream capital cost index above.

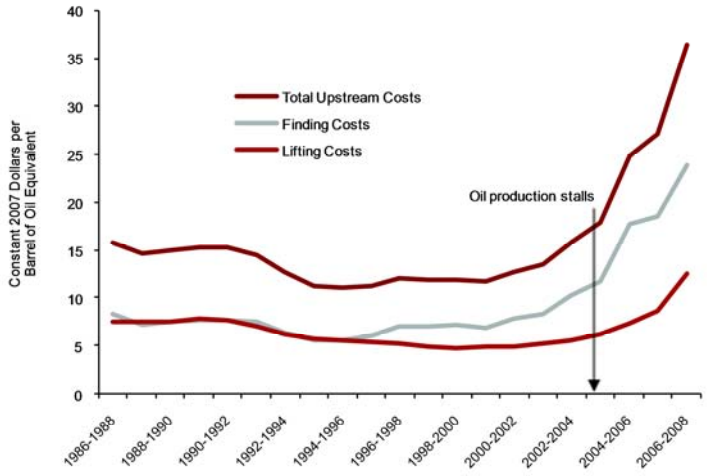


CERA Upstream Cost Index 2000-2009 (Onshore and Offshore)
Source: CERA

According to CERA, cost inflation on a regional basis (both onshore and offshore) has historically been felt most keenly in Western Europe, Russia and North America. The Middle East has seen the lowest cost inflation of all global regions over the past five years.

We note that price pressures on capital equipment and services may be highly differentiated in the next few years. A number of industries have added significant capacity, and this has led to acute price competition. At the same time, in business segments characterized by high barriers to entry and low competition, prices pressures will re-assert themselves, even if they do not across the board, as observed in the 2003-2008 period.

Lifting Costs & E&P Spending



Global Crude Oil Finding and Lifting Costs, 1986 to 2008 for FRS Companies
Source: EIA

According to the EIA, for companies using the FRS – essentially the world's 27 leading, publicly-listed oil and gas companies with material operations in the United States – total finding and lifting costs have grown from approximately $15 / barrel in 2003 to $36 in 2008. We believe the recession will have reduced these costs by 20-25% in 2009, to perhaps $30 / barrel, but all signs suggest costs are beginning to increase. Such rapidly increasing lifting costs reflect either a transient supply shortage, for example, of engineers or rigs; or they indicate an inflection point in the cost of accessing incremental oil supplies. Given that the industry has had nearly seven years and a harsh recession to respond to transient supply shortages, and given that costs—particularly for high-end applications like deepwater offshore and oil sands had not fallen much and are beginning to rise again—the data strongly suggest that a fundamental shift has occurred in the accessibility of the oil supply.

Within the oil industry, this is expressed in the almost universal view is that the easy oil has been produced, and incremental oil will be of lower quality—heavier and more sour (containing corrosive hydrogen sulfide)—and more difficult to access. For example, Douglas-Westwood projects that 13% of the global oil supply will originate in deepwater offshore fields by 2026, up from just 7% in 2008. Thus, onshore production will be increasingly heavy or sour, while offshore production will be largely high pressure and high temperature (HPHT), and in some cases, sour as well. Enhanced oil recovery (EOR) will be a critical element in incremental oil supply.

Activity levels in the oil and gas business are increasing. These are tracked perhaps most prominently through Barclays Capital's E&P Spending Survey, a regular report on surveying the intentions of a large sample of oil companies operating around the globe. Although exploration and production (E&P) spending fell by 15% in 2009 to $400 billion, the June 2011 survey of the oil and gas industry indicates that E&P spend is expected up 16% to $529 billion in 2011.

Section 3: Market Drivers

Upstream Oil and Gas - Produced Water Overview

Introduction

The reservoir rocks in any hydrocarbon-bearing formation usually contain water along with hydrocarbons in varying concentrations. Sources of this water may include flow from above or below the hydrocarbon zone, flow from within the hydrocarbon zone, or flow from injected fluids and additives resulting from production activities. When hydrocarbon is extracted from the formation, water is also recovered along with the hydrocarbon and is termed "Produced Water".

Produced water is by far the largest volume of waste (constituting about 98% by volume of all the waste) generated by oil and gas exploration and production activities[1]. On average, the ratio of produced water to actual hydrocarbon extracted from wells of varying maturity is around 3:1[2]. However, this ratio has been observed to go up to 10:1, mainly as a function of the well's maturity[3]. The concentration also depends on various other factors, notably the nature of hydrocarbon reserve, the porosity and permeability of the rock formation amongst others. To illustrate the volume of water generated: 15-20 billion barrels of produced water are created every year by the oil and gas industry in the US[4]; and in Europe 2.19 billion barrels of produced water were discharged in 2007.

The sheer volume of produced water generated presents the greatest waste management challenge for oilfield operators in the oil and gas sector.

Several local and regional authorities have taken up the issue of pollution due to produced water discharge and adopted laws and regulations to limit discharge of harmful chemicals. There is also a general feeling in the industry that these regulations and statutory requirements will be tightened over time. This is expected to be a key driver for innovation in produced water treatment or management technologies, together with operators' desire for cost and production efficiency.

Several game-changing technologies are now available to operators to help them deal with this issue at different levels, starting from minimisation of water production, produced water separation, through to re-injection and even to re-use. The selection of appropriate technology, however, is based on a detailed evaluation of various factors including rate of production, production chemistry and reservoir characteristics. Latest produced water treatment technologies have the potential to reduce the average cost of abatement from $51,000/metric ton[5] of oil not discharged to $19,000/metric ton of oil not discharged. This translates into a reduction in cost of treating one ton of produced water from $0.91 to $0.27.

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1 - "Understanding The Benefits and Risks of PW Re-injection", NPD seminar on PWRI, 10/12/2004.

2 - Produced Water Management Information System, accessed at - http://web.evs.anl.gov/pwmis/intropw/index.cfm, Date of Access - 6/08/2009

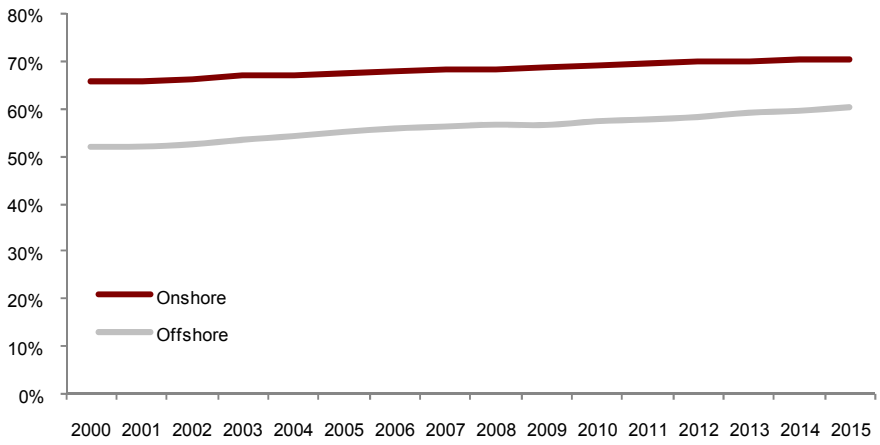
3 - Oil & Natural Gas Environmental Program on Produced Water Management (program facts): US DOE, Office of Fossil Energy, National Energy Technology Laboratory.

4 - Produced Water Management Information System, accessed at - http://web.evs.anl.gov/pwmis/intropw/index.cfm, Date of Access-6/08/2009

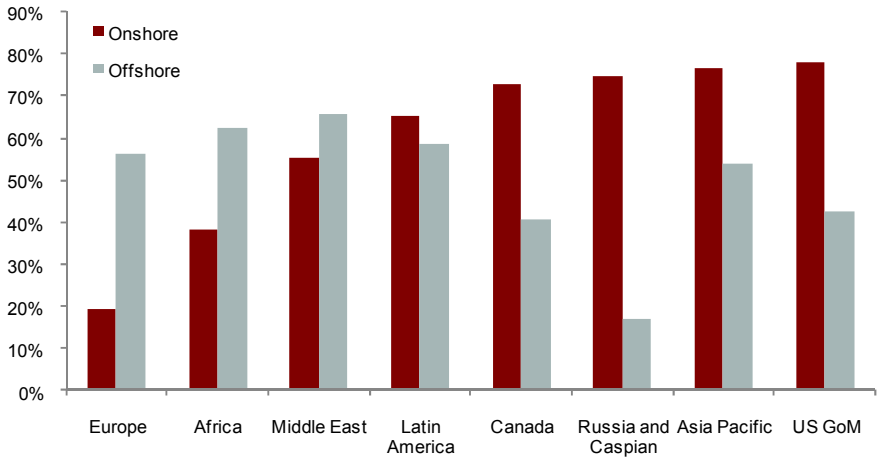
5 - All $US figures quoted in this report are converted from £UK based on a conversion rate of 1.59430 – correct as of 2nd February, 2010.

Produced water re-injection is gradually emerging as the preferred method of water management due to its environmental benefits. On average, about 16% of water produced offshore was re-injected in 2007. Produced water re-injection is not possible in all geological formations and there are several operational issues associated with it that could lead to inapplicability of this technique for a number of fields. This report explores the problems operators are having and identifies technology gaps. Increased use of produced water re-injection is thought to have an impact on the market for produced water treatment equipment. Industry interviews and market analysis reveals that the impact is likely to be limited due to the need for treatment prior to re-injection.

Upstream O&G - Water Cuts



Global Average Water Cuts 2000-2015
Source: Douglas-Westwood



Regional Water Cuts 2010
Source: Douglas-Westwood

The water produced during oil and gas and extraction is no longer a by-product of the operation; greater volumes of water are now produced than oil and gas, with the US Department of Energy estimating 3 barrels of water are produced for every one barrel of oil globally. In the US, this ratio may be as high as seven barrels of water.

As producing wells mature, water produced during the extraction process increases. This happens for two reasons: first, naturally occurring ground water found within aquifers may enter the oil or gas reserves during extraction; second, as reserve pressure drops following extraction, a vast amount of water is injected to maintain well pressure and keep flow rates as high as possible.

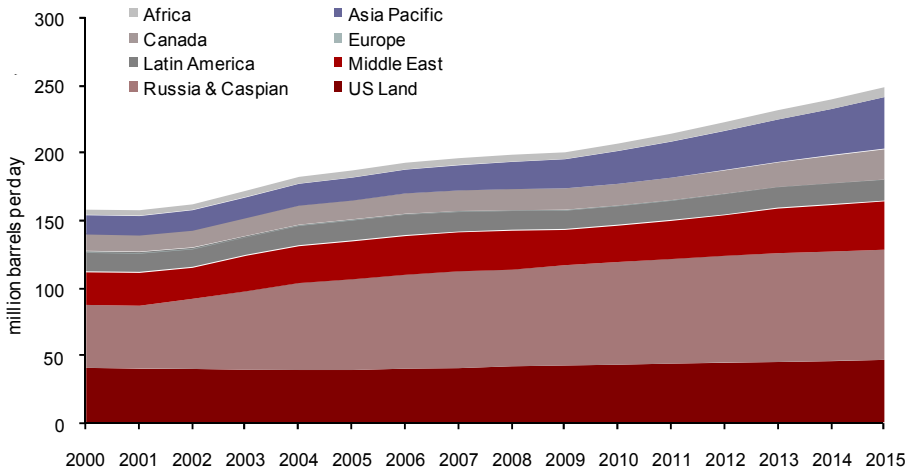
The charts above show how both onshore and offshore global water cuts have been and continuing to rise. This is due to a number of oil and gas fields are reaching maturity, and greater volumes of water being injected into producing fields to maintain adequate pressure for extraction. Further adding to global produced water cuts is the predicted and ongoing development of coal bed methane and shale gas extraction. As is already well documented from North American experiences, they are both very water intensive during the first period of the extraction process.

The charts above also highlight the difference between onshore water cuts and offshore water cuts. Onshore oil and gas production produces both higher levels of waste water and requires greater volumes of injected water to assist extraction. However, the level of maturity of the fields in each region affects the water cut levels.

water cut averages	on	off
Canada	0.84	0.44
China	0.73	0.61
Brazil	0.61	0.62
Nigeria	0.54	0.76
Saudia Arabia	0.39	0.72
United Kingdom	0.77	0.77
USA	0.90	0.54

Country Water Cuts 2010-2015 Average
Source: Douglas-Westwood

Upstream O&G - Volume of Produced Water

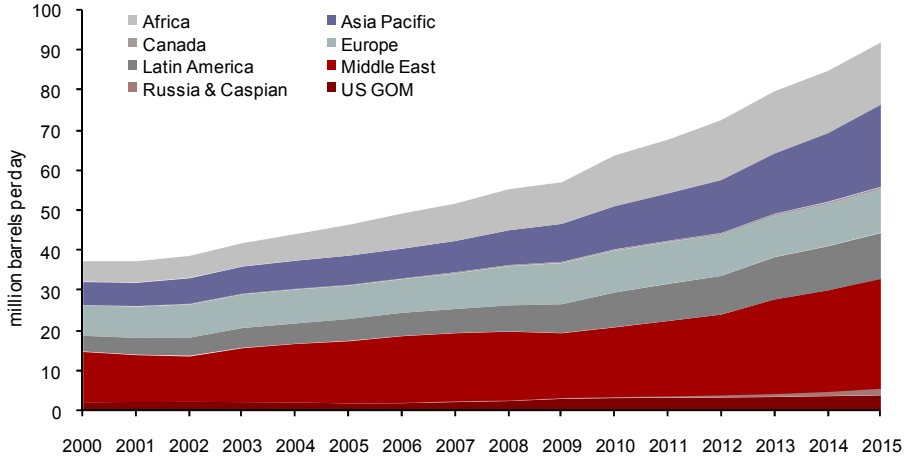


Onshore Produced Water 2000-2015
Source: Douglas-Westwood

million barrels/day	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Africa	3.8	4.0	4.0	4.5	4.9	5.1	5.0	5.0	5.1	4.9	5.3	5.7	6.3	6.7	7.1	7.3
Asia Pacific	14.1	14.4	15.1	15.4	16.1	16.8	17.5	18.4	19.8	21.4	24.1	26.4	28.7	31.1	33.7	37.7
Canada	13.3	13.1	13.4	14.0	14.6	14.5	15.5	15.7	16.0	16.2	16.2	16.8	17.6	18.5	20.8	22.8
Europe	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Latin America	14.9	14.6	14.2	13.9	15.1	15.6	15.8	15.2	14.7	14.3	14.4	14.9	15.4	15.5	15.7	15.8
Middle East	24.4	24.6	23.0	26.3	27.5	28.2	28.7	28.9	28.9	26.2	27.1	28.3	30.1	33.3	34.6	36.0
Russia & Caspian	46.7	46.6	52.1	58.4	64.7	67.6	69.9	72.1	71.9	74.6	76.3	77.8	79.6	80.8	81.5	81.9
US Land	40.6	40.1	39.9	39.2	39.0	39.0	40.0	40.4	41.8	42.4	43.0	43.8	44.5	45.1	45.7	46.5
Total	**158.1**	**157.7**	**162.0**	**172.0**	**182.3**	**187.0**	**192.7**	**196.1**	**198.5**	**200.4**	**206.8**	**214.1**	**222.5**	**231.3**	**239.3**	**248.4**

Onshore Produced Water 2000-2015
Source: Douglas-Westwood

Although individual countries and regions have differing produced water rates, the average global water cut for produced water in oil production is 75%, with three barrels of water produced for every one barrel of oil. Produced water volumes for individual wells also vary, with older wells generally having a higher water cut. The charts above calculate the water cut based upon regional oil and natural gas production figures, and regional water cut percentages. Produced water rates for natural gas are substantially lower, however, with a global average of just 5% for onshore and offshore production.



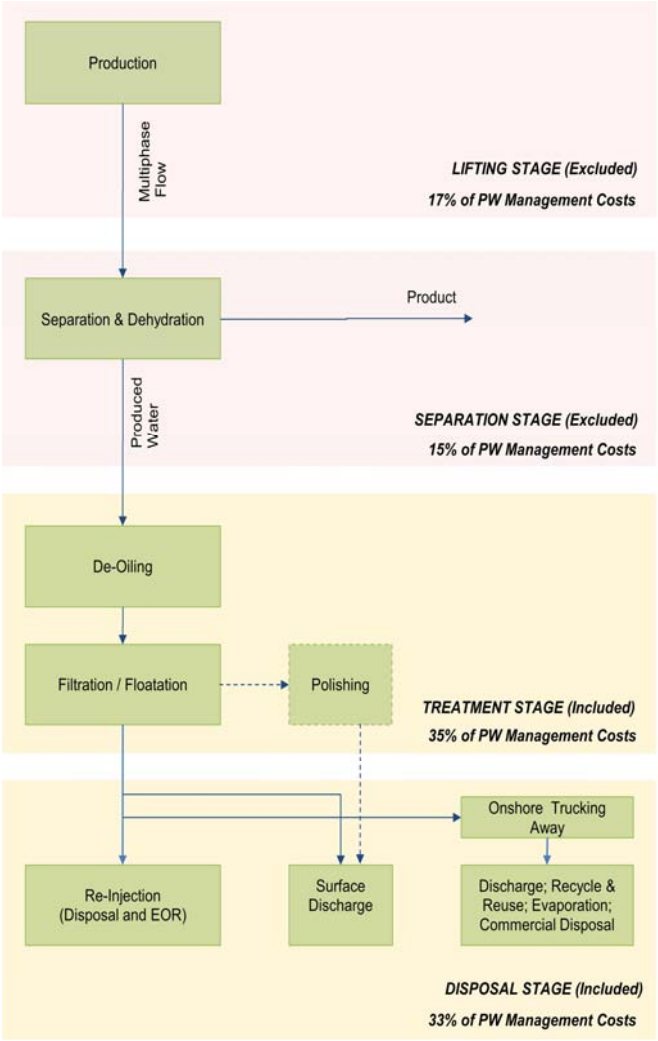
Offshore Produced Water 2000-2015
Source: Douglas-Westwood

million barrels/day	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Africa	5.1	5.3	5.5	5.8	6.6	7.7	8.8	9.4	10.3	10.4	12.7	13.5	15.1	15.7	15.7	15.6
Asia Pacific	5.7	5.8	6.4	6.7	7.0	7.2	7.4	7.8	8.7	9.5	10.8	11.8	13.2	15.1	17.2	20.6
Canada	0.07	0.08	0.15	0.18	0.18	0.20	0.21	0.27	0.28	0.28	0.28	0.30	0.33	0.38	0.43	0.51
Europe	7.6	7.8	8.3	8.4	8.4	8.3	8.3	8.8	9.7	10.2	10.4	10.4	10.3	10.3	10.5	10.8
Latin America	3.9	4.2	4.6	5.0	5.1	5.5	5.8	6.0	6.5	7.2	8.7	9.3	9.7	10.6	11.1	11.6
Middle East	12.5	11.5	11.2	13.3	14.4	15.3	16.4	16.8	16.9	15.9	17.1	18.5	19.9	23.3	25.1	27.2
Russia & Caspian	0.04	0.05	0.05	0.05	0.06	0.09	0.15	0.24	0.26	0.30	0.42	0.49	0.63	0.90	1.17	1.75
US GOM	2.1	2.3	2.3	2.2	2.2	1.9	1.9	2.2	2.4	3.0	3.1	3.2	3.3	3.4	3.6	3.8
Total	**37.1**	**37.1**	**38.4**	**41.6**	**43.9**	**46.2**	**49.0**	**51.5**	**55.1**	**56.9**	**63.6**	**67.6**	**72.4**	**79.7**	**84.7**	**91.8**

Offshore Produced Water 2000-2015
Source: Douglas-Westwood

Onshore produced water volumes are set to rise from 2011-2015 on average by 4% per annum, whereas offshore produced water will rise by 8% per annum. This is due to increased offshore oil and gas production rates, combined with the depletion of major offshore oil and gas reserves in areas such as the North Sea, where water cuts are increasing significantly. Onshore oil and gas production produces a greater volume of produced water vs. offshore oil and gas production. However, the volume of offshore produced water is set to increase at a faster rate.

Upstream Oil & Gas – Produced Water Life Cycle & Definitions



Source: Schlumberger, Douglas-Westwood

Produced Water Management

The flow diagram below provides an overview of the produced water ("PW") management process from the lifting of multiphase flow from the producer well to the eventual disposal of treated water via re-injection or some other means. This approach to the produced water market presented here excludes the initial costs associated with the lifting and separation of water and focuses on expenditure related to treatment and disposal. According to leading industry sources these two stages account for 68% of total produced water management expenditure.

Treatment Stage

De-Oiling/Filtration/Polishing: After separated from the oil and gas during separation stage, the residual water in many cases needs to be further treated either to comply with local regulatory requirements for discharge to surface waters (sea/rivers/evaporation pits) or to attain acceptable levels for reinjection. Failure to properly prepare the water for reinjection can lead to formation damage which can reduce production rates. A range of chemical treatments such as emulsion

breakers, biocides, oxygen scavengers & corrosion inhibitors are applied to the water prior to reinjection to reduce the risk of scale build up in the well and damage to steel casing and tubular. It is estimated that these chemicals account for 20% of water treatment costs.

Disposal Stage

Reinjection: Returning produced water underground is currently the most common form of PW management for the onshore market, with the North American and Middle Eastern markets currently thought to reinject over 90% of the total volume produced.

Discharge: Water that is not reinjected is generally discharged. This is particularly common in the offshore market where higher drilling costs act as a deterrent for reinjection to some operators. However, local legislative requirements (set by bodies such as OSPAR) ensure produced water is extensively treated before it is mixed with the natural environment. The proportion of produced water that is discharged to surface waters varies by region but is thought to account for 82% of North Sea output and the vast majority of US Gulf of Mexico production. For the onshore market, water that is not reinjected after treatment is discharged to the environment or specialized evaporation pits, or is recycled and reused by agriculture and industry via trucking or pipelines.

Upstream O&G – Global PW Market

The global market for produced water management equalled $41 billion, having grown at a compound rate of 2.5% over the past five years. A combination of increasing oil gas production, water cuts and well maturity will drive further growth over the 2010-2015 forecast period resulting in a compound growth rate of 4.6% with expenditure reaching $54 billion by 2015. The offshore market will contribute significantly to this forecast and is expected to grow at a compound rate of 6.5%, substantially higher than the 3.8% expected for the onshore market.

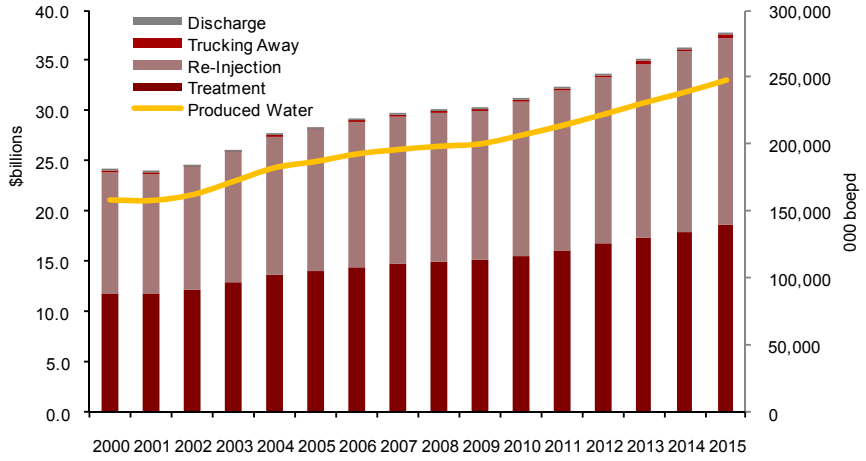
The cost of treating and handling produced water varies greatly depending upon the nature of the individual oil or gas well, the location of the well, and the treatment methods that are used. Prices vary from as little as $0.01/bbl up to over $5.00/bbl depending on the location of the produced water generation, the location of treatment and the means of the treatment.

Reinjection, while the dominant form of post-treatment handling of produced water, is also the most costly form. Reinjection methods are typically more labor and technologically intensive than procedures such as pumping into evaporation pits.

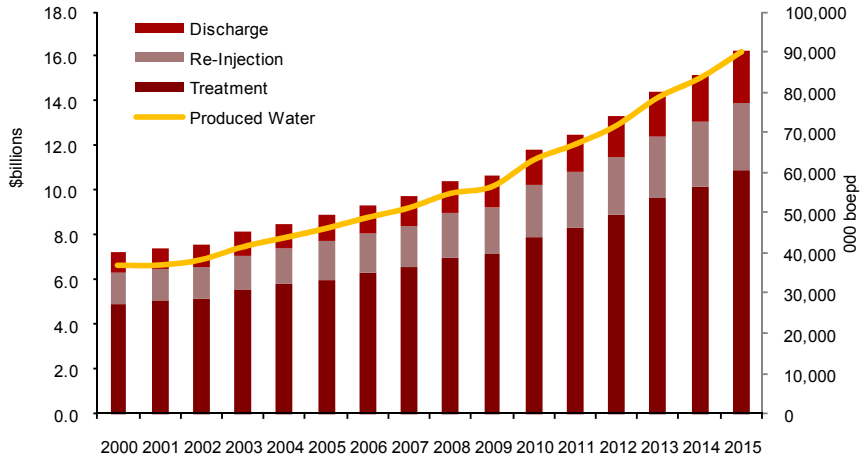
ONSHORE: $billions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Treatment	11.9	11.9	12.2	12.9	13.7	14.1	14.5	14.7	14.9	15.1	15.5	16.1	16.7	17.4	18.0	18.7
Re-Injection	11.9	11.9	12.2	12.9	13.6	14.0	14.4	14.6	14.8	14.9	15.4	16.0	16.6	17.3	17.9	18.6
Trucking Away	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Discharge	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Total	**24.1**	**24.0**	**24.6**	**26.1**	**27.6**	**28.3**	**29.2**	**29.7**	**30.1**	**30.3**	**31.3**	**32.4**	**33.7**	**35.1**	**36.3**	**37.8**
Produced Water	158,139	157,729	162,015	171,976	182,294	187,031	192,708	196,062	198,508	200,364	206,774	214,144	222,517	231,316	239,348	248,372
OFFSHORE: $billions	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Treatment	4.9	5.1	5.2	5.6	5.8	6.0	6.3	6.6	7.0	7.1	7.9	8.3	8.9	9.6	10.1	10.9
Re-Injection	1.3	1.4	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.4	2.5	2.6	2.8	2.9	3.1
Discharge	1.0	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.4	1.6	1.7	1.8	2.0	2.1	2.3
Total	**7.2**	**7.4**	**7.6**	**8.2**	**8.5**	**8.9**	**9.3**	**9.7**	**10.4**	**10.7**	**11.8**	**12.5**	**13.3**	**14.4**	**15.2**	**16.2**
Produced Water	37,088	37,109	38,448	41,636	43,904	46,227	48,937	51,350	54,942	56,648	63,226	67,157	71,878	78,838	83,643	90,169
Grand Total	**31.3**	**31.4**	**32.2**	**34.3**	**36.2**	**37.2**	**38.5**	**39.4**	**40.5**	**41.0**	**43.2**	**44.9**	**47.0**	**49.5**	**51.5**	**54.0**

Treatment includes produced water that is ultimately re-injected or discharged

Onshore and Offshore Produced Water Production and Spend 2000-2015
Source: Douglas-Westwood



Global: Onshore Produced Water Expenditure 2000-2015
Source: Douglas-Westwood



Global: Offshore Produced Water Expenditure 2000-2015
Source: Douglas-Westwood

Upstream O&G – Drivers for new technology

Operators' Opinions on PW Management

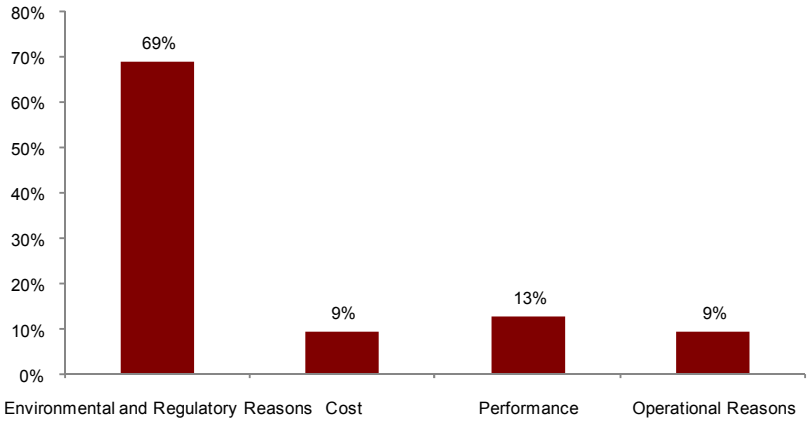
Environmental regulations are the key driver of the innovation in the produced water segment.

In 2010, Douglas-Westwood and OTM Consulting surveyed industry practitioners regarding their produced water management philosophies and practices, and the results were published the firms' Offshore Produced Water Gamechanger Report 2010-2014. Companies that participated in the survey included the largest offshore operators and oilfield service providers. Summary results follow.

Drivers for new technology

As the chart below shows, a majority (69%) of surveyed industry professionals feel that environmental regulations are the main driver of innovation in the field of produced water management.

Although this might not be surprising, it is noteworthy that apart from the headline regulations formulated by national or regional organisations such as OSPAR (for most of regions bordering North Sea) and EPA (US), internal company regulations are often a more decisive driver of innovation (chart below).



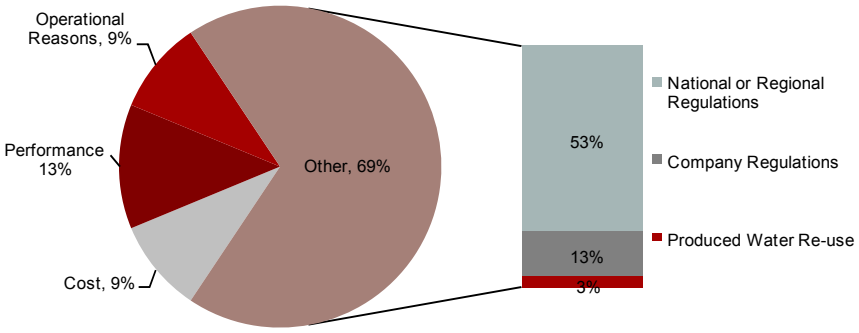
Global: Drivers for new technology
Source: The Offshore Produced Water Gamechanger Report 2010-2014, OTM Consulting, Douglas-Westwood

Companies have different objectives in trying to exceed the applicable regulatory requirement. For example, they may anticipate regulations to get tougher and wish to prepare themselves to be able to comply with future regulations as and when they become law. The survey found that while the general regulatory trend is towards stricter discharge regulations and eventual shift towards a zero discharge policy, occasional shifts in local regulations in some areas of the world might actually make discharge of treated water easier for some in the short term.

Another motivator of action is the emergence of corporate responsibility initiatives in major oil companies. Operators are often keen to outperform regulatory requirements to burnish their social credentials, and better than average environmental performance helps companies improve their corporate image.

A sizeable proportion of respondents (22%) were of the opinion that a desire for more cost effective and high performance technologies was a key driver of innovation, whilst 9% of the respondents cited operational reasons including process de-bottlenecking as the main driver. Finally, some companies, especially those with large operations in the Persian Gulf, were of the opinion that produced water re-use is the main driver behind some of the treatment technologies.

All of these factors may be taken as positive for MyCelx.



Global: Drivers for new technology
Source: The Offshore Produced Water Gamechanger Report 2010-2014, OTM Consulting, Douglas-Westwood

Discharge Regulations for Produced Water

Overview

In general regulations permit discharge to the sea for free and emulsified oil totalling between 25-40 ppm.

Produced water is subject to a number of global and regional regulations, although only a few have specific limits. Among these are the 1982 United Nations Law of the Sea Convention (UNCLOS), which provides a legal regime for the world's seas and oceans. Coastal states are empowered to enforce their national standards and anti-pollution measures within their territorial waters.

The United Nations Environment Programme (UNEP) – Regional Seas[6] gives an overview of the regulations and conventions in different parts of the world relating to allowable oil and grease content in discharged produced water.

North-East-Atlantic

According to the OSPAR Convention held in Oslo-Paris in 1992, discharge limits for produced water are 30 mg/L of free and emulsified oils.

6 - UNEP Regional Seas Programme, Accessed at http://www.unep.org/regionalseas/, on May 2011.

Signatory countries include Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK.

Latin America and the Caribbean

According to the Cartagena Convention of 1983 discharge limits for produced water are <50 ppm for class 1 coastal waters, and <15 ppm class 2 coastal waters.

Signatory countries include Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Christopher and Nevis, St. Lucia, St. Vincent and Grenadines, Suriname, Trinidad and Tobago, USA, Venezuela and the Caribbean Territories of France, Netherlands and the UK.

Offshore United States

Most offshore oil installations falling in the US maritime boundary are governed by the regulations of the US Environment Protection Agency in addition to other state regulations. The Clean Water Act (CWA) requires that all discharge of pollutants to surface waters (streams, rivers, lakes, bays and oceans) must be authorised by a permit issued under the National Pollutant Discharge Elimination System (NPDES) program. The regulation calls upon various permit writers to consider two types of effluent limits when identifying effluent limits for produced water discharges: technology-based effluent limits and water quality-based effluent limits.

Effluent Limitation Guidelines (ELGs) for offshore structures (structures seaward of the US territorial boundary), representing the degree of effluent reduction attainable by the application of the best available technology economically achievable (BAT), limit oil and grease in produced water being discharged to a maximum level of 42 mg/L daily and a monthly average level of 29mg/L[7]. ELGs for coastal structures (structures landward of territorial boundary) representing the degree of effluent reduction attainable by the application of the best available technology economically achievable (BAT) prohibit the discharge of produced water in all areas except Cook Inlet, Gulf of Alaska.

Offshore Africa

In some of the major oil producing countries in Africa, the regulations regarding discharge and monitoring of produced water are getting stricter. According to Nigerian discharge regulations, companies cannot discharge produced water less than 20km from the shoreline. Water monitoring is mandated every 5 weeks and biological monitoring at the production site is required every 2 years. The monthly average oil concentration in discharged produced water cannot exceed 40 mg/L. Similar rules and regulations are being implemented by Angola[8].

Offshore South East Asia

This is also a very wide region with waters coming under the jurisdiction of different countries. In the absence of any regional regulation, operators have to abide by respective national regulations. The typical discharge limit for produced water concentration in this region is 25 ppm[9].

7 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

8 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

9 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

Offshore Brazil

In Brazil, resolution 393 of August 2007 of Conselho Nacional do Meio Ambiente (CONAMA) regulates the continuous discharge of process water or produced water from oil and gas offshore platforms. According to this resolution, the discharge of oil and grease in produced water is limited to an average monthly concentration of up to 29 mg/L with maximum daily value of 42 mg/L.[10]

Offshore Western Australia

In Australia, the majority of offshore production facilities discharge treated produced water to the sea.

The Commonwealth Petroleum (Submerged Lands) (Management of Environment) Regulations 1999 require oil and gas production facilities to have an accepted Environment Plan (EP). Regulations require a risk assessment of petroleum activities. The assessment should provide a measure of the risks associated with dispersed and dissolved oil fractions, metals, radio nuclides, added chemicals and relevant chemical or physical attributes of the whole fluid. Operators are required to put forward their case for their preferred PW disposal option. The concentration of petroleum (dispersed) in any PW discharged to the sea must not exceed 50 mg/L at any one time and average discharge during any 24 hr period should be less than 30 mg/L.[11]

Offshore Middle East

Pollution regulations in the Middle East are largely governed by the Kuwait Action Plan for the Protection and Development of the Marine Environment and the Coastal Areas. This action plan was adopted at a regional conference convened in Kuwait between 15-23 April 1978. This convention was attended by the plenipotentiaries as well as legal and technical experts from the eight States of the Region: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Later, a special protocol concerning Marine Pollution resulting from Exploration and Exploitation of the Continental Shelf was adopted in 1989.

The protocol states: “No other discharge from an offshore installation, except one derived from drilling operations, should have an oil content, whilst undiluted, greater than that stipulated by the Regional Organisation for the Protection of the Marine Environment (ROPME); the latter must not exceed 40 mg oil/l as an average in any calendar month and 100 mg oil/l at any time.” [12]

10 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

11 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

12 – The Offshore Produced Water Gamechanger Report 2010-2014. OTM Consulting and Douglas-Westwood. 2010.

Section 4: Upstream Market

The Upstream Market

MyCelx polishers and coalescers are applicable to a number of market segments, including upstream produced water. Within the upstream segment, three sub-segments appear to be emerging: offshore and onshore produced water treatment and pre-re-injection treatment specifically relating to sour water strippers.

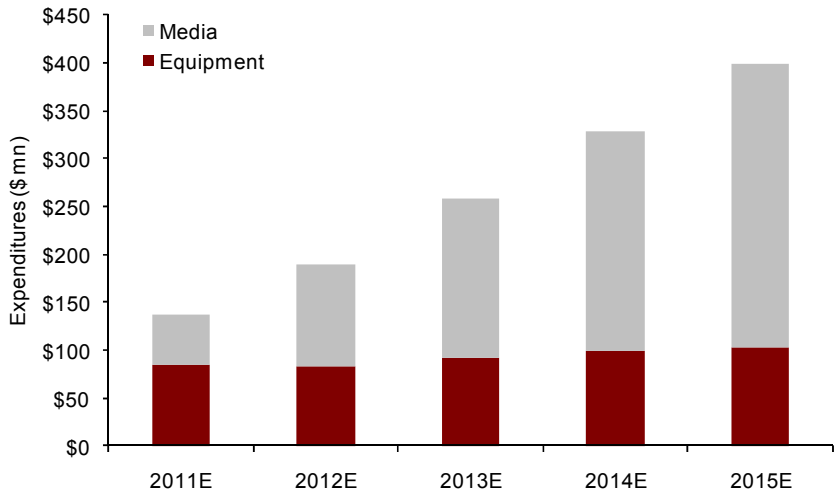
From 2011 to 2015 the combined upstream market potential is about $1.3 billion, growing from about $140 million in 2011 to about $400 million in 2015. Our forecast (below) represents the aggregated results from analyses in the following pages. However, on average, we have assumed capital expenditure of $19/bbl of capacity for a polisher unit, $36/bbl of capacity for a coalescer + polisher unit; and an average Opex cost of $0.05/bbl. These figures represent the Company's averages of regional Capex and Opex treatment costs.

Offshore Market Potential – Equipment (Capex)

On average, about 85% of offshore produced water is discharged worldwide (the remaining15% is re-injected). As a result, this water must be treated before disposal, and the MyCelx units' small footprint, low weight, competitive cost and superior treatment performance gives it a formidable competitive advantage offshore.

We estimate 63 mbpd of water were produced offshore daily in 2010, of which 54 mbpd were discharged. Of this, we estimate 2.2 mbpd were produced from shallow water floating platforms, 5.8 mbpd from deepwater floating platforms, and approximately 46 mbpd from fixed offshore platforms, by definition seated in shallow waters. These represent the offshore produced water flows which could applicable to treatment technologies in general.

Within these flows, the market can be further differentiated between existing platforms and new installations. New installations are presumed, on a percentage basis, to be more likely to install a MyCelx system, as the full suite of systems must be chosen at the time of design and construction. In the coming years, about 30 floating platforms installations are anticipated yearly, of which 55% are in deep water.

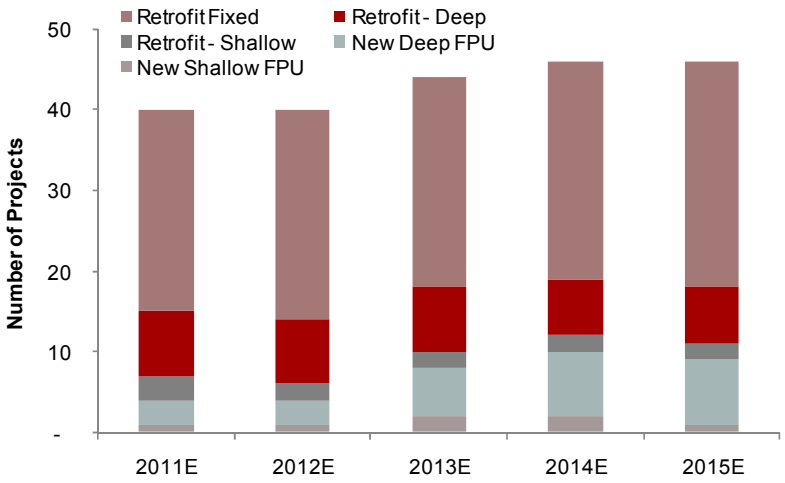


Potential Upstream Market for Equipment and Media - 2011-2015
Source: Douglas Westwood

At present, MyCelx has not been chosen for a shallow water floating project, in part because it is believed that shallower reservoirs tend to have lower emulsified oil levels; and therefore the comparative advantage of the MyCelx unit is commensurately reduced. However, we believe that at least a portion of new shallow water floating platforms, potentially 20% by our estimate, could opt for a MyCelx polisher over time, due to increasing water cuts and changing composition of produced water.

Given recent MyCelx success in the deepwater segment, we project a much higher potential rate of acceptance for MyCelx in deepwater, with an estimated 60% of new deepwater rigs included in the potential market for MyCelx polishers and coalescers.

The Upstream Market – Offshore



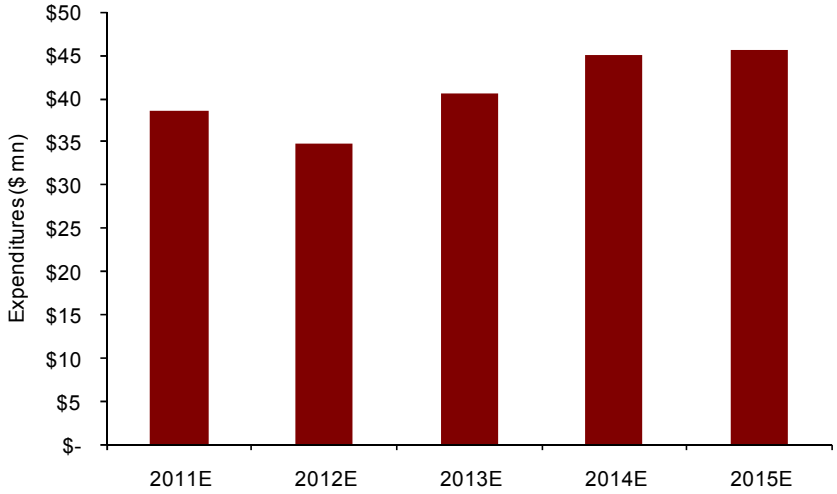
Potential Number of Offshore PW Projects for MyCelx – 2011-2015

Source: Douglas Westwood

We also anticipate that MyCelx solutions are likely to penetrate the retrofit market. We project that 3% of incumbent shallow water floaters and 9% of operating deepwater floaters could potentially install respectively a MyCelx polisher and MyCelx coalescer and polisher annually.

Finally, the largest part of the market is, in fact, fixed production platforms with more than 8,200 in total. In principle, all of these are in shallow water, and therefore market potential is open to question. However, the Company's Bidding List indicates discussions to install MyCelx polishers on three fixed platforms. Were general standards of 30-40 ppm hydrocarbons to be tightened materially, the fixed platform market could emerge as leading segment for the Company. Given that the MyCelx technology should enable regulators to tighten standards, this could emerge as a legitimate market segment.

We currently estimate that the MyCelx technology potentially could be applicable to 0.3% of fixed platforms annually, totaling 25-30 installations per year on an installed base of over 8,200 units. We assume such platforms would utilize only polishers.



Potential Offshore PW Market for Equipment – 2011-2015
Source: Douglas Westwood

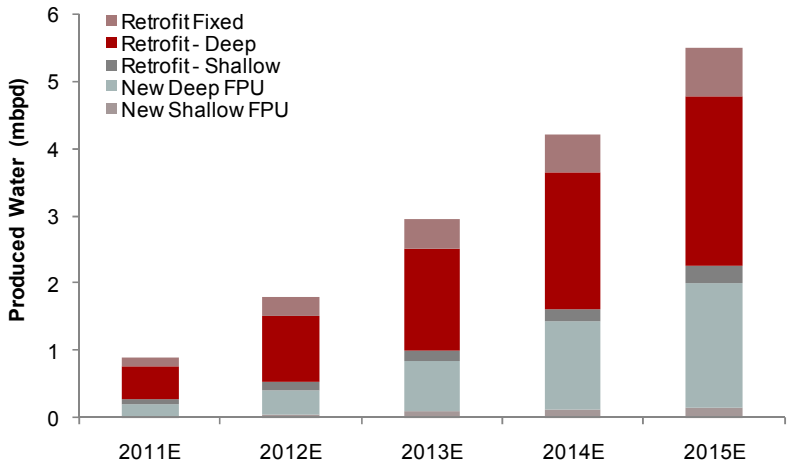
All in, these segments taken together would represent a potential of 50-55 projects annually, with more than half of these related to fixed platforms.

Applying project capex numbers discussed previously, the annual potential equipment market for offshore produced water treatment is estimated in the $35-45 million range at steady state. This represents approximately 4-5% of the total offshore water treatment equipment market of $833 million forecast by Douglas-Westwood for 2014.

The potential equipment market for the 2011-2015 period is projected at approximately $200 million.

We note that these forecasts are sensitive both to coalescer sales and revenues from the fixed platform business.

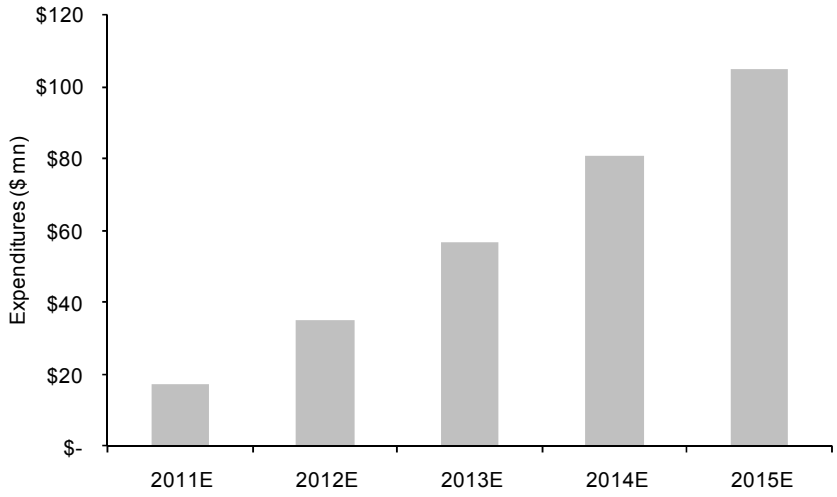
Offshore Market Potential – Media (Opex)



Potential Offshore PW Processed with MyCelx Media – 2011-2015
Source: Douglas Westwood

Once a polisher is installed and in service, it requires regular replacement of filters. Thus, while capex sales are one-time, media sales are recurring and cumulative. Based on the pace of unit installation discussed previously and assuming filter utilization per Company coefficients, potential media sales revenues rise over time.

This growth in sales revenue is sensitive to actual filter usage, media selling prices and speed of adoption of technology, as media sales in any given year depend on all preceding polisher and coalescer sales.



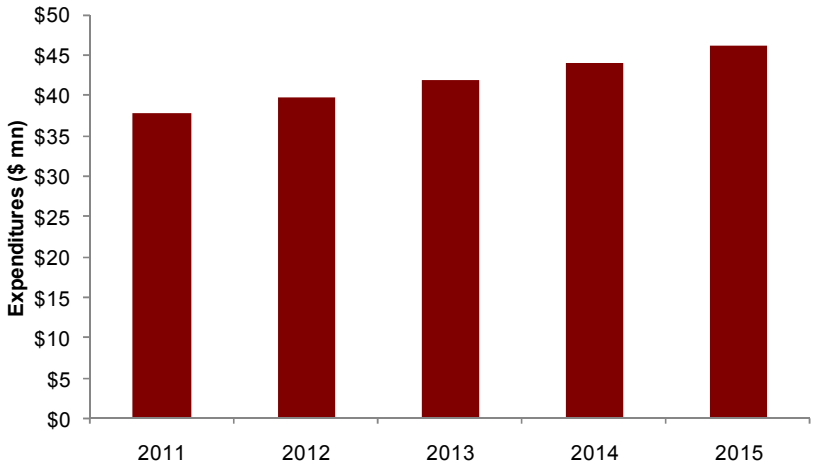
Potential Offshore PW Market for Media – 2011-2015
Source: Douglas Westwood

In any given year, the potential market for filters and other media range from $15-25 million (on a full year basis). Cumulatively, media sales potential, assuming conversion of all potential equipment sales as above, could exceed $100 million in 2015.

Thus, over time, the market potential for MyCelx looks to be primarily determined by filters and media sales, rather than the revenues from equipment sales.

The Upstream Market – Onshore (ex - Oil Sands)

Onshore Market Potential – Capital Equipment (Capex)

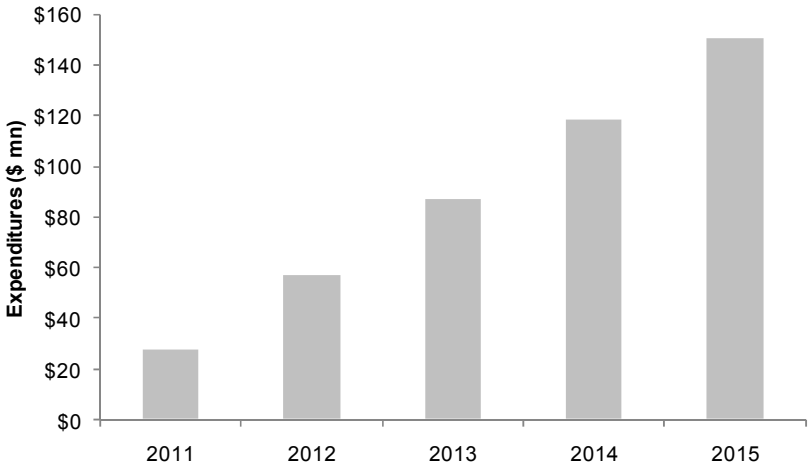


Potential Onshore Market for PW Equipment – 2011-2015
Source: Douglas Westwood

Approximately 90% of produced water onshore is re-injected. Much of this is re-injected without significant treatment into disposal wells. This is particularly true in the traditional North American oil producing regions like Texas, Oklahoma and western Canada, which have been drilled for many years and where exhausted oil wells provide a convenient means of disposal.

In some cases, water may require pre-treatment when re-injected to support production. In such cases, high oil content or high concentrations of dissolved solids may cause clogging of the injector wells, and pre-injection treatment may prove desirable. However, it is not clear that such treatment must be to the low parts per million or parts per billion. This may prove desirable in the future, but to date is not a visible need; consequently we exclude re-injected, onshore produced water (excepting sour water strippers) as a potential market for MyCelx for purposes of this analysis.

Onshore Market Potential – Media (Opex)



Potential Onshore Market for PW Media Filters – 2011-2015
Source: Douglas Westwood

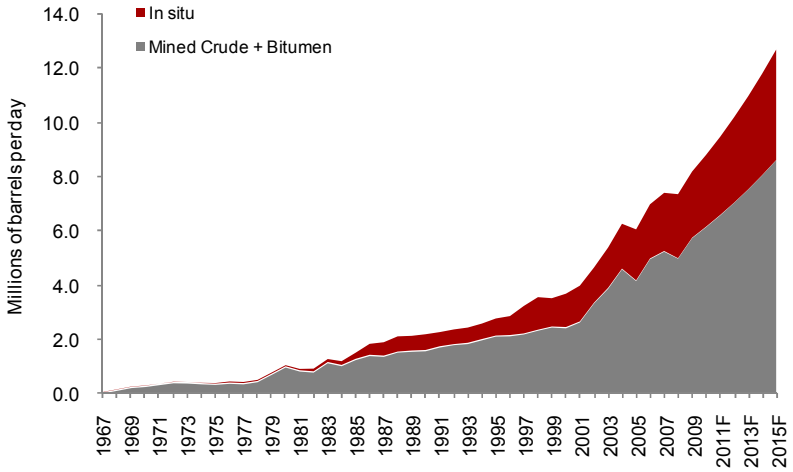
The remaining 10% of onshore produced water which is not re-injected may, on the other hand, represent a potential market for MyCelx. Such water may be disposed of in evaporation ponds, surface bodies like lakes and rivers, or sent to treatment facilities for remediation. In some portion of these cases—we estimate 50% (that is, 5% of total onshore produced water)—may constitute a potential market for MyCelx. Of this, we project the annual potential market to MyCelx at perhaps 0.7% of total onshore produced water, or 1.5 mbpd. An example of such a project would be the evaporation ponds at Anadarko's Vernal, Utah conventional oil field, an opportunity which arose due to a lack of nearby disposal wells. In addition, two major independent producers have completed onshore water treatment projects with MyCelx.

In the onshore market, MyCelx at present looks to remain a niche solution for specific project types. Annual equipment sales potential is estimated at over $40 million, and the potential media market could exceed $140 million annually by 2015 (based on cumulative equipment sales). From the 2011-2015 period, the total onshore market potential is estimated at around $650 million.

The Upstream Market – Onshore Oil Sands

Oil Sands Overview

Examination of the Bidding Projects list reveals two projects related to oil sands. Oil from oil sands are produced primarily in the Canada's Alberta province. The country produced approximately 1.5 mbpd of crude from the oil sands in 2009. Of this, approximately 57% arose from surface mining of oil sands; another 43% came from in situ production of oil sands using steam assisted, gravity drainage technology (SAGD), which dissolves subsurface crude from the oil sands through heat and steam. The proportion of SAGD to mined oil sands has remained roughly stable over the last decade, with SAGD representing 40-50% of total oil sands production since 1997.



Oil Production from Oil Sands in Canada 1967-2009
Source: CAPP

Oil sands production continues to grow at a brisk pace, with mined production growing at 8% per annum since 2003 (to 2009), and in situ production growing at a 9.5% pace over the same period.

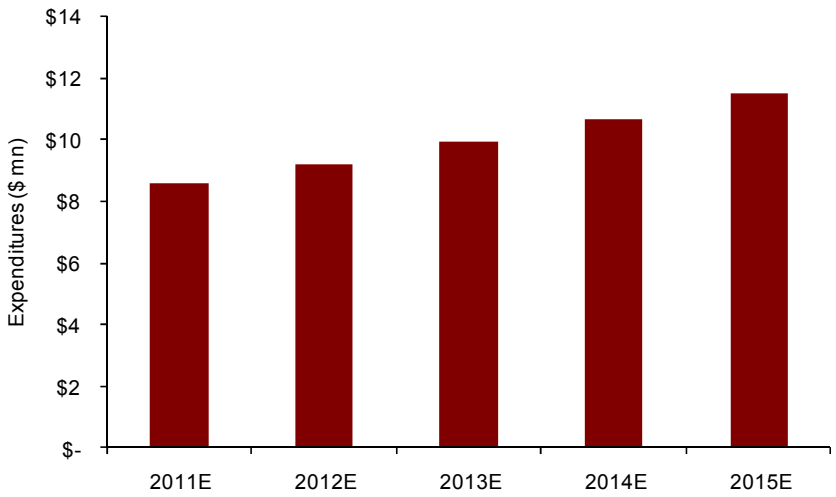
Oil sands processing requires vast quantities of water, According to CANMET, a Canadian government research agency, mined oil sands requires ten to eleven barrels of water to produce one barrel of bitumen. Seven to eight barrels of that water is recycled, leaving three to four barrels of new water for every barrel of bitumen that is produced. The residual from this process, tailings, consists of the water, sand and clay sourced from the original oil sand. These are stored in holding ponds which, as of 2007, covered an area of approximately 50 km^2 (19 sq mi). In the ponds, over time, the clay settles out and clear water remains on top. This water is re-cycled for the oil sands extraction process. However, the chemistry of the water changes each time it is re-cycled through a holding pond.

According to a study by Canada's Energy Board, in SAGD operations, 90-95% of produced water is recycled and only about 0.2 barrels of make-up water are used for every barrel of bitumen produced. This implies produced water of 2-4 barrels water per barrel of bitumen. A survey of nine in situ facilities by RPS Energy (2009) found water usage of 4.8 barrels per barrel of bitumen. We use 4.5 bbls for purposes of our forecast here.

About 82% of Alberta's remaining established oil sands reserves are accessible only using in situ extraction technologies, and consequently, there is a growing demand for associated water. Fresh water demand for in situ oil sands projects is projected to more than double between 2004 and 2015 from 5 million (31.5 million barrels) to 13 million cubic meters (82 million barrels) per year, according to Canada's National Energy Board.

Based on 11 barrels water per barrel of mined bitumen/crude and 4.5 barrels water per barrel crude from in situ extraction, we can estimate water demand in the oil sands. This is seen increasing from about 9.5 mbpd in 2011, to over 12.5 mbpd in 2015, assuming oil sands production continues to grow near its long-term rate and that newer extraction technologies do not materially displace incumbent ones in the forecast horizon.

Oil Sands Market Potential – Capital Equipment (Capex)

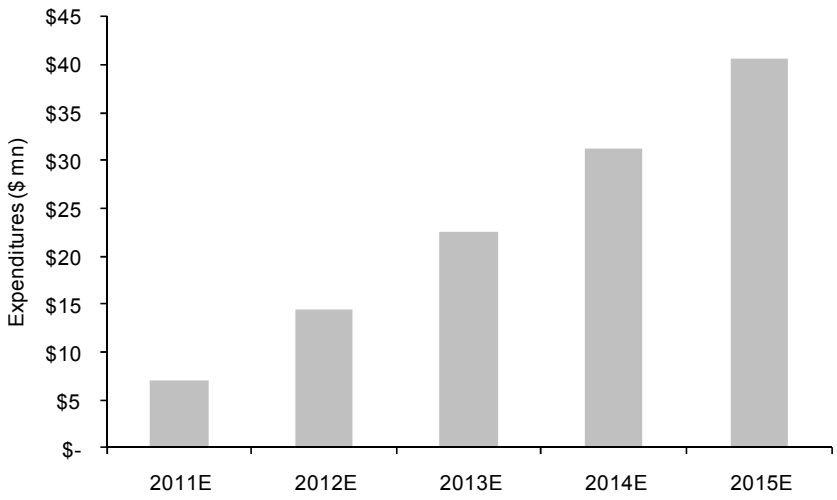


Potential Oil Sands Market for PW Equipment – 2011-2015
Source: Douglas Westwood

MyCelx has yet to win any of oil sands-related business; however, we are including it in our forecast notably because the Company reports advanced discussions with potential clients and because market drivers may prove similar to those for sour water strippers, where the Company appears to be gaining significant traction. In these applications, even low levels of free or emulsified oils may lead to depositions or corrosion of heat exchangers operated with re-cycled water. Therefore, should MyCelx gain acceptance in the oil sands, the Company could find a substantial potential market there.

From 2011 to 2015, we estimate the combined oil sands market potential for equipment is about $50 million, growing from about $9 million in 2011 to about $12 million in 2015.

Oil Sands Market Potential – Media (Opex)



Potential Oil Sands Market for PW Media Filters – 2011-2015
Source: Douglas Westwood

Assuming that MyCelx technology is primarily oriented towards re-cycled water, then the oil sands market potential—water which might require tertiary processing—is estimated at 1.5 mbpd in 2010 , rising to 2 mbpd in 2015.

This market, valued at 5 cents per barrel (the pro forma cost of a MyCelx filter), could equal as much as $6 million in 2011, rising to over $40 million by 2015, based on cumulative equipment sales.

Future Upstream Markets

Future Markets –Sour Water Strippers

Sour water strippers appear to be an emerging market segment for the Company. Oil companies tend to develop the most convenient and easiest sources of oil and gas first. Thus, early oil developments were onshore and characterized by light, sweet crude. Over time, however, these resources have become depleted, and operators have increasingly turned to remote, harsh, sour, heavy and unconventional sources of oil and gas. These include deepwater, the Arctic, oil sands, shale oils and gas, and sour and heavy crude.

These latter two are particularly preponderant in the Middle East. Thus, new developments like Manifa in Saudi Arabia and the North Field in Qatar, are characterized by high sulfur levels. Production form these fields requires the removal of large quantities of sulfur—many thousands of tons per day. This has become a critical issue for the future development of the Middle East's hydrocarbon reserves.

Sulfur compounds like H_2S are removed from produced water using sour water strippers. Given the sheer volumes moved through major facilities like the LNG trains at Qatargas and Rasgas in Qatar, the smooth and uninterrupted functioning of sour water strippers is critical. Notwithstanding, these strippers appear susceptible to fouling due to polymerization of emulsified hydrocarbons in produced water. Based on tests conducted with operators in the

region, the Company reports that the MyCelx solution appears a potentially viable means to treat produced water prior to further processing in sour water strippers.

The Company reports three such projects under some phase of discussion. These are potentially large value projects.

Section 5: Downstream Market

Downstream Oil and Gas Water Treatment - Overview

Introduction

According to Bloomberg, there are currently about 693 oil refineries and 267 ethylene plants around the world. In 2010, the EIA reports there were 137 operating refiners in the US. Refineries convert crude oil in first generation products (gasoline, diesel, jet fuel, fuel oil); while petrochemical plants convert first generation products into second generation products (Benzene, Xylene, Propylene, Ethylene). In this conversion/cracking process, wastewater is produced. Wastewater for the purpose of our research encompasses process water, and all other water effluents from refineries .

In addition to wastewater, reverse osmosis (RO) systems are common in downstream oil and gas operations. The Company appears to have a unique pre-treatment capability for RO water pre-treatment and is showing substantial interest from potential customers and partners for this application.

This report considers only oil refineries for the downstream market.

Distribution of Oil Refineries and Ethylene Plants 2010
Source: Bloomberg

Process Water and Wastewater Market

In 2010, nearly 700 refineries world-wide produced 74 mbpd of petroleum products. According to the US EPA, the typical refinery uses 0.9 bbl water for every barrel of petroleum products produced. Refineries examined used process water in the range of 50%-115% of petroleum production, with waste water 50% or more of oil produced. For planning purposes, a refinery may be assumed to use approximately 1 barrel water for each barrel of petroleum products produced.

We have divided the downstream oil & gas wastewater treatment market into two sub-segments for which the Company offers competitive solutions: process water and wastewater.

Process Water:

There are several sources of process water inside refineries, and petrochemical plants.

Cooling Tower and Boiler Water: Cooling water is used to reduce temperature in hydrocarbon process flows via heat exchangers. Such processes are charterized by high pressure, high temperature hydrocarbons adjacent to low pressure, low temperature cooling water across a heat exchanger. Commonly, such systems develop leaks, with the hydrocarbons being forced into the cooling system. If hydrocarbons are not removed, system performance will deteriorate. In addition, in the US, the system must be shutdown within 30 days for remediation of any hydrocarbon contamination. The MyCelx unit can be useful to clean contaminated cooling water, on the one hand, and permit the system to continue to operate in the 30 day operating window without compromise of asset integrity. Qatargas uses a MyCelx unit in such a capacity at Ras Laffan.

Boiler water must be of high purity to prevent scaling and pitting of the boiler, which is a mission critical asset in a refinery. A MyCelx polisher can be a practical choice for ensuring minimal hydrocarbon contamination in this water.

Sour Water Stripper Stream: Prior to discharge, sulfur compounds must be removed from waste water using sour water strippers. However, such strippers are vulnerable to fouling due to hydrocarbon residues in the wastewater stream. In the Middle East and the United States, the Company reports that some refineries are finding emulsified oils in their sour water, possibly due to prior heating of the water during processing. These hydrocarbons build up on heat exchangers and reduce their efficiency and require periodic cleaning. To assist in reducing the problem, some refineries are turning to MyCelx remove hydrocarbons. This is a relatively new segment for the Company, but showing considerable promise, based on Company reports.

Wastewater:

The wastewater market for the purpose of this report consists of the following:

Effluent Stream: Some of the wastewater of refineries and petrochemical plants cannot be easily or economically treated to the quality necessary for many of the uses inside these plants. Many refineries around the globe discharge their wastewater, after treatment, into surface bodies like rivers and oceans. In those cases in which discharge limits are very strict or the operator wishes to achieve above-standard performance, the MyCelx unit may be engaged to achieve higher quality effluent.

In addition, the small footprint and portability of the MyCelx unit allows it to be deployed for local treatment of waste water within the refinery. Not all process and wastewater in a refinery is similarly contaminated. The co-mingling of hydrocarbon and non-hydrocarbon bearing water implies that all effluent must be treated, resulting in high treatment costs over a large volume of effluent. If water can be treated locally—for a specific wastewater stream—the remediation costs can be limited to just this quantity and overall treatment costs reduced. The Company has placed a MyCelx advanced coalescer with SABIC in Saudi Arabia which is used for just such an application.

Runoff, Storm and Drainage Water Stream: In addition to wastewater effluents, refineries and petrochemical plants need to comply with discharge regulations regarding runoff, storm and drainage water streams. Drainage and storm water are typically treated before discharge. MyCelx has placed a polisher at a global supermajor refinery in the US for use with run-off water.

In some cases, refineries are facing “zero discharge” requirements, which implies that process, waste and run-off water must be re-cycled. MyCelx can be instrumental in permitting refineries to achieve standards necessary for water re-cycling and re-use.

Sources of Wastewater in Refineries

Refineries and other petrochemicals plants use substantial volumes of water for processing, cooling and heat. From the point crude oil arrives in a refinery to the moment products leave the facility, several process occur in order to extract the maximum quantity of product from every barrel of crude oil. Many of these processes require water, which must be treated prior to re-use or disposal. Below is a summary[13] of key sources of wastewater inside a refinery:

Desalter: Crude oil often contains salts. The first step in the refining process, to reduce corrosion, plugging, and fouling of equipment, is to remove salts by a desalting process. Desalting involves the mixing of heated crude oil with water (about three to 10 percent of the crude oil volume) so that the salts are dissolved in the water. Wastewater and contaminants are discharged from the bottom of the settling tank to the wastewater treatment facility. The water flow in this process is about 2.1 gallons per barrel of oil.

Atmospheric / Vacuum Distillation: The second step is the separation of crude oil into various fractions or “cuts” by distillation in atmospheric and vacuum towers. The "cuts" obtained have specific boiling-point ranges and can be classified in order of decreasing volatility into gases, light distillates, middle distillates, gas oils, and residuum. The water flow in this process is about 26 gallons per barrel of oil.

Thermal Cracker: In subsequent refinery processes, the refiner can change the product mix by altering the molecular structure of the hydrocarbons. One of the ways of accomplishing this change is through "cracking," a process that breaks or cracks the heavier, higher boiling-point petroleum fractions into more valuable products such as gasoline, fuel oil, and gas oils. The water flow in this process is about 2 gallons per barrel of oil.

Coker: Coking is a severe method of thermal cracking used to upgrade heavy residuals into lighter products or distillates. Coking produces gasoline and various middle-distillate fractions used as catalytic cracking feedstock. The water flow in this process is about 1 gallon per barrel of oil.

Catalytic Cracker: Similar to thermal cracking except that catalysts facilitate the conversion of the heavier molecules into lighter products. This process rearranges the molecular structure of hydrocarbon compounds to convert heavy hydrocarbon feedstock into lighter fractions such as kerosene, gasoline, LPG, heating oil, and petrochemical feedstock. The water flow in this process is about 15 gallons per barrel of oil.

Hydrocracker: It is a two-stage process combining catalytic cracking and hydrogenation, where heavier feedstock are cracked in the presence of hydrogen to produce more desirable products. The process employs high pressure, high temperature, a catalyst, and hydrogen. The water flow in this process is about 2 gallons per barrel of oil.

Sour Water Stripper: Prior to discharge of sour water, sulfur compounds must be removed in sour water strippers. Most of the processes described here generate sour water as a byproduct. Sour water stripping can be accomplished using two methods: direct application

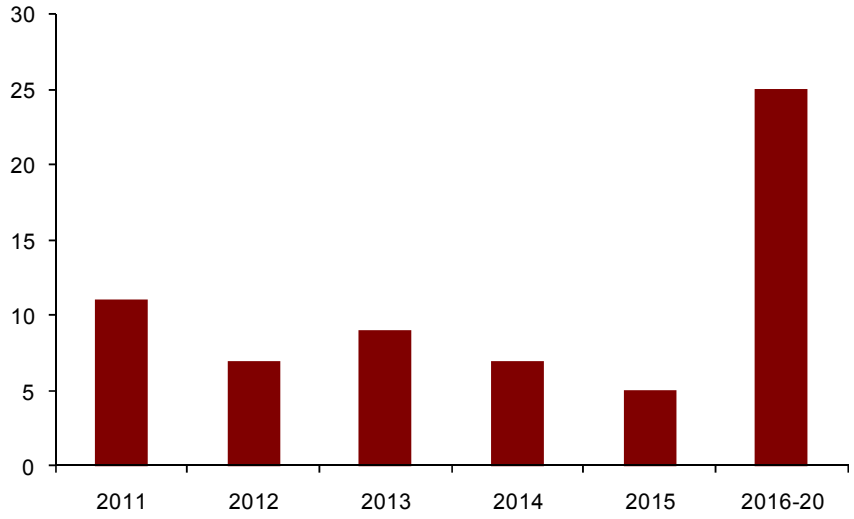
13 – Based on several sources including: U.S. Department of Labor – OSHA Technical Manual, Section IV, Chapter 2; Assessment of Atmospheric Emissions from Petroleum Refining , Radian Corp., 1980; Petroleum Refining Hazardous Waste Generation , U.S. EPA, Office of Solid Waste, 1994.

of stripping steam (usually low quality, low pressure) or a steam-fired re-boiler as a heat source. The intent is to drive as much H2S and NH3 overhead into the stripper as possible.

Process Heaters, Heat Exchangers, and Coolers: Process heaters and heat exchangers pre-heat feedstock in distillation towers and in refinery processes to reaction temperatures. Heat exchangers use either steam or hot hydrocarbon transferred from some other section of the process for heat input. The major portion of heat provided to process units comes from fired heaters fueled by natural gas, distillate, and residual oils. Fired heaters are found on crude and reformer preheaters, coker heaters, and large-column reboilers. Heat also may be removed from some processes by air and water exchangers, fin fans, gas and liquid coolers, and overhead condensers, or by transferring heat to other systems. The basic mechanical vapor-compression refrigeration system, which may serve one or more process units, includes an evaporator, compressor, condenser, controls, and piping. Common coolants are water, alcohol/water mixtures, or various glycol solutions.

Downstream O&G Water Treatment - Overview

New Installation Market

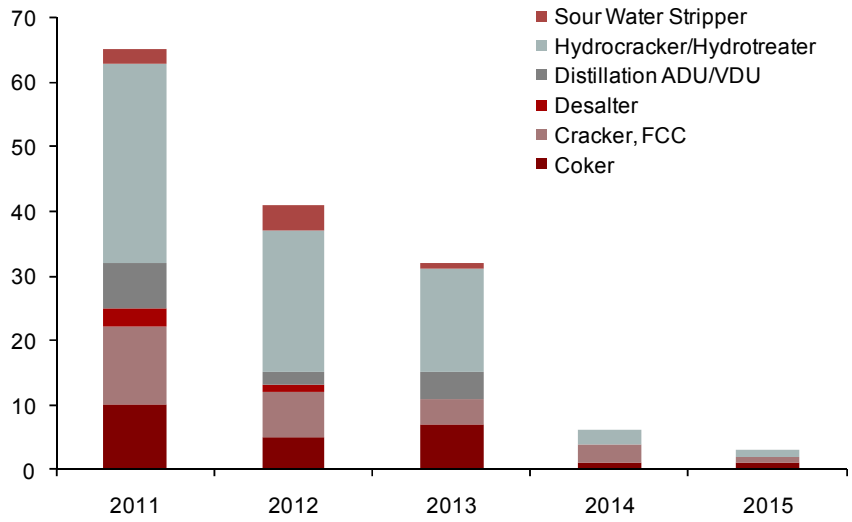


Visible New Refinery Installations - 2011-2020
Source: *Hydrocarbon Processing* Boxscore Database, Douglas Westwood

Oil and gas water treatment includes process, sour, runoff, storm and drainage water prior to discharge or recycling. Wastewater typically contains hydrocarbons, dissolved materials, suspended solids, and other compounds. Process water includes condensed steam, stripping water, spent caustic solutions, cooling tower and boiler blowdown, wash water, alkaline and acid waste neutralization water, among others.

As discussed above, the market for downstream oil and gas water treatment is driven by the construction of new refineries and the upgrade/retrofit of existing refineries and petrochemical plants. The chart above shows visible new refinery installations from 2011 to 2015 year by year for a total of 39 units. Visible installations for the 2016-2020 equal 25 units. Installations are frequently delayed, so the number of installations of the chart above should not be taken as definitive.

Retrofit Market



Visible Refinery Upgrade Projects - 2011-2015
Source: *Hydrocarbon Processing* Boxscore Database, Douglas Westwood

The chart above highlights visible refinery upgrade projects of selected equipment for refineries. Visibility is limited in the out-years due to shorter lead-time than in new refineries. From 2011 to 2015 over 145 refinery upgrade projects are visible to this date. As in the case of new refineries, installations are frequently delayed, so the number of upgrades of the chart to the right should not be taken as definitive.

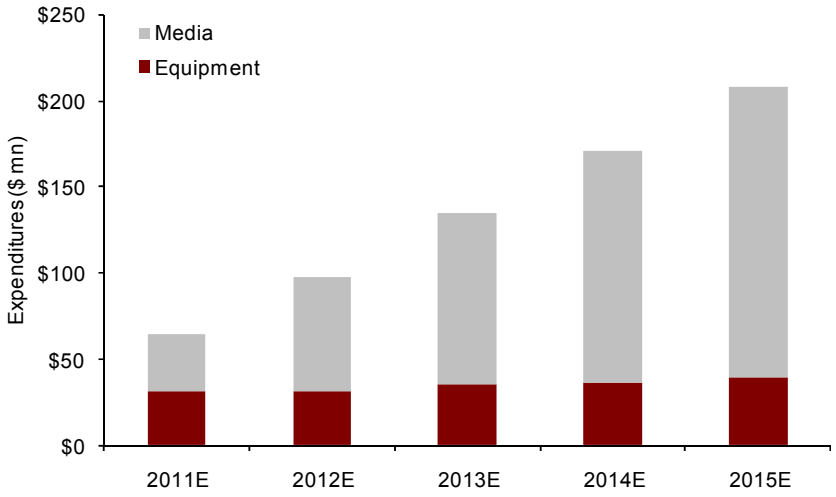
The Downstream O&G Water Treatment Market

Downstream Market Potential – Total

The chart below is based on the sum of our market forecasts for process and wastewater, as well as for reverse osmosis (RO) pre-treatment.

To size the market, we utilize capex expenditure of $19/bpd capacity for a polisher unit, and $36/bpd capacity for a coalescer + polisher unit, based on an average unit capacity of 30,000 bpd. Opex cost is projected at $0.05/bbl for downstream oil and gas wastewater treatment. These figures represent the Company's averages of respective capex and opex treatment costs.

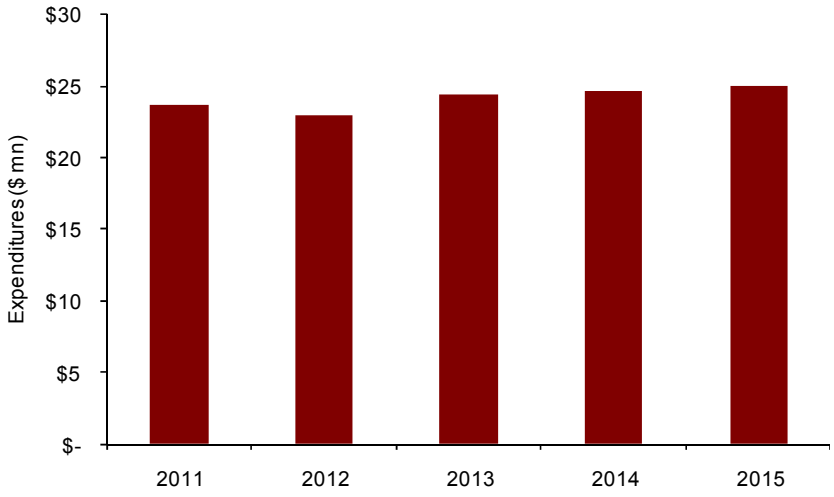
We estimate the global Potential Primary Market for downstream oil and gas water treatment for the 2011-2015 period at approximately $675 million. The market potential is around $65 million in 2011 and over $200 million in 2015. Media sales potential shown are a function of earlier potential equipment sales.



Potential Downstream O&G Water Treatment Market - 2011-2015
Source: Douglas Westwood

The Downstream O&G Water Treatment Market

Process / Wastewater Treatment Market – Capital Equipment (Capex)

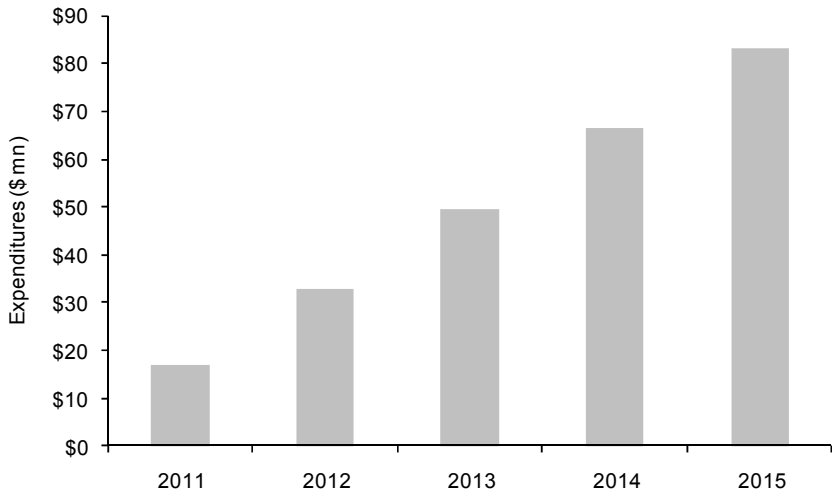


Potential Process and Wastewater Market from Equipment - 2011-2015
Source: Douglas Westwood

We project the potential downstream process and wastewater market at approximately $25 million per year.

This assumes that, in a typical year, 5-10 new refineries are built worldwide. In addition, we estimate 10% of existing refineries undergo upgrades/renovation or about 55 in number, implying approximately 60 plants per year in the total potential market, with the equivalent potential of 1.5 typical projects per facility. If we allow that MyCelx could be applicable to 20% of new refineries and upgrades, the annual Potential Market for process and wastewater treatment would equal approximately 20 projects per year.

Process and Wastewater Treatment Market – Media (Opex)

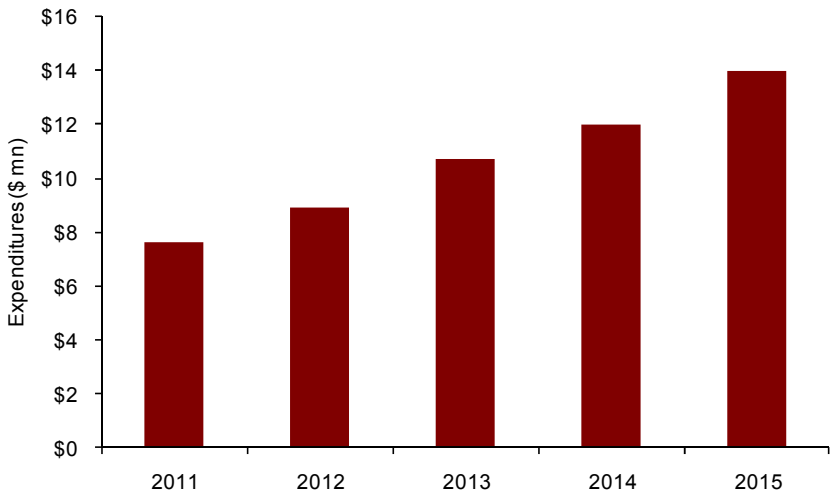


Potential Process and Wastewater Market from Media - 2011-2015
Source: Douglas Westwood, based on chart to left

Projected downstream projects imply associated media sales, based on an average of 27,500 bpd / project, a volume of 850,000 bpd per year in total. Potential media sales can be projected as cumulative based on potential historical equipment sales.

Thus, media sales have the potential to rise over time, increasing by approximately $15 million per year, and with the market potential approaching $80 million after five years, assuming equipment potential sales per the chart on the previous page.

RO Pre-Treatment Market – Capital Equipment (Capex)



Potential RO Pre-Treatment Equipment Market - 2011-2015
Source: Douglas Westwood

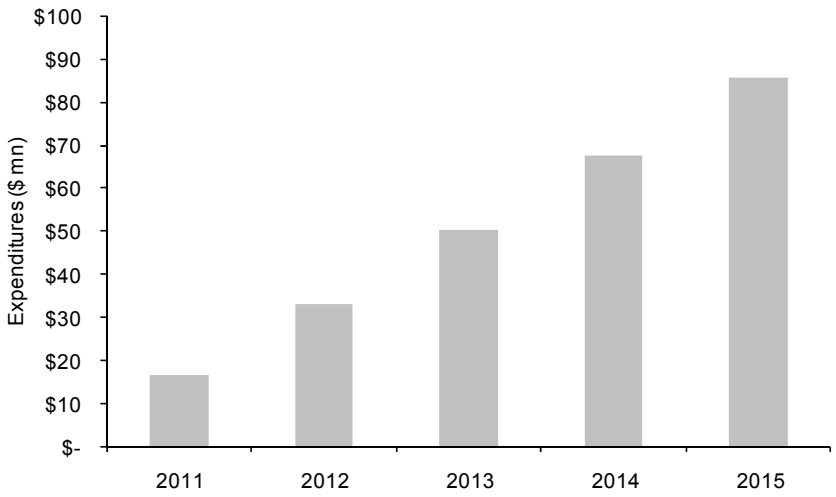
Reverse osmosis finds its way into a refinery or petrochemical processing plants for one of two reasons: to treat feed water for use as process water or to treat boiler or cooler water to minimize hydrocarbon contamination in these systems.

According to a refining industry expert[14], any refinery or petrochemical plant with a boiler will tend to either use a reverse osmosis (RO) system or purchase steam from a third party provider. RO systems are highly sensitive to hydrocarbon contamination, which operators seek to prevent. This is also true for refineries drawing their feed water from the sea, which may become contaminated with either naturally occurring oil or with oily discharge from ships passing by.

MyCelx polishing unit reduces the amount of hydrocarbons to less than 5 ppm, and appears to be the only system to do so without relying on chemicals, which are themselves undesirable in RO systems.

[14] - Loraine Huchler, MarTech Systems

RO Pre-Treatment Market – Media (Opex)



Potential RO Pre-Treatment Media Market - 2011-2015
Source: Douglas Westwood

Our discussions with professionals in the RO business suggest that such applications will remain a niche, and not more broadly applicable in the RO sector. Both the pace of inquiries and the petroleum processing expert[14] consulted above suggest otherwise. The Company's Bidding List posts six RO opportunities in the downstream market as of May 1st 2011 (with an additional five in markets like geothermal power, seawater desalination, industrial and water services segments not analyzed here). We estimate 65% of refineries worldwide use RO systems, and within this, the MyCelx solution has potential to penetrate a material segment of the market, which we project as 33%, with 10% of refineries projected to upgrade their pre-treatment systems annually.

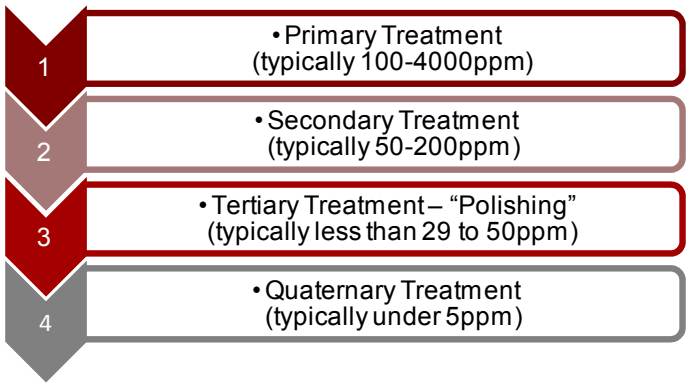
Our assumptions generate a potential equipment market of approximately $10 million per year. We forecast the media market potential at approximately $15 million per year, cumulating to $85 million in 2015. The total market, including cumulative potential media sales, can be projected at nearly $100 million in 2015, assuming the pace of potential equipment sales indicated in the chart on the above.

Section 6: Technology Overview - Upstream

Produced Water Treatment

Produced Water in Context

Wells may produce all of oil, gas and water. After gas separation, water is separated from oil, typically in three stages, with each reducing hydrocarbon contamination by an order of magnitude or so. Thus primary treatment will reduces hydrocarbons from the thousands to hundreds parts per million. Secondary treatment will typically reduce oil's share to tens per million, and tertiary will reduce it further to around 10-30 parts per million. Today, a new class of treatment—like the MyCelx polisher—promises to reduce contamination to parts per billion, in some cases. We coin this quaternary treatment. As a practical matter, the MyCelx coalescer operates in the secondary/tertiary range; and the MyCelx polisher achieves tertiary/quarternary levels of performance.



Stages of Produced Water Separation and Treatment
Source: Douglas Westwood, OTM Consulting

Primary Treatment – "De-Oiling"

Onshore

The primary treatment solution employed in onshore oil & gas production is gravity separation. These separators usually are filled with simple materials like carbon or clay. Other solutions include skimmers, CPIs (corrugated plate interceptor), and hydrocyclones.

Offshore

For primary treatment, offshore oil and gas operators usually employ i) hydrocyclones, where sufficient process pressure is available, as it has the smallest footprint and the best performance outside upset conditions; ii) vertical skimmers, which are not sensitive to motion; or iii) CPIs which are more robust for upset conditions and can handle high percentage oil volumes.

Secondary Treatment

Onshore

Secondary treatment solutions employed in onshore oil & gas production usually consist of single or multi-cell IGF (Induced Gas Flotation) vessels, in horizontal or vertical configurations. Another flotation solution employed is DGF (Dissolved Gas Flotation) vessels.

Offshore

Secondary treatment solutions are most commonly horizontal/vertical single or multi-cell IGF vessels.

Tertiary Treatment – "Polishing"

Onshore

Tertiary treatment in onshore oil & gas production usually consists of nutshell media filters, often augmented with chemicals like acids.

Offshore

Polishing treatment solutions for offshore applications usually consist of carbon or clay media filters, and may be augmented with chemicals like acids.

Quaternary Treatment

Onshore / Offshore

Quaternary treatment is occasionally employed in onshore and offshore oil & gas production where nutshell or other media filters fail to deliver an effluent water that complies with local discharge standards.

Advanced Treatment - RO systems

In some cases, advanced treatment systems like ROs are employed in onshore oil and gas production when operators need or choose to recycle/reuse the produced water.

Produced Water Treatment Systems - MyCelx Treatment Solutions

MyCelx Upstream Oil & Gas Offering - Upstream Onshore

The Company offers two solutions for onshore upstream players:

MyCelx Hydrocarbon Removal Solution incorporates MyCelx coated media substrates which coalesce and separate hydrocarbons from water to 20 ppm efficiency for free oils and dispersed hydrocarbons[1]. It is a one step solution, which is intended to replace the need for primary and secondary treatments.

MyCelx Polishing Solution, coated media removes any oil down to 1 ppm efficiency.

MyCelx onshore solutions aim at reducing expensive water haul-off and off-site treatment expense. In addition, when water re-injection is performed, the very low ppm's levels in the waste water translates in little pressure on the formation, possibly allowing for the re-injection of more water into the formation than was previously possible.

MyCelx has been used in successful operations for three years at Anadarko's Utah gas production sites. The Company reports Anadarko has saved in these three installations a combined several million dollars in hauling expenses per year.

Water Quality In and Out
Source: MyCelx Technologies Corporation

Upstream Offshore

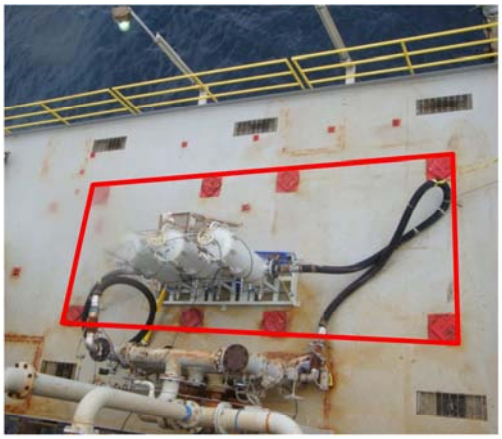
For offshore upstream players, the Company offers the MyCelx Polishing Solution, coated media removes any oil down to 99.9999% efficiency, according to Company studies[4].

Overboard discharge in deep water is a challenge because Water Soluble Organics (WSOs) are not effectively removed by current technology and equipment at high flow rates. The ability to reliably and economically discharge water on high production platforms is critical to operations.

MyCelx Polishing Solution reduces the presence of hydrocarbons to less than 5 ppm; which is well within any prevalent offshore discharge regulation levels.

Chevron has qualified MyCelx technology and equipment for use and has contracted MyCelx to provide systems for their upcoming new-build platform, Jack/St. Malo that will operate in the Gulf of Mexico. The Company has also secured another contract for a system from Chevron for another Gulf of Mexico platform.

Below, the red outline is the footprint for the polishing system prior to MyCelx Polishing Solution installation.



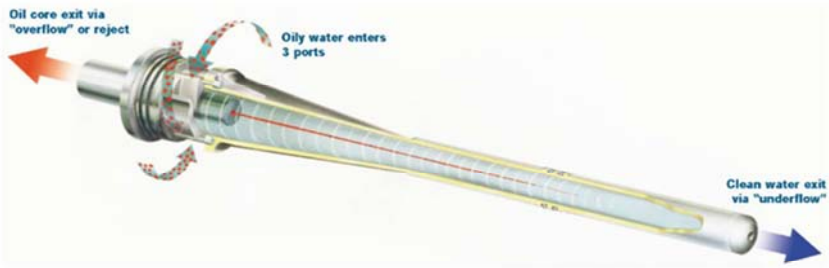
MyCelx Polishing Solution on top of a GOM Offshore Platform
Source: MyCelx Technologies Corporation

Produced Water Solutions – Primary Treatments

Hydrocyclone

Liquid/Liquid Hydrocyclone

Hydrocyclones are static devices that convert the pressure and velocity of the fluid stream into rotary motion, which in turn facilitates separation of different components within the fluid stream on the basis of specific gravity. This is achieved by directing the inflow of the fluid stream tangentially. However, the rotary motion of the fluid can induce only modest centrifugal force depending on the design of the equipment and the velocity of the fluid stream. Hydrocyclones are similar to centrifuges in the sense that both types of equipment depend on a difference in specific gravity for their separation. However, centrifuges are dynamic pieces of equipment that can generate centrifugal forces many times larger than hydrocyclones. The simplicity, reduced maintenance requirement and insensitivity to motion and orientation have made hydrocyclones one of the preferred produced water treatment technologies in the offshore oil and gas industry. Typical liquid/liquid hydrocyclones are approximately 98% efficient at high throughput. They have a compact footprint desirable for offshore applications. The absence of moving parts makes them simple and reliable. However, they are often known to be sensitive to process fluctuations and have high energy requirements for inlet pressure, which may or may not be supplied by the well.



Oilspin AV Liquid / Liquid Hydrocyclone
Source: Pump Zone

Solid/Liquid Hydrocyclones

In addition to the use of liquid/liquid hydrocyclones in the produced water treatment market, solid/liquid hydrocyclones are used where the quality of sand and water discharged into the sea or local water course is subject to strict legislation, making the removal and disposal of sand or other production train solids an important environmental factor in addition to the benefits in protecting downstream process equipment. The size of solids removed depends on the hydrocyclones selected. Particles as small as 5 microns can be removed when small diameter hydrocyclones are used.

The hydrocyclones are typically installed within pressure vessels and internally supported by tube plates. Typical pressure drops are between 1–5 bar. Sand separation can be configured as a fully automated operation with continuous or batch discharge of the solids – with or without sand accumulation.

Hydrocyclone
Source: Merpro

CPI (Corrugated Plate Interceptor)

A CPI system uses gravity to remove oil and solids from wastewater. The system can be either pressurized or rely on atmospheric configurations and has the ability to effectively remove oil droplets of 50 microns or greater. CPI units allow removal of oil and grease bulk contamination in addition to any produced solids encountered.

The CPI receives produced water through the inlet into the primary inlet chamber with solids settling to the bottom of this compartment and free oil forming an interface above the liquid level. Separated liquids pass through a removable distribution plate creating an even flow distribution across the width of the plate pack; which consists of multiple corrugated plates designed to allow for oil droplet coalescence and separation.

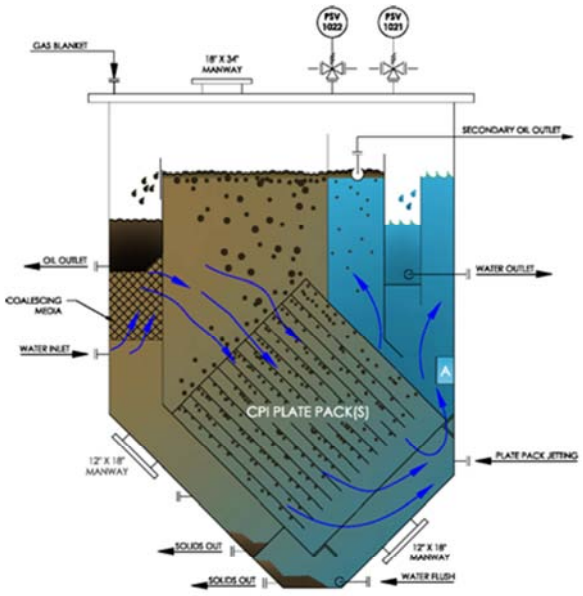
As the process flows, separated oil begins to agglomerate on the underside of each plate allowing for oil particle growth and their rise to a collection area at the oil water interface. A thick layer of oil forms this interface and is allowed to collect until it overflows an adjustable oil weir into an oil bucket for removal.

CETCO MONARCH™ ASME Coded CPI
Source: CETCO

Simultaneously, separated solids fall to the base of the pack and settle in the secondary solids chamber. The process water exits the bottom of the plate pack, rises upward and spills over a fixed water weir. On the backside of the water bucket there is a secondary oil compartment; which collects oil that may pass through the plate pack due to surges or upsets. Removal of this collected oil is a manual operation, opening a normally closed isolation valve.

Main Benefits

The key advantages of this technology include i) free oil removal down to 15 ppm and 50 microns or greater; ii) tolerance of up to 1,000 ppm total suspended solids without affecting effluent quality; iii) reduced size, only one-fifth the size of an in-ground API separator, v) a finer effluent quality than in-ground versions; and vi) no moving parts, leading to lower maintenance costs.



Enviro-Sep™ CPI Separator
Source: Enviro-Sep™

Flotation

This technology involves introduction of gas bubbles at the bottom of an enclosed chamber containing produced water. As the bubbles rise, they lift the oil droplets and solid particles towards the upper part of the vessel, from where they can be skimmed off. The greater the number of bubbles, the greater is the surface area available for oil and solid particles to adhere to and therefore the better the separation efficiency. Flotation technologies are broadly subdivided into two categories – dissolved gas flotation (DGF) and induced gas flotation (IGF).

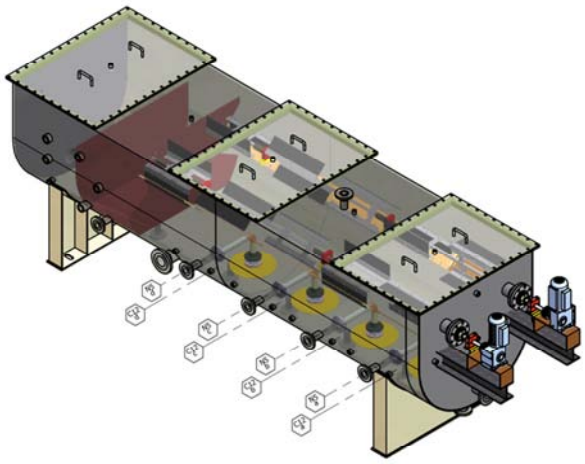
The two flotation methods differ in the manner in which the bubbles are introduced into the produced water-containing vessel. In DGF, the gas (usually air) is introduced in the form of a saturated solution which is then released by applying a vacuum or by creating a rapid pressure drop. In IGF units, on the other hand, bubbles are generated either using a mechanical agitator on mechanical units or an eductor with hydraulic units. Even though the diameter of bubbles produced by IGF is larger than DGF (which means reduced surface area for equivalent volume), IGF units are preferred for offshore applications due to their concise size.

Apart from making the systems compact, the challenges for the use of IGF units in offshore environments are: i) dealing with water that may contain hydrate inhibitors such as methanol; ii) cleaning water with very small (and relatively stable) oil droplet size distributions; iii) cleaning water below the wax appearance temperature; and iv) designs that can tolerate a sloshing motion.

Although the majority of the world's IGFs are horizontal units, there is a trend towards the use of vertical column flotation units which provide an excellent solution where deck space is at a premium, such as offshore installations.

These IGFs promote rapid coalescence of oil droplets by use of a specially designed inlet device and if needed, a second stage of coalescing media can be used. A centrifugal inlet device also performs two additional and necessary functions: i) release of gas slugs to avoid oil skim layer upsets in the vessel; ii) evenly distributes the produced water across the entire cross-sectional area of the vessel.

IGF unit (Hydraulic Tridair™) suitable for offshore application
Source: NATCO



IGF unit (Hydraulic Tridair™) sectional drawing
Source: NATCO

Compact Flotation Units

Compact flotation units have come to prominence owing to the benefits that they bring in terms of reduced operating cost, low carbon footprint and increased efficiency of oil-water separation. The technology is essentially based on the principle of flotation-assisted coalescence and cyclonic separation through carefully designed internals and high pressure water inlets. Tests have shown that dispersed oil, naphthalenes, 2-3 ring PAHs, 4+ ring PAHs and phenols of more than C6 alkylation could be reduced by 50-75%, 17%, 32%, 47% and 33% respectively. A good example of this technology is the product developed by M-I SWACO Epcon.

EPCON CFU

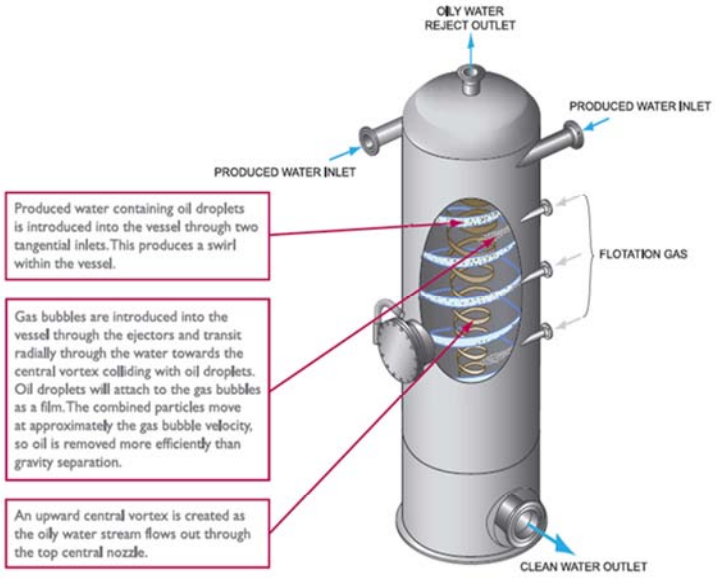
Compact flotation units have achieved impressive uptake from the offshore oil and gas industry in the past few years. M-I EPCON has had 23 CFU installations to date (includes rental skids).

The basic technology behind EPCON CFU involves allowing the oil droplets to agglomerate and coalesce to produce larger oil drops, eventually creating a continuous oil or emulsion layer at the upper liquid level of the flotation chamber. The separation process is further aided by special internal devices in the chamber that assist in the coalescence and agglomeration process and by a simultaneous gas flotation effect caused by the release of residual gas from

the water. On occasions, process optimisation can be achieved by the introduction of external gas and/or specific flocculating chemicals. The resulting oil and gas deposits are removed in a continual process via separate outlet pipes. The figure below gives a diagrammatic representation of the EPCON CFU unit.

Main Benefits

i) Small footprint compared to a standard IGF/DGF; ii) high tolerance to motion offshore; iii) no rotating parts (so less opex costs; iv) high flow rate.



Opus Compact Flotation Technology
Source: Opus

Produced Water Solutions – Competing Tertiary Treatments

Nutshell Filter

Walnut shells have good surface characteristics for coalescence and filtration and are increasingly being used for produced water treatment. Commercially available systems work on the principle of a filtration cycle lasting about 24 hours followed by a back-flushing cycle to remove the accumulated free oil. The equipment is placed downstream of the hydrocyclone and used as a polishing unit. During the filtration cycle, dirty process water passes through the filter from top to bottom. As the water passes through the walnut shell media, free oil and suspended solids are removed. This constitutes the filtration cycle. This is followed by the back-flushing cycle in which the dirty process water is redirected to the bottom of the vessel to fluidise the media bed. The free oil is then discharged through a vent. Siemens, one of the manufacturers of nutshell technology, has stated that it hopes nutshell filters can reduce the free oil content in produced water to 5 ppm.

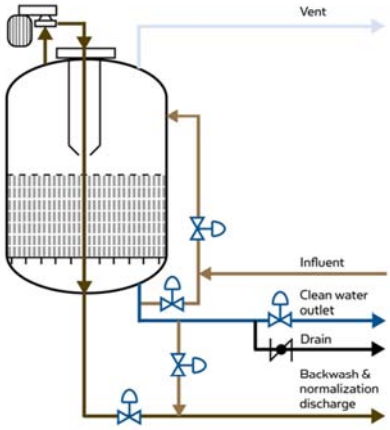
Walnut shell filters are popular onshore where WSOs are not present. However, they have a large footprint and are prone to adsorbing oil when the filter is saturated or during upset conditions.

They have historically not been used offshore, due to their large footprint requirements. Siemens Water Technologies has recently developed a new, compact walnut shell filter for offshore applications. This unit is designed to overcome footprint by creating a smaller unit relying on enhanced agitation of the filter media to increase throughput. Siemens looks to place a unit in service in the coming months.

Siemens does not have a solution for water soluble organics. Therefore, it is attempting to address the market by focusing purely on free oils as a means to reduce total discharge levels—including both free oils and WSOs—below 29 ppm. For example, if WSOs amount to 20 ppm in a given produced water stream, then the walnut shell filter will permit the respective platform to meet discharge requirements if free oils can be reduced to 9 ppm or less.

That an industry leader like Siemens should choose this approach to the market, we believe is suggestive of the potential impact and uniqueness of the MyCelx solution.

Siemens Auto-Shell Filter
Source: Siemens



Typical deep bed nutshell filter
Source: Prosep

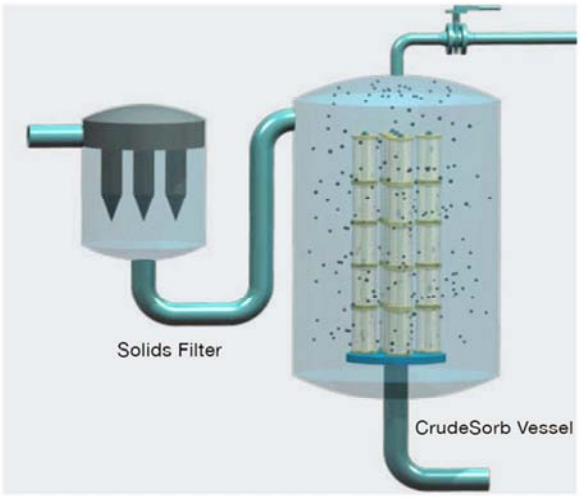
Adsorption

The basic principle for this technology is simple. The fluid stream is passed through an adsorbent material which adsorbs the oil and some organics from the flow. The efficacy of separation using this process depends to a large extent on the chemistry of the adsorbent material. While novel materials are always being developed, some of the materials most commonly used are various types of resins, polymers, organo-clays and activated carbon. The use of surfactant-modified zeolites as well as nano technology is currently being studied.

An example of successful adsorption-based treatment equipment is CETCO's CrudeSorb® .

CETCO CrudeSorb®

This is a patented, proprietary adsorption media based on resin, polymer and clay chemistry. The adsorbent media 'CrudeSorb®' is packaged in radial flow non-ferrous canisters which allow for quick media changeouts. The number of canisters required depends on the treatment capacity required. At Chevron's Vermillion (VR) 214C structure, for example, ninety-two CrudeSorb® canisters are in place to polish 12,000 b/d of produced water.



CrudeSorb® process description
Source: CETCO

This technology is suitable for removing dissolved organics from produced water. CrudeSorb® polishing removes the soluble organics that conventional treatment systems usually do not remove. CrudeSorb® is packaged in canisters with a perforated central core for use in bespoke Radial Flow Vessels (RFV) which allow for a convenient media replacement procedure in offshore applications. The adsorption skid comprises of a dual sock filter vessel and a media containing vessel. Both the sock and media containing vessels could be arranged in different configurations depending on desired capacity, flow rate, retention time, etc.

Main Benefits

Canisters are rated for temperatures much higher than the usual produced water temperatures encountered. This greatly reduces 'creep', which has been known to cause canister bypass in traditional adsorption based filtration equipment.

Flexibility in handling temporary surges of oil and/or solids. CrudeSorb® media is capable of dealing with extremely high concentrations of oil, grease and soluble organics without disrupting the effluent quality.

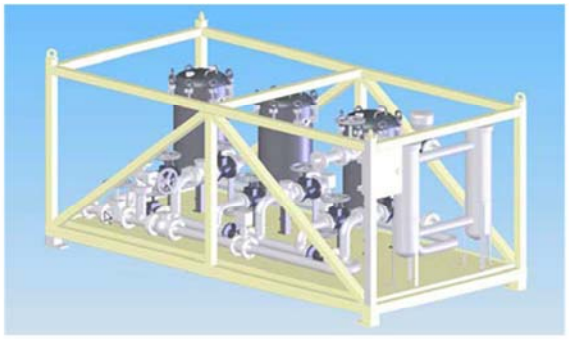
Limitations

The operator has to ensure disposal of the media in an environmentally safe manner. The spent media is classified as Non-Hazardous Oilfield Waste and there are a variety of different disposal methods available. The unit also becomes larger than desirable for operators once capacity exceeds 10,000 bpd.

TORR™ (Total Oil Remediation and Recovery)

This technology has been developed by TORR (Canada), now known as ProSep and the technology is endorsed by licensing partners Schlumberger, Weatherford, Siemens Water and Fores. The process involves multistage adsorption and separation using Reusable Petroleum Adsorbent (RPAR). This material is a polyurethane-based, oleophilic, hydrophobic, non-toxic, media coalescing agent. The oily water passes through multiple vessels containing media cartridges and a recovery chamber.

The media continuously adsorbs the oil emulsions, coalesces and desorbs them into larger oil droplets. In the vessel, oil droplets desorbed by the media float to the top. Inside the top of the vessel, the final separation occurs between the oil, gas and the water. The oil and gas are retrieved for re-use. The effluent water from the technology is treated to the customer's requirements. Normally TORR technology requires one or two stages for satisfactory treatment.



TORR™ Separation System
Source: TORR Canada Inc.

Main Benefits

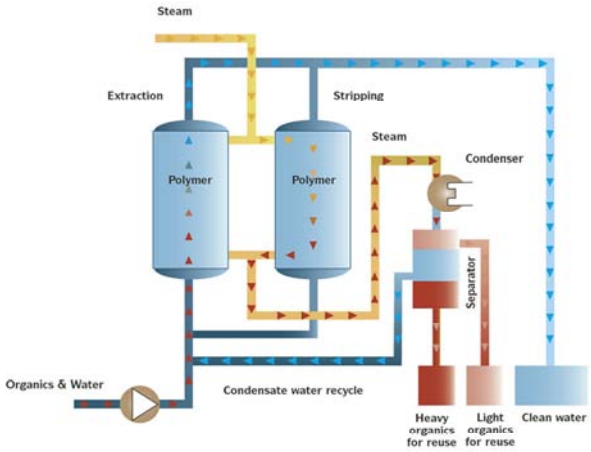
The technology i) meets an effluent oil concentration requirement of less than 10 ppm; ii) is capable of handling produced water with oil droplet size as small as 2 microns, although not to 99% efficiency; iii) combines adsorption, coalescence and gravity separation into one process; iv) features small weight and footprint; and v) achieves minimal pressure drop across the technology.

Limitations: System efficiency degrades when very small droplet sizes are present.

MPPE

Macro Porous Polymer-Based hydrocarbon extraction (MPPE) process involves the use of a special polymer called MPP that effectively removes dissolved and dispersed hydrocarbon from a fluid stream, in the presence of a special extraction liquid.

In principle, regenerative techniques (such as MPPE) can remove all organic substances with a different polarity from water. Hydrocarbon-contaminated water is passed through a column packed with MPPE particles. The particles are porous polymer beads, which contain a specific extraction liquid. The immobilised extraction liquid removes the hydrocarbons from the water. Only the hydrocarbons, which have a high affinity for the extraction liquid, are removed. At the end of the extraction phase, the column is regenerated in situ with low pressure steam. During regeneration the volatile hydrocarbons which have been extracted from the fluid stream are removed by steam stripping and the hydrocarbon further extracted by condensation and gravity separation.



MPPE Extraction Process System Layout
Source: VWS MPP Systems B.V.

It is claimed that this process can achieve removal efficiencies of up to 99.9999 % for a wide variety and combination of aliphatic, aromatic and halogenated (e.g. chlorinated) hydrocarbons. The application of two columns allows continuous operation with simultaneous extraction and regeneration.

This technology has already been in use on the Ormen Lange Gas field project overseen by Statoil, Shell, BP, ExxonMobil and the Norwegian Government.

Main Benefits

This is a compact and robust system, with igh separation efficiency and an ability to remove the majority of volatile organic compounds from produced water.

Limitations

The average energy requirement is estimated to be 6 kWh per cubic metre of produced water treated.

MPPE particles have limited regeneration potential, needing replacement on average after every 1.5 to 3 years.

The technology is not suitable for large processing facilities where significant volumes of produced water need to be handled; it is intended primarily for gas, and not oil, fields.

The unit has a comparatively large footprint, as well as being expensive.

Chemical Treatment

Chemicals are used throughout the production of hydrocarbons. A wide range of chemicals are used in practice, including clarifiers, dehydrators, scale inhibitors, corrosion inhibitors, bactericides, emulsion breakers, coagulants, flocculants, defoamers, and paraffin and hydrate inhibitors, among others. For water soluble organics, the primary chemicals employed are emulsion breakers (acids).

Skid Mounted Chemical Additive Unit
Source: NOV – Rolligon

Emulsion Breaker Chemicals

Both technology and chemical treatment are used to treat (break) emulsions. Technological solutions include increased residence time, gravity enhancement, increased temperatures and use of electric fields. The performance of each of these technological solutions can be improved using chemical additives.

Chemicals are usually added to a primary or secondary treatment stage (CPI, hydrocyclones, flotation cells), helping reduce concentration of oil and WSO in the produced water. Chemicals are also used in the event of an upset condition, where equipment cannot handle the sharp increase of oil concentration in the produced water.

Some wells, most notably in deep water, are characterized by water soluble organics in associated produced water. Typical levels range from 8-20 ppm, with one chemical expert indicating 20 ppm as appropriate for pro forma analysis.

Chemical emulsion breakers work by attacking the droplet interface to either cause dispersed droplets to aggregate intact or to rupture and coalesce into larger droplets. As the droplet size increases, the separation force between the oil and water increases and gravity separation is enhanced.

Acids represent the primary means of removing water soluble organics from produced water. The two primary types of acids employed are phosphorus acid and glycolic acid. The former is less expensive, about $10 per gallon, but highly corrosive. The latter is more expensive, about $20 per gallon, but non-corrosive. These are sold in 330 gallon drums and stored on

the production platform. A typical platform might use as few as 10 gallons per day, or as much as 300 gallons. Industry experts report that, as a rule of thumb, 20 times as much acid is needed as the desired reductions in WSOs. Thus, reduction of 10 ppm would require 200 ppm of acid. Using phosphorus acid, this would cost $500,000 annually for a 10 kbpd volume of produced water, and nearly $900,000 using glycolic acid.

Main Benefits and Limitations

Applied with sufficient vigor, chemicals can reduce WSOs to near zero. However, on older platforms, even achieving 15 ppm can represent a challenge due to older, poorly maintained or improperly operated equipment. Nevertheless, chemicals remain the primary means by which water soluble organics are treated. Chemical industry representatives assert that once the effective dose is set, the system is stable and does not require frequent intervention. On the other hand, acids can corrode piping and, in the case of clarifiers and demulsifiers, cause sludge or pads which require subsequent cleaning.

Produced Water Treatment Solutions – New Technologies

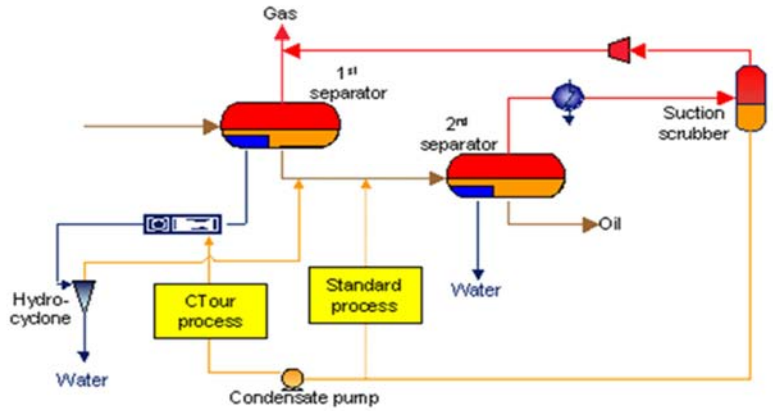
Condensate Enhanced Separation Technology

The basis of this technology is the use of gas condensate for extraction of hydrocarbons from produced water. The condensate is injected into the produced water stream before being routed through existing hydrocyclone systems. The condensate functions as a solvent, which draws dissolved hydrocarbons out of the water phase and over into the condensate. The condensate also assists the separation process within the hydrocyclone by coalescing the small dispersed oil droplets, which then form larger oil droplets before being removed by the hydrocyclones. The CTour system is a good example of commercial application of this technology.

CTour Process, ProPure AS

The patented CTour technology has proved to be quite successful as is demonstrated by the fact that about two-thirds of the Norwegian continental shelf produced water discharge is processed using this technology. Furthermore, the technology is successfully being applied on six offshore production facilities in the North Sea.

The basic principle of the process is to use a liquid condensate, which is often available from the scrubbers in the gas compression train, as an extraction liquid for the dissolved components in produced water. The condensate is then used as a solvent to extract the dissolved hydrocarbons from the water phase. The solvent together with the dissolved constituents are then removed in the hydrocyclone. The condensate also helps to enhance the removal of dispersed oil by coalescing with the small oil droplets. The process requires a ratio of approximately 0.5% condensate to produced water, and is known to reduce the concentration of dispersed oil by 50-70% (assumed to be 60% in the analysis in this report), as well as substantially removing the dissolved hydrocarbon components PAH, BTEX, and other non-methane volatile organic compounds (VOCs).



Typical CTour process layout
Source: ProPure AS

The main de-oiling process takes place in a hydrocyclone/ degasser configuration and is able to achieve an average discharge concentration of dispersed oil in the range 1- 5 ppm. The process also substantially reduces the concentration of hazardous chemicals such as corrosion inhibitors.

Apart from its performance, the other major benefit of this technology is that it can easily be retrofitted with only minor modifications to the standard processes necessary.

Main Benefits

The technology permits i) accelerated mass transfer; ii) compact and low weight; iii) low pressure drop; iv) minimal maintenance; v) no rotating parts; and vi) reduced environmental impact.

Limitations

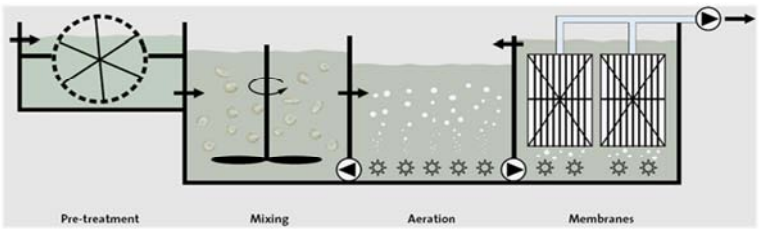
The major limitation is that a sufficient amount of condensate with the right properties must be available. Ideally the condensate must be volatile at atmospheric conditions to evaporate in the degassing tank if any hydrocarbon spill-over through the hydrocyclones occurs. This is because any spill over that is not evaporated will contribute to the release of hydrocarbons to the sea. The condensate must also have a boiling pressure high enough in order to avoid evaporation in the hydrocyclones.

Biological Treatment

A commonly available biological treatment makes use of the 'activated sludge' concept, which promotes consumption of organic compounds in produced water by micro-organisms by increasing the supply of oxygen. This process leads to transformation of organic components into sludge, which can then be removed by clarifiers, settling basins or other means.

Membrane Bio-Reactor technology (MBR)

MBR technology also makes use of the 'activated sludge' concept of biological sludge formation by aeration. However, it makes use of membranes to separate the sludge from the final effluent. The retained sludge is then returned back to the aeration chamber.



Membrane Bio-Reactor Process diagram
Source: DHV B.V.

The MBR equipment from DHV B.V. uses membranes with pore diameters of 0.01-1 micron and are packed together in modules of tubes, hollow fibres or sheets. Systems such as this have been actively considered for major offshore assets such as the BP operated Azeri Chirag Gunashli field development project.

Main Benefits and Considerations

The technology produces a high quality effluent suitable for reuse and is resilient in upset conditions. However, biological processing requires substantial residence time and produces water quality not typically necessary for offshore applications. It can, however, reduce sludge output and reduce solids disposals requirements.

Section 7: Technology Overview – Downstream

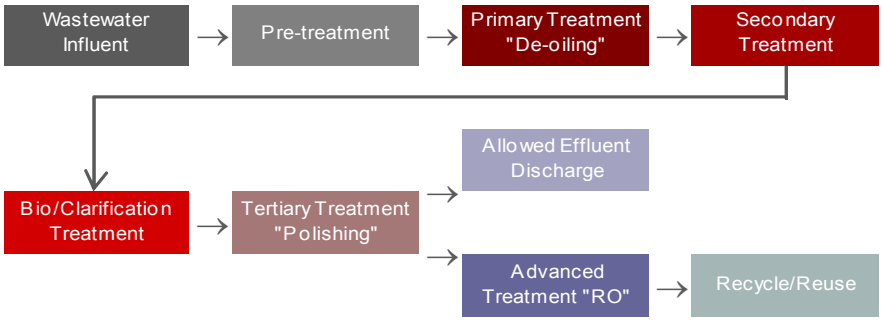
Downstream Water Treatment

Introduction

Downstream water treatment aims to provide clean feedwater for hydrocarbon processing, remove hydrocarbons from waste water, and to insure hydrocarbon-free water used for refinery cooling and boiler water systems. This section looks at some of the technologies involved.

Wastewater Treatment

Refineries & Petrochemical Plants



Wastewater Treatment Flowchart
Source: Douglas Westwood

As in upstream operations, downstream wastewater treatment choices depend on environmental regulations and operator choices. Wastewater treatment can include several stages as described in the simplified chart on the right before effluent is discharged or recycled/reused. Depending on the source of the wastewater the operator can choose the appropriate treatment option. For example, water from boilers and cooling towers (process water) can be treated and reused for the same purpose over and over again. In other cases, the operator will chose discharge or shipment to a treatment facility. If the operator chooses treatment, it usually involves some advanced—and expensive—treatment solution like an evaporation system, or a membrane system like RO. For this report, we will refer to wastewater treatment as the combination of all water streams treatments.

Recycle/Reuse – RO systems

Reverse osmosis systems are considered advanced treatment systems that can remove water soluble organics of 0.1 microns or less . RO systems can be used in several situations; however, our Report focuses on the following:

Feed Water

RO systems are the most widely use method of desalination, typically used to convert sea water into water suitable for hydrocarbon processing.

Re-cycling of Cooling and Boiler Water

Refinery cooling and boiler water systems require a high degree of water purity and have very low tolerances for hydrocarbon contamination.

Downstream Water Treatment - MyCelx Treatment Solutions

Downstream Wastewater Applications

For downstream players, MyCelx has developed a integrated solution for specific problems related to wastewater, SitePure.

MyCelx's SitePure process comprises a backwashable filter, 5 Stage Advanced Coalescer / Separator, a Polisher, and an Inline Oil Content Monitor. This system effectively handles a facility's wastewater containing hydrocarbon impurities, reducing oil concentration levels to less than 1 ppm, according to Company management. The treated water is pure enough to be re-used or discharged.

MyCelx's SitePure Solution for SABIC
Source: MyCelx Technologies Corporation

According to the Company, in the Middle East, a typical petrochemical plant, running continuously - 24 hours per day, 7 days per week – requires approximately 120 cubic meters of wastewater to be cleaned each hour. MyCelx downstream applications conserve energy which would otherwise be consumed cleaning the water at a CWWT (Central WasteWater Treatment plant). The use of VAC trucks, which clean wastewater sumps when oil overflows, is also eliminated.

MyCelx's Polisher for Qatargas Petrochemical
Source: MyCelx Technologies Corporation

Main Benefits

Some of the main benefits of this solutions are: i) less energy used than cleaning the water at a wastewater treatment facility; ii) re-capture of fuel from hydrocarbon by-products, which is then used within the facility; and iii) water conservation due to water re-use.

Downstream Water Solutions – Competing Primary Treatments

API Separator

API separator
Source: Siemens Water

API separators are very common wastewater primary treatment solution in petroleum refineries. The primary function of an API separator is to remove large quantities of oil and suspended solids from the wastewater before the subsequent wastewater treatment processes; normally a second oil/water separator step and a tertiary treatment for removal of dissolved organic compounds.

The API separator is a gravity separation device that works on the principle of Stokes Law, which defines the rise velocity of an oil particle based on its density and size. Typically, the difference between the specific gravity of oil to be separated and water is much closer than the specific gravity of the suspended solids and water. Therefore, the design of the API separator is based on the difference in the specific gravity of the oil to be separated and the wastewater. Once the oil and suspended solids are removed from the wastewater in the API separator, the middle phase, water, is then sent on for further treatment in most refinery wastewater treatment plants[15].

Main Benefits

This is a proven technology, reliable and easy to maintain.

Corrugated Plate Interceptor (CPI)

Please refer to "Produced Water Solutions – Primary Treatments", (pg. 65), for details about the CPI solution.

Hydrocyclone

Please refer to "Produced Water Solutions – Primary Treatments", (pg. 64), for details on the hydrocyclone solution.

Downstream Water Solutions – Competing Secondary Treatments

HydroFloat™ - Dissolved Air Flotation (DAF) Systems
Source: Hydro-Flo Technologies

15 - Siemens, at http://www.water.siemens.com/en/industries/hydrocarbon_processing/solutions_ newsletter/Pages/default.aspx - April 2011.

Flotation

A dissolved air flotation (DAF) system resolves suspended solids and clarity issues by reintroducing a slip stream of treated water (from the system's effluent) back to the system's influent. This pressurized, recycled water is saturated with dissolved air. When the pressure is released at the system's influent, the air comes out of solution on the surface of suspended solids particles throughout the DAF influent mixing chamber. As these billions of micro bubbles come out of solution, they float the suspended solids particle to the surface of the DAF separation chamber, where they are removed by a surface skimmer.

For more on floatation technologies please refer to “Produced Water Solutions – Competing Secondary Treatments”, (pg. 67-68).

Downstream Water Solutions – Competing Tertiary Treatments

Adsorption

TORR™ (Total Oil Remediation and Recovery)

Please refer to “Produced Water Solutions – Competing Tertiary Treatments”, (pg. 72), for details about TORR™ solutions.

Macro Porous Polymer-Based hydrocarbon extraction (MPPE)

Please refer to “Produced Water Solutions – Competing Tertiary Treatments”, (pg. 73), for details about MPPE solutions.

CETCO CrudeSorb®

Please refer to “Produced Water Solutions – Competing Tertiary Treatments”, (pg. 71), for more details about CETCO CrudeSorb® solutions.

Chemical Treatment

Please refer to “Produced Water Solutions – Competing Tertiary Treatments”, (pg. 74), for details about chemical solutions.

Downstream Water Treatment Solutions – RO Systems

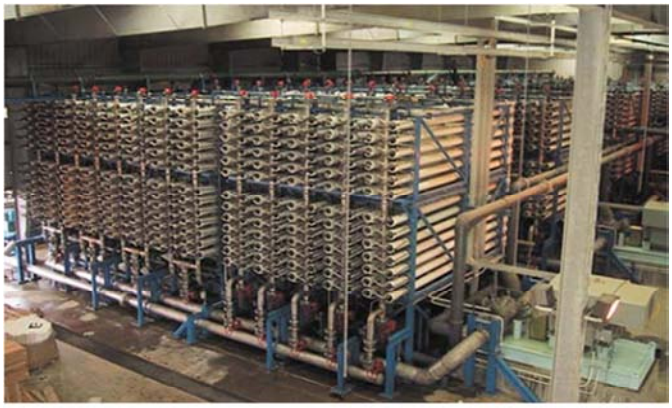
Reverse Osmosis (RO) Treatment

Osmosis is based upon the fundamental pursuit for balance. Two fluids containing different concentrations of dissolved solids that come in contact with each other will mix until the concentration is uniform. When these two fluids are separated by a semi permeable membrane (which lets the fluid flow through, while dissolved solids stay behind), the fluid containing the lower concentration will move through the membrane into the fluid containing the higher concentration of dissolved solids[16]. After a while the water level will be higher on one side of the membrane. The difference in height is called the osmotic pressure.

16 - (Binnie e.a., 2002) at http://www.lenntech.com/library/reverse-osmosis/whatisro.htm - April 2011.

SWRO Flowchart
Source: Kennedy/Jenks Consultants

By applying a pressure that exceeds the osmotic pressure, the reverse effect occurs. Fluids are pressed back through the membrane, while dissolved solids stay behind. To purify water by reverse osmosis (RO) membrane, the natural osmosis effect must be reversed. In order to force the water of the brine stream (high salt concentration) to flow towards the fresh stream (low salt concentration), the water must be pressurized at an operating pressure greater than the osmotic pressure. As a result, the brine side will get more concentrated. Below is a simplified chart of sea water reverse osmosis (SWRO).



RO System inside a Desalination Facility
Source: GE Water

Downstream Water Treatment Solutions – MyCelx RO Pre-treatment

MyCelx Reverse Osmosis Pre-treatment Systems

MyCelx's Skid Mounted RO Solution
Source: MyCelx Technologies Corporation

Reverse osmosis (RO) systems are highly susceptible to hydrocarbon contamination even in trace amounts. The Company has developed a solution—a variation on the MyCelx Polisher—to address this weakness. The polisher is deployed as a bolt-on solution to existing filtration systems, coming after bulk water treatment, but before the RO membrane. The MyCelx media filter acts as a failsafe to capture any remaining hydrocarbons. The Company reports that experience to date is positive for this application. In addition, installing a MyCelx filter at this position in the line-up does not require any changes to an existing RO system.

Main Benefits

The MyCelx solution i) can easily be retrofitted into existing RO systems (bolt-on); ii) is skid mounted, with a small footprint, making it easier to accommodate inside existing facilities; and iii) removes oil to levels below 1 ppm, thus reducing membrane maintenance costs caused by the presence of hydrocarbons.

Section 8: Competitors

Major Water Treatment Players

Siemens

Siemens Water Technologies is one of the leading water treatment companies in the world. To expand its oil & gas solutions, in 2006 Siemens acquired Monosep. Today, Siemens has tthousands of water treatment systems operating in oil & gas production facilities. Oil and gas applications cover oily water treatment, produced water treatment, and water injection. Siemens equipment offering includes walnut shell filters, flotation systems, AF/IGF systems, reverse osmosis systems, dissolved air flotation (DAF), API separators, downflow filters, and chemical feed systems.

Siemens Industry Solutions, including its Water Technologies Group, reported 29,000 employees worldwide in late 2010 and posted sales of €6.0 billion in fiscal year 2010.

Veolia

Veolia Water, the water division of Veolia Environnement, is a leading global water services company. Specializing in the outsourced management of water services for municipal or industrial clients, it is the world leader in engineering, design and execution of construction projects for turnkey facilities and water treatment plants.

Veolia Water Solutions & Technologies (VWS), a subsidiary of Veolia Water, is a leading global water and wastewater technology company and provider of a full range of services including engineering, project management, design-build, start-up, training, and maintenance services.

VWS Oil & Gas is a complete water treatment specialist with a large scope of capabilities able to provide full turnkey plant; dedicated to serving the oil and gas industry. VWS Oil & Gas supports onshore and offshore developments around the world.

For the year ending December 31, 2010 Veolia Environnement consolidated revenue was €34.8 billion, an increase of 2.5% compared to represented revenue of €34 billion for the year ending December 31, 2009.

Cameron

Cameron is a leading provider of flow equipment products, systems and services to worldwide oil, gas and process industries. Leveraging its global manufacturing, engineering and sales and service network, Cameron works with drilling contractors, oil & gas producers, pipeline operators, refiners and other process owners to control, direct, adjust, process, measure and compress pressures and flows.

Cameron generates $5+ billion in annual revenues, employees 18,000+ in 300+ locations around the world. The company is headquartered in Houston, Texas.

Champion Technologies

Founded in West Texas, USA over 50 years ago, Champion (a Permian Mud Service company) has become the second largest global oilfield production chemical company with staffed operations of about 2,000 people. In more than 30 countries, Champion has significant presence in the major oilfield areas of the world.

Nalco

Nalco was founded as National Aluminate Corporation in 1928 through a merger of Chicago Chemical Company and Aluminate Sales Corporation, two Chicago-based companies selling sodium aluminate to treat water.

Today, Nalco is one of the world's leading water treatment and process improvement company. The company has 7,000 professionals, serving over 70,000 customer locations in more than 130 countries.

Nalco has been involved in water treatment technologies for more than 80 years and is primarily known as a chemicals supplier. Its Water Services division provides cooling, boiler and wastewater treatment, as well as mining and process aids and air emission control. In 2010, group revenues were $1.8 bn on a market estimated by the company at $6.4 bn, and the company considered itself the leading provider in this segment.

The company’s Energy Services division provides solutions for flow assurance, oil/water separation, heavy crude desalting, anti-oxidants, fuel and lubricant additives, boiling, cooling, raw water and waste water applications, as well as for combustion efficiency and air emission control. The division posted revenues of $1.7 bn on a market estimated by the company at $5.6 bn, again representing the leading market share by the company’s estimates.

CETCO Oilfield Services

CETCO's Water Treatment Services Division specializes in the removal of hydrocarbons, solids, toxic materials and other contaminants from oilfield wastewater streams produced during oil and gas operations, transportation, and storage. CETCO has developed and patented solutions to treat wastewaters and produced water on-site like CrudeSorb®, CrudeSep®, and Hi-Flow®. Additionally, it offers NEMOH® a solution for water treatment at subsea level.

CETCO Oilfield Services Company began as CETCO Offshore, a division of Colloid Environmental Technologies Company, specializing in isolating acid returns associated with re-works on existing wells. In 2003, CETCO Offshore became a separately incorporated entity and took the name CETCO Oilfield Services Company.

The company now employs more than 500 people in over 15 locations worldwide.

M-I SWACO

In August 2010, M-I SWACO became part of Schlumberger through its merger with Smith International. Currently, M-I SWACO has over 13,000 employees in more than 75 countries around the world.

M-I SWACO has developed a range of technologies for each step of the water treatment process . The CYCLOTECH B20 Series, a de-oiling hydrocyclone; the CYCLOTECH PECT-F a pre-coalescer for improving separation efficiency of de-oiling hydrocyclones; and the EPCON CFU technology, a all-inclusive technology for treating produced water

PART IV

PATENT REPORT

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29 July 2011

The Directors
MyCelx Technologies Corporation
470 Woods Mill Road
Gainesville, Georgia 30501

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

RE: Intellectual Property Analysis for MyCelx Technologies Corporation

Dear Sirs:

As instructed by MyCelx Technologies Corporation ("MyCelx"), we have prepared this report on the intellectual property position of MyCelx for inclusion in the admission document of MyCelx dated 29 July 2011. The purpose of this report is to provide an overview of both the intellectual property rights subsisting in respect of the current product lines of MyCelx and of MyCelx's approach to seeking patent protection in respect of its inventions.

As counsel for MyCelx Technologies, Sutherland Asbill & Brennan LLP ("Sutherland") has reviewed MyCelx's issued patents, pending patent applications, and registered and unregistered trademarks. We also reviewed the patent prosecution file histories of each issued US patent as a means to assess the patent claims. Interviews were conducted with Haluk (Hal) Alper, President, Chief Science Officer, and co-founder of MyCelx Technologies Corporation, along with Anand Narayanan, Engineering and Operations Manager of MyCelx. We did not commission or undertaken formal validity or freedom-to-operate searches and analyses of any MyCelx patent or product.

Except for the payment by MyCelx of professional fees, neither Sutherland, Asbill & Brennan nor any of its employees has any financial interest in the matters which are the subject of this report or the AIM admission document that will be published by MyCelx.

We confirm that we have given our written consent for the inclusion of our report and the references to it contained in Part IV of MyCelx's Admission Document in the form and context in which they appear and have not withdrawn such consent, and we authorise the contents of our report for the purpose of the London Stock Exchange's AIM Rules and accept responsibility for it.

I INFORMATION ON SUTHERLAND

Sutherland is a business-oriented law firm with office locations that include Atlanta, Washington, New York, and London, and substantial practice areas in corporate and intellectual property law.

Sutherland has been acting for MyCelx since 2007 in corporate matters, but not in intellectual property matters. A 350-attorney firm, Sutherland's additional practice groups include energy and environmental, financial services, litigation, tax, and real estate, with each group's practice spanning a broad range of industries.

II TECHNOLOGY AND PATENT OVERVIEW

A Technology Overview

The MyCelx technology relates to compositions, methods and systems for removing hydrocarbons, such as oil and other organic contaminants, from aqueous or gas phase systems in which the contaminant is dispersed or emulsified. The compositions and methods are directly applicable to removal of hydrocarbon contaminants from waste streams, removal of volatile organic compounds and similar pollutants, treatment of bilge water, machining fluids, process water, storm water and the like from industrial sites, and remediation of oil spills.

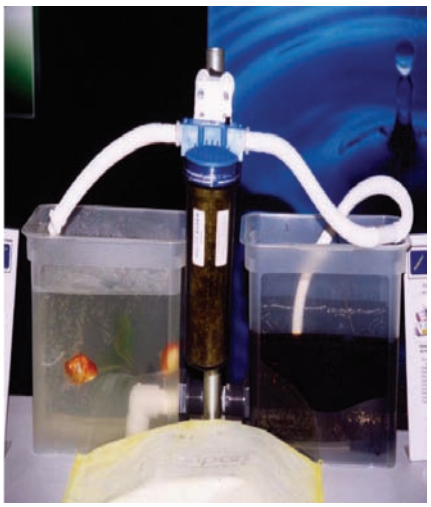
Every patent and pending application described in this report was invented by Haluk (Hal) Alper, President and Chief Science Officer of MyCelx Technologies Corporation. The MyCelx technology is based on the properties of the MyCelx® polymers, which are synthetic products formed by reacting two components: 1) a drying oil component, which can include natural oils, triglycerides, fatty acids, and the like; and 2) a polymer component, which can include synthetic acrylate- or methacrylate-based polymers. The patented compositions can be used in their pure form or in a solvent, applied to virtually any substrate, or infused into a fluid-pervious filter medium for use in removing hydrocarbon contaminants.

The MyCelx® polymers were recognized as novel compounds by the Chemical Abstracts Service (CAS) Division of the American Chemical Society (ACS) and assigned CAS Registry Numbers 173967-80-1 and 173967-81-2. The ACS established the CAS Registry program to provide authoritative and unique identifiers of new chemical substances. Among other things, these Registry Numbers represent the American Chemical Society's authentication of the MyCelx® polymers as novel molecules derived from the reaction of its two components. Additional CAS Registry information can be found at the following link: http://www.cas.org/expertise/cascontent/registry/regsys.html.

MyCelx® polymer removes and contains hydrocarbons in a fundamentally different way than conventional filtration or reverse osmosis, because it does not simply "filter" or intercept hydrocarbon pollutants in the traditional sense. Rather, the MyCelx® polymer and the hydrocarbon contaminants actually combine through a cohesive process to form a new polymeric material, with the new combination material having physical properties similar to those of MyCelx® polymer itself. This combination reaction is therefore not one in which the contaminant is immobilized temporarily on a surface, but rather a "cohesion" arising from the mutual attraction of the hydrocarbon contaminant and the MyCelx® polymer due to their like properties.

As a result of this cohesive action, MyCelx® polymer and filters provide several advantages over traditional filtration methods, as follows.

Figure 1.



Oily contaminants from the right-hand tank are trapped by a BilgeKleen™ MyCelx® filter and do not release or desorb.

- The combination reaction between MyCelx® polymer and the organic pollutant is *irreversible*; therefore, contaminants are removed permanently and will not release or desorb once captured. **Figure 1** illustrates the irreversible cohesive bonding of hydrocarbon contaminants with a MyCelx® filter, such that not even trace contaminant is released to form an oily sheen.
- Both the MyCelx® polymer and its cohesion product with hydrocarbon contaminants actually densify and contract when subjected to water pressure through a MyCelx® filter. This property allows for capturing large quantities of hydrocarbons relative to the filter weight, with negligible pressure drop across the filter.
- MyCelx® filters are efficient at removing highly-dispersed or -emulsified hydrocarbon contaminants and can provide as high as 99.99 per cent. first pass efficiency.
- Because of the efficient and irreversible capture of hydrocarbon contaminants, the footprint of a MyCelx® filter system can be one-third that of a conventional activated carbon filtration system, while avoiding filter clogging and the associated pressure drop problems of a traditional system.
- MyCelx® polymer-infused substrates are hydrophobic (water-repelling), as well as being oleophilic (oil-attracting). Therefore, the physical-chemical character of a MyCelx® filter is not altered through use, unlike conventional filter systems.
- When used as a coagulant composition in oil spill remediation, the MyCelx® polymer and hydrocarbon contaminant combination forms an insoluble, cohesive and coagulated mass, which floats and will not release contaminants once captured. MyCelx® polymer retains from 10-20 times its weight in hydrocarbon contaminants.

First generation MyCelx® polymer technology focused on polymer synthesis and compositions, and expanded on the chemical reagents that could be employed in the synthesis. Early patents described using the MyCelx® polymer as a coagulant composition applied to the surface of an oil spill, which coagulated the oil into a cohesive mass for collection by mechanical means. Second generation technology infused and permanently

cured MyCelx® polymer into a range of substrates, such as filter cartridge materials. Because MyCelx® polymer irreversibly bonds to and does not release or desorb hydrocarbon contaminants once captured, there are minimal environmental or toxicity risks associated with its use in this fashion. This aspect of MyCelx® polymer technology provides a number of commercial embodiments because it is readily scalable and it affords versatile and efficient hydrocarbon removal solutions across many industries. First and second generation patents are in force until June 2013.

Patented MyCelx® technology also protects filtration media, apparatus, and methods for separating undesired particles from air and other gases. This technology enables the removal of hydrocarbon and organic vapor mist (aerosols), polychlorinated biphenyls (PCBs), volatile organic compounds (VOCs), and solid particles from gas streams. This aspect of MyCelx® technology is applicable to many industrial work spaces for improving environmental air quality.

Figure 2.

Exemplary MyCelx® hydrocarbon filter cartridges and canisters.

Latest generation patented technologies are drawn to the company's commercial filtration products. This technology combines MyCelx® polymer with curing compositions to be infused into specially designed filtration media. These patented methods are used for producing this generation of filter, as they provide manufacturing processes for tailoring the desired final product features. The patent series that encompasses this technology is in force until July 2025. **Figure 2** illustrates some commercial MyCelx® polymer-impregnated filter substrates and canisters.

A further patent-pending technology using the MyCelx® polymer provides for its use as a visual bilgewater quality indicator. This application utilizes filtration status chambers incorporating fluorescent or phosphorescent dye-treated MyCelx® filtration media. In this manner, visualization of hydrocarbon droplets captured due to complete loading and supersaturating breakthrough at a primary filter chamber can be observed conveniently and on a real-time basis.

Across all these technologies, MyCelx® polymer can be used to remove a wide range of hydrocarbons, including the complex mixtures found in crude oil and petroleum, gasoline, halogenated hydrocarbons, dioxin-like polychlorinated biphenyls (PCBs), BTEX (benzene, toluene, ethyl benzene, xylenes), MTBE (methyl tert-butyl ether), organic solvents, pesticides, biocides, and organically-bound metals.

Section IV. of this document describes specific commercial products covered by the MyCelx Technologies' US and foreign patents. Further, Section IV. lists the last expiration date for an applicable patent for each product.

B **US and International Patent Overview**

The patent portfolio for MyCelx Technologies is presented in the complete *MyCelx Technologies Corporation Patent Schedule*, which appears at **APPENDIX A**. All the listed issued patents are, to the best of our knowledge, in force and not expired, and no patent maintenance fees are due. The MyCelx Technologies patent position can be organized according to patent "families," each family constituting a group of related US, International, and foreign applications and patents. Within each family, all but the earliest application claim the benefit of the filing date of an earlier-filed application within the same family. These later applications and patents may be designated as either continuation (CON), continuation-in-part (CIP), or divisional (DIV) documents. While all of these will have a common effective filing date, continuation and divisional applications and patents share the same description or "specification" as the earlier-filed application but claim different subject matter. Continuation-in-part applications and patents include additional information over that disclosed in the earlier-filed application, and claims commensurate with that added disclosure.

All MyCelx commercial products are protected by multiple patents that span more than one patent family. Patents expiring in 2013 (US) for the broadly-claimed MyCelx® polymer and the method of making are applicable to each commercial product. Patents expiring in 2025 (US) for filtration products with improved MyCelx® polymer compositions and method of making are applicable to each commercial product, except for the oil spill products. Provisional applications filed in 2011 for new MyCelx® polymer compositions and new filtration products are expected to serve as the basis for patents would likely expire in 2032 (US and non-US) and are likely applicable to every commercial product. Accordingly, various aspects of a patent-protected commercial product often have different time periods or terms of patent coverage, with some protected aspects expiring before others. To date, there are a total of seven (7) MyCelx Technologies Corporation patent families, which includes four (4) with issued patents and three (3) with applications currently pending. Family 1 includes the earliest filed patent applications. Accordingly, the earliest expiration date is found in the Family 1 patents, with the expiration dates of patents within the same family generally coinciding. A general list of the MyCelx patent families, listed in order from the latest expiring to the earliest expiring, is shown.

MyCelx Patent Families and their Earliest US Expiration Dates

Family	General Description	Earliest Expiration Date
7	New MyCelx® polymer compositions (patent pending)	ca. June 13, 2032
6	Filters for controlled delivery of alkalinity and cation functionality (patent pending)	ca. June 16, 2032
5	Visual water quality indicator systems (patent pending)	ca. March 25, 2028
4	Improved MyCelx® chemical compositions and filtration systems	July 13, 2025
3	Filtering contaminants from air	April 21, 2023
2	Removal of hydrocarbon and oily contaminants using filtration media	June 8, 2013
1	Original MyCelx® chemical compositions and their use for remediation of hydrocarbon and oil spills	June 8, 2013

The relationships among the patents within a family are summarized in the *Priority Data Charts for MyCelx Technologies Issued Patent Families* set forth in the **APPENDIX B**.

A tabular summary of the each family's patents and applications appears in the *MyCelx Technologies US Patent Family Summary* set out in **APPENDIX C**. Patent documents that have lapsed because they were not used as the earlier-filed "priority document" for subsequent applications that claimed an earlier effective filing date are not listed.

The progression of patenting of the various MyCelx® polymer technologies has unfolded logically and systematically, with the underlying chemical compounds and compositions being protected in the first MyCelx® patent. Subsequent patents in Family 1 are drawn to reaction chemistry and the use of the compositions in remediating hydrocarbon and oil spills. Family 2 patents relate to the removal of hydrocarbon and oil contaminants using MyCelx® based filtration media, as well as protection of reverse osmosis membranes from organic fouling. Family 3, which includes a single US patent, covers methods for removing contaminants from air using the subject technology. Family 4 discloses and claims the latest generation of MyCelx® filtration systems and polymer synthesis, which employ so-called "viscosity gradient" technology, and methods for their manufacture. The Family 4 patents also cover latest generation chemical technology as filtration devices disclosed in earlier patent families, thereby extending the patent coverage of these earlier products with new chemical technology. The Family 5 pending patent application is drawn to high sensitivity detection and characterization technology, such as a dye-treated MyCelx® filtration media for use as visual indicators of water quality. The Family 6 pending application relates to new combination filters that are capable of capturing compounds that cover a wide range of lipophilic and hydrophilic properties. New MyCelx® polymer chemistry is disclosed in the Family 7 patent application, which substantially boosts filtration efficiency.

The international patent position for MyCelx Technologies Corporation is summarized in the following chart and detailed in **APPENDICES A** and **B** The chart below sets out the initial international applications, known as Patent Cooperation Treaty (PCT) applications, that eventually were perfected as National Stage applications, and the countries in which a National Stage patent derived from that PCT application has been issued. Each non-US patent is designated according to the country in which it is in force. Applications for patent undergo an examination process according to the laws of that country conferring the patent. One exception to this general rule is Europe, which examines a European "regional" patent application and grants a European patent. However, a European patent grant is not in force in every European country unless that patent is "validated" in each country in which patent protection is desired. The German, French, and Great Britain patents in the chart below reflect the validation of a European paten grant. The selection of these countries for obtaining patent protection for a particular invention is discussed in the "MyCelx Technologies' Approach to Patenting" section that follows.

International Applications and Foreign Patents

International Appl. No. *Filing Date (f/d)*	**Family**	**Expiration Date**	**Summary**
PCT/US03/012653 *f/d Apr 5, 2003*	3	Apr 5, 2023	● Comparable to and priority from **US 6,805,727**. Published as WO 04/052499, Jun 6, 2004. ● National Patents in **Germany**, **France**, **Great Britain**, **Canada**, **Japan**.
PCT/US99/006419 *f/d Mar 24, 1999*	2	Mar 24, 2019	● Comparable to and priority from **US 6,180,010**. Drawn to filtration apparatus with media infused with the MyCelx® composition, and methods for removing organic contaminants from an aqueous phase. Published as WO 99/48584, Sep 30, 1999. ● National Patents in **Germany**, **France**, **Great Britain**, **Canada Australia**, **Mexico**.
PCT/US96/019846 *f/d Dec 13, 1996*	1	Dec 12, 2016	● Comparable to **US 5,837,146**. Claims priority from both US 5,746,925 and US 5,837,146. Drawn to additional MyCelx® chemical compositions to include those prepared from expanded list of drying oil and polymer synthetic components. Published as WO 97/22558, Jun 26, 1997. ● National Patents in **Germany**, **France**, **Great Britain**, **Canada**, and **Venezuela** (non-PCT; expires Dec 16, 2016)
PCT/US94/006141 *f/d May 31, 1994*	1	May 31, 2014	● Comparable to and priority from **US 5,437,793**. Drawn to original MyCelx® chemical compositions and methods of use for coagulating oil and hydrocarbons. Published as WO 94/29223, Dec 12, 1994. ● National Patents in **Germany**, **Great Britain**, **Canada**

As this table indicates, there were no corresponding Family 4 or Family 5 international (PCT) applications that were used to file individual national patent applications outside the US As discussed in the "MyCelx Technologies' Approach to Patenting" section that follows, these patent filing decisions were made by weighing the expected value of patent protection in various jurisdictions, in view of the associated costs. As a result, the Family 4 and 5 technologies will be protected in the US by patents for the duration of their term and in non-US countries primarily by trade secret protection. Once the US patents of these families expire, MyCelx® filtration products using Family 4 or 5 technology will continue to be secured by trade secrets and know-how worldwide. These measures provide a valuable additional line of defense for the MyCelx® polymers and filters, because these products are very difficult to "reverse engineer", even with the actual MyCelx® products in hand. These same trade secret and know-how protections will also continue to protect the MyCelx Families 1-3 technologies, even after their respective US and non-US patents expire, thereby imparting a continuing competitive advantage.

In contrast, international patent protection is available for Families 6 and 7 inventions, because they were disclosed in US provisional patent applications filed in June 2011.

Therefore, US non-provisional and international (PCT) applications corresponding to these Families 6 and 7 provisional applications will be filed before the end of the 12 month provisional expiration period. The PCT application will serve as the filing mechanism for subsequent foreign national applications. A discussion of the filing protocol and how MyCelx manages this process is provided in the following section.

MyCelx was incorporated in 1994 under the name Mansfield & Alper, Inc. and has undergone a series of name changes, with the immediate precursor to MyCelx being Mother Environmental Systems, Inc. All listed US patents, including any filed prior to the date of incorporation, were assigned by Mr. Alper to the company, as reflected in the online records of the US Patent and Trademark Office (USPTO). Further, the USPTO records reflect the name change from Mother Environmental Systems, Inc. to MyCelx Technologies Corporation in all but the US Patent No. 6,180,010 (the '010 patent) records, which in no way adversely affects ownership rights of this patent.

III MYCELX TECHNOLOGIES' APPROACH TO PATENTING

A patent is a government-granted monopoly to an applicant's invention, provided in exchange for full disclosure of the invention and how it works. A patent grant simply allows the patent holder to exclude others from making, using, selling, or importing the patented invention in the country that has conferred the patent. An invention can be patented if it is useful, as well as being novel and non-obvious over the "prior art", i.e., over what is already known in that particular field of technology. The exclusionary rights of a patent generally run for twenty years from the date of filing the application for patent. Once a patent is granted, prescribed maintenance fees must be paid to maintain the patent enforceable. Patents have the attributes of personal property and can be transferred or assigned, or licensed exclusively or non-exclusively.

The identification of new patentable inventions and the overall patenting process for MyCelx Technologies Corporation generally follow a standard internal protocol between MyCelx and their patent counsel. When a new invention is developed or identified at MyCelx, an assessment is made with patent counsel as to whether an invention should be protected as a patent or maintained as a trade secret. This evaluation incorporates any available knowledge of the prior art, ease of reverse engineering, likely patentability, and the business objectives that could be achieved with an issued patent for that invention. Even though the internal protocol is standard, the final decisions of whether to file an application and where to file are quite varied.

If the decision is made to file a patent application, the first application filed is typically a US provisional patent application. A provisional application is not examined by the patent office and expires 12 months from the date of its filing; however, a subsequently filed nonprovisional, international (Patent Cooperation Treaty, or "PCT"), or foreign patent application claiming the benefit of the provisional application will be accorded the same filing date as the provisional application, provided all the requirements of the latter applications are fully met by the provisional application. By the end of the 12 month provisional expiration period, MyCelx has evaluated whether the subject invention should be filed as a US nonprovisional application and whether any international (PCT) or foreign country applications should be filed. Throughout the 12 months that the provisional application is pending, MyCelx discusses with patent counsel any additional developments to the invention, and if warranted, additional provisional applications are filed to cover improvements on the initial discovery. Within 12 months of the first provisional filing, all of the cumulative developments and provisional applications from the past year are collected into a nonprovisional, PCT, and/or foreign application for filing.

Typically, a US nonprovisional and at least one PCT international application in each family are prepared and filed. A PCT application has a pendency of 30 months from the filing date of the provisional application; therefore, a single PCT application allows MyCelx to postpone the final decision of exactly which countries to enter with a national stage application for that invention, while maintaining that option of later entry into over 140 countries. Toward the conclusion of the

pendency of the PCT application and after assessing the importance of the invention, MyCelx may file national stage applications in any of over 140 countries that is a signatory to the Patent Cooperation Treaty.

In making a determination of where patent protection for a particular invention should be pursued, MyCelx evaluates a number of criteria to prioritize global filings according to business objectives. For example, consideration is given as to whether the new invention should be protected as a core technology, a commercial product, a research tool, or primarily a defensive patent. The corresponding value of each patent in view of the associated costs are assessed. This information is combined with an analysis of where a new patent application should be filed, and global filings are prioritized according to business objectives. For example, each application is reviewed according to where the MyCelx products covered by that application are manufactured, sold, or expected to be sold; what the potential market for that product is expected to be; where potential competing or infringing products, if any, may be manufactured and sold; where customers might use the product; where licensing opportunities exist; and the type of protection afforded to the product in that jurisdiction.

The examination of a patent application is an adversarial and largely written proceeding between the applicant and the patent office. A patent examiner conducts a search for prior art references that disclose or suggest the claimed invention, and examination usually results in an "Office Action" by the patent office that rejects one or more pending claims based on the prior art. Rejection can be followed by applicant's argument and/or claim amendments in response to the Office Action, until agreement is reached between the examiner and the applicant on patentable claims. This entire proceeding, which may continue for years, is termed patent "prosecution" and the written record of the exchange is the "prosecution history" or "file history".

Except for the US, most countries require "absolute" novelty before granting a patent on an invention. This requirement means that a patent applicant's own publications that disclose an invention – whether published scientific papers or patent applications – can constitute invalidating prior art against a later-filed patent application to that invention. Therefore, MyCelx and their patent counsel monitor filing and publication dates closely to ensure that applications are timely filed and published MyCelx documents do not constitute prior art against their own applications. Patent counsel works closely with MyCelx during all stages of examination and prosecution of a patent application and with foreign patent counsel for prosecution outside the US Throughout this process, coordinated review and response to Office Actions from each examining patent office are made.

MyCelx's President and Chief Science Officer, Hal Alper, is closely involved in all company decisions related to patent filings, including whether to file an application or maintain the new technology as a trade secret. Mr. Alper's effective role as MyCelx's director of research and development (R&D) provides him with the most comprehensive view of MyCelx technology, because he is involved in every area of MyCelx R&D. Much like R&D operations in larger companies, developments and refinements in technology are carried out under Mr. Alper's immediate direction, with technical personnel conducting tests according to instructions set out by Mr. Alper. Each of these individuals, for example, Anand Narayanan (Engineering and Operations Manager) and Harikrishnan P. (Manager of Applications and Technical Services) has a high level of knowledge in technologies for which they have performed the R&D function, but not necessarily in all other areas. This global technological overview being held by the Chief Science Officer is not unusual in companies with an ongoing R&D effort such as MyCelx.

Patent "inventorship" is a legal determination based on the patent claims, the hallmark of which is the conception of the invention. Inventorship is not equivalent to "authorship" of a technical report. Each patent and pending application described in this report was invented by Mr. Alper. This determination of inventorship does not preclude other MyCelx personnel from being named inventors of future patent applications, should their contributions meet the necessary legal

standard. In such an event, the company is protected by the contractual obligation of MyCelx employees of their respective work-for-hire agreements, which require assignment of any inventions made during the course of hire to MyCelx, and further stipulate the usual provisions of strict confidentiality and non-disclosure.

IV COMMERCIAL PRODUCTS AND THEIR ASSOCIATED PATENTS

This Section describes the types of commercial products covered by the MyCelx Technologies' US and foreign patents. The following summary should not be construed as legal advice or a guarantee of patent validity or of the scope of patent infringement coverage. Third party patents may arise with respect to combining the MyCelx Technologies' inventions with other technologies, and freedom to operate without infringement must be evaluated on a product-by-product basis.

As counsel for MyCelx Technologies, Sutherland has reviewed the prosecution histories of each issued US patent as a means to assess the patent. The patent portfolio has been properly prosecuted in all material aspects; that is, arguments and amendments in response to an Office Action appear to be fully responsive to the Office Action, and all procedural requirements of prosecution and allowance appear to have been met. Each issued MyCelx patents listed is, to the best of our knowledge, in force and not expired, and no patent maintenance fees are due.

In general terms, the prior art cited by the US Patent and Trademark Office (USPTO) during the prosecution history of MyCelx patents was not properly applied by the patent examiner, and the examiner's objections were subsequently withdrawn and the claims allowed. By way of example, prior art cited against the MyCelx® polymer compositions included references drawn to simple mixtures or blends of the reaction precursors used to make the MyCelx® polymer. No prior art was identified that suggested the thermal reaction product of the components or the unexpected properties of the resulting polymer, as claimed in the MyCelx patents.

The USPTO entered "double patenting" rejections in several applications, based upon MyCelx Technologies' own patents. To overcome these rejections, MyCelx was required to file terminal disclaimers, which disclaim any patent term of enforceability of the later-filed application that extends beyond the first patent. For example, such routine terminal disclaimers were filed in most of the Family 2 patents on the filtration products, requiring them to expire at the same time as the original Family 1 MyCelx® polymer composition patents.

The table below summarizes the general MyCelx product types discussed in detail in subsections A. through G., with the associated commercial products, and the last expiration date for an issued and applicable patent for those products. Both US and non-US patent expirations are listed; therefore, any non-US national patent derived from the listed non-US PCT patent document expires on the date indicated.

Last Expiration Date for an Applicable Issued Patent for each MyCelx Product

Product Type	MyCelx Products	Latest Expiration for Applicable Issued Patent	
		US	**Non-US**
Filtration Products for Removal of Organic Compounds	EB (Emulsion Breaker) Cartridges, PCB (Polychlorinated Biphenyl) Removal Cartridges, HRM (Hydrocarbon Removal Matrix) Cartridges, MK Cartridges	July 11, 2025 (US 7,264,721 & US 7,264,722)	March 29, 2019 (Patents derived from PCT/US99/006419)
Produced Water, Process Water, Storm Water and Bilge Water Filtration Products	MyCelx® Polisher™, MyCelx® Advanced Coalescer™, SitePure™, MyCelx® Stormwater Treatment Systems, PermaKleen™ Filter Bags, PureShip™ System, and BilgeKleen™ Filters	July 11, 2025 (US 7,264,721 & US 7,264,722)	March 29, 2019 (Patents derived from PCT/US99/006419)
Protection of Reverse Osmosis Membranes	WaterMaker™ Protection System, EB (Emulsion Breaker) Cartridges	July 11, 2025 (US 7,264,721 & US 7,264,722)	March 29, 2019 (Patents derived from PCT/US99/006419)
Air Filtration	PurePlant™ filters, 95 per cent. DOP Filters, PureShip™ ORS filters, OilArrest™	April 21, 2023 (US 6,805,727)	April 5, 2023 (Patents derived from PCT/US03/012653)
Visual Water Quality Indicator Systems	MyCelx® Polymer-Impregnated Filter with Fluorescent Dye	ca. March 25, 2028 (US 12/079,244, patent pending)	March 29, 2019 (Patents derived from PCT/US99/006419)
Oil Spill Products	VersiMat™, TerraGuard™, SuperBouyant RD™, VersiPad™, SmartPad™, and ViscoChips™	June 8, 2013 (Family 1 patents)	December 12, 2016 (Patents derived from PCT/US96/019846)
	Sheen Devil™	March 28, 2014 (D422,050)	December 12, 2016 (Patents derived from PCT/US96/019846)
The MyCelx® Polymer Composition	MyCelx® Polymer, PowerSolve™	June 8, 2013 (Family 1 patents)	December 12, 2016 (Patents derived from PCT/US96/019846)

This table does not reflect the last expiration date for an applicable patent that is expected to issue from the Family 6 and Family 7 lines of pending applications. Products deriving from these applications are described in the "Pipeline Products and Their Associated Patents Pending" section. Generally, the last expiration date for both families of patents is 20 years from filing dates of the corresponding US non-provisional or PCT applications, which is expected to be in June 2032. The pending and planned Family 6 applications are drawn to new compositions and filters that are capable of capturing more compounds than the current products. The pending and planned Family 7 applications protect the new MyCelx® polymer chemistry which will substantially enhance filtration efficiency. Therefore, every MyCelx® polymer-containing product listed in the table above is expected to benefit from this latest patent pending technology until approximately June 2032. Specifically, patents issuing from Family 7 (composition) applications will be applicable in all products for filtering produced water, process water, storm water, and bilge water, and products for

protecting reverse osmosis membranes, and in all the applications related to upstream oil and gas, downstream oil and gas including petrochemicals, and industrial clean water service business sectors.

As illustrated in the expiration date table above, all MyCelx commercial products are protected by multiple patents and by layers of trade secret and know-how protection. This analysis of MyCelx commercial products and their associated patents must be considered alongside the review of the strong MyCelx trade secret and know-how protection, discussed generally in section VII, to understand the overall protection of MyCelx products.

Family 1 patents drawn to the earliest underlying chemistry of the MyCelx® polymer compositions will expire in June 2013 (US) or December 2016 (non-US), and these patents provide broad coverage to every MyCelx® polymer-containing product. Family 2 patents concern the removal of hydrocarbon and oily contaminants from aqueous solution using filtration media that has been infused with the MyCelx® polymer. Family 2 patents also expire in June 2013 (US) or December 2016 (non-US); however, continued protection of any MyCelx® filtration products will continue through the trade secret and know-how required to prepare specific products, and from the Family 4 patents that cover any filtration apparatus using the improved MyCelx® polymer compositions and curing methods. While current commercial products generally use the Families 1 and 2 technologies, these products can be prepared using the improved MyCelx® compositions and curing methods of Family 4, which will extend protection on these embodiments until July 2025 (US) and March 2019 (non-US). Following the Family 4 expiration, it is likely that protection of all MyCelx® polymer-containing products will continue until about June 2032 (US and non-US) through patents issuing from Family 7 applications on new MyCelx® polymer compositions. Certain MyCelx® filtration products will be protected through issued Family 6 patents also until about June 2032 (US and non-US). Ongoing trade secret and know-how protection of new and improved MyCelx® compositions, methods, and filtration products will continue indefinitely after the expiration of the Families 4, 6, and 7 patents.

Accordingly, a patent "web" of interwoven protection extends across all MyCelx® polymer products, such that the expiration of one patent family does not render a particular product unprotected. Moreover, as illustrated by the Families 6 and 7 patent applications, Mr. Alper continues to innovate and file new patent applications for new and continued protection. Significantly, the protection of any MyCelx® filtration product incorporating Family 1, 2, 4, 6 and/or 7 technology will continue through trade secrets and know-how, once their respective patents have expired. These measures provide a valuable additional line of defense for the MyCelx® polymers and filters, because these products are very difficult to "reverse engineer". Even with MyCelx® products in hand, a potential competitor will find it very difficult to determine the specific chemicals and amounts used to make the polymer, the conditions for polymer synthesis, and the conditions under which the resulting filter was constructed. The potential competitor also will find it very difficult to determine the methods and processes for infusing and then curing or adhering the MyCelx® composition onto a filter medium, which also affect filter performance All these elements of know-how provide the MyCelx® filtration products with a continuing competitive advantage, regardless of whether that product uses Family 1, 2, 4, 6 and/or 7 technology. As demonstrated in the chart above, products for filtering produced water, process water, storm water, and bilge water, and products for protecting reverse osmosis membranes are all protected in this manner.

Family 3 patents concern the purification of air and other benign gases using filtration media that has been infused with the MyCelx® polymer. Although the Family 1 patents to the MyCelx® polymer composition cover the current air purification products, and these patents will expire in June 2013 (US) or December 2016 (non-US), following these dates the Family 3 patents will continue to secure these products until their corresponding expirations in April 2023 (US and non-US). Beyond these dates, protection of the air filtrations products can continue through patents that issue from Family 7 applications until about June 2032, as these products are expected to

contain the improved-performance MyCelx® polymer. Family 3 technology will continue to be protected by trade secrets and know-how even after the Families 1, 3, and 7 patents expire, because these MyCelx® polymer-containing filter products are difficult to reverse engineer.

Similarly, the pending Family 5 patent application is the first of a series drawn to diagnostic water and air quality detection and characterization technology being developed by MyCelx. This first application concerns a visual water quality indicator system that is used in conjunction with an aqueous filtration system, to provide real-time visualization of hydrocarbon droplets captured by a MyCelx® filter due to breakthrough at a primary filter. When the Family 5 filtration medium uses a MyCelx® polymer infused filter, it is protected by the Family 1 patents to the MyCelx® polymer, which will expire in June 2013 (US) or December 2016 (non-US). Continuing protection of the water quality indicator systems will continue by the Family 5 patent in the US until approximately March 2028, and also by non-US patents derived from a Family 2 PCT patent until March 2019. Even following these dates, protection of this technology can continue through patents that issue from Family 7 applications until about 2032, as these products are expected to contain the improved-performance MyCelx® polymer of Family 7. Ongoing trade secret and know-how protection also secure the Family 5 technology because of its difficulty to reverse engineer.

Accordingly, once the base patents of Family 1 and Family 2 expire, all the MyCelx products will continue to be protected by additional patents. The interwoven web of patent protection, as illustrated in the patent coverage charts in this section, extends across all MyCelx® polymer products, such that the expiration of one patent family does not leave any particular product unprotected. Moreover, all the MyCelx products will continue to be protected by layers of trade secrets and know-how. These latter features are effective measures because of the difficulty in determining precursors and process parameters from the product itself. Finally, Mr. Alper continues to innovate and file new patent applications on new technology.

MyCelx currently provides products to three principal business segments: upstream oil and gas; downstream oil and gas, including petrochemical; and industrial clean water services. Therefore, the focus for MyCelx technology squarely in the oil and gas industries, for both upstream and downstream applications. While MyCelx products are useful in other industries including power and utilities, commercial marine, and heavy manufacturing, these segments are not the prime focus of MyCelx's business. Regardless, the current MyCelx core products are useful in all these business segments, as follows.

The core products currently being sold by MyCelx Technologies are the MyCelx® filtration units and MyCelx® filters used for the removal of hydrocarbons and other organic compounds in the upstream oil and gas industries principally for produced water, and in the downstream oil, gas, refining, and chemical industries principally for process water. These core products are employed at onshore and offshore oil and gas well sites, refineries, petrochemical plants, heavy manufacturing sites, and the like. Other products currently being sold that do not constitute core products are the oil spill products in their various embodiments. MyCelx products planned to be sold in the near future include those filtration units and filters used for purifying air and other benign gases and the visual water quality indicator systems.

Details of the technology and specific commercial products are provided for each general product type at subsections A. through G, followed by a chart summarizing the US patent coverage for the various "aspects" of that product line. An analysis of the key patents for those products follows. (For example, while the Family 1 patents are applicable to every MyCelx product and are listed in every summary chart, they are analyzed only in the polymer composition section.) Each so-called patented "aspect" correlates with the independent claims of the relevant patents, which state the scope of protection. Therefore, *each of these Patent Coverage charts should be consulted to understand what "aspect" of patent protection expires and on what date*. In conjunction with **APPENDICES B** and **C**, these charts illustrate the multiple overlapping layers of patent protection afforded to each commercial product.

Finally, each MyCelx Technologies' issued patent and pending application is reviewed in detail only once, specifically, in the product section to which it is most directly applicable. The following Patent Coverage charts do not indicate the likely applicability of the Families 6 and/or 7 pending applications in any commercial product. These new technologies are in the test and evaluation phase, and they are discussed in the subsequent section entitled, "Pipeline Products and Their Associated Patents Pending".

A Filtration Products for Removal of Organic Compounds

1. *Overview*

This series of MyCelx products utilizes both early and later generations of MyCelx® polymer technology for filtration media and filtration devices. These patents are within Family 2, but their polymer technology can derive from the Family 1 or Family 4 patents. In contrast to the oil spill patents of Family 1, the filtration media of these patents protect compositions, methods and systems for removing hydrocarbons, such as oil and other organic contaminants, from aqueous systems in which the contaminant is dispersed or emulsified. Therefore, these compositions and methods are directly applicable to removal of hydrocarbon contaminants from produced water, process water, waste streams, bilge water, machining fluids, storm water and the like from industrial sites and similar environments. The improved MyCelx® polymer compositions that extend patent coverage to July 2025 are applicable to this line of products.

2. *EB Cartridges, PCB Removal Cartridges, HRM Cartridges, MK Cartridges*

This business of MyCelx is related to commercial MyCelx® filter cartridges for the removal of oil, fuel, and other organic contaminants from water in which the contaminant is dispersed or emulsified. The "cartridge" products themselves are a series of replaceable filtration cartridges having the MyCelx® polymer infused and cured thereon or therein, in which the base filtration media is tailored for a particular purpose and of a selected material.

The commercial products utilizing this technology are generally identified with a marks such as EB (Emulsion Breaker) Cartridges, PCB Removal Cartridges, HRM (Hydrocarbon Removal Matrix) Cartridges including "High Temperature" HRM Cartridges, MK Cartridges, and the like. These cartridges are differentiated by, among other things, the nature of the porous substrate into which the MyCelx® polymer is infused, variations in the MyCelx® polymer itself, and the physical shape, size, and intended purpose of that product.

EB (Emulsion Breaker) Cartridges are specially engineered to remove very highly emulsified organic contaminants from water. For example, MyCelx® EB Cartridges are capable of removing emulsified organics and oils having droplet sizes of below 10 microns. These EB Cartridges are typically used in treating moderately emulsified streams; therefore, they are often used in conjunction with and downstream of a primary MyCelx® HRM Cartridge for high efficiency and capacity.

HRM (Hydrocarbon Removal Matrix) cartridge technology, including that in High Temperature HRM Cartridges, is engineered to remove hydrocarbons from water almost instantly, by immobilizing and permanently bonding the hydrocarbon without developing pressure across the filter. These cartridges remove oily sheen, synthetic and natural oils, BTEX (benzene, toluene, ethylbenzene, and xylene), PCB (polychlorinated biphenyl), solvents and organically bound metals. The HRM (Hydrocarbon Removal Matrix) cartridges are engineered to operate in chemically aggressive environments, including high temperatures, and encompass operational ranges up to 25,000 liters

flow per minute, making them widely scalable. HRM Cartridges operate to 90°C, and High Temperature HRM Cartridges operate to 115°C.

PCB (polychlorinated biphenyl) Cartridges are a special type of MyCelx® polymer filter specifically optimized for the removal of PCBs. The PCB Cartridges are designed to remove low levels of all types of PCBs down to allowable discharge levels, typically 65ppt (parts per thousand). MyCelx® polymer instantly adheres to the PCB compounds and prevents any subsequent release. The MyCelx® PCB Cartridges also remove low level BTEX (Benzene, Toluene, Ethylbenzene, and Xylene) compounds.

MK™ Cartridges are MyCelx® polymer-containing cartridges used for in-line coolant and wash or rinse water cleaning. MK™ Cartridges preserve the quality of machining fluid by filtering out oils and lubricants that are entrained in the water during machining processes.

Patent Coverage for Filtration Products for Removal of Organics

Representative Products	**Application**	**Patented Aspect** ***(Independent Claims)***	**US Patents** ***(on this Aspect)***	**US Expiration Date**
● MyCelx® Emulsion Breaker (EB) Cartridges ● PCB Removal Cartridges ● Hydrocarbon Removal Matrix (HRM) Cartridges ● High Temperature Hydrocarbon Removal Matrix (HRM) Cartridges ● MK Cartridges  	Filtration apparatus	Filtration apparatus using improved MyCelx® polymer curing process for improved performance	7,264,721	Jul 11, 2025
		Filtration apparatus using improved MyCelx® polymer composition for improved performance	7,264,722	Jul 11, 2025
		Filtration apparatus with MyCelx® polymer impregnated filtration media in filtration canister	6,180,010	Jun 8, 2013
		Basic MyCelx® polymer composition used in filtration apparatus and the method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013
	Oil and organic contaminant removal methods	Method of removing organic contaminants from water with porous substrate impregnated with MyCelx® polymer cured *in situ*	6,180,010	Jun 8, 2013

3. ***US Patent No. 6,180,010 and National Patents Based on PCT/US99/006419***

US Patent No. 6,180,010 ('010), entitled, "Removal of organic contaminants from an aqueous phase using filtration media infused with an absorbent composition", is the first Family 2 patent filed by MyCelx. The '010 patent claims the fundamental method for removing organic contaminants from an aqueous phase by passing it through a MyCelx® polymer filter. The foundational MyCelx® filter apparatus that includes a MyCelx® filter cartridge is also claimed.

An international application PCT/US99/006419 ('419) claims priority to the '010 patent and is comparable in scope. The PCT '419 application was used as the filing document for subsequent patent filings in Europe, Canada, Australia, and Mexico, and the European patent was validated and is currently in force through national patents in Germany, France, and Great Britain. These national phase patents have corresponding claims coverage as the US '010 patent, in their respective countries.

4. ***US Patent No. 7,264,721***

US Patent No. 7,264,721 ('721), entitled, "Filtration system", is the first Family 4 patent filed by MyCelx. The '721 patent claims a fundamentally different MyCelx® polymer filter construction made possible by a differential curing process. This filter construction uses a wrapping of multiple overlying sheets that include the MyCelx® polymer, which are cured to different tackiness through the sheets. These so-called "viscosity gradient" filters represent the latest patented MyCelx technology providing new levels of operational efficiency. The '721 patent claims are drawn to the filtration apparatus itself, and the next generation of EB (Emulsion Breaker) Cartridges are examples of the technology encompassed by the '721 patent.

5. ***US Patent No. 7,264,722***

US Patent No. 7,264,722 ('722), entitled, "Filtration system", is the second and last Family 4 patent filed by MyCelx. The '722 patent claims recite a filtration system that includes a different type of MyCelx® polymer used in the filter construction and an in situ curing process but is not necessarily limited otherwise. These are also so-called "viscosity gradient" filters that constitute part of the latest patented MyCelx technology that afford new levels of operational efficiency. The '722 patent claims recite a filtration system, and the next generation of EB (Emulsion Breaker) Cartridges are examples of the technology encompassed by the '722 patent.

B **Produced Water, Process Water, Storm Water and Bilge Water Filtration Products**

1. ***Overview***

The next series of MyCelx products overlaps with the filtration and cartridge systems used for removal of oil, fuel, and other organic contaminants. Like these previous cartridge systems, the produced water, process water, storm water, and bilge water filtration products all incorporate the MyCelx® polymer in any of its embodiments. Therefore, these products themselves are protected by the Family 2 patents and similarly utilize both earlier or later generations of MyCelx® polymer technology for their filtration media.

These products and methods are directly applicable to removal of hydrocarbon contaminants dispersed in waste streams, produced water, process water, bilge water, machining fluids, storm water and the like from oil and gas production, downstream industrial sites and similar environments. As a result, these products include larger scale and/or different configuration filtration systems in which the filtration media incorporates the MyCelx® polymer.

2. ***MyCelx® Polisher™, MyCelx® Advanced Coalescer™, SitePure™, MyCelx® Stormwater Treatment Systems, PermaKleen™ Filter Bags, PureShip™ System, and BilgeKleen™ Filters***

This business of MyCelx concerns the cleaning of water that derives or is generated from run-off, produced water from wells, or from a ship's bilge. This line of MyCelx products generally represents a larger-scale and/or different configuration of filtration and cartridge systems used for removal of oil, fuel, and other organic contaminants. For example, bilge water can be found aboard almost every vessel, and depending on

the ship's design and function, bilge water may contain water, oil, detergents, solvents, chemicals, particles, and the like. Storm water that is generated from a chemical plant, oil platform, or other industrial site also contains similar contaminants, as does water that is produced in the drilling and extraction of oil and gas. These MyCelx® polymer products provide a solution in these environments.

The US Federal Clean Water Act as well as US Coast Guard regulations disallow even the appearance of a visible sheen on the water when oily water is discharged from a vessel within 12 miles (19km) from shore. This standard requires the oil to be removed to a very low concentration. The MyCelx® BilgeKleen™ and PureShip™ water filtration systems almost instantly removes the hydrocarbons from bilge water discharge, so this stringent standard can be met. BilgeKleen™ and PureShip™ Systems are available or can be designed for any size vessel, depending on the specific requirements of that vessel. Figure 1 illustrates the high efficiency of the smaller BilgeKleen™ filtration system, such that not a trace of oily sheen is observed in the discharged water.

Figure 3.

Example of a MyCelx® SitePure™ Oil Removal System.

For removing oil and other organic contaminants from produced water, process water, or storm water and run off from industrial sites such as petrochemical industry sites, onshore and offshore oil and gas well sites, other chemical plants, and the like, MyCelx offers the line of MyCelx® water treatment systems, such as the MyCelx® Polisher™, MyCelx® Advanced Coalescer™, SitePure™ Oil Removal Systems and MyCelx® Stormwater Treatment Systems. Virtually every treatment system is designed according to the unique requirements of the specific facility, space, and waste stream to be treated. Figure 3 illustrates an example of a SitePure™ Oil Removal System designed for an onshore industrial facility.

The PermaKleen™ filter bags and filter systems are engineered from a waste scrap materials, making it very useful for maximizing hydrocarbon absorption surface area without clogging or fouling. The PermaKleen™ system is designed for use under gravity pressure, making this system particularly useful for storm water treatment from municipal, construction, and smaller industrial sites. These products typically use filter bags for surface water drainage, and can remove heavy oils, light oils, and emulsified and soluble organics. The advantages of the PermaKleen™ filter bags and systems include their operation at lower pressure differentials than clay, fibrous material, or resins filters, they require no pre-filtration, they are not susceptible to biological fouling, and they can filter even high peak concentrations of contaminants.

Patent Coverage for Produced Water, Process Water, Storm Water and Bilge Water Filtration Products

Representative Products	Application	Patented Aspect *(Independent Claims)*	US Patents *(on this Aspect)*	US Expiration Date
● MyCelx® Polisher™ ● MyCelx® Advanced Coalescer™ ● SitePure™ Oil Removal Systems  ● MyCelx® Storm water treatment systems  ● PureShip™ System ● BilgeKleen™ Filters  ● PermaKleen™ Filter Bags and System 	Filtration apparatus using later generation polymer chemistry	Filtration apparatus using improved MyCelx® polymer curing process for improved performance	7,264,721	Jul 11, 2025
		Filtration apparatus using improved MyCelx® polymer composition for improved performance	7,264,722	Jul 11, 2025
	Oil and organic contaminant removal methods	Method of removing organic contaminants from water with porous substrate impregnated with MyCelx® polymer cured *in situ*	6,180,010	Jun 8, 2013
		Method of removing oil and other organic contaminants from bilge water and produced water	6,475,393	Jun 8, 2013
	Filtration apparatus using earlier generation polymer chemistry	Filtration apparatus for removing oily and slightly soluble organic contaminants and particulate matter from drain water	6,337,016	Jun 8, 2013
		Basic MyCelx® polymer composition used in filtration apparatus and the method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013

3. ***US Patent No. 6,337,016***

US Patent No. 6,337,016 ('016) is entitled, "Apparatus for removing noxious contaminants from drainage water" and is within the Family 2 patent series. The '016 patent claims an improvement to a known apparatus for separating floating and non-floating particulate matter or debris from drainage water. Therefore, the '016 patent covers a known apparatus that has been upgraded or improved by the inclusion of a fluid-previous media that has been infused with the MyCelx® polymer composition. As a result, the subject apparatus is now capable of removing both particular contaminants from drainage water, as well as hydrocarbon and slightly soluble organic contaminants because of the MyCelx® polymer upgrade. The MyCelx® polymer composition is claimed broadly in the '016 patent and therefore the subject technology is applicable in a wide range of municipal, construction, and industrial settings.

4. ***US Patent No. 6,475,393***

US Patent No. 6,475,393 ('393) is entitled "Method and apparatus for removing pernicious contaminants from bilge water discharge" and is a MyCelx Family 2 patent. The '393 patent claims a method for removing contaminants from an oily bilge water by passing the contaminated bilge water through a fluid-pervious filtration media that has been infused with the MyCelx® polymer composition. The MyCelx® composition is broadly described and claimed in the '393 patent. Among other things, this patent includes claims to a wide range or fluid-pervious filtration media that can be used according to the claimed method. The subject technology is applicable not only to bilge water overboard discharge, but also to onshore produced water, cooling water treatment in refineries and boilers, and the like.

C **Protection of Reverse Osmosis Membranes**

1. ***Overview***

Another business of MyCelx is related to commercial MyCelx® polymer-containing filter cartridges and systems for protecting reverse osmosis and cross flow membranes, particular used in large, medium, or small scale desalination units. Water making desalination units contain reverse osmosis (RO) membranes that can be destroyed upon contacting even trace amounts of oil, fuel, and other organic contaminants that are dispersed in the water to be desalinated. As a result, removal of these contaminants to a very low concentration level is necessary for the protection of such units. Cross flow membranes are useful in any number of feeds containing a high proportion of small particle size solids where the permeate (liquid) is of most value, for example, in the extraction of soluble antibiotics from a fermentation liquor. These filters are useful in any number of applications which require protection from even extremely low levels of organic contaminants. These products are protected by the Families 1, 2, and 4 patents.

2. ***WaterMaker™ Protection System, EB (Emulsion Breaker) Cartridges***

Because this MyCelx business concerns the cleaning of water to very low levels of organic and oily contamination levels, products such as the EB (Emulsion Breaker) Cartridges, for example, used as part of the WaterMaker™ Protection System are included here. These cartridges are differentiated by, among other things, the nature of the porous substrate into which the MyCelx® polymer is infused and variations in the MyCelx® polymer itself, which afford the very high level of organic removal. As described, the EB (Emulsion Breaker) cartridges are engineered to remove very highly emulsified organic contaminants, for example, emulsified organics and oils having droplet sizes of below 10 microns.

The WaterMaker Protection™ System is a MyCelx® polymer-containing system for protecting desalination units. Water making desalination units contain reverse osmosis (RO) membranes that are adversely affected by hydrocarbon contaminants. Even the slightest concentrations of oil or fuel sheen can irreparably damage fragile membranes causing them to cease functioning and requiring costly replacement. The patented WaterMaker Protection™ System utilizes MyCelx® polymer filters to capture hydrocarbon pollution before it can enter the RO matrix.

Patent Coverage for Reverse Osmosis and Cross Flow Filter Membranes

Representative Products	Application	Patented Aspect *(Independent Claims)*	US Patents *(on this Aspect)*	US Expiration Date
• WaterMaker™ Protection System 	Filtration apparatus using improved chemistry	Filtration apparatus using improved MyCelx® polymer curing process for improved performance	7,264,721	Jul 11, 2025
		Filtration apparatus using improved MyCelx® polymer composition for improved performance	7,264,722	Jul 11, 2025
	Oil and organic contaminant removal methods	Method of removing organic contaminants from water with porous substrate impregnated with MyCelx® polymer cured *in situ*	6,180,010	Jun 8, 2013
	Filtration apparatus using earlier generation polymer chemistry	Basic MyCelx® polymer composition used in filtration apparatus and the method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013
	Protection of cross flow membranes	Method for protection of cross flow membranes using an upstream filtration apparatus with MyCelx® polymer impregnated filtration media	6,491,822	Jun 8, 2013

3. ***US Patent No. 6,491,822***

US Patent No. 6,491,822 ('822) is entitled "Protection of crossflow membranes from organic fouling" and is a Family 2 patent. The '822 patent provides methods of improving the efficiency and usable life in a cross flow membrane. Specifically, the claimed method uses an upstream filter that comprises fluid-pervious filtration media that has been infused with the MyCelx® polymer composition. The MyCelx® composition itself is broadly claimed in the '822 patent. While the claimed technology recites bilge water as one aqueous system that can be ameliorated using the claimed method, it is equally applicable to any aqueous system that employs a cross flow membrane.

D **Air Filtration**

1. ***Overview***

A further aspect of MyCelx® polymer technology relates to its use for the purification of air or other benign gases. Standard air filters such as HEPA (High Efficiency Particular Air) filters can lose the majority of their effectiveness in the first few weeks after installation. MyCelx® polymer air filtration systems have been shown to be more effective than standard HVAC (Heating, Ventilation, and Air Conditioning) filters or HEPA filters. Because they typically afford substantially greater time between filter replacements that standard HEPA filters, the MyCelx® polymer filters can provide cost advantages over HEPA technology. These products are protected by the Families 1 and 2 patents.

2. ***PurePlant™ filters, 95 per cent. DOP Filters, PureShip™ ORS filters, OilArrest™***

The subject MyCelx® Air Filtration systems, which in their various embodiments include the PurePlant™ filters, 95 per cent. DOP (dioctyl phthalate) Filters, and PureShip™ ORS (Oil Removal System) filters, permanently remove oily mist and other volatile organic contaminants (VOCs) from the plant air flow. Organic and oily mists generally contain aerosols of undesirable organic compositions and can lead to unwanted oil-based odor and equipment fouling. The MyCelx PurePlant™, 95 per cent. DOP, PureShip™ ORS, and OilArrest™ filters provide highly effective performance, even several months after installation. The use of these MyCelx Air Filtration Systems can substantially improve air quality, reduce the need for air intake and energy usage, and protect equipment. Even some of the cleanest, best kept ships encounter undesirable levels of oily mist and odors from onboard operations, and these filters can hold 5- to 10-times more oil and odor per square inch than standard air filters and typical vapor absorbents.

Patent Coverage for the Air Filtration Products

Representative Products	**Application**	**Patented Aspect** ***(Independent Claims)***	**US Patents** ***(on this Aspect)***	**US Expiration Date**
• PurePlant™ Filters • 95 per cent. DOP Filters • PureShip™ ORS Filters • OilArrest™ 	Air filtration for HVAC (Heating, Ventilation, and Air Conditioning) applications	Method of separating organic aerosols, oily mist, and undesired particles from air and other benign gases using MyCelx® polymer-impregnated filter media	6,805,727	Apr 21, 2023
		Basic MyCelx® polymer composition used in filtration apparatus and the method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013

3. ***US Patent No. 6,805,727 and National Patents Based on PCT/US03/012653***

US Patent No. 6,805,727 ('727) is entitled, "Method for filtering pernicious non-gaseous contaminants from air and benign gases" and constitutes the sole issued US patent in the Family 3 air filtration series of MyCelx patents. The MyCelx® polymer chemistry as used in the water filtration technology is applicable to air filtration as well. The '727 patent claims methods for separating undesired particles such as aerosols or solid particulate matter, from a gaseous medium in which the particles are dispersed. The methods comprise passing the gaseous medium and particles through a fluid-pervious filtration media which has been treated with the MyCelx® polymer composition that has been cured in situ. As a result of this relatively broad claim language, the '727 patent is applicable to any application of the MyCelx® polymer as used in air filtration, such as HVAC (Heating, Ventilation, and Air Conditioning) systems, oil mist separators, air intake generally, engine exhaust, instrument air filtration, medical institution air filtration, onboard ship applications, removal of volatile organic compounds (VOCs), and the like.

An international application PCT/US03/012653 ('653) was filed at approximately the same time as the '727 patent and claims the benefit of filings dates of the same provisional applications as the '727 patent. This PCT application is substantially similar to the '727 US patent. This PCT application was used as the filing document for

subsequent patent filings in Europe, Canada, and Japan, and the European patent was validated and is currently in force through national patents in Germany, France, and Great Britain. These national phase patents have corresponding claims coverage as the US '727 patent, in their respective countries.

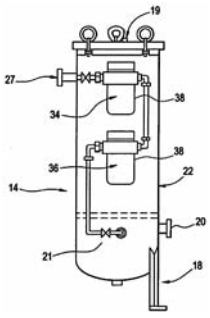
E Visual Water Quality Indicator Systems

1. *Overview*

A further product line developed by MyCelx Technologies is a visual water quality indicator system, which is the first of the Family 5 applications for high sensitivity detection and characterization technology. This family of diagnostic technology greatly improves pollutant detection from the ppm (parts-per-million) levels of current technology to ppb (parts-per-billion) levels for the Mycelx technology.

The patent pending water quality indicator system utilizes fluorescent dye-treated MyCelx® filtration media to allow real-time visualization of hydrocarbon droplets captured by a MyCelx® filter due to breakthrough at a primary filter. This system is typically employed in conjunction with a bilge water filter, such as the MyCelx® BilgeKleen™ filtration systems, and provides a quick and easy method of determining with the BilgeKleen™ filter has reached its capacity. These filters and methods are capable of significantly reducing the incidents of pollution resulting from contaminant breakthrough of a primary filter that simply goes unnoticed by personnel. Therefore, the subject product line is applicable to any number of primary filters and filter types, such as MyCelx Technologies' SitePure™, MyCelx® Stormwater Treatment Systems, PureShip™ Filter Systems, and BilgeKleen™ Filter Systems. These products are protected by the Family 5 patent application and the Families 1 and 2 patents.

Patent Coverage for Visual Water Quality Indicator Systems

Representative Products	**Application**	**Patented Aspect** ***(Independent Claims)***	**US Patents** ***(on this Aspect)***	**US Expiration Date**
• MyCelx® Polymer-Impregnated Filter with Fluorescent Dye 	Visual water quality indicator for use with filtration apparatus	Apparatus containing MyCelx® polymer and visual indicator for visually determining bilge water quality	12/079,244	likely Mar 25, 2028 *(20 years from filing date)*
	Oil and organic contaminant removal methods	Method of removing organic contaminants from water with porous substrate impregnated with MyCelx® polymer cured in situ	6,180,010	Jun 8, 2013
		Basic MyCelx® polymer composition used in visual indicator apparatus and the method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013

2. *US Patent Application No. 12/079,244*

US Patent Application No. 12/079,244 ('244), entitled, "Visual bilgewater quality indicator", is the only pending MyCelx patent application in this technical area. The claims of the '244 application are drawn to a filtration system with a first filtration stage and a downstream visual water quality indicator for evaluating the quality of treated effluent from that first filtration stage. The visual water quality indicator uses a transparent canister and a fluorescent or phosphorescent dye-treated filtration media. Oil droplets as small as one micron can be captured and immobilized by the

primary filter and are instantly visible against the background of the exemplary dye. The visual water quality indicator, just as the primary filtration stage, uses the MyCelx® polymer composition to capture the oil droplets. This application is currently pending and under examination by the US Patent and Trademark Office.

F Oil Spill Products

1. *Overview*

Overlapping some of the MyCelx® polymer patents, this next technology area relates to the products that incorporate the MyCelx® polymer that are designed for oil spill remediation. These oil spill products patents are within Family 1 and their technology utilizes the fundamental chemistry protected by the earlier chemical patents. Generally, the oil spill products are manufactured by infusing or impregnating the MyCelx® polymer into a porous substrate, which transfers the unique properties of the polymer to the substrate. The manufacture of these products does not require any in-licensing agreements, as MyCelx Technologies Corporation owns the necessary patents for their production. The Family 1 patents on the oil spill products will expire in June 2013 (US) or December 2016 (non-US), except that design patent protection on the Sheen Devil™ will continue to March 2014 in the US Once these Family 1 patents expire, the oil spill products will continue to be protected by trade secrets related to improvements to the methods and processes for infusing and then curing or adhering the MyCelx® composition onto a medium.

2. *VersiMat™, TerraGuard™, Sheen Devil™, SuperBouyant RD™, VersiPad™, SmartPad™, and ViscoChips™*

A range of commercial products fall under the oil spill patents, depending largely on the nature of the porous substrate into which the MyCelx® polymer is infused and the physical shape and intended purpose of that product. The underlying MyCelx® chemistry can be applied to virtually any porous substrate to impart the unique properties of the MyCelx® polymer to that substrate. The following commercial products represent embodiments of MyCelx® oil spill products.

One MyCelx® product termed the VersiMat™ is used as a sweep for an oil spill or as a continuous barrier when interconnected. VersiMat™ is applicable to oil or fuel spills, is more effective than traditional melt-blown polypropylene (MBPP), and has less water drag-out and waste disposal costs than conventional materials.

A MyCelx® product named TerraGuard™ is a shoreline protection product that protects against oil and fuel surface film, tarballs, and emulsification products, even in rough weather. Because MyCelx® infused substrates such as the TerraGuard™ product are extremely hydrophobic (water-repelling), as well as being oleophilic (oil-attracting), TerraGuard™ will not waterlog and sink or become ineffective.

The Sheen Devil™ is another embodiment of oil spill products and, like the other MyCelx® infused substrates, attaches instantly to freshly spilled oil, preventing the formation of tarballs and sheen. The Sheen Devil™ also works without becoming waterlogged or otherwise ineffective.

SuperBuoyant RD™ ("Rapid Deployment") is a rapidly deployed "boom like", 12-foot interconnectable length of MyCelx® infused material that instantly attach to oil with virtually zero water drag-out. Each 12-foot length of SuperBuoyant RD™ has the capacity to prevent over 4.5 pounds of oil from sinking.

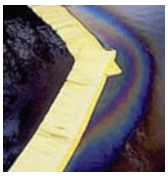
The Versipad™ product is essentially a MyCelx® infused pad for bulk absorption of oil or other organic materials and is especially applicable for collecting light to medium oil and for sheen removal. The Versipad™ product can be unfolded to expand

its immediately accessible collection area. For example one size Versipad™ can be unfolded to remove oil on surfaces up to about 18 square feet.

The MyCelx® product called the SmartPad™ is designed for protecting surfaces like shop floors from equipment, pumps, and other sources of oil. The SmartPad™ will not let oil pass through, so surfaces beneath the pad remain clean and oil-free.

A product called ViscoChips™ is made by combining the MyCelx® polymer with specially treated wood fibers, and are especially applicable for spill applications on land and use as an absorbent dike or berm. ViscoChips™ render the spilled oil more cohesive and enhance the buoyancy of heavy oils. When used in combination with oil skimmers, ViscoChips™ can enhance the efficiency of the skimmers several fold.

Patent Coverage for Oil Spill Products

Representative Products	**Application**	**Patented Aspect** ***(Independent Claims)***	**US Patents** ***(on this Aspect)***	**US Expiration Date**
• SmartPad™ • VersiMat™ • VersiPad™ • TerraGuard™ • Sheen Devil™ • ViscoChips™ • SuperBuoyant RD™ • FuelKleen®  	Oil and Fuel Spill Products • Oil and gas industries • Marine • Power industry • Manu-facturing • Facilities • Environ-mental	Ornamental design for an oil containment boom 	D422,050	Mar 28, 2014
		Porous product impregnated with basic MyCelx® polymer	5,746,925	Jun 8, 2013
		Devices for controlling oil of fuel spill having a porous substrate impregnated with basic MyCelx® polymer	5,961,823	Jun 8, 2013
		Basic MyCelx® polymer composition used in oil spill product and its method of synthesis	5,437,793 5,698,139 5,746,925 5,837,146	Jun 8, 2013

3. ***US Patent No. 5,746,925***

US Patent No. 5,746,925 ('925), "Composition for coagulating oil", was described in the previous section as the third in a series of basic chemical patents. However, in addition to including broader chemical composition claims, the '925 patent contains claims drawn to a process for treating an oil spill, a product for coagulating oil that includes a substrate impregnated with the oil coagulant composition, and finally, a method of making the product for coagulating oil.

The process and product claims of the '925 patent are also relatively broad and are comparable to the scope of the composition claims. For example, one independent product claim recites merely a porous substrate impregnated with an oil coagulant, the "coagulant comprising a homogeneous reaction product of a glyceride and a methacrylate or acrylate polymer". Dependent claims further refine the specific composition components. The '925 patent claims also set out a method of forming a product for coagulating oil, the method including steps to make a homogeneous composition of MyCelx® polymer, then adding a porous substrate to the composition. These claims set out the basic method of making the range of commercial oil spill products and are applicable to a wide range of porous substrates into which the

MyCelx® polymer can be infused and to which the unique properties of the MyCelx® polymer can be imparted.

4. ***US Patent No. 5,961,823***

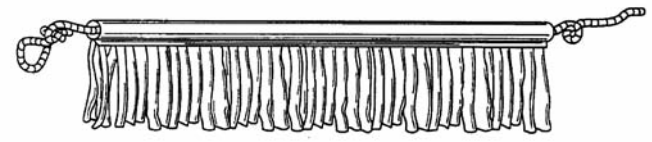
US Patent No. 5,961,823 ('823) is entitled, "Oil coagulant products and methods of use therefor" and constitutes the last-filed and most extensive utility (as opposed to design) patent drawn to products for use in managing oil spills. The '823 patent includes 37 claims, with two independent claims that cover devices for controlling suspended contaminants, such as oil suspended in water. Independent claim 1 includes the coagulant composition in broad terms, as well as structural aspects of the device itself. Independent claim 36 recites the novel structural aspects of a device, and is not limited to a specific coagulant composition impregnated thereon or therein. Therefore, while most of the '823 patent claims protect MyCelx® polymer-infused oil spill devices, the '823 patent also discloses and claims new oil spill structures.

The range of spill-control structures that are disclosed and claimed in the '823 patent is extensive and takes full advantage of the improvements in shape and size that are possible when the structure is impregnated with MyCelx® coagulant composition. MyCelx Technologies products that are protected by the '823 patent include the VersiMat™, TerraGuard™, Sheen Devil™, SuperBouyant RD™, VersiPad™, and SmartPad™. Because the claims are all "device" claims, the '823 patent is complementary to the earlier filed patents in Family 1.

5. ***US Design Patent No. 422,050***

US patent law provides for the granting of design patents to protect a new, original and ornamental design for an article of manufacture. A design patent protects only the appearance of the article and not its structural or utilitarian features. Thus, in general terms, a "utility" patent protects the way an article is used and works, while a "design" patent protects the way an article looks. Both design and utility patents may be obtained if there are inventive aspects in both its utility and ornamental appearance. That is the case in this oil containment boom design patent, US Des. 422,050.

A design patent may have only a single claim which presents the ornamental aspects of the design. US Des. 422,050 entitled "Oil containment boom" was granted on an application that was filed as a continuation-in-part ("CIP"), which claims priority to US Patent No. 5,837,146, the '146 patent itself in the Family 1 lineage. The single claim of the '050 design patent reads, "[t]he ornamental design for an oil containment boom, as show and described" and is accompanied by the following drawing.



G The MyCelx® Polymer Composition

1. ***Overview***

This technology area relates to the underlying chemistry of the MyCelx® chemical composition, that is, the MyCelx® polymer itself. The basic MyCelx® polymer is broadly-claimed in the Family 1 patents, which are the oldest of the MyCelx portfolio and which will expire in June 2013 (US) or December 2016 (non-US).

Another layer of protection of MyCelx products that use the MyCelx® polymer continues after the expiration of the broad polymer claims of Family 1, specifically, protection of any filtration apparatus using improved MyCelx® polymer compositions and curing methods will continue through the Family 4 patents. As depicted in the Patent Coverage charts for filtration products, Family 4 protection will continue until July 2025 (US) and March 2019 (non-US). The "improved" MyCelx® polymer composition included in Family 4 claims is different than the "new" MyCelx® polymer composition of Family 7. Therefore, following the Family 4 expiration dates, it is expected that protection provided by patents that will issue from Family 7 for the "new" MyCelx® polymer compositions that will continue coverage of a MyCelx® polymer composition until about June 2032. Family 7 is discussed as a "pipeline" product below. As with the remaining patented technology and MyCelx products themselves, the synthesis and use of the MyCelx® polymer does not require any license agreements to make or use the polymer in any area of use.

2. ***MyCelx® Polymer, PowerSolve™***

This chemical technology area addresses the fundamental chemistry itself, variations in the chemical compositions, processes to prepare the MyCelx® composition, and the like. The subject technology is based on the properties of the MyCelx® polymers, which are synthetic products formed by reacting two components: 1) a drying oil component, which can include natural oils, triglycerides, fatty acids, and the like; and 2) a polymer component, which can include synthetic acrylate- or methacrylate-based polymers. The patented compositions can be used in their pure form or can be applied to virtually any substrate, or infused into a fluid-pervious filter medium for use in removing hydrocarbon contaminants.

The MyCelx® polymers were recognized as novel compounds by the Chemical Abstracts Service (CAS) Division of the American Chemical Society (ACS) and assigned CAS Registry Numbers 173967-80-1 and 173967-81-2. The ACS established the CAS Registry program to provide authoritative and unique identifiers of new chemical substances. Among other things, these Registry Numbers represent the American Chemical Society's authentication of the MyCelx® polymers as new substances derived from the reaction of its two components, rather than merely a blend of the components. Additional CAS Registry information can be found at the following link: http://www.cas.org/expertise/cascontent/registry/regsys.html.

A related product in this technology area is MyCelx Technology's PowerSolve™ solvent composition. PowerSolve™ is a high strength solvent that contains D-limonene, the MyCelx® polymer composition, and a proprietary surfactant blend. This powerful solvent combination is biodegradable, non-flammable, and non-toxic, and it removes caked-on grease, asphalt, tree sap, tar and the like from concrete and other surfaces.

Patent Coverage for the MyCelx® Polymer Composition

Representative Products	Application	Patented Aspect *(Independent Claims)*	US Patents *(on this Aspect)*	US Expiration Date
• MyCelx® Polymer • PowerSolve™  	Chemical composition	MyCelx® chemical composition broader than the '793, '139, and '925 patents and method of making	5,837,146	Jun 8, 2013
		MyCelx® chemical composition broader than the '793 and '139 patents and method of making	5,746,925	Jun 8, 2013
		Chemical process broader than basic '793 process for preparing MyCelx® polymer	5,698,139	Jun 8, 2013
		Basic MyCelx® chemical composition	5,437,793	Jun 8, 2013
	Oil spill use	MyCelx® chemical composition broader than the '793, '139, and '925 patents and method of making	5,837,146	Jun 8, 2013
		MyCelx® chemical composition broader than the '793 and '139 patents and method of making	5,746,925	Jun 8, 2013
		Method of using basic MyCelx® polymer for coagulating oil spills	5,437,793	Jun 8, 2013

3. ***US Patent No. 5,437,793 and National Patents Based on PCT/US94/006141***

The initial MyCelx® polymer composition patent series is based on US Patent No. 5,437,793 ('793), entitled, "Coagulant for oil glyceride/isobutyl methacrylate composition and method of use", which describes the fundamental chemical composition of the MyCelx® polymer. The method of making the MyCelx® polymer, termed a "coagulant chemical" in the '793 patent, the chemical composition itself, and the method of using the composition for oil spill remediation are all described in the '793 patent and its subsequent international (PCT) filing. The coagulant is comprised of the synthesis product of a glyceride such as found in the linseed oil and a polymer such as poly(isobutyl methacrylate), and may include a solvent.

An international application PCT/US94/006141 ('141) was filed subsequently, and is comparable to, and claims priority from, the '793 US patent. Thus, the international '141 patent is also drawn to original MyCelx® chemical compositions and methods of use for coagulating oil. This PCT application was used as the filing document for subsequent patent filings in Europe and Canada, and the European patent was validated and is currently in force through national patents in Germany and Great Britain. These national phase patents have corresponding claims coverage as the US '793 patent, in their respective countries.

4. ***US Patent No. 5,698,139***

A series of subsequent patent applications followed the '793 patent, including those drawn to new developments and improvements in the technology, which resulted in

a series of "divisional" and "continuation-in-part" patents, all claiming ultimate priority to US 5,437,793 and the benefit of its earlier filing date. The first of these is US Patent No. 5,698,139 ('139), which is a "divisional" application of the '793 patent. This terminology refers to the latter '139 patent having the same disclosure as the previous '793 patent, but a different set of patent claims, that represent a different enforceable aspect of the technology.

The '139 patent, entitled "Method of making poly (linseed oil/isobutyl methacrylate) as a coagulant for oil", refers to the emulsion removal from process waste water, condensate water, parts wash, and the like, using the MyCelx® polymer. This patent specifically claims a broader process for making the polymer and more broadly claims the range of oil components and polymer components that can be used to prepare the MyCelx® polymer. This expanded claim scope strengthens the coverage of the process used to prepare the polymer, because the broadest '139 claims are not limited by the weight percentage of precursors used to make the polymer or any solvent added to the resulting polymer mixture.

5. ***US Patent No. 5,746,925***

The US patent, US Patent No. 5,746,925 ('925), is the third in a series of basic chemical patents, and is entitled simply, "Composition for coagulating oil". This '925 patent is a "continuation-in-part" patent of its predecessor '139 patent, meaning that the latter '925 patent includes new information that was not disclosed in the earlier-filed '139 patent, and the patent claims are primarily drawn to this new information. The '925 patent includes claims drawn to a chemical composition or "oil coagulant", a method of making the chemical composition, a process for treating an oil spill, a product for coagulating oil that includes a substrate impregnated with an oil coagulant, and finally, a method of making the product for coagulating oil. The chemical composition and method of making the chemical compositions claims are considered here, while the oil spill products and methods are examined in the section below.

The chemical composition claims in the '925 patent are the broadest of this family of patents, with the claim 1 drawn to simply "a homogeneous thermal reaction product of a natural glyceride and a methacrylate or acrylate polymer". This claim would appear to present a formidable design-around challenge. While Sutherland Asbill & Brennan LLP has not undertaken a validity or freedom-to-operate search and analysis of any MyCelx patent or product, respectively, the file history of each US patent was reviewed. The prior art cited during prosecution of the '925 patent is drawn to simple mixtures or blends of, for example, various acrylate polymers with other components that include linseed oil. The US Patent and Trademark Office found no prior art that disclosed or suggested the thermal reaction product of a natural glyceride and a methacrylate or acrylate polymer. Therefore, as compared to the '793 and '139 patents, this '925 patent further expanded the claim scope strengthens the coverage of the MyCelx® polymer itself and the process used to prepare the polymer.

6. ***US Patent No. 5,837,146 and National Patents Based on PCT/US96/019846***

The US Patent No. 5,837,146 ('146) is entitled, "Oil coagulant products and methods of use therefor" and describes additional and more detailed information about the MyCelx® polymer, the chemical components that can be used to synthesize the MyCelx® polymer, and methods for its synthesis and use. The '146 patent also protects a process for treating an oil spill, based on contacting the "coagulant composition" of the MyCelx® polymer with the oil to be coagulated. Because the '146 patent is a "continuation-in-part" patent of US Patent No. 5,746,925 ('925), which itself is a continuation-in-part of the '139 patent, the latter '146 patent includes new

information that was not disclosed in the earlier-filed '925 or '139 patents, and protects aspects of that new disclosure. For example, the '146 patent includes new synthetic aspects of MyCelx® polymer, because it expands on the chemical reaction between its two reactants, namely, the oil component and the polymer component.

In addition, the '146 patent also protects products for coagulating oil that uses the more broadly-defined MyCelx® polymer composition in this "continuation-in-part" patent. The substrate that can be impregnated with the polymer is drawn from a broad range of oil spill remediation materials, such as vermiculite, silica, wood chips, wood pulp, paper, polystyrene, kaolin, chicken feathers, zeolite, alumina, calcium carbonate, natural fibers, and synthetic fibers.

An international application PCT/US96/019846 ('846) was filed subsequent to both applications from which the '146 and the '925 US Patents derived, and is comparable to the '146 patent, although the PCT application claims priority from both the '146 and the '925 Patents. Thus, the international '846 patent also describes additional information about the MyCelx® polymer, the chemical components used for its synthesis, and methods for its synthesis and use. This PCT application was validated, and is currently in force, through national patents in Germany, France, Great Britain, and Canada. A national application was also granted in Venezuela for this technology, which did not derive from the PCT application.

V PIPELINE PRODUCTS AND THEIR ASSOCIATED PATENTS PENDING

The Patent Coverage charts in the previous section do not reflect the "pipeline" products and their associated pending patent applications of Families 6 and 7. The patent pending Family 6 technology provides new filtration devices for the controlled delivery of alkalinity, which are applicable to removing pollutants such as halogenated hydrocarbons and organic acids. The patent pending Family 7 technology provides new MyCelx® polymer compositions, which are expected to provide new levels of efficiency for virtually every current MyCelx product.

A Filters for Controlled Delivery of Alkalinity and Cation Functionality

1. ***Overview***

Chemical contaminants can include a wide range of chemical functionalities, polarities, and solubilities, and the requirements for their removal can differ vastly. The patent pending Family 6 technology affords filtration methods and devices for the controlled delivery of alkalinity and Groups 1 and 2 cation functionality, which are applicable to removing pollutants such as halogenated hydrocarbons, organic acids, and dissolved non-amphoteric metals. These industrial pollutants have very different properties than the oily emulsions captured by a MyCelx® polymer filter. Therefore, these controlled delivery of alkalinity and cation functionality filters will be used alone or in combination with the MyCelx® polymer containing filters to remove contaminants over a broad polarity range. Accordingly, such filters may be termed "broad polarity range" filters.

Embodiments of the MyCelx Performer™ Cartridges include both the controlled alkalinity release function and the MyCelx® polymer capabilities. These multiple formulations target different contaminants, all within a single filter cartridge. As a result, MyCelx Performer™ Cartridges can remove both oily emulsions and polar contaminants and therefore are engineered to remove both soluble and emulsified organic compounds from aqueous streams. These cartridges have an especially high efficiency for organic acids, halogenated hydrocarbons (chlorinated solvents, PCBs, pesticides), and non-amphoteric metals, ketones, aldehydes, alcohols (phenols and glycols) and aromatic hydrocarbons (BTEX).

2. ***US Provisional Patent Application No. 61/000,000 (Docket No.549-1-079P)***

US Provisional Patent Application No. 61/000,000 (Docket No.549-1-079P), entitled, "Composition and Method for Imparting Fixed Localized Delivery of Alkaline Functionality", was filed in June 2011, and constitutes the first pending MyCelx patent application in this technical area. This Family 6 application is drawn to filtration media prepared by infusing a porous substrate with the inventive alkaline composition, forming a filtration media that delivers alkalinity in a controlled fashion. In this manner, these filtration media are capable of removing pollutants such as halogenated hydrocarbons, organic acids, and non-amphoteric metals from an industrial waste stream. Substantial improvements in performance of these filters over conventional filters such as carbon filters have been realized. This filter is in the testing and evaluation phase. It is expected that these devices would be applicable to filtering produced water, industrial process water, and waste streams from any number of chemical and industrial sites.

Because US provisional applications are not examined, this Family 6 application will serve as the basis for US non-provisional and international (PCT) applications claiming the new compositions and their preparation and use in filtration systems. By filing both US non-provisional and international (PCT) applications before the anniversary date of the provisional application filing will preserve patent rights worldwide for the filtration media and methods. Once issued, any patent derived through this application is expected to be in force until June 2032.

B **New MyCelx® Polymer Compositions**

1. ***Overview***

The basic MyCelx® polymer is broadly-claimed in the Family 1 patents, which will expire in June 2013 (US) or December 2016 (non-US). What are termed "improved" MyCelx® compositions are protected by way of the Family 4 patents drawn to any filtration apparatus using the improved MyCelx® compositions and curing methods. Family 4 patents will continue until July 2025 (US) and March 2019 (non-US). Beyond these "improved" MyCelx® polymer compositions, MyCelx now has developed a "new" MyCelx® polymer composition for which a patent is pending. This is the first patent document of Family 7.

Patents ultimately issuing from this family are expected to continue coverage of the new MyCelx® polymer until about June 2032. This latter coverage is significant, because the new MyCelx® polymer affords substantially enhanced filtration efficiency, for example, at least 50 per cent. greater than that provided in filters incorporating the original MyCelx® polymer. The new polymer compositions of this family are currently in the test and evaluation phase. However, it is expected the new compositions will be applicable to each MyCelx® polymer-containing product. As with all of MyCelx Technologies patented technology and MyCelx products themselves, the synthesis and use of the new MyCelx® polymer does not require any license agreements to make or use the polymer in any area of use.

2. ***US Provisional Patent Application No. 61/000,000 (Docket No.549-1-078P)***

US Provisional Patent Application No. 61/000,000 (Docket No.549-1-078P), entitled, "Process for Producing Compositions for Use in Removal of Dispersed, Solubilized, and/or Emulsified Undesired Species, from Water and Gases", was filed in June 2011, and is the first pending MyCelx patent application drawn to the new MyCelx® polymer composition having enhanced properties. As a result, the line of patent applications deriving from this provisional are expected to be useful in any of the

current MyCelx® polymer filter applications, including filtration of produced water, process water, bilge water, industrial waste streams, and the like.

Again, because US provisional applications are not examined, this Family 7 application will serve as the basis for US non-provisional and international (PCT) applications claiming the new compositions and their preparation and use in filtration systems. Further, the filing of both US non-provisional and international (PCT) applications before the anniversary date of the provisional application filing will preserve patent rights worldwide for the new polymer composition and its use. Once issued, any patent derived through this application is expected to be in force until June 2032.

VI ADDITIONAL PATENTS

One additional patent family using MyCelx® polymer technology relates to the removal of the various forms of mercury from industrial sites, as well as method for distinguishing mercury species in a waste stream as ionic, organically-bound, or elemental. This technology is pertinent to removal of aerosolized mercury from coal-fired power generation, produced water at oil and gas wells and coal-bed methane (CBM) production, and other industrial settings. These patents are subject of an exclusive license, and therefore at this time are not considered material to MyCelx's core strategy or revenue model.

The pending US and PCT patent applications of this family are: US 12/001,057 (filed Dec. 7, 2007, now allowed); US12/459,389 (filed Jun 30, 2009, continuation-in-part of 12/001,057); and PCT/US10/001824 (filed Jun 25, 2010, continuation of 12/459,389). Therefore, the first non-provisional patent in this area will issue in the coming months.

This mercury removal technology was invented by Mr. Alper and the technology and its patent applications have come under MyCelx Technologies' corporate organization as follows. Certain mercury removal technology, which is not dependent on the use of the MyCelx polymer, was invented by Mr. Alper and is considered by the Company to be unrelated to its core business involving the MyCelx polymer and water treatment systems for the removal of hydrocarbons. Mr.Alper agreed to assign to the Company the inventions relating to that mercury removal technology (and the technology is permitted to be reassigned or licensed by the Company, as the Company decided to do in 2010) pursuant to the Right of First Refusal dated April 13, 1999, as modified, and the Patent Rights Purchase Agreement dated August 11, 2009, as amended, between the Company and Mr. Alper.

VII LICENSING

Two patent application families are expected to be subject to exclusive field-of-use licenses to other companies for products based on the MyCelx® polymer technology, as follows.

An exclusive license in the area of air filtration is being negotiated with an established air-filtration company. The MyCelx patent Family 3, drawn to filtration of air and benign gases, including US Patent No. 6,805,727 and its foreign counterparts, along with certain patents on the underlying chemical composition, are expected to be subject to this license. This technology will be used for separating oil mist, volatile organic compounds (VOCs), and other hydrocarbon vapor mist particles (aerosols) from air using the MyCelx® composition. The patent family drawn to the removal of mercury from waste streams and industrial sites, including the pending applications and certain patents on the underlying chemistry, are being licensed on an exclusive basis in the field of use of mercury removal to a new company.

VIII TRADE SECRETS AND KNOW-HOW

A Separation of Trade Secret and Patent

In addition to requiring novelty and non-obviousness, US patent law requires that a patent meet the requirements of Section 112 of the US Patent Statute (35 U.S.C. § 112). Specifically,

35 U.S.C. § 112, paragraph 1, requires that the patent must have an adequate disclosure or "written description" of the invention and that description must be sufficient to "enable" one of ordinary skill in that technology to make and use the invention. Moreover, the disclosure must set forth the "best mode" known to the inventor at the time of filing for carrying out the invention. In other words, the patent applicant must fully disclose and not keep secret how to make and use the invention, including the best way of doing so, in exchange for the government-grated patent monopoly.

MyCelx Technologies Corporation's issued patents and patent applications are believed to be in full compliance with the written description, enablement, and best mode requirements of the patent statute (35 USC. § 112, paragraph 1), as acknowledged by their examination and issuance by the US Patent and Trademark Office. Therefore, any intellectual property that MyCelx Technologies Corporation protects by trade secret is not required for the issued patents to be in compliance with US patent law.

B **Categories of Trade Secrets and Know-How**

MyCelx Technologies Corporation takes affirmative steps to maintain trade secrets in at least three primary areas, which represent later-developed improvements to various aspects of the MyCelx® filter technology. These trade secrets can be categorized as follows:

(1) MyCelx® polymer compositions optimized for a particular application; (2) polymer infusion technology; and (3) polymer curing technology. Regarding the polymer compositions, there are countless drying oil and acrylate polymer precursors to select from when synthesizing the MyCelx® polymer. Additional variables include combinations of two or more drying oils and/or two or more acrylate polymers, and the ratios of all the components. There are also countless reaction conditions, formulations, and process sequences to be optimized to achieve desired polymer properties that constitute company know-how and that provide additional layers of trade secret protection. Refinements have been developed in the conditions and methods for infusing a base filter medium with the MyCelx® polymer composition and adhering or "curing" the polymer to the medium. These refinements and later developments have enhanced the manufacturing efficiency, provided improved filter properties, and afforded a competitive advantage.

The MyCelx® polymers are synthetic products formed by reacting: (1) a drying oil component, which can include natural oils, triglycerides, fatty acids, and the like; and (2) a polymer component, which can include synthetic acrylate- or methacrylate-based polymers. The broadest claims in every MyCelx patent family are not limited beyond these general classes of chemicals. Therefore, each MyCelx patent protects the MyCelx® polymers formed using any combination of compounds selected from these generic categories that are reacted to form the polymer. These generic categories encompass a very large number of possible chemicals and are not limited by ratios of the components. When possible combinations of two or more oil components and/or two or more polymer components and their weight ratios are included, along with their ratios, the number of possible formulations is extremely large. Each MyCelx® polymer composition is optimized for a particular application. For example, the MyCelx® polymers optimized for filtering bilge water are different than those used for air filtration, which are different than those employed in process water purification. There are also countless reaction conditions, formulations, and process sequences to be optimized to achieve desired polymer properties.

Trade secret and know-how provide a valuable additional measure of protection for the MyCelx® polymer and filters beyond the number of possible selections and combinations that go into creating the polymer, because the MyCelx® polymer is very difficult to "reverse engineer". That is, even with a sample of any particular MyCelx® polymer in hand, a potential competitor will face a daunting if not impossible challenge to determine the components and ratios that went into making the polymer. This feature arises because

standard chemical spectroscopic and analytical techniques, while providing certain information on the MyCelx® polymer properties, do not provide sufficient information about the chemical precursors or conditions under which that polymer was derived. As a result, trade secret protection affords a real measure of protection to the polymer composition and MyCelx products using the composition.

The technological enhancements related to infusion and curing generally can be summarized as follows. First, further improvements in the conditions and methods for infusing the base filter with the MyCelx® polymer composition have been developed, which have enhanced the manufacturing efficiency and provided improved filter properties. These MyCelx trade secrets are particularly applicable to a wide range of filter cartridges prepared according to the Families 2 and 4 patents and provide an advantage in preparing products such as filter cartridges for the MyCelx® Polisher™, MyCelx® Advanced Coalescer™, SitePure™ filter systems, PureShip™ filters, BilgeKleen™ filters, MK Cartridges, HRM (Hydrocarbon Removal Matrix) and PCB (polychlorinated biphenyl) filters, and the Emulsion Breaker (EB) cartridges. Accordingly, these advantages are applicable to oil removal systems for handling process water and produced water, storm water, coolant and wash water, bilge water and the like.

Second, further refinements in the conditions and methods for curing the infused absorbent composition at the base filtration media have been developed, which have enhanced the manufacturing process and resulting filter properties. The curing method itself is a novel, self-assembling, and non-obvious process, and continued research has provided unique refinements to the process for fine control over the end result. This aspect of MyCelx trade secrets also applies to a range of filter cartridges and systems disclosed in both the Families 2 and 4 patents. As a result, filters that are currently produced according to Family 2 patents that will expire in June 2013, are protected beyond this date by trade secrets related to improved manufacturing methods that result in improved properties. If these improved methods are very difficult to reverse engineer, which is our understanding, then maintaining them as trade secrets has the potential for extending protection on the improved versions of the filters for an indefinite period. These aspects in infusion and curing technology are also very difficult to "reverse engineer", rendering trade secret protection valuable and highly effective.

IX BUSINESS CONSIDERATIONS

This section reviews suppliers, system fabrication contractors, and confidentiality and documentation aspects of MyCelx's product line.

A Components, Chemicals, and Other Materials – Sources and Third Party Dependencies

Generally, the components, chemicals, and materials used for production of MyCelx product lines are unencumbered by any essential third party dependencies. There are no licenses or confidentiality agreements in place with any component suppliers.

All MyCelx® polymer synthesis and filter product manufacturing is carried out in-house at MyCelx's facilities in Gainesville, Georgia. The actual production of a MyCelx® filter product constitutes impregnating commercially-available filters or other substrates with a MyCelx® polymer or its precursors that are subsequently cured. The polymer itself prepared using widely-available starting materials. However, the distinction between the starting materials and the manufactured MyCelx® polymer filter is significant. Even though the base filtration media and the polymer precursors are widely available, the selection of specific precursor combinations, synthesis parameters, and the technology for infusing and curing the polymer are not simple. Patent protection for the polymer and its basic synthesis and impregnated filters extends until June 2013, but the improvements required to manufacture the improved, latest generation filters are protected beyond this date by trade secrets and know how and by the Family 2 and 4 patents until July 2025 (US) and March 2019 (non-US).

Chemicals. The chemical starting materials for synthesizing the MyCelx® polymer are commodity items that are commonly available in the US and other developed countries, and there are no contracts currently required to ensure a steady supply. No specialty or limited-supply precursors are required for the MyCelx® polymer synthesis.

Base Filter Cartridges. The standard base filter cartridges to be impregnated are conventional, melt-blown polypropylene filters, obtained as standard size, off-the-shelf products from any number of suppliers. These are conventional products, and there are no production or supply contracts necessary for their manufacture. For example, General Electric (GE) is a common US supplier of filter cartridges, and a range of their GE Puretrex™ or GE Hytrex™ filters are suitable, depending upon the application. These and equivalent cartridges can be obtained from numerous other vendors and manufacturers worldwide.

Production Equipment and Other Supplies. Although aspects of the production method for the MyCelx® filters are trade secrets, all the necessary production equipment, curing equipment, and engineering components are standard, off-the-shelf products available from numerous suppliers. Therefore, everything that is necessary to manufacture a MyCelx® polymer filter can obtained in the US and other developed countries.

In summary, the MyCelx® base filter cartridges, engineering components, and chemical precursors are conventional or commodity items, and there are no unique license, production or supply contracts in place or necessary to ensure a steady supply essentially anywhere in the world.

B **Design and Fabrication of Treatment Systems – Sources and Third Party Dependencies**

Figure 4.

Exemplary MyCelx®
Stormwater Treatment System.

Generally, the MyCelx® water treatment systems are also unencumbered by any essential third party dependencies. The MyCelx® water treatment systems, such as the MyCelx® Stormwater Treatment Systems (Figure 4) and SitePure™ Oil Removal Systems (Figure 3), are generally designed and fabricated under contract by various engineering firms, under confidentiality agreements.

Virtually every treatment system must be designed for the specific facility, space, and waste stream to be treated. While each application and treatment system may have some unique features, the design of each facility is generally straightforward, and the necessary chemical engineering principles can be applied by any knowledgeable engineering firm.

For example, the MyCelx oil-water separators utilize a simple electronic controller (logic, chips, wiring) to control the switching and flow aspects of the separator. The electronic controllers are designed and fabricated based on MyCelx's specifications. However, such controllers can be readily designed and produced by any experienced engineering firm. Therefore, there are no third-party dependencies that limit the continued design and production of MyCelx water treatment systems.

C **Possible Production of Standardized Water Treatment Units**

Beyond the standard filter cartridges, MyCelx Technologies Corporation generally does not supply standard-sized water treatment units, because most treatment systems are custom-designed for a specific facility and application. However, certain economies of manufacturing could be attained in standardizing the sizes of water treatment units, to the extent possible. For example, filtration systems having 100-, 200-, or 300-gallon per minute throughputs could be designed to meet many customers' needs, thereby streamlining the overall engineering task. MyCelx Technologies Corporation is currently studying the economic, business and engineering aspects of this concept in-house.

D **Confidentiality Agreements**

Presently, confidentiality agreements are in place only with the engineering firms under contract for designing and fabricating the MyCelx Technologies water treatment systems, such as the MyCelx® Stormwater Treatment Systems (Figure 4). No confidentiality agreements have been entered into with suppliers or manufacturers of the base filter cartridges, engineering components, or chemical precursors used by MyCelx.

Further, no confidentiality agreements have been entered into with any MyCelx customer. There are substantial patentable and proprietary aspects to the current MyCelx® polymer and its application to substrates. However, it is believed to be exceedingly difficult to reverse-engineer the process improvements in the current MyCelx® polymer production steps. As a result, it is not necessary to protect certain improved methods with confidentiality agreements with suppliers or customers.

E **Documentation**

Documentation of MyCelx® polymer technology is found primarily in laboratory notebooks, generally maintained in Mr. Alper's office space. Standard laboratory notes include applied studies, for example, determining optimum production parameters and refining the filter specifications for a particular application.

MyCelx takes great care to maintain trade secrets as secret. For example, the improved processes for infusing and curing the MyCelx® composition in a filter medium require multiple individuals to carry out, none of whom knows the fine details of every step. However, Messrs. Haluk Alper, Anand Narayanan, and Harikrishnan P. have access to all the proprietary aspects of the process.

X TRADEMARKS AND DOMAIN NAMES

The following trademarks are in current use in the United States and have been in continuous use in commerce since first used by MyCelx Technologies Corporation. The marks indicated with "®" are registered in the US Patent and Trademark Office only, and those marks indicated with "™" are in use but not registered.

MYCELX®	PERMAKLEEN™
FUELKLEEN®	SITEPURE™
BILGEKLEEN®	PURESHIP™
SOLUBREAK™	PUREPLANT™
VERSIPAD™	STORMPURE™
VERSIMAT™	OILARREST™
SMARTPAD™	TERRAGUARD™
VISCOCHIPS™	SHEEN DEVIL™
WATERMAKER™	SUPERBUOYANT RD™

MYCELX® was registered as Trademark Registration Number 2,423,909 on January 23, 2001, from Serial Number 75,598,443 (filed December 1, 1998) and includes a Section 15 affidavit of incontestability and Section 8 (5- and 10-year) affidavits of use.

FUELKLEEN® was registered as Trademark Registration Number 2,853,218 on June 15, 2004, from Serial Number 76,528,867 (filed July 10, 2003) and includes a Section 15 affidavit of incontestability and Section 8 (6-year) affidavit of use.

BILGEKLEEN® was registered as Trademark Registration Number 2,838,310 on May 24, 2004, from Serial Number 76,529,705 (filed July 17, 2003) and include a Section 15 affidavit of incontestability and Section 8 (6-year) affidavit of use.

An intent-to-use trademark application for SOLUBREAK™ was allowed in November 2010, which gives MyCelx up to three (3) years from this date (using all available extensions) to file evidence of use. The SOLUBREAK™ composition is used for adding to emulsified streams during and prior to purification processing to promote and enhance separation of the emulsified phases.

MyCelx Technologies Corporation has also registered the internet domain names mycelx.com and mycelx.net.

XI DECLARATION

For the purposes of paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the admission document. We declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the admission document in compliance with Schedule Two of the AIM Rules for Companies.

XII CONCLUSION

We believe that MyCelx has followed a systematic and disciplined patent and trademark strategy that imparts value by concentration on high margin commercial products, by careful separation of trade secret from patent protection, and by well-reasoned decisions regarding international patent protection. MyCelx appears to thoroughly evaluate filing criteria and prioritize global filings according to business objectives, paying special attention to those core technologies that potentially can extend patent protection through next generation improvements. Moreover, its portfolio has value across a number of the MyCelx business lines. As a result of its research and development activities, it is expected that MyCelx's patent and trademark portfolio will continue to expand in an efficient manner. Accordingly, MyCelx has achieved a patent and trademark position that aligns with its business activities.

Yours sincerely,

For and on behalf of SUTHERLAND ASBILL & BRENNAN LLP

APPENDICES

APPENDIX A. *MyCelx Technologies Corporation Patent Schedule*

APPENDIX B. *Priority Data Charts for MyCelx Technologies Issued Patent Families*

APPENDIX C. *MyCelx Technologies US Patent Family Summary*

APPENDIX A

MYCELX TECHNOLOGIES CORPORATION PATENT SCHEDULE

All the listed issued patents are, to the best of our knowledge, in force and not expired, and no patent maintenance fees are due. The validity of government registered patents may be challenged by third parties on the basis that such property lacks entitlement to protection as a patented invention. All listed expiration dates are to the best of our knowledge, correctly calculated, and assume that all maintenance fees are paid and that there are no adverse actions, reexaminations, reissues, and the like that shorten their term.

Each patent is designated according to the country in which it is in force. Applications for patent undergo an examination process according to the laws of that country conferring the patent. One exception to this general rule is Europe, which examines European regional patent applications and grants European patents. However, a European patent must be validated in each European country that is a signatory to the European Patent Convention (EPC), in which patent protection is required. The German (DE), French (FR), and Great Britain (GB) patents in the Patent Schedule all originated from a listed European regional patent application. In this aspect, the scope of protection offered by a patent may vary country by country.

Country Code Abbreviations:

AU – Australia
CA – Canada
DE – Germany
EP – Europe (requires validation in DE, FR, GB)
FR – France
JP – Japan
GB – United Kingdom
MX – Mexico
US – United States
VE – Venezuela

Klauber & Jackson No.	Country	Title	Patent No. Issue Date (MM/DD/YY)	Technology	Patent Family	Expiration Date (MM/DD/YY)
549/1/001	CA	Method for making and using coagulant compositions comprising a glyceride, a polymer and a solvent	2,163,898 01/25/05	Composition	1	05/31/14
549/1/001	CA	Oil coagulant products and methods of use therefor	2,240,501 05/09/06	Composition	1	12/12/16
549/1/001	DE	Coagulant for oil glyceride/isobutylmethacrylate composition and method of use	69417557 07/15/99	Composition	1	05/31/14
549/1/001	DE	Coagulant composition for coagulating oil spills on water – comprises homogeneous thermal reaction product of glyceride(s), fatty acids, alkene(s) and alkyne(s) with polymer component	69633829 11/10/05	Composition	1	12/12/16
549/1/001	EP	Method for making and using coagulant compositions comprising a reaction product of a glyceride with a polymer and a solvent	0703875 04/03/96	Composition	1	05/31/14
549/1/001	EP	Oil coagulant products and methods of use therefor	0871593 11/10/04	Composition	1	12/12/16

Klauber & Jackson No.	Country	Title	Patent No. Issue Date (MM/DD/YY)	Technology	Patent Family	Expiration Date (MM/DD/YY)
549/1/001	FR	Oil coagulant products and methods of use therefor	0871593 (EP)	Composition	1	12/12/16
549/1/001	GB	Method for making and using coagulant compositions comprising a reaction product of a glyceride with a polymer and a solvent	0703875 (EP)	Composition	1	05/31/14
549/1/001	GB	Oil coagulant products and methods of use therefor	0871593 (EP)	Composition	1	12/12/16
549/1/001	US	Coagulant for oil glyceride/isobutyl methacrylate composition and method of use	5,437,793 08/01/95	Composition	1	06/08/13
549/1/001	US	Method of making poly (linseed oil/isobutyl methacrylate) as a coagulant for oil	5,698,139 12/16/97	Composition	1	06/08/13
549/1/001	US	Composition for coagulating oil	5,746,925 05/05/98	Composition	1	06/08/13
549/1/001	US	Oil coagulant products and methods of use therefor	5,837,146 11/17/98	Composition	1	06/08/13
549/1/004	US	Oil coagulant products and methods of use therefor	5,961,823 10/05/99	Device	1	06/08/13
549/2/014	US	Oil containment boom	D422,050 03/28/00	Boom design	1	03/28/14
549/1/001	VE	Oil coagulant products and methods of use therefor	58196 12/16/96	Composition	1	12/16/16
549/1/018	AU	Filter constructions and methods	0749409 06/27/02	Filtration	2	03/24/19
549/1/018	CA	Filter constructions and methods	2,325,384 09/30/99	Filtration	2	03/24/19
549/1/018	DE	Removing solubilized organic contaminants from aqueous phase	69929774 04/20/06	Filtration	2	03/24/19
549/1/018	EP	Filter constructions and methods	1067996 01/17/01	Filtration	2	03/24/19
549/1/018	FR	Removal of organic contaminants from an aqueous phase using filtration media infused with an absorbent composition	1067996 (EP)	Filtration	2	03/24/19
549/1/018	GB	Removal of organic contaminants from an aqueous phase using filtration media infused with an absorbent composition	1067996 (EP)	Filtration	2	03/24/19
549/1/018	MX	Removal of organic contaminants from an aqueous phase using filtration media infused with an absorbent composition	237362	filtration	2	03/24/19
549/1/018	US	Removal of organic contaminants from an aqueous phase using filtration media infused with an absorbent composition	6,180,010 01/30/01	Filtration	2	06/08/13
549/1/028	US	Apparatus for removing noxious contaminants from drainage water	6,337,016 01/08/02	Filtration	2	06/08/13
549/1/023	US	Method and apparatus for removing pernicious contaminants from bilgewater discharge	6,475,393 11/05/02	Bilge water	2	06/08/13
549/1/038	US	Protection of crossflow membranes from organic fouling	6,491,822 12/10/02	Filtration	2	06/08/13
549/1/039	CA	Method for filtering pernicious non-gaseous contaminants from air and benign gases	2,484,428 06/24/04	Gas filtration	3	04/05/23
549/1/039	DE	Method for filtering pernicious non-gaseous contaminants from air and benign gases	60323083 10/2/08	Gas filtration	3	04/05/23
549/1/039	EP	Method for filtering pernicious non-gaseous contaminants from air and benign gases	1503842 02/09/05	Gas filtration	3	04/05/23
549/1/039	FR	Method for filtering pernicious non-gaseous contaminants from air and benign gases	1503842 (EP)	Gas filtration	3	04/05/23
549/1/039	GB	Method for filtering pernicious non-gaseous contaminants from air and benign gases	1503842 (EP)	Gas filtration	3	04/05/23

Klauber & Jackson No.	Country	Title	Patent No. Issue Date (MM/DD/YY)	Technology	Patent Family	Expiration Date (MM/DD/YY)
549/1/039	JP	Removal of contaminating mists and particulates from gases, involves passing gaseous medium and particles through fluid-pervious filtration media treated with absorption composition	2006504526 02/09/06	Gas filtration	3	04/05/23
549/1/039	US	Method for filtering pernicious non-gaseous contaminants from air and benign gases	6,805,727 10/19/04	Gas filtration	3	04/14/23
549/1/056	US	Filtration system	7,264,721 09/04/07	Filtration	4	07/11/25
549/1/057	US	Filtration system	7,264,722 09/04/07	Filtration	4	07/11/25
549/1/065	US	Visual bilgewater quality indicator	Appl. No. 12/079,244 Publ. No. 20090139918	Bilge water	5	ca. 03/25/28
549-1-079P	US	Composition and method for imparting fixed localized delivery of alkaline functionality	Appl. No. 61/000,000	Composition & filtration	6	ca. 06/16/32
549-1-078P	US	Process for producing compositions for use in removal of dispersed, solubilized, and/or emulsified undesired species, from water and gases	Appl. No. 61/000,000	Composition	7	ca. 06/13/32

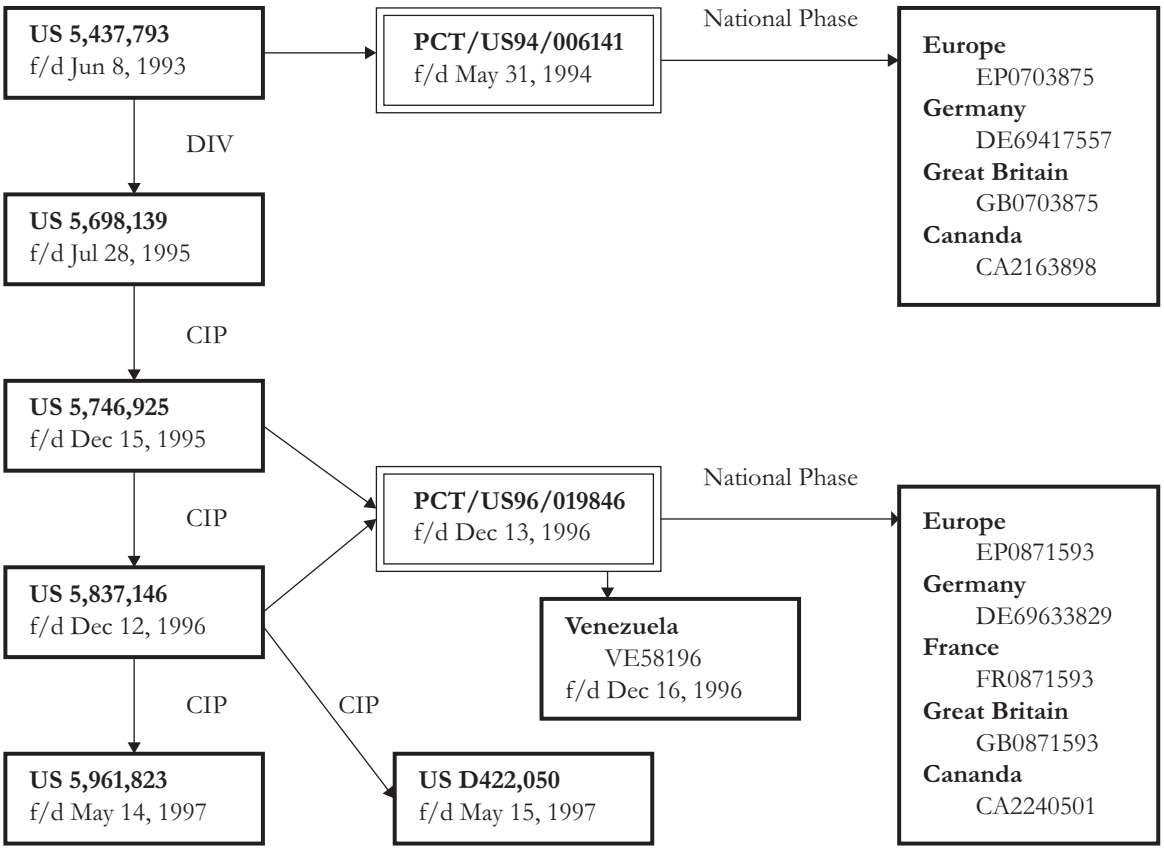
APPENDIX B

PRIORITY DATA CHARTS FOR MYCELX TECHNOLOGIES ISSUED PATENT FAMILIES

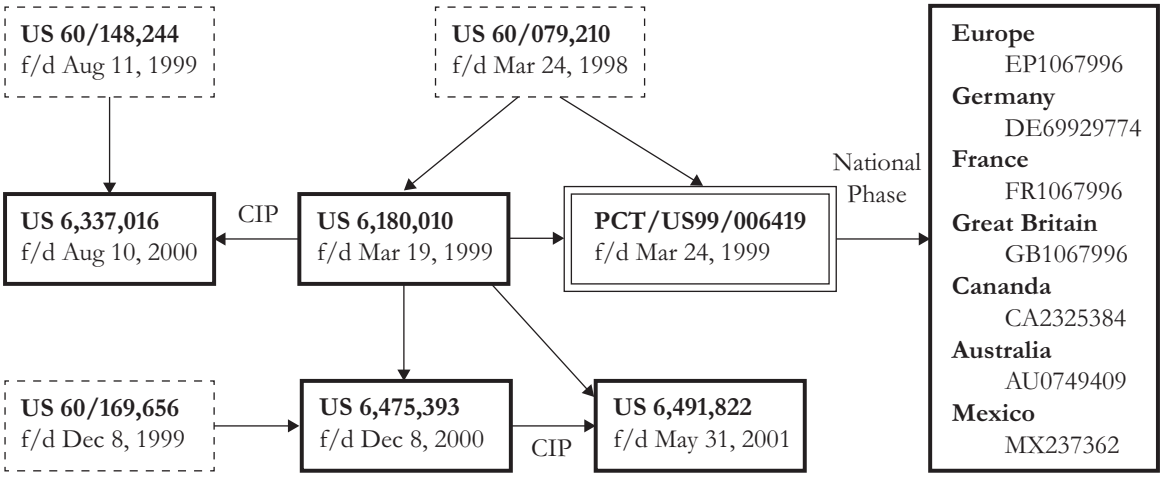
Abbreviations:

DIV – Divisional
CIP – Continuation-in-Part
f/d – filing date

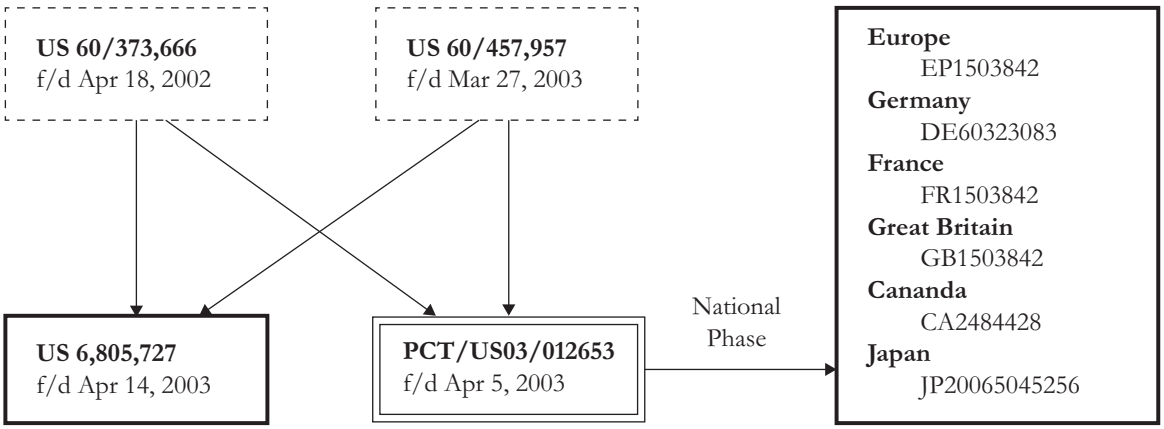
Patent Family 1 Priority Data



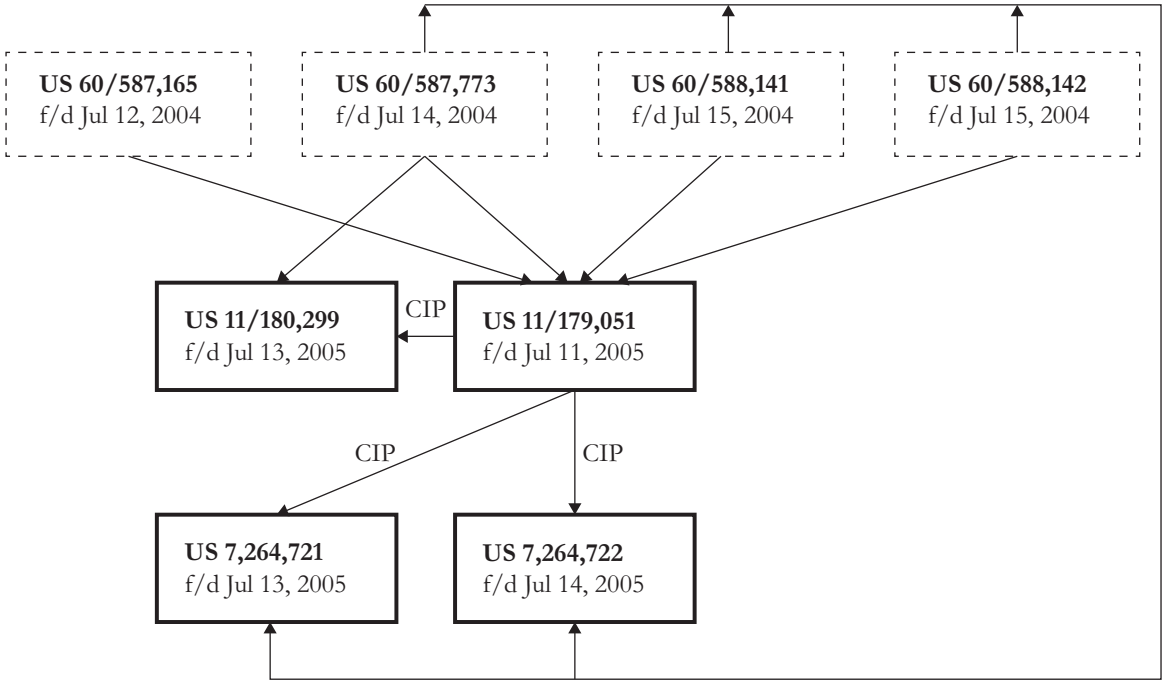
Patent Family 2 Priority Data



Patent Family 3 Priority Data



Patent Family 4 Priority Data



APPENDIX C

MYCELX TECHNOLOGIES US PATENT FAMILY SUMMARY

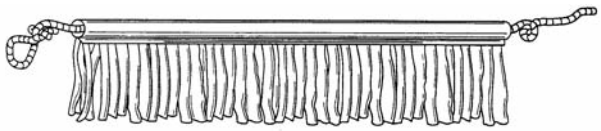
The issued (Families 1-4) and pending (Family 5) MyCelx Technologies patents are summarized in the following Patent Family charts, including their filing and issue dates and a summary of the subject technology. While each patent is generally correlated to a product type and application, many MyCelx commercial products are protected by multiple patents that span multiple patent families.

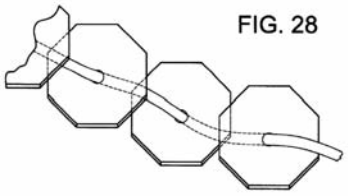
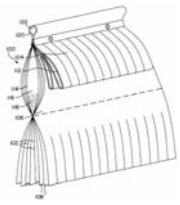
Refer to **APPENDIX B**, *Priority Data Charts for MyCelx Technologies Issued Patent Families*, for a graphical illustration of the relationships among the patents within each family.

Family 1 US Patent Summary

Original chemical compositions and their use for remediation of hydrocarbon and oil spills

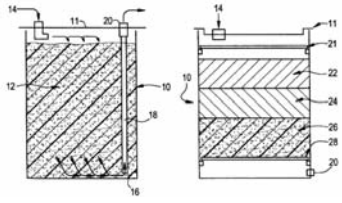
Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 5,437,793 f/d Jun 8, 1993 i/d Aug 1, 1995	Jun 8, 2013	• **Product:** HRM (Hydrocarbon Removal Matrix) filters, spill products • **Field Application:** Fuel and oil spill remediation • Initial MyCelx® polymer patent for chemical composition and method of use for coagulating oil and hydrocarbons. • Discloses a method of making a coagulant chemical, the chemical itself, and a method for using the chemical to coagulate hydrocarbon spills. The coagulant is comprised of a glyceride, a polymer, and a solvent. One preferred embodiment comprises linseed oil and poly(isobutyl methacrylate), along with a solvent.
US 5,698,139 f/d Jul 28, 1995 i/d Dec 16, 1997	Jun 8, 2013	• **Product:** EB (Emulsion Breaker) filters, PCB (Polychlorinated Biphenyl) filters • **Field Application:** Emulsion removal from process waste water, condensate water, parts wash • Divisional Patent of the initial MyCelx® chemical composition patent, US 5,437,793. • Claims a process for making a coagulant composition, and more specifically claims the range of drying oil components and polymer components used in synthesis of the composition.

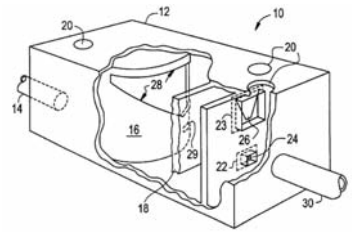
Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 5,746,925 f/d Dec 15, 1995 i/d May 5, 1998	Jun 8, 2013	• **Product:** Spill products including SmartPad™, VersiMat™ • **Field Application:** Shoreline protection, hydrocarbon spill containment • Continuation-in-part of US 5,698,139. Further expands the original MyCelx® chemical composition patent. • Discloses infusing or impregnating the MyCelx® chemical composition into a porous substrate, to transfer the unique properties of the polymer to the substrate. • Provides numerous Examples of infused MyCelx® composition on a substrate, discloses thermal data to further characterize the reaction product, and expands the composition and process claims.
US 5,837,146 f/d Dec 12, 1996 i/d Nov 17, 1998	Jun 8, 2013	• **Product:** Modifying existing products • **Field Application:** Same as in 5,437,793, 5,698,139, and 5,746,925 • Continuation-in-part of US 5,746,925. Further expands the MyCelx® chemical compositions to include: – More drying oil components, such as glycerides, fatty acids, alkenes and alkynes, with numerous species set forth; – More polymer components, such as those having monomer units of isobutyl methacrylate, methyl methacrylate, ethyl methacrylate, and n-butyl methacrylate and combinations thereof. – Includes further claims drawn to compositions, methods of making, and methods of using the compositions. • Discloses numerous additional infused substrate embodiments and processes to make. Provides extensive efficacy tests.
US D422,050 f/d May 15, 1997 i/d Mar 28, 2000	Mar 28, 2014	• **Product:** Sheen Devil™ • **Field Application:** Sheen removal from hydrocarbon contaminant spills • Continuation-in-part of US 5,837,146. Design patent claiming the spill boom design for SHEEN DEVIL™, as shown: 

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 5,961,823 f/d May 14, 1997 i/d Oct 5, 1999	Jun 8, 2013	• **Product:** Spill products, including VersiMat™, TerraGuard™, and SuperBuoyant RD™ • **Field Application:** Oil, tar, and other hydrocarbon removal in bodies of water • Continuation-in-part of US 5,837,146. Drawn to spill remediation devices, with or without coagulant impregnated thereon. • Exemplary devices are shown.  

Family 2 US Patent Summary

Removal of hydrocarbon and oily contaminants using filtration media

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 6,180,010 f/d Mar 19, 1999 i/d Jan 30, 2001	Jun 8, 2013	• **Product:** HRM (Hydrocarbon Removal Matrix) products in specific applications • **Field Application:** Hydrocarbon dispersion or emulsion removal to low concentration, including removal of low range hydrocarbons; compressor condensate, bilge, and process water. • Initial MyCelx Technologies patent for filtration media infused with the MyCelx® composition, and methods for removing organic contaminants from an aqueous phase. • Claims include: (1) removal of BTX (benzene, toluene, xylene), halogenated hydrocarbon, and ethoxylated glycol; and (2) filtration media comprising MyCelx® polymer-infused media. • Exemplary apparatus are shown. 

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 6,337,016 f/d Aug 10, 2000 i/d Jan 8, 2002	Jun 8, 2013	• **Product:** Bulk media development; storm drain inserts for storm water filtration • **Field Application:** Storm and wash water runoff in industrial and commercial establishments, discharge to water reservoirs • Continuation-in-part of US 6,180,010. • Claims to an improvement to a known apparatus for separating floating and non-floating particulate or debris from drainage water, the improvement enabling the removal of hydrocarbon and slightly soluble organic contaminants using MyCelx® polymer-infused media. • Exemplary prior art apparatus into which MyCelx® polymer can be incorporated is illustrated. 
US 6,475,303 f/d Dec 8, 2000 i/d Nov 5, 2002	Jun 8, 2013	• **Product:** Bilge filters, onshore produced water filters, compressor condensate filters • **Field Application:** Bilge water overboard discharge; onshore produced water; cooling water treatment in refineries and boilers • Continuation-in-part of US 6,180,010. • Provides a method and apparatus for removing contaminants from an oily bilgewater, by passing the bilgewater through a filtration media infused with MyCelx® composition. • Presents data relating to filter capacity and minimal pressure drop across the MyCelx® polymer-containing filter.
US 6,491,822 f/d May 31, 2001 i/d Dec 10, 2002	Jun 8, 2013	• **Product:** Pre-RO (Reverse Osmosis) filters for protection of RO membranes from oil and hydrocarbon fouling. • **Field Application:** Boiler condensate treatment for recycle, fresh water intake for process water treatment using RO • Continuation-in-part of US 6,180,010 and US 6,475,393. • Discloses the application of the MyCelx® polymer technology to improving the efficiency and usable life of a cross flow membrane filter which has been infused with the MyCelx® composition.

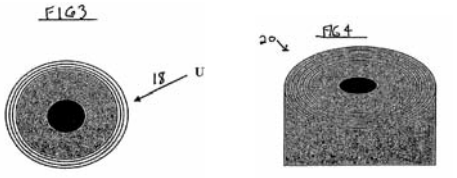
Family 3 US Patent Summary

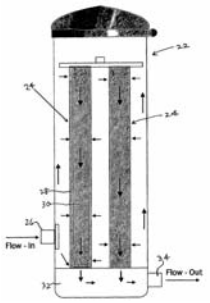
Filtering Contaminants from Air

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 6,805,727 f/d Apr 14, 2003 i/d Oct 19, 2004	Apr 21, 2023 (7-day patent term adjustment)	• **Product:** 95 per cent. DOP filters, oil mist filters, and air filters for industrial use • **Field Application:** Oil mist separators, HVAC systems, air intake, engine exhaust, instrument air filtration, medical institution air filtration • Initial MyCelx Technologies patent for separating oil mist, VOCs, and other hydrocarbon vapor mist particles (aerosols) and solid particles from a gaseous medium in which they are dispersed, using the MyCelx® composition.

Family 4 US Patent Summary

Improved chemical compositions and filtration systems

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 7,264,721 f/d Jul 13, 2005 i/d Sep 4, 2007	Jul 11, 2025	• **Product:** EB (Emulsion Breaker) generation 2 filters • **Field Application:** Emulsified produced water and process waste water in refineries • Discloses an entirely new filtration system and methodology for using the MyCelx® composition, encompassing the most commercially-viable embodiments of the MyCelx® composition and filter. • The filtration apparatus includes: – the filtration cartridge containing a central core surrounded by a plurality of overlying sheets of fluid pervious media, as shown:  ; and – the original MyCelx® composition combined with a photoinitiator infused into the filtration medium and cured *in situ*.

Patent No. *Filing Date (f/d)* *Issue Date (i/d)*	**Expiration Date**	**Summary**
US 7,264,722 f/d Jul 14, 2005 i/d Sep 4, 2007	Jul 11, 2025	• **Product:** EB (Emulsion Breaker) generation 3 filters • **Field Application:** Produced water with WSOs and low range hydrocarbons; condensate for RO (Reverse Osmosis) recycle; refinery waste water recycle pre-treatment for RO • Includes additional examples over US 7,264,721 related to performance testing of the new filtration system. • Further discloses the new filtration apparatus encompasses the most commercially-viable embodiments of the MyCelx® composition and filter, as shown: 

Family 5 US Patent Application Summary

Visual water quality indicator systems

Application Number & Type *Filing Date (f/d)*	**Description**	**Summary**
12/079,244 Non-Provisional f/d Mar 25, 2008	Visual bilgewater quality indicator	• Claims the benefit of the Provisional filing date for 60/920,193 of Mar 27, 2007. Published as US 2009/0139918. • A visual bilgewater quality indicator for use in a bilgewater filtration system, which utilizes filtration status chambers with fluorescent or phosphorescent dye-treated MyCelx® filtration media for visualization of hydrocarbon droplets captured due to complete loading and supersaturating breakthrough at the primary chamber.

Family 6 US Patent Application Summary

Controlled delivery of alkalinity filters

Application Number & Type *Filing Date (f/d)*	**Description**	**Summary**
61/000,000 Provisional **Docket No. 549-1-079P** f/d June 16, 2011	Filters and methods for controlled delivery of alkalinity	• First patent application in Family 6. • Provides new filtration devices for the controlled delivery of alkalinity, which are applicable to removing pollutants such as halogenated hydrocarbons and organic acids. Can be used alone or in combination with MyCelx® polymer filters, for example, in the MyCelx Performer™ Cartridges.

Family 7 US Patent Application Summary

New MyCelx® polymer compositions

Application Number & Type *Filing Date (f/d)*	**Description**	**Summary**
61/000,000 Provisional **Docket No. 549-1-078P** f/d June 13, 2011	New MyCelx® polymer compositions and methods of synthesis	• First patent application in Family 6. • New MyCelx® polymer composition has enhanced properties and greater capacity. This technology is expected to be useful in any of the current MyCelx® polymer filter applications, including filtration of produced water, process water, bilge water, industrial waste streams, and the like.

PART V

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN US GAAP AND IFRS

Under the AIM rules for Companies, those companies incorporated in the United States may prepare their financial statements under US GAAP and the Company will do so. A summary of the differences between US GAAP and IFRS which the Directors believe to be relevant to the Company's historical financial information are set out below.

1. PROPERTY, PLANT AND EQUIPMENT

US GAAP

Under Company policy, items above $500 are capitalised and valued at cost less accumulated depreciation which is calculated over an asset's useful economic life as follows: equipment and fixtures 5-10 years; leasehold improvements: lesser of remaining lease terms or 10-15 years.

There is no requirement that residual values and useful life be reviewed annually.

IFRS

Each part of an asset that has a cost that is significant in relation to the whole must be depreciated separately. Subsequent expenditure on these should be capitalised and the replaced element derecognised.

Residual value and useful economic lives of assets must be reassessed each year.

2. CUSTOMER FREIGHT BILLING

US GAAP

Shipping and handling amounts billed to customers are classified as sales. Shipping and handling amounts not billed to customers are classified within cost of goods sold.

IFRS

Shipping and handling amounts billed to customers should be included within revenue only if the company makes a profit on the transaction.

If the company is effectively acting as an agent and collecting charges to be passed to the shipping company amounts billed should be netted off against expenditure.

Expenditure incurred should be included in a distribution costs line on the statement of comprehensive income if the company is disclosing expenditure by function.

3. DEFERRED TAXES

US GAAP

Deferred tax assets are recognised in full and reduced by a valuation allowance if it is more likely than not (a likelihood of more than 50 per cent.) that some portion or all of the deferred tax assets will not be realised.

Deferred tax assets and liabilities be classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred tax assets related to carry-forwards, shall be classified according to the expected reversal date of the specific temporary difference.

IFRS
Deferred tax assets are recognised to the extent that it is probably that taxable profit will be available against which deductible temporary differences and unused tax losses/credits carried forward can be utilised.

Deferred tax balance sheet items are always non-current.

4. RESEARCH AND DEVELOPMENT COSTS

US GAAP
Research and Development costs are generally expensed as incurred. US GAAP has specific rules for costs of developing software.

IFRS
Intangible assets arising from development shall be capitalised if an entity can demonstrate all of the following:

- Technical feasibility of completing the intangible asset so it will be available for use or sale.
- Intention to complete the intangible and use or sell it.
- Ability to use or sell the intangible.
- How the intangible asset will generate probable future economic benefits.
- Availability of adequate technical, financial, and other resources to complete development and to use or sell the intangible asset.

The cost of an internally generated intangible asset is the sum of all capitalisable costs incurred from the date the recognition criteria are first met.

5. FINANCE LEASES

US GAAP
A capital lease is one that meets one or more of the following criteria:

- Lease transfers ownership of the property to the lessee by the end of the lease term.
- Lease contains a bargain purchase option.
- Lease term is equal to 75 per cent. or more of the estimated economic life of the leased property. This criterion does not apply if lease inception is within the last 25 per cent. of the property's economic life.
- Present value of the minimum lease payments at the beginning of the lease term equals or exceeds 90 per cent. of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realised by the lessor. This criterion does not apply if lease inception is within the last 25 per cent. of the property's economic life.

IFRS
IFRS allows for judgment and does not define "major part of asset life" and "substantially all of the fair value".

PART VI

FINANCIAL INFORMATION ON THE COMPANY

A: ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

Our ref: PD/SJP

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29 July 2011

Dear Sirs

MYCELX TECHNOLOGIES CORPORATION

We report on the financial information of MyCelx Technologies Corporation (the "Issuer") for the three years ended 31 December 2010 set out in Part VI Section B of this document (the "Financial Information"). The Financial Information has been prepared for inclusion in the admission document of the Issuer dated 29 July 2011 (the "Admission Document") on the basis of the accounting policies set out in note 1 to the Financial Information.

This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that regulation and for no other purpose.

RESPONSIBILITIES

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

The directors of the Issuer are responsible for preparing the Financial Information in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

It is our responsibility to form an opinion on the Financial Information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Issuer as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with US GAAP.

DECLARATION

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

GRANT THORNTON UK LLP

B: HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

1. STATEMENTS OF OPERATIONS

	Years ended 31 December		
	2008	*2009*	*2010*
	US$000	*US$000*	*US$000*
Revenue – net	2,673	2,562	4,302
Cost of goods sold	899	1,011	1,988
Gross profit	1,774	1,551	2,314
Operating expenses			
Research and development	253	239	248
Selling, general, and administrative	1,162	1,052	1,640
Amortisation of intangible assets	31	35	37
Total operating expenses	1,446	1,326	1,925
Operating income	328	225	389
Other expenses			
Loss from disposition of equipment	(1)	(3)	(5)
Interest expense	(28)	(14)	(9)
Total other expenses	(29)	(17)	(14)
Income before income taxes	299	208	375
Income taxes (Note 7)	51	(29)	(36)
Net income	350	179	339
Income per share – basic and diluted	$0.06	$0.03	$0.05
Shares used to compute basic income per share	6,068,013	6,090,731	6,545,002
Shares used to compute diluted income per share	6,068,013	6,092,231	6,547,002

2. BALANCE SHEETS

	As at 31 December		
	2008	*2009*	*2010*
	US$000	*US$000*	*US$000*
ASSETS			
Current assets			
Cash and cash equivalents	145	–	177
Accounts receivable, less allowance for doubtful accounts of $31,402, $0, and $0 for 2008, 2009, and 2010, respectively (Note 2)	276	410	320
Inventory – net (Note 3)	290	329	560
Costs and estimated earnings in excess of billings on uncompleted contracts	–	7	173
Employee loans and advances (Note 6)	–	–	36
Prepaid expenses	12	–	2
Deferred tax asset – current (Note 7)	115	116	170
Total current assets	838	862	1,438
Property and equipment – net (Note 4)	236	204	361
Intangible assets – net (Note 5)	310	356	386
Employee loans and advances (Note 6)	–	–	39
Total assets	1,384	1,422	2,224
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Cash overdraft	–	25	–
Accounts payable	174	212	256
Payroll and accrued expenses	54	19	195
Billings in excess of costs and estimated earnings on uncompleted contracts	–	–	2
Deferred revenue	–	75	–
Capital lease obligations – current (Note 10)	10	5	18
Line of credit (Note 8)	167	77	314
Notes payable (Note 9)	360	36	–
Total current liabilities	765	449	785
Deferred tax liability (Note 7)	135	164	255
Capital lease obligations – long-term (Note 10)	5	–	36
Total liabilities	905	613	1,076
Stockholders' equity (Note 11)			
Common stock, $0.025 par value, 20,000,000 shares authorised, 6,090,731, 6,545,002, 6,545,002 shares issued and outstanding for 2008, 2009, and 2010, respectively	152	164	164
Stock subscribed	50	–	–
Stock subscriptions receivable	(150)	–	–
Additional paid-in capital	5,876	5,915	5,915
Accumulated deficit	(5,449)	(5,270)	(4,931)
Total stockholders' equity	479	809	1,148
Total liabilities and stockholders' equity	1,384	1,422	2,224

3. STATEMENTS OF STOCKHOLDERS' EQUITY

	Common stock		*Stock subscribed*	*Stock subscription receivable*	*Additional paid-in capital*	*Treasury stock*	*Accumulated deficit*	*Total*
	shares '000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Balances at 1 January 2008	6,054	151	44	–	5,833	–	(5,799)	229
Stock issued to shareholders	92	1	(44)	–	43	325	–	325
Stock subscribed	–	–	50	(150)	–	–	–	(100)
Acquisition of treasury stock	(55)	–	–	–	–	(325)	–	(325)
Net income for the year	–	–	–	–	–	–	350	350
Balances at 31 December 2008	6,091	152	50	(150)	5,876	–	(5,449)	479
Stock issued to shareholders	454	12	(50)	–	39	–	–	1
Stock subscribed	–	–	–	150	–	–	–	150
Net income for the year	–	–	–	–	–	–	179	179
Balances at 31 December 2009	6,545	164	–	–	5,915	–	(5,270)	809
Net income for the year	–	–	–	–	–	–	339	339
Balances at 31 December 2010	6,545	164	–	–	5,915	–	(4,931)	1,148

4. STATEMENTS OF CASH FLOWS

	Years ended 31 December		
	2008	*2009*	*2010*
	US$000	*US$000*	*US$000*
Operating activities			
Net income	350	179	339
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	24	32	43
Amortisation	31	35	37
Loss from disposal of equipment	1	3	5
Accrued interest expense – note payable shareholder	7	–	–
Change in operating assets and liabilities			
Accounts receivable	(6)	(134)	90
Inventory	(115)	(40)	(230)
Costs and estimated earnings in excess of billings on uncompleted contracts	–	(7)	(166)
Deferred tax asset – current	(114)	–	(54)
Prepaid expenses	(8)	12	(2)
Employee loans and advances	–	–	(75)
Cash overdraft	–	25	(25)
Accounts payable	65	40	44
Payroll and accrued expenses	17	(35)	175
Billings in excess of costs and estimated earnings on uncompleted contracts	–	–	2
Deferred revenue	–	75	(75)
Deferred tax liability	63	29	91
Net cash provided by operating activities	315	214	199
Cash flows from investing activities			
Payments for purchases of property and equipment	(112)	(4)	(141)
Proceeds from sale of property and equipment	–	–	1
Payments for purchases of intangible assets	(39)	(81)	(66)
Net cash used in investing activities	(151)	(85)	(206)
Cash flows from financing activities			
Proceeds from stock subscriptions	50	150	–
Acquisition of treasury stock	(325)	–	–
Proceeds from issuance of treasury stock	325	–	–
Payments on capital lease obligations	(13)	(9)	(17)
Advances from line of credit	86	427	555
Advances from notes payable	–	–	–
Payments on line of credit	(205)	(517)	(318)
Payments on notes payable	–	(325)	(36)
Net cash (used in)/provided by financing activities	(82)	(274)	184
Net increase/(decrease) in cash and cash equivalents	82	(145)	177
Cash and cash equivalents, beginning of year	63	145	–
Cash and cash equivalents, end of year	145	–	177

Supplemental disclosures of cash flow information

The Company paid interest of $21,511, $13,092, and $9,363 during 2008, 2009, and 2010, respectively.

The Company paid no income taxes during 2008, 2009 or 2010.

The Company issued 22,718, 0, and 0 shares of stock to an existing stockholder in exchange for intellectual property during 2008, 2009, and 2010, respectively.

The Company acquired $22,042, $0, and $65,123 of property and equipment under capital leases during 2008, 2009, and 2010, respectively.

The Company accrued interest expense of $6,821, $707, and $0 on a note payable to a shareholder during 2008, 2009, and 2010, respectively.

NOTES TO THE FINANCIAL INFORMATION

1. Summary of accounting policies

Nature of business

MYCELX Technologies Corporation (the "Company") was incorporated in the State of Georgia on 24 March 1994. The Company services domestic and international markets, primarily in the marine, industrial waste water and oil remediation industries with filtration media and equipment.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

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.

Inventories

Inventories consist primarily of materials and are stated at the lower of cost (first-in, first-out) or market value. Manufacturing work-in-process and finished products inventory includes all direct costs, such as labour and material, and those indirect costs which are related to production, such as indirect labour, rents, supplies, repairs and depreciation costs.

Prepaid expenses and other current assets

Prepaid expenses and other current assets include non-trade receivables that are collectible in less than 12 months and various prepaid amounts that will be charged to expenses within 12 months.

Property, plant and equipment

All property, plant and equipment are valued at cost. Depreciation is computed using the straight-line and declining-balance methods for financial reporting over the following useful lives:

Equipment and fixtures	5-10 years
Leasehold improvements	7-15 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.

Intangible assets

Intangible assets are comprised of patents and website development costs. Intangible assets are amortised over their estimated useful lives using the straight-line method.

Revenue recognition

The Company's revenue consists of product and equipment sales. Revenues from product 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 are typically for three month periods and renewed at the end of each agreement, if necessary. The lease agreements meet the criteria for classification as operating leases. Revenue on lease agreements is recognised as income over the lease term as it becomes receivable.

Revenues on long-term contracts are recognised on the percentage-of-completion basis using costs incurred compared to total estimated costs. Revenues are not related to the progress billings to customers. Such amounts necessarily, are based on estimates, and the uncertainty inherent in estimates initially is reduced progressively as work on the contract nears completion. A contract is considered complete when all costs except insignificant items have been incurred.

Contract costs include all direct labour and benefits, materials unique to or installed to the project, subcontractor costs, as well as general and administrative costs relative to contract performance. Provision for estimated losses on uncompleted contracts is made in the period in which such losses are determined. 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.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognised in excess of amounts billed (underbillings). Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognised (overbillings). Contract retentions are recorded as a component of accounts receivable.

The accompanying financial statements have been prepared using the percentage-of-completion method of accounting and take into account the cost, estimated earnings, and revenue-to date on contracts not yet completed. Actual results could vary from estimates used in these consolidated financial statements. As long-term contracts extend over one or more years, revisions in estimates of costs and earnings during the course of the work are reflected in the accounting period in which the facts that require the revision become known.

Impairment of long-lived assets

The Company accounts for long-lived assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *Property, Plant and Equipment*. Long-lived assets to be held and used, including property, plant, 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 view of growth rates for the Company's business, anticipated future economic and regulatory conditions, and expected technological availability. For purposes of recognition and measurement, the Company groups its long-lived assets at the lowest level for which there are identifiable cash flows, which are largely independent of the cash flows of other assets and liabilities. No impairment charges were recorded in the years ended 31 December 2008, 2009 or 2010.

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 sales, 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 years ended 31 December 2008, 2009, and 2010 was $252,661, $238,847, and $248,034, respectively.

Advertising costs

The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2008, 2009 and 2010 was $36,058, $11,292 and $32,194, 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" 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 primarily related 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 are also 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 operating expenses. During the years ending 31 December 2008, 2009, and 2010 the Company recognised no interest or penalties.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options. Potentially dilutive shares are excluded from the computation if their effect is anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share:

	2008	*2009*	*2010*
Net income attributable to MYCELX common stockholders (in thousands)	$350	$179	$339
Weighted average shares outstanding:			
Basic	6,068,013	6,090,731	6,545,002
Add: Effect of dilutive stock options	–	1,500	2,000
Diluted	6,068,013	6,092,231	6,547,002
Net income per share attributable to MYCELX common stockholders:			
Basic	$0.06	$0.03	$0.05
Diluted	$0.06	$0.03	$0.05

Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable, approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature.

On 1 January 2007, the Company adopted the methods of fair value as described in ASC 820, *Fair Value Measurements and Disclosures*, to value its financial assets and liabilities. ASC 820 establishes a three-tier fair value hierarchy, which prioritises the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. In determining fair value, the Company utilises valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs to the extent possible, as well as considering counter-party credit risk in its assessment of fair value.

Liquidity

The Company continually projects its anticipated cash needs, which include its operating needs, capital needs, and principal and interest payments on its indebtedness. As of the date of this document, management believes the Company can meet its liquidity needs through the end of fiscal year 2012 with cash and cash equivalents on hand, projected cash flows from operations and, to the extent necessary, through its borrowing capacity under the Credit Agreement, which was approximately $400,000 at the date of this document.

Compensated Absences

Employees of the Company earn vacation and sick leave based on length of service and hours worked during the year. Employees are not allowed to carry over compensated absences earned at year-end. Therefore, the Company has not accrued accumulated leave benefits.

Subsequent Events

Management has evaluated subsequent events through to 29 July 2011, the date of this document. During this period, management did not note any material recognisable subsequent events that required recognition or disclosure in the accompanying financial statements.

Recently Issued Accounting Pronouncements

In January 2010, the FASB amended ASC Topic 820, Fair Value Measurement and Disclosure to require additional disclosures on (1) transfers between levels, (2) Level 3 activity presented on a gross basis, (3) valuation techniques, and (4) inputs into the valuation. The additional disclosure has no impact on MYCELX financial statements.

In April 2010, the FASB issued additional guidance relating to the ASC Topic 718, Compensation – Stock Compensation to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. This guidance becomes effective for MYCELX on 1 January 2011 and will not have a material effect on our financial statements.

2. Accounts receivable

The major classes of accounts receivable at 31 December 2008, 2009, and 2010 were as follows:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Accounts receivable	307	410	320
Less: Allowance for doubtful accounts	31	–	–
Total receivable, net	276	410	320

3. Inventories

Inventories consisted of the following at 31 December 2008, 2009 and 2010:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Raw materials	93	106	142
Work-in-process	5	6	8
Finished goods	192	217	410
Total inventory	290	329	560

4. Property and equipment

Property and equipment consisted of the following as of 31 December 2008, 2009, and 2010:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Office equipment	44	40	79
Leasehold improvements	41	41	52
Manufacturing equipment	187	181	313
Research and development equipment	71	69	76
	343	331	520
Less: Accumulated depreciation	(107)	(127)	(159)
Property & equipment – net	236	204	361

Depreciation expense for the years ended 31 December 2008, 2009, and 2010 was $23,890, $32,131, and $43,114, respectively.

5. 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 an additional $22,000 based on profits on the sales of the product. The patent is amortised utilising the straight-line method over a useful life of 17 years. Accumulated amortisation on the patent was $686 and $3,412 as of 31 December 2009 and 2010, respectively.

Intangible assets as of 31 December 2008, 2009, and 2010 consisted of the following:

	Weighted average useful lives	*2008 US$000*	*2009 US$000*	*2010 US$000*
Patent defence cost	15 years	489	539	583
Purchased patents	17 years	–	28	50
Website development	3 years	–	3	3
		489	570	636
Less: Accumulated amortisation		(179)	(214)	(250)
Intangible assets – net		310	356	386

Aggregate future amortisation expense for the periods subsequent to 31 December 2010 is as follows:

Years ending 31 December	*US$*
2011	37,033
2012	36,033
2013	32,570
2014	26,885
2015	24,961
2016 and beyond	228,467
Total future amortisation	385,949

Amortisation expense for the years ended 31 December 2008, 2009, and 2010 was $31,163, $34,916, and $36,386, respectively.

6. Employee loans and advances

In April 2010, the Company made advances to two employees totalling $50,000 at an interest rate of 0.79 per cent. 50 per cent. of the employees' debt, principal and interest, will be forgiven on the first anniversary of the promissory note, provided the employee remains in full-time employment; the remaining balance will be forgiven on the second anniversary of the promissory note. In the event the employee ceases to be a full-time employee of the Company for any reason before the second anniversary of the promissory note, any remaining balance, principal and interest, will be due and payable within thirty days. The balance outstanding at 31 December 2010 was $50,000.

In May 2010, the Company made a loan to an employee, who is also a minority shareholder, for $32,837 at an interest rate of 0.59 per cent. Payments of principal and interest will be received through to May 2014. The balance outstanding at 31 December 2010 was $24,700.

7. Income taxes

On 23 April 1998 the Company ceased to be taxable as a subchapter S corporation under the Internal Revenue Code. In lieu of corporate income taxes for the period 1 January 1998 through 22 April 1998, the shareholders of an S corporation were taxed on their proportionate share of the Company's taxable income. Since 23 April 1998 the Company has been responsible for its own corporate income taxes, and current and deferred provisions are calculated on this basis.

Tax on the profit for the year comprises current and deferred tax. Deferred income taxes and benefits are provided for differences between financial reporting and tax purposes arising from timing differences related to depreciation, inventory capitalisation, customer deposits and a net operating loss.

Income before provision for income taxes consisted of the following:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Income before income taxes	299	208	375

The provision for income tax consisted of the following components at 31 December:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Current year tax based on statutory rates	–	–	–
Increase in deferred tax liability	63	29	91
(Increase)/decrease in deferred tax benefits	(3)	–	5
(Decrease) in deferred tax benefits valuation allowance	(111)	–	(60)
Income tax (benefit)/provision	(51)	29	36

The 2008, 2009 and 2010 tax provisions differ from the amounts that would be obtained by applying federal rates to pre-tax income primarily because of prior year net operating losses. There is no current tax expense because all of the taxable income for 2008, 2009 and 2010 was offset by the net operating loss carried forward from prior years. However, deferred tax benefits of $114,055, $0, and $54,131 for 2008, 2009 and 2010, respectively, were recognised for the increases in estimated tax benefits that will be realised from use of the losses carried forward from prior years and the partial elimination of prior valuation allowances.

The tax effects of significant items comprising the Company's deferred taxes were as follows:

	2008 *US$000*	*2009* *US$000*	*2010* *US$000*
Deferred income tax assets			
Net operating loss carry forwards	1,667	1,610	1,583
Less: Valuation allowance	(1,552)	(1,494)	(1,413)
Net deferred tax assets	115	116	170
Deferred income tax liabilities			
Basis difference in property, equipment, and intangible assets	135	164	255

At 31 December 2008, 2009, and 2010, the Company had net operating loss carry-forwards totalling $4,486,656, $4,321,209, and $4,194,078, respectively, that may be offset against future taxable income through 2030. A deferred tax asset of $1,666,601, $1,609,767, and $1,582,841 for 2008, 2009, and 2010, respectively, has been recognised for these prior carry-forward items. A valuation allowance was applied to these assets in years prior to 2008. Prior to 2008, the Company had no assurance that future taxable income would be sufficient to fully utilise the net operating loss carry-forwards and charitable contribution carry-forwards. Beginning in 2008, a portion of the prior valuation allowances for these items were eliminated because current operations indicated that a partial realisation of the related deferred tax assets was more likely than not. Thus, a tax benefit of $115,073, $115,680 and $169,811 was reported in the 2008, 2009, and 2010 financial statements, respectively.

The effective tax rate of the Company's provision/(benefit) for income taxes differs from the federal statutory rate as follows:

	2008	*2009*	*2010*
	%	*%*	*%*
Federal statutory rate	33.4	30.9	34.5
State tax	3.7	3.7	3.7
Change in valuation allowance	(54.2)	(20.7)	(28.6)
Effective rate	(17.1)	13.9	9.6

For 2008, the Company elected to defer its application of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Effective 1 January 2009, the Company implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740.

Using that guidance, tax positions initially need to be recognised in the financial statements when it is more-likely-than-not that the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50 per cent. likelihood of being realised upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years after 2008 for federal and state taxes based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of the matter.

The adoption of FASB ASC 740 did not have a material impact on the Company's financial statements. The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognised tax benefits.

8. Line of credit

During 2008, 2009, and 2010, the Company had a bank line of credit that allowed for borrowings of up to $400,000. The line of credit is revolving and is payable on demand. The balance of the line of credit at 31 December 2008, 2009, and 2010 was $167,000, $77,016, and $314,313, respectively. The line of credit bores an interest rate of prime plus 0.50 per cent. The interest rate at 31 December 2008, 2009, and 2010 was 3.75 per cent., 3.75 per cent., and 3.55 per cent., respectively. The line of credit is guaranteed by a company shareholder and collateralised by company assets. Interest expense related to this loan for the years ended 31 December 2008, 2009, and 2010 was $10,168, $5,171, and $5,243, respectively.

9. Notes payable

In January 1998, the Company entered into a lending agreement with a shareholder in the original amount of $167,371, payable on demand, at an interest rate of 8 per cent. The balance of this note at 31 December 2008 was $210,092 and interest expense related to this loan was $16,488 for the year ended 31 December 2008. The balance of this note at 31 December 2009 was $35,799 and interest expense related to this loan was $8,074 for the year ended 31 December 2009. This note was paid off in January 2010 with no interest expense related to this loan for the year ended 31 December 2010.

In October 2008, the Company entered into a lending agreement with a former shareholder in the original amount of $150,000, payable in April 2009, with no interest. The balance of this note at 31 December 2008 was $150,000; the note was paid off in April 2009.

10. Commitments and contingencies

Operating and Capital Leases

The Company has entered into capital lease agreements for equipment through to 2014. Equipment under capital leases together with accumulated depreciation at 31 December 2008, 2009, and 2010 was as follows:

	2008 US$000	*2009 US$000*	*2010 US$000*
Office equipment	8	–	19
Manufacturing equipment	14	14	47
Research and development equipment	49	–	–
	71	14	66
Less: Accumulated depreciation	(28)	(3)	(4)
Equipment under capital leases – net	43	11	62

The Company also entered into an operating lease for a commercial building on 1 July 2006. The lease was amended on 19 August 2009. The amended lease commenced December 2009, with monthly payments ranging from $5,684 to $5,965 through to June 2011. The lease was amended on 22 March 2011 to extend the term through June of 2013 with monthly payments of $6,213 beginning in July 2011. The amendment also grants a three-year option through June 2016 with payments ranging from $6,388 to $6,767. The Company has not yet determined whether it will execute the option. The payment schedule below reflects the 22 March 2011 amendment provisions.

Future minimum lease payments under the capital and operating leases, together with the present value of minimum lease payments subsequent to 31 December 2010, were as follows:

Year ending 31 December	*Capital leases US$*	*Operating lease US$*
2011	21,140	73,065
2012	23,062	74,550
2013	14,130	37,275
2014	1,299	–
2015	–	–
Total future lease payments	59,631	184,890
Less: Amount representing interest	(6,225)	
Present value of minimum lease payments	53,406	
Less: Current portion	(17,640)	
Total long-term portion of capital lease obligations	35,766	

Rent expense for the years ended 31 December 2008, 2009, and 2010 was $58,925, $64,943, and $102,327, respectively.

11. Common stock

At 1 January 2008, 14,742 shares of common stock totalling $44,226 remained subscribed under a previous stock offering. The 14,742 shares were issued during 2008. At 31 December 2008, the Company has stock subscriptions receivable in the amount of $150,000 for final payment of 55,485 shares of common stock issued during 2008. At 31 December 2008, 454,271 shares of common stock totalling $50,000 remained subscribed under a previous stock offering. An additional 22,718 shares of common stock were issued during 2008.

The 454,271 shares outstanding at 31 December 2008 were issued during 2009. These shares were issued under a Voting Trust Agreement and Proxy ("the Agreement"). Under the agreement, the Company is the proxyholder for these 454,271 shares and the Company is required to vote the shares in identical proportion to the votes cast by all other shareholders. The Agreement will terminate the earlier of 31 May 2019 or the occurrence of a change in control, as defined by the Agreement. The $150,000 included in stock subscriptions receivable at 31 December 2009 was received during 2009.

12. Related party transactions

During 2009, the Company entered into a patent rights purchase agreement with a shareholder as further described in Note 5.

During 2010, the Company advanced funds in the amount of $32,837 to a shareholder to be repaid over the course of three years as further described in Note 6. The balance outstanding at 31 December 2010 was $24,700.

The Company had notes payable outstanding to shareholders as further described in Note 9. The balances outstanding of these notes were $360,092, $35,799, and $0 at 31 December 2008, 2009, and 2010, respectively. Interest expense related to the notes was $16,488, $8,074, and $0 for the years ended 31 December 2008, 2009, and 2010, respectively.

A stockholder in the Company provided the financing for a capital lease and installation of equipment in 2003; the balance outstanding was paid off in 2008.

A stockholder in the Company provided website development services for the Company; the costs for these services were $2,031, $0, and $0 for the years ended 31 December 2008, 2009, and 2010, respectively.

13. Deferred compensation

The Company had a non-qualified deferred compensation arrangement with its former Chief Executive Officer ("CEO") whose employment ended during 2004. The plan provided for the allocation of deferred compensation units to the CEO over a five year vesting period beginning 1 June 1998. The number of valuation units credited to the CEO's account annually was equal to 2 per cent. of the issued and outstanding shares of the company up to a cumulative amount of 10 per cent. The value of outstanding performance units is based on the fair market value of the Company as defined by the plan.

The arrangement was amended on 9 March 2004 to allow for compensation to be paid upon termination of employment of the CEO. Pursuant to this amendment, compensation began by issuing 25,000 shares of the Company's common stock to the CEO upon termination of employment, and 25,000 additional shares on each succeeding anniversary date until fully issued, but subject to immediate issuance in the event of a change in control. 25,000 shares were issued in both 2007 and 2006.

During the year ended 31 December 2008, no additional shares were issued and the arrangement was mutually terminated by agreement of both parties.

14. Concentrations

The Company maintains cash and cash equivalent balances at a financial institution in Gainesville, Georgia. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At 31 December 2008, 2009 and 2010 the Company did not have any balances at financial institutions in excess of this FDIC limit.

At 31 December 2008, 65 per cent. of the accounts receivable totalling $178,703 was due from two customers. During 2008, the Company received 53 per cent. of its gross sales from five

customers totalling $1,409,672. Also during 2008, the Company purchased 57 per cent. of its raw materials from two vendors totalling $631,060.

At 31 December 2009, 66 per cent. of the accounts receivable totalling $272,221 was due from five customers. During 2009, the Company received 51 per cent. of its gross sales from six customers totalling $1,346,245. Also during 2009, the Company purchased 61 per cent. of its raw materials from four vendors totalling $407,653.

At 31 December 2010, 70 per cent. of the accounts receivable totalling $224,761 was due from three customers. During 2010, the Company received 33 per cent. of its gross sales from two customers totalling $1,377,523. Also during 2010, the Company purchased 78 per cent. of its raw materials from four vendors totalling $908,219.

15. Segment reporting

The Company measures the results of its reportable segments based on revenue and gross profit. The Company does not allocate operating expenses, income taxes or interest income (expense) to the reportable business units for purposes of reporting to the chief operating decision maker.

The Company's operating segments, Media and Equipment, are based on type of products sold. Media products are consumables in which customers buy recurrently. Equipment products house consumables within them. Equipment products are generally used within the operations of a business. Information on reportable segments and a reconciliation to net income for the years ended 31 December 2008, 2009 and 2010 are presented below. Also presented below are total assets by operating segment as of 31 December 2008, 2009, and 2010.

Year ended 31 December 2008

	Media *US$000*	*Equipment* *US$000*	*Corporate* *US$000*	*Total* *US$000*
Revenue	2,215	458		2,673
Gross profit	1,563	211		1,774
Operating expenses			(1,446)	(1,446)
Loss from disposition of equipment			(1)	(1)
Interest expense			(28)	(28)
Income from continuing operations				299
Income taxes			51	51
Net income				350
Assets	380	52	952	1,384
Capital expenditures	113	–	21	134
Depreciation expense	11	–	13	24
Amortisation expense	–	–	31	31

During 2008, the Company had one customer in its media segment that comprised approximately 40 per cent. of the revenue and one customer in its equipment segment that comprised approximately 24 per cent. of the revenue.

Year ended 31 December 2009

	Media *US$000*	*Equipment* *US$000*	*Corporate* *US$000*	*Total* *US$000*
Revenue	1,987	575		2,562
Gross profit	1,206	345		1,551
Operating expenses			(1,326)	(1,326)
Loss from disposition of equipment			(3)	(3)
Interest expense			(14)	(14)
Income from continuing operations				208
Income taxes			(29)	(29)
Net income				179
Assets	394	65	963	1,422
Capital expenditures	1	–	31	32
Depreciation expense	19	–	13	32
Amortisation expense	–	–	35	35

During 2009, the Company had one customer in its media segment that comprised approximately 24 per cent. of the revenue and two customers in its equipment segment that comprised approximately 50 per cent. and 18 per cent. of the revenue.

Year ended 31 December 2010

	Media *US$000*	*Equipment* *US$000*	*Corporate* *US$000*	*Total* *US$000*
Revenue	2,958	1,344		4,302
Gross profit	1,758	556		2,314
Operating expenses			(1,925)	(1,925)
Loss from disposition of equipment			(5)	(5)
Interest expense			(9)	(9)
Income from continuing operations				375
Income taxes			(36)	(36)
Net income				339
Assets	675	296	1,253	2,224
Capital expenditures	139	–	89	228
Depreciation expense	24	–	19	43
Amortisation expense	–	–	37	37

During 2010, the Company had one customer in its media segment that comprised approximately 34 per cent. of the revenue and two customers in its equipment segment that comprised approximately 30 per cent. and 26 per cent. of the revenue.

PART VII

US RESTRICTIONS ON THE TRANSFER OF COMMON SHARES ISSUED TO NON-US PERSONS

Terms used in the following description that are defined in Regulation S of the US Securities Act are used as defined therein.

Neither the Placing Shares nor the Sale Shares (together, for the purposes of this Part VII, the "Relevant Shares") have been registered under the US Securities Act or under any securities laws of any state of the US (and there is no current intention to register such shares) and are "restricted securities" as defined in Rule 144. A purchaser of Relevant Shares may not offer, sell, pledge or otherwise transfer Relevant Shares, directly or indirectly, in or into the United States or to, or for the account or benefit of, any US Person, except pursuant to a transaction meeting the requirements of Regulation S, pursuant to an effective registration statement under the US Securities Act and any applicable securities acts of any state of the United States or pursuant to an exemption from the registration requirements of the US Securities Act and such state acts. Hedging transactions in the Common Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act. The certificates evidencing the Relevant Shares will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR ANY SECURITIES ACTS OF ANY STATE OF THE UNITED STATES (THE "STATE ACTS"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, EXCEPT IF SUCH TRANSFER IS EFFECTED: (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULES 901 THROUGH 905 (INCLUDING THE PRELIMINARY NOTES) OF REGULATION S UNDER THE US SECURITIES ACT; (2) PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS; OR (3) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE US SECURITIES LAWS AND IN THE CASE OF (3) AN OPINION OF COUNSEL SHALL BE DELIVERED TO THE COMPANY (AND UPON WHICH THE COMPANY MAY RELY) REGARDING THE AVAILABILITY OF SUCH EXEMPTION. HEDGING TRANSACTIONS INVOLVING THE COMMON STOCK OF THE COMPANY MAY NOT BE CONDUCTED, DIRECTLY OR INDIRECTLY, UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT. AS PROVIDED IN THE BYLAWS OF THE COMPANY, THE COMPANY IS REQUIRED BY UNITED STATES SECURITIES LAWS TO REFUSE TO REGISTER ANY TRANSFER OF SHARES NOT MADE IN ACCORDANCE WITH THE ABOVE RESTRICTIONS.

Prior to one year after the later of (1) the time when the Relevant Shares are first offered to persons other than distributors in reliance upon Regulation S and (2) Admission, each purchaser of Relevant Shares acquired in reliance on Regulation S will be required to certify, represent and agree that:

1. the purchaser is not a US Person and is not acquiring the securities for the account or benefit of a US Person and is not located in the United States at the time the investment decision is made with respect to the Relevant Shares and is not purchasing the Relevant Shares as a result of any "directed selling efforts" (as defined in Regulation S);

2. the purchaser understands that the Relevant Shares have not been registered under the US Securities Act and may not be offered, sold, pledged or otherwise transferred by such purchaser except: (i) in an offshore transaction to non-US Persons and otherwise in compliance with Regulation S; (ii) pursuant to an effective registration statement under the US Securities Act; or (iii) pursuant to an exemption from the registration requirements of the US Securities Act, and in each case, in accordance with any applicable securities laws of the states of the United States and any other applicable jurisdictions;

3. the purchaser understands and agrees that, if in the future it decides to resell, pledge or otherwise transfer any Relevant Shares or any beneficial interests in any Relevant Shares prior to the date which is one year after the later of: (i) the date when the Relevant Shares are first offered to persons (other than distributors) pursuant to Regulation S; and (ii) Admission, it will do so only outside the United States in an offshore transaction to non-US Persons and otherwise in compliance with Regulation S, pursuant to an effective registration statement under the US Securities Act or pursuant to an exemption from the registration requirements of the US Securities Act and in each case in accordance with any applicable securities laws of any state of the United States and any other applicable jurisdiction;

4. hedging transactions involving the Common Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act;

5. the purchaser agrees to, and each subsequent holder is required to, notify any purchaser of the Relevant Shares from it of the restrictions referred to in paragraphs (2), (3) and (4) above, if then applicable;

6. the purchaser acknowledges that, prior to any proposed transfer of Relevant Shares other than pursuant to an effective registration statement, the transferee of Relevant Shares will be required to provide certifications and other documentation confirming that such transferee is a non-US Person and was not located in the United States at the time the investment decision or the sale was made with respect to the Relevant Shares;

7. the purchaser acknowledges that the Company, Numis Securities and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and warranties and agrees that if any such acknowledgement, representation or warranty is no longer accurate, it shall promptly notify the Company and Numis Securities;

8. Shares issued pursuant to Regulation S are deemed to be restricted securities under the US Securities Act; and

9. the purchaser acknowledges that the Relevant Shares will bear a restrictive legend to the following effect, unless the Company determines otherwise in compliance with applicable law.

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR ANY SECURITIES ACTS OF ANY STATE OF THE UNITED STATES (THE "STATE ACTS"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, EXCEPT IF SUCH TRANSFER IS EFFECTED: (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULES 901 THROUGH 905 (INCLUDING THE PRELIMINARY NOTES) OF REGULATION S UNDER THE US SECURITIES ACT; (2) PURSUANT TO AN EFFECTIVE REGISTRATION UNDER THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS; OR (3) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND ANY APPLICABLE STATE ACTS, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE US SECURITIES LAWS AND IN THE CASE OF (3) AN OPINION OF COUNSEL SHALL BE DELIVERED TO THE

COMPANY (AND UPON WHICH THE COMPANY MAY RELY) REGARDING THE AVAILABILITY OF SUCH EXEMPTION. HEDGING TRANSACTIONS INVOLVING THE COMMON STOCK OF THE COMPANY MAY NOT BE CONDUCTED, DIRECTLY OR INDIRECTLY, UNLESS IN COMPLIANCE WITH THE US SECURITIES ACT. AS PROVIDED IN THE BYLAWS OF THE COMPANY, THE COMPANY IS REQUIRED BY UNITED STATES SECURITIES LAWS TO REFUSE TO REGISTER ANY TRANSFER OF SHARES NOT MADE IN ACCORDANCE WITH THE ABOVE RESTRICTIONS.

During the one year distribution compliance period:

(a) each distributor must agree in writing: (i) that all offers and sales of the Relevant Shares shall be made only in accordance with the provisions of Rule 903 or 904 of Regulation S; pursuant to registration of the Relevant Shares under the US Securities Act; or pursuant to an available exemption from the registration requirements of the US Securities Act; and (ii) not to engage in hedging transactions with regard to the Relevant Shares unless in compliance with the US Securities Act; and

(b) each distributor selling securities to a distributor, a dealer (as defined in Section 2(a)(12) of the US Securities Act), or a person receiving a selling concession, fee or other remuneration will be required to send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to a distributor.

PRIOR TO PURCHASING RELEVANT SHARES OR CONDUCTING ANY TRANSACTIONS IN THE RELEVANT SHARES, INVESTORS ARE ADVISED TO CONSULT PROFESSIONAL ADVISERS REGARDING THE ABOVE RESTRICTIONS ON TRANSFER AND OTHER RESTRICTIONS REFERRED TO IN THIS DOCUMENT.

PART VIII

ADDITIONAL INFORMATION

1. THE COMPANY

1.1 The Company was incorporated as a corporation with limited liability under the GBCC and the laws of the State of Georgia, USA, on 24 March 1994 with Control Number K407884 under the name of Mansfield & Alper, Inc. Since incorporation, the Company's name has changed several times, the details of such changes being set out below:

Change of Company name to	*Name change effective from*
Mother Oil Remediation Products, Inc.	12 April 1997
Mother Environmental Systems, Inc.	29 April 1998
MyCelx Technologies Corporation	23 June 2000

1.2 The Company's legal and commercial name at the date of this document is MyCelx Technologies Corporation.

1.3 The governing documents of the Company are its Articles of Incorporation and its Bylaws (which correspond in general terms to the articles of association of a company incorporated in England and Wales). The primary legislation under which the Company operates is the GBCC and the Common Shares have been created by the Company pursuant to the GBCC.

1.4 The Company's registered office and principal place of business is located at 470 Woods Mill Road, Suite B, Gainesville, GA 30501, USA (telephone number 001-770-534-3118).

1.5 The Company does not have any subsidiaries nor is it part of any group.

2. SHARE CAPITAL OF THE COMPANY

2.1 The authorised and issued share capital of the Company as at the date of this document is:

Class of shares	*Authorised*	*Issued (fully paid)*
Common	100,000,000	6,545,002

2.2 The authorised and issued share capital of the Company immediately following the Placing and Admission is expected to be as follows:

Class of shares	*Authorised*	*Issued (fully paid)*
Common	100,000,000	12,922,873

The issued share capital of the Company immediately following the Placing and Admission includes: (i) the Existing Common Shares; (ii) the Placing Shares; (iii) the 437,353 new Common Shares to be issued to John Mansfield Sr. pursuant to the conversion of his loan to the Company (further details of which are set out in paragraph 5.6 of this Part VIII); (iv) the 153,063 new Common Shares to be issued as restricted stock pursuant to the Omnibus Performance Incentive Plan; and (v) the Director Shares.

2.3 The authorised share capital of the Company as at its last balance sheet date, being 31 December 2010, was 20,000,000 Common Shares with a par value of $0.025 each.

2.4 The New Common Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the Common Shares.

2.5 The history of the Company's share capital from incorporation is as follows:

(a) on incorporation, the authorised share capital of the Company was 500,000 common shares with a par value of $1.00 each;

(b) on 31 December 1997 there was a 20:1 split of the Company's common stock by way of stock dividend;

(c) on 28 January 2002, the authorised share capital of the Company was increased to 20,000,000 Common Shares with a par value of $0.025 each;

(d) on 8 February 2002 there was a 5:1 split of the Company's common stock by way of stock dividend;

(e) on 18 March 2003, there was a 3:1 split of the Company's common stock; and

(f) on 11 July 2011, the authorised share capital of the Company was increased to 100,000,000 Common Shares of $0.025 each.

2.6 The Company has a shareholder's agreement with each Shareholder which provides for, among other things, a Shareholder right of first refusal on Shareholder stock transfers and a 70 per cent. Shareholder approval threshold for any stock issuance. The shareholder's agreements also require pro rata contribution from the Shareholders in favour of any Shareholder who guarantees debt of the Company and is thereafter required to pay more than his pro rata portion of the debt. The shareholders' agreements will terminate on Admission.

2.7 The Company does not have any treasury shares (i.e. shares in the Company held by the Company).

2.8 Except as set out in paragraph 3.1 and paragraph 3.3 of this Part VIII, no subscriptions, allotments or options exist and there are no plans to introduce any such subscriptions, allotments or options, in respect of any other shares of the Company other than pursuant to the 2011 Omnibus Performance Incentive Plan.

2.9 Immediately following Admission, the Existing Common Shares will be diluted by the allotment and issue of the Placing Shares, the Conversion Shares, the Plan Shares and the Director Shares which together represent 99.3 per cent. of the Enlarged Share Capital.

2.10 The Company approved the issuance of the Placing Shares, the Conversion Shares and the Director Shares and the Plan Shares and the Omnibus Performance Incentive Plan by unanimous approval by the Company's board of directors on 6 and 23 June 2011 and the affirmative vote and approval by the Shareholders on 11 and 21 July 2011.

3. STOCK OPTIONS, WARRANTS AND AWARDS

3.1 **Omnibus Performance Incentive Plan (the "Plan")**

(a) On 6 June 2011, the Company approved:

(i) the termination of all outstanding stock incentive plans (and the cancellation of all outstanding stock incentive agreements);

(ii) the adoption of the Plan; and

(iii) conditional on Admission, the award of stock incentives to Directors and certain employees and consultants pursuant to the Plan. Details of the awards made to Directors, employees and consultants are as follows:

Recipient	*Number of Shares*	*Type of Award*
Tim Eggar	34,933 on Admission and 15,526 vesting in one year	Non-Executive Director Stock Option
John Mansfield Sr.	38,814 on Admission and 15,526 vesting in one year	Non-Executive Director Stock Option
Hal Alper	163,017 on Admission (vesting over three years)	Stock Option
William Donges	24,065 on Admission and 10,092 vesting in one year	Non-Executive Director Stock Option
Ian Johnson	22,471 on Admission and 10,092 vesting in one year	Non-Executive Director Stock Option
Connie Mixon	163,017 on Admission (vesting over three years)	Stock Option
David Pattillo	153,063 on Admission (vesting over three years) 40,972 on Admission	Stock Award Stock Option
Brian Rochester	31,051 on Admission and 10,092 vesting in one year	Non-Executive Director Stock Option
Dale Threadgill	31,051 on Admission and 10,092 vesting in one year	Non-Executive Director Stock Option
Mark Mixon	124,204 on Admission (vesting over three years)	Stock Option
Other employees and consultants	169,978 on Admission (vesting over three years)	Stock Option

(b) The Company established the Plan to attract and retain directors, officers, employees and consultants (each a "**Participant**"). The Company has reserved 10 per cent. of the Common Shares issued and outstanding immediately following completion of the Placing and Admission, but in any case not to exceed 1,145,375 Common Shares for distribution to Participants pursuant to the Plan.

(c) On Admission, an award of share options will be made to the Directors and certain employees and consultants, and a single award of restricted shares will be made to David Pattillo. The awards of stock options and restricted shares made on Admission will be in respect of 85 per cent. of the Common Shares available under the Plan, equivalent to 8.5 per cent. of the Enlarged Share Capital.

(d) The options granted to Non-Executive Directors on Admission will have an exercise price equal to 25 per cent. of the Placing Price. All other options granted under the Plan on Admission will have an exercise price equal to the Placing Price.

(e) 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.

(f) Options indicated above as vesting over three years vest a third on 1 January 2012, a third on 1 January 2013 and half on 1 January 2014. Vesting accelerates in the event of a change of control (as defined in the Plan).

(g) The restricted share award made to David Pattillo vests in full on Admission but is subject to a number of forfeiture provisions that continue for up to three years, based on performance, the achievement of certain financial milestones and continuity of service.

(h) Options granted to non-executive directors vest partially on Admission and partially one year later, as indicated above. All non-executive director options must be exercised during the course of the 2015 calendar year (subject to the restrictions on dealing under the Company's share dealing code). Vesting accelerates in the event of a change of control (as defined in the Plan).

(i) Pursuant to the Plan, the Company may award any combination of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, or other stock-based awards ("**Awards**") to Participants. The Compensation Committee of the Board, in its sole discretion, administers the Plan and any Awards made to Participants under the Plan. Any director, officer, employee or consultant is eligible for an Award under the Plan. In addition to the Awards granted to Directors and Officers of the Company, the Company has also granted options to certain employees of the Company.

(j) Awards may be made for one or more years and may be made contingent on performance goals set by the Compensation Committee. The Compensation Committee has the discretion to modify, adjust, or substitute the Plan and Awards upon a merger, share exchange, reorganisation, consolidation, reorganisation, stock split, or other transaction or event affecting the Shares. The Compensation Committee may also provide that any Awards under the Plan earn dividends or dividend equivalents.

(k) Stock options and stock appreciation rights awarded under the Plan become fully vested and exercisable upon a change in control (as defined in the Plan), and the restrictions and other conditions applicable to any restricted stock, restricted stock units, deferred stock units, or other stock-based Awards, including vesting requirements, lapse, and such Awards become free of all restrictions and fully vested. Unless otherwise determined by the Compensation Committee, upon a change in control, all Awards under the Plan will be cashed out at the price per share paid to the holder of the Common Shares upon the change in control.

(l) Each Award under the Plan shall be evidenced by a written agreement (which need not be signed by the recipient unless otherwise specified by the Compensation Committee) that sets forth the terms, conditions and limitations for each Award. Such terms may include, but are not limited to, the term of the Award, vesting and forfeiture provisions, and the provisions applicable in the event the Participant's employment terminates. Award recipients do not have any Shareholder rights, including voting rights, unless and until they purchase or are granted Shares of the Company.

(m) Except as otherwise provided in the Plan, the Board may amend or terminate the Plan at any time. Termination of the Plan does not terminate any Awards previously granted pursuant to the Plan.

3.2 **Terminated stock option plans**

The Company had stock option agreements with two key employees, Harikrishnan Parthasarathy and Anand Narayanan, under which each has the option to purchase a total of 1,000 shares at $2.00 per share. The 2009 Stock Plan and the options issued thereunder were terminated, with the consent of the Board, the Shareholders, and the award recipients, on 6 June 2011. In lieu of termination of their stock option agreements, both employees received stock option awards under the Plan.

3.3 **Warrants**

(a) Other than as set out in this paragraph 3.3, the Company does not have any outstanding warrants.

(b) The Company issued a stock warrant dated as of 4 April 2011 for 50,000 Common Shares with an exercise price of $0.01 per share to John Mansfield, Sr. in consideration for the provision of a short-term loan facility to the Company for an amount equal to $1,500,000 and otherwise on the terms set out in a promissory note as of 4 April 2011. Pursuant to this loan arrangement, $700,000 was advanced by John Mansfield, Sr. to the Company on 4 April 2011 and a further $800,000 was advanced on 2 May 2011. If the Company does not pay the full amount outstanding on the promissory note on the earlier of the due date or upon acceleration (if there is an event of default under the note), then the number of shares subject to the warrant will double to 100,000 Common Shares with an exercise price of $0.01 per share. Mr. Mansfield has agreed to convert the full outstanding balance of his loan into 437,353 new Common Shares with effect on Admission (and the Company will pay all outstanding interest due). Accordingly the number of Common Shares subject to the warrant will be 50,000. Mr. Mansfield will not exercise this warrant on Admission.

(c) As part of the Placing, the Company has granted a warrant to Numis to subscribe for Common Shares representing 1.5 per cent. of the Enlarged Share Capital at the Placing Price for a period of five years from Admission. For further details please see paragraph 12.4 of this part VIII.

4. ARTICLES OF INCORPORATION AND BYLAWS

4.1 The following is a summary of certain provisions of the Articles of Incorporation, Bylaws and provisions of Georgia law that apply to the Company. The summary is not a complete description of these documents and is qualified in its entirety by the actual documents, which prospective shareholders are encouraged to review prior to purchasing shares in the Company.

4.2 **Articles of Incorporation**

(a) ***Shares***

The Articles of Incorporation authorise the Company to issue up to 100,000,000 Common Shares.

(b) ***Description of common stock***

Subject to the rights of any preferred stock that may be issued in the future, holders of the Company's common stock: (a) are entitled to unlimited voting rights, with each share having one vote on each matter submitted to the shareholders for a vote; (b) have equal rights of participation in dividends and other distributions; and (c) are entitled to receive the net assets of the Company ratably upon dissolution, if any. Holders of the Company's common stock do not have preemptive rights.

(c) ***No pre-emptive rights***

No Shareholder is entitled to pre-emptive rights to purchase any Shares, any options or rights to purchase any Shares, or any bonds, debentures or other securities of the Company.

(d) ***Voting***

The Articles of Incorporation allow the Shareholders to act by the written consent of Shareholders who would be entitled to vote at a meeting having voting power to cast

not less than the minimum number (or numbers, in the case of voting by groups) of votes that would be necessary to authorise or take such action at a meeting at which all Shareholders entitled to vote were present and voted.

(e) ***Director liability***

The Articles of Incorporation provide that a Director shall not be liable to the Company or the Shareholders for monetary damages for any action taken, or any failure to take any action, as a Director, except liability: (a) for any appropriation, in violation of his or her duties, of any business opportunity of the Company; (b) for acts or omissions that involve intentional misconduct or a knowing violation of law; (c) for any distribution knowingly approved by the Director that would make the Company insolvent; or (d) for any transaction from which the Director received an improper personal benefit.

(f) ***Indemnity***

The Articles of Incorporation require the Company to indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (a "**Covered Person**") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigatory, including those brought by or in the right of the Company, by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Company or, while a director or officer of the Company, is or was serving at the Company's request as a director, officer, partner, trustee, employee or agent of another entity or enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Covered Person. In addition, the Articles of Incorporation require the Company, to the extent not prohibited by applicable law, to pay the reasonable expenses (including attorneys' fees) incurred by a Covered Person in defending any proceeding in advance of its final disposition upon receipt of any undertakings and affirmations required by applicable law.

The Company's Articles of Incorporation provide that if at any time the GBCC is amended to further eliminate or limit the liability of a director, then the liability of each director of the Company shall be limited to the fullest extent permitted thereby.

(g) ***Share characteristics and Shareholder rights***

Only Common Shares of the Company are issued and outstanding. Each Shareholder has the same rights afforded under the GBCC, including the right to vote the shares for election of directors and certain corporate actions. As described in paragraph 4.2(b) above, each Common Share may cast one vote. The Company's Articles provide for a threshold above which ownership must be disclosed. The Company may, but is not required to, issue dividends to the Shareholders in the sole discretion of the Company's Board. Any dividends that the Company elects to issue will be issued pro rata to the Shareholders.

(i) *Dividends and Repurchases of Shares*

Under the GBCC, a corporation may make distributions to its shareholders except that no distribution may be made if as a result the corporation would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at

the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

Under the GBCC, a corporation may acquire its own shares of capital stock and shares so acquired will constitute authorised but unissued shares, unless the Articles of Incorporation provide that such shares become treasury shares or prohibit the reissuance of reacquired shares. The Company's Articles of Incorporation provide that any shares reacquired by the Company shall become treasury shares (which may be cancelled by the Company at any time thereafter). If such reissuance is prohibited, the number of authorised shares will be reduced by the number of shares reacquired.

(ii) *Vote on Extraordinary Corporate Transactions*

Under the GBCC, a sale or other disposition of all or substantially all of the corporation's assets, a merger of the corporation with another corporation, a share exchange involving one or more classes or series of the corporation's shares or a dissolution of the corporation must be approved by the board of directors (except in certain limited circumstances) plus, with certain exceptions, the affirmative vote of the holders of a majority of all shares of stock entitled to vote thereon.

(iii) *Dissenters' or Appraisal Rights*

The GBCC provides that subject to certain exceptions, shareholders who comply with certain procedural requirements of the GBCC are entitled to dissent from and obtain payment of the fair value of their shares in the event of mergers, share exchanges, sales or exchanges of all or substantially all of the corporation's assets, amendments to the articles of incorporation that reduce the number of shares of a class or series owned by a shareholder to a fraction of a share if the fractional share so created is to be acquired for cash and otherwise to the extent provided in the articles of incorporation, bylaws or a resolutions by the board of directors. However, unless the corporation's articles of incorporation provide otherwise, appraisal rights are not available:

(1) to holders of shares of any class of shares not entitled to vote on the transaction;

(2) in a sale of all or substantially all of the property of the corporation pursuant to court order;

(3) in a sale of all or substantially all of the corporation's properties for cash where all or substantially all of the net proceeds of such sale will be distributed to the shareholders within one year; or

(4) to holders of shares which at the record date were either listed on a national securities exchange or held of record by more than 2,000 shareholders, unless: (1) in the case of a plan of merger or share exchange, the holders of shares of the class or series are required under the plan of merger or share exchange to accept for their shares: (a) anything except shares of the surviving corporation or another publicly held corporation which at the effective date of the merger or share exchange are either listed on a national securities exchange or held of record by more than 2,000 shareholders, except for scrip or cash payments in lieu of fractional shares; or (b) any shares in the surviving

corporation or another privately held corporation; or (2) the articles of incorporation or a resolution of the board of directors approving the transaction provides otherwise. Under the GBCC the board of directors may voluntarily extend appraisal rights to shareholders under other circumstances. In addition, the GBCC provides that, if a shareholder is entitled to exercise appraisal rights, those rights constitute the shareholder's exclusive remedy in the absence of fraud or failure to comply with certain procedural requirements.

(h) ***Takeover***

The Articles seek to broadly replicate the effect of Rule 9 of the City Code. In particular, they provide that any person who:

(i) acquires securities in the Company which, when aggregated with securities held by him and persons acting in concert with him (as defined in the Articles) in relation to the Company, represents 30 per cent. or more of the voting rights attaching to the issued securities of the Company; or

(ii) together with persons acting in concert with him, holds securities in the Company representing not less than 30 per cent. but not more than 50 per cent. of the voting rights attaching to the issued securities of the Company and such person, or any person acting in concert with such person, acquires additional securities which will increase such persons percentage of the voting rights,

then such person is required to make a general offer for all of the shares in the Company not already held.

(i) ***Disclosure of significant shareholding***

The Articles require a shareholder to provide notification in writing to the Company of the percentage of his or voting rights attaching to the issued securities of the Company in which he holds as a shareholder or through his direct or indirect holding of certain financial instruments if the percentage of those voting rights reaches, exceeds or falls below 3 per cent. and each 1 per cent. thereafter up to 100 per cent.

(j) ***Disclosure of interests***

The Company may by notice in writing require any person whom the directors know, or have reasonable cause to be believe, at any time during the three years immediately preceding the date on which the notice is issued, to have been interested in shares of the Company, requiring such person to indicate whether or not it is the case and, where such person holds any interest in any such shares, to give further information as may be required by the board.

(k) ***Amendments to Articles of Incorporation***

The GBCC provides that certain relatively technical amendments to a corporation's articles of incorporation may be adopted by the directors without shareholder action. Generally, the GBCC requires a majority vote of the outstanding shares of each voting group entitled to vote to amend the Articles of Incorporation, unless the GBCC, the Articles of Incorporation, or a bylaw adopted by the shareholders requires a greater number of affirmative votes. The Company's Articles of Incorporation do not otherwise provide for a greater vote.

4.3 **Bylaws**

The Bylaws provide the rules under which the Company elects Officers and Directors, holds Shareholders' meetings and otherwise conducts its affairs, including the following:

(a) ***Shares***

The Company may issue share certificates or uncertificated Shares under a book-entry system. The Company must refuse to register any transfer of Shares that does not comply with the US Securities Act or State securities laws or qualify for an applicable exemption. In order to list Shares on CREST after the expiration of one year from the completion of the Placing, a Shareholder must send to the Company's transfer agent a notice stating that: (a) it acquired the Shares in compliance with Rule 903 of Regulation S or in a trade in compliance with Rule 904 of Regulation S; (b) it is not an affiliate of the Company; and (c) it will not sell the securities in the United States without complying with applicable United States securities laws, together with any additional documents or certifications the Company may reasonably request to demonstrate compliance with applicable law.

(b) ***Shareholders' meetings***

The Bylaws provide for annual meetings for the Shareholders to elect Directors and conduct other business. The Company is to send written notice of its annual Shareholder meeting to Shareholders of record not less than 21, and not more than 60, days before the annual meeting. If a Shareholder wishes to propose an item for a vote at the annual meeting, the Shareholder must send written notice to the Company between 120 and 90 days before the meeting and comply with a variety of other procedural requirements. The Company's Bylaws provide that to be properly brought before a meeting of the shareholders, a business and proposal must be: (1) specified in the notice of the meeting; (2) otherwise properly brought before the meeting by or at the direction of the Board; and (3) brought by shareholders who comply with the advance notice and other related requirements set forth in the Bylaws.

The Board or Shareholders representing not less than 10 per cent. of the total number of Shares entitled to vote on the matter or matters to be brought before the proposed special meeting may call a special meeting of the Shareholders, and business conducted at the special meeting will be limited to the business stated in the meeting notice.

Under the GBCC, a special meeting of shareholders may be called by the Board or any other person authorised to do so in the articles of incorporation or the bylaws.

(c) ***Voting***

A majority of all Shares entitled to vote at a meeting of the Shareholders (either in person or by proxy) will constitute a quorum for the conduct of business. An affirmative vote of the majority of the voting shares represented at the meeting is generally required for all matters brought before the meeting, except for the election of Directors, for which only a plurality of the voting shares is required, and except for certain extraordinary events, such as mergers and the sale of substantially all the Company's assets, which would require the affirmative vote of a majority of the votes entitled to be cast. Shareholders may vote in person or by proxy. Any action that may be taken by a Shareholder at a meeting may be taken without a meeting, prior notice, or a vote if written consents setting forth the action are signed by the Shareholders holding stock sufficient to approve the action at a meeting at which all Shareholders entitled to vote were present and voted.

(d) ***Board of Directors***

The Board manages the affairs of the Company. The Bylaws provide that the Board shall consist of not less than five persons and not more than eleven persons, with the exact number to be fixed by the Board. The size of the Board is currently fixed at nine Directors. The number of Directors may be fixed or changed from time to time, within the specified range, by the Board. Directors are elected each year by the Shareholders at the annual meeting, to serve until the next succeeding annual meeting and until their successors are elected and qualified, or until their earlier death, resignation or removal. However, if a director is elected by a particular voting group of directors, that director may only be removed by the requisite vote of that voting group. The Board meets annually immediately after the Shareholders' meeting and also has regular and special meetings. Decisions of the Board generally require an affirmative vote of the majority of Directors present at a meeting where a quorum is present. Alternatively, the Board may act by unanimous written consent.

At any meeting of the Shareholders with respect to which notice of such purpose has been given, the entire Board or any individual Director may be removed, with or without cause, by a majority of the votes entitled to be cast, except that if a Director is elected by a voting group, only the Shareholders of that voting group may remove that Director. The GBCC provides that vacancies on the Board may be filled by the shareholders or directors, unless the Articles of Incorporation or a bylaw approved by the shareholders provides otherwise. Any vacancy occurring in the Board may be filled by the Board, by the Shareholders or by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. The Board may fill a vacancy created by an increase in the number of Directors, but only for a term of office continuing until the next election of Directors by the Shareholders and the election and qualification of a successor. Any director so elected shall hold office for the unexpired term of his predecessor in office.

The Board is permitted to appoint committees and currently has appointed the following committees: Audit Committee, Compensation Committee, Executive Committee and Nomination and Governance Committee.

(e) ***Officers***

The officers of the Company currently include the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Business Development Officer, the Chief Science Officer, Secretary, two Assistant Secretaries (for administrative functions only), the Treasurer and two Vice Presidents. The Chief Executive Officer is responsible for the Company's overall operations and for directing the actions of the other Officers.

(f) ***Indemnification and insurance***

Like the Articles of Incorporation, the Bylaws require the Company to indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any Covered Person and to pay the reasonable expenses (including attorneys' fees) incurred by a Covered Person in defending any proceeding in advance of its final disposition upon receipt of any undertakings and affirmations required by applicable law. The Company may advance expenses to directors and officers as long as such advance is permitted by applicable law and, if required by law, the Director or officer receiving an advance undertakes to repay the amounts advanced if it is ultimately determined that such director or officer was not entitled to be indemnified.

(g) ***Amendment***

The Bylaws may be amended by the Shareholders or the Board; provided that the amendment of specified provisions of the Bylaws require a vote of a majority of the voting power of the Shares entitled to vote at an election of the Directors or two-thirds of the Directors and specified provisions relating to shares and share certificates and depository interests may only be amended by such vote of shareholders.

Under the GBCC, shareholder action is generally not necessary to amend the bylaws, unless the articles of incorporation provide otherwise or the shareholders in amending or repealing a particular bylaw provide expressly that the Board may not amend or repeal that bylaw. The shareholders do, however, have the right to amend, repeal or adopt bylaws, except for bylaws that restrict the power of the board to manage the business. Under the Company's Bylaws, the Board has the power to alter, amend or repeal the Bylaws or adopt new Bylaws, but any Bylaws adopted by the Board may be altered, amended or repealed, and new Bylaws adopted, by the shareholders.

5. DIRECTORS' INTERESTS IN THE COMPANY

5.1 Save as disclosed in this paragraph 5, paragraph 3.1 and paragraph 14, none of the Directors, nor any person connected with them, is or, following Admission, will be interested in any share capital of the Company.

5.2 As at the date of this document and immediately following Admission, the interests of the Directors, both beneficial and non-beneficial, and persons connected with the Directors, in the Shares are as follows:

	As at the date of this document		*On Admission*	
Name	*Number of Common Shares*	*Percentage of issued share capital*	*Number of Common Shares*	*Percentage of Enlarged Share Capital*
Tim Eggar	–	–	29,157[(1)]	0.23%
John Mansfield Sr.	988,649	15.11%	1,426,769[(2)]	11.03%
Hal Alper	1,313,661	20.07%	1,240,769	9.60%
Ian Johnson	–	–	5,000[(3)]	0.04%
Connie Mixon[(4)]	999,222	15.27%	964,308	7.46%
David Pattillo	–	–	153,063	1.18%
Brian Rochester[(5)]	135,986	2.07%	135,986	1.05%
Dr. Dale Threadgill[(6)]	287,160	4.39%	19,739	0.15%

(1) Tim Eggar's Common Shareholding on Admission reflects the Common Share allotment to him referred to in paragraph 8.2(a) of Part VIII of this document.

(2) The increase in the number of Common Shares held by John Mansfield Sr. on Admission is attributable to the conversion of his loan, as more fully described in paragraph 5.6 of Part VIII of this document.

(3) Ian Johnson's Common Shareholding on Admission reflects the Common Share allotment to him referred to in paragraph 8.2(e) of Part VIII of this document.

(4) The aggregate number of shares shown for Mrs. Mixon includes: (a) 180,000 shares held by limited liability companies controlled by Mrs. Mixon; and (b) 212,646 shares held by or on behalf of Mrs. Mixon's children.

(5) 135,986 Common Shares are registered in the name of Rochester Bros. Investments LLC in which Brian Rochester holds a 50 per cent. interest.

(6) This aggregate number of shares for Dr. Threadgill includes 6,000 shares held by his sons and 267,421 shares held by Infinity Associates LLC, being a limited liability company controlled by Dr. Threadgill.

5.3 The interests of the Directors and all persons connected with them in options over shares in the share capital of the Company are set out in paragraph 3.1 of this Part VIII.

5.4 Pursuant to an agreement dated 13 November 2001, the Company was required to obtain the prior consent of Hal Alper (the Company's largest shareholder), to any proposed stock issuance which would, if fully subscribed, have the result of diluting his interest in the Company to below 23.78 per cent. As a result of the sale of his shares over time, Hal's current shareholding has been diluted to 20.07 per cent. This agreement was terminated pursuant to an agreement dated 23 June 2011 between the Company and Hal Alper.

5.5 The Company has been partly funded through a combination of bank and Director loans. In each of the years ended 31 December 2008 and 31 December 2009, the Company had a loan note payable to John Mansfield Sr., the balance of which was as follows:

Year to 31 December 2008	*Year to 31 December 2009*	*Year to 31 December 2010*
$210,092	$35,799	$nil

The loan, which was payable on demand and carried an interest rate of 8.25 per cent. per annum, was repaid in full in the year ended 31 December 2010.

5.6 John Mansfield Sr., a current Director and Shareholder and former chair, has advanced a further sum in the amount of $1,500,000 to the Company, further details of which are set out in paragraph 3.3(b) of Part VIII of this document. Mr. Mansfield has agreed to convert the full outstanding balance of his loan into 437,353 new Common Shares with effect on Admission (and the Company will pay all outstanding interest due).

5.7 Upon termination of his employment in 2009, Mack DeVine, the Company's former chief executive officer, sold 55,485 Common Shares to the Company and cancelled his right to receive 454,271 additional Common Shares. For a total amount of $375,000 to finance the purchase, the Company sold to Connie Mixon and John Mansfield, Sr. a total of 509,656 Common Shares, which were subsequently transferred to a limited liability company owned by John Mansfield Sr. Mr. Mansfield then entered into a Voting Agreement with the Company, which prohibits the transfer of the shares in certain circumstances and provides the Company with the voting rights of the shares. The voting agreement will be terminated on Admission.

5.8 The Company has had in place since 23 December 2008 a $400,000 open end revolving line of credit with SunTrust Bank, a Georgia banking corporation, which is supported by a guarantee from John Mansfield, Sr. and collateralised by all of the assets of the Company. The details of the balance of the loan, which bears interest at prime plus 0.50 per cent., are set out below:

	Year ended 31 December 2008 ($)	*Year ended 31 December 2009 ($)*	*Year ended 31 December 2010 ($)*
Total	167,000	77,016	314,313
Less current portion	527,092	112,815	314,313
Long term debt	527,092	112,815	314,313

The Company expects to pay down and terminate the line of credit and to apply for a new credit facility as soon as practicable after the Placing.

5.9 In 2010, the Company advanced a loan in the amount of $32,837 to Hal Alper, which was to be repaid over three years. The balance outstanding as at the financial year ended 31 December 2010 was $24,700.

5.10 Save as disclosed elsewhere in this Part VIII, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company

during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

5.11 None of the Directors has a previous name, except that Connie Mixon was previously known as Connie Mansfield.

6. ADDITIONAL INFORMATION ON THE DIRECTORS

6.1 The names of the companies and partnerships of which the Directors have been directors or partners in the last five years or of which they continue to be directors or partners, are as follows:

(a) Tim Eggar

Current directorships and partnerships	*Past directorships and partnerships*
Trent Consulting Limited	Expro International Group PLC
Russo British Chamber of Commerce	RockWell Petroleum Inc.(1)
3 Legs Resources PLC	Anglo Asian Mining PLC
Nitol Solar Limited	Harrison Lovegrove and Co Ltd.
Shiplake Court Limited	Indago Petroleum PLC(2)
TAG Energy Solutions Ltd	IP Maestrale Energy Italy 1 LLP
Soyuz Neftegaz	IP Maestrale Energy Italy 3 LLP
Cape PLC	The Second Scotts Atlantic Distributors LLP(3)
	De Boer Structures Holdings BV

(1) Mr. Eggar was a director of RockWell Petroleum Inc. when it entered voluntary Companies' Creditors Arrangement Act protection in December 2008. On 19 August 2009, the Company filed a Plan of Arrangement with the Court of Queen's Bench of Alberta, Calgary. A Creditor's meeting was convened and a Sanction Order was subsequently filed with the aforementioned court on 23 September 2009. The Company subsequently emerged from bankruptcy protection in September 2009. Mr. Eggar ceased to act as a non-executed director in December 2009.

(2) Indago Petroleum Limited was voluntary liquidated in July 2009 at the request of the largest shareholder.

(3) The Second Scotts Atlantic Distributors LLP underwent a voluntary liquidation in May 2008.

(b) John Mansfield Sr.

Current directorships and partnerships	*Past directorships and partnerships*
Stoneridge Development Ltd.	Mansfield Oil Co. Inc.
Chamcook, CA	Kangaroo Food Stores Inc.
Chamcook, US	Mansfield Propane Gas Co.
Advertising Co.	Gainesville Bank & Trust
Mansfield Holdings LLC (Manager)	Brenau University (Trustee)
	Georgia State University (Trustee)
	AAA Gas Co.
	Manlo Mining Co. (Partner)

(c) Hal Alper

Current directorships and partnerships	*Past directorships and partnerships*
Nil	Nil

(d) William Donges

Current directorships and partnerships	*Past directorships and partnerships*
MySnapCam LLC	American Combustion
	Consolidated Engineering Corporation
	Air Liquide America
	Lane Company
	Community Life Centers
	Echo Eleven

(e) **Ian Johnson**

Current directorships and partnerships	*Past directorships and partnerships*
Finance Wales Plc	AOI Medical Inc
Celsis Group Ltd	Evans Analytical Group
Lumora Ltd	Pure Options Solutions Ltd
Ruskinn Life Science Ltd	Biotrace International Plc & various subsidiaries
	Ruskinn Technology Ltd

(f) **Connie Mixon**

Current directorships and partnerships	*Past directorships and partnerships*
Mansfield Holding LLC	Nil
Mixon Group LLC	
Mixon Underwood LLC	

(g) **David Pattillo**

Current directorships and partnerships	*Past directorships and partnerships*
Good Samaritan Health Center	Harry's Farmers Market, Inc.
Young Harris College	Whitefield Academy
American Running Association	Honduras Outreach, Inc.
Global Capital, Inc.	
Pattillo & Associates, Inc.	
Podo Technology, Inc.	
Podo Technology Holdings, Inc.	
The Pattillo Family Foundation, Inc	

(h) **Brian Rochester**

Current directorships and partnerships	*Past directorships and partnerships*
Rochester and Associates, Inc.	West Point Holdings, LLC
Independence Bank of Georgia	BKR Properties, Inc.
Riverwalk, LLC	
Rochester Equipment Leasing, LLC	
Sandridge Townhomes, LLC	
R Bros Investments, LLC	
Rochester Farms, LP	
Rochester NC, Inc.	

(i) **Dr Dale Threadgill**

Current directorships and partnerships	*Past directorships and partnerships*
Infinity Associates LLC (President)	American Society of Agricultural & Biological Engineers

6.2 Except as set forth above, as at the date of this document, no Director:

(a) has any unspent convictions in relation to any indictable offences;

(b) has been a director of any company or a partner of any firm which, at the time of or within 12 months after his ceasing to be a director or a partner (as the case may be), has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or a partner of that firm (as the case may be) or within the 12 months after he ceased to be a director of that company or a partner of that firm;

(c) is bankrupt or has had any bankruptcy order served upon him or entered into any individual voluntary arrangement;

(d) has had his assets placed in receivership or has been a partner of a partnership at the time of, or within the twelve months preceding, any assets of that partnership being placed into receivership; or

(e) has had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7. INTELLECTUAL PROPERTY

7.1 The Company and Hal Alper entered into a Patent Rights Purchase Agreement dated 11 August 2009 pursuant to which the Company agreed to purchase from Mr. Alper certain patent rights relating to a braided metallic filter technology, including a worldwide exclusive, perpetual, irrevocable and assignable licence to directly or indirectly produce certain products using the technology. In consideration for the purchase of such rights, the Company paid Mr. Alper the amount of $28,000 in 2009 and $22,000 in 2010 and agreed to continue to pay royalties to Mr. Alper in accordance with an agreed formula. The Company amended the Patent Rights Purchase Agreement on 29 July 2011 in connection with execution of the mercury technology licence described in paragraph 7.2 below to provide that MRT Resources, LLC will assume primary responsibility for any future payment obligations pursuant to the Patent Rights Purchase Agreement. The amendment provides, among other things, that an amount of $50,000 outstanding to Mr. Alper will be paid by the Company three months after execution of the amendment and reduces the royalties payable if the Company's net margin on sales is below 50 per cent. for a given year.

7.2 The Directors of the Company believe that mercury removal technology is extraneous to its core business and may take significant financial resources to commercialise in the future. In 2010 the Board took the decision to remove this potential line of business from being a diversion to the Company while still enabling the Company to obtain revenues if MRT Resources, LLC is able to develop the business. Accordingly, on 29 July 2011 the Company granted an exclusive royalty-bearing license to MRT Resources, LLC, a newly organised Georgia limited liability company owned by existing shareholders in proportion to their then current ownership interests in the Company, for certain technology related to filtration of mercury from water. Pursuant to the license, the Company has reserved its rights to manufacture and sell products incorporating the mercury removal technology in the future.

7.3 It is the Company's practice to maintain confidentiality agreements with its employees for the purpose of protecting the Company's intellectual property, trade secrets and confidential information.

8. DIRECTORS' AND OFFICERS' REMUNERATION

8.1 The aggregate of the remuneration to be paid to the Directors and Officers by the Company for the financial period ending 31 December 2011 is not expected to exceed $2,800,000 (excluding any applicable goods and services tax).

8.2 The following is a summary of the Directors' and key employee's letters of appointment and service agreements:

(a) **Tim Eggar**

Mr. Eggar was appointed as a Non-Executive Director and Chairman of the Board and the Nomination and Governance Committee on 23 June 2011. He is paid a fee equal to US$14,250 per calendar quarter; he is also the recipient of a stock option award

of 34,933 options plus 15,526 vesting in one year as set forth in paragraph 3.1 above. In connection with his appointment to the Board, Mr. Eggar is subscribing for 29,157 Common Shares at a price of 105 pence per share, which is reflected in the table set out at paragraph 8.2 of this part VIII. On termination, no benefits (other than those accrued up to the date of termination) are payable to Mr. Eggar.

(b) **John Mansfield, Sr.**

Mr. Mansfield was elected as a Non-Executive Director in 1994 and as Vice-Chairman of the Board on 6 June 2011. He is paid a fee equal to US$13,000 per calendar quarter; he is also the recipient of a stock option award of 38,814 options plus another 15,526 options vesting in one year as set forth in paragraph 3.1 above. On termination, no benefits (other than those accrued up to the date of termination) are payable to Mr. Mansfield.

(c) **Hal Alper**

Mr. Alper entered into an employment agreement with the Company on 29 July 2011 to serve as its President and Chief Science Officer and to serve on the Board of Directors. The employment agreement provides for, among other things: (i) salary of US$225,000 and a technology incentive bonus between $75,000 and $150,000 per year; (ii) grant of 163,017 options to purchase Common Stock of the Company vesting ratably over a three-year period; (iii) a three-year term (automatically renewing for successive one-year periods) and no termination without cause by either party; and (iv) Company ownership of intellectual property developed by Mr. Alper: (a) in the first 24 months after Admission; or (b) that relates to the Company's principal business or the mercury filtration technology, and a Company option to purchase any intellectual property developed by Mr. Alper that: (x) is developed more than 24 months after Admission; and (y) does not relate to the principal business or the mercury filtration technology. The terms of purchase are that Mr. Alper will be entitled to receive 30 per cent. on gross sales of products relating to that intellectual property, 6 per cent. on licence fees received by the Company for the licence of such intellectual property and a non-refundable royalty equal to the amount of $100,000 for each new and distinct area of business covered by such intellectual property. The agreement provides for customary non-solicitation, non-compete, and non-disclosure restrictions.

(d) **William Donges**

Mr. Donges was elected as a Non-Executive Director in 2008 and as Chairman of the Audit Committee on 6 June 2011. He is paid a fee equal to US$11,500 per calendar quarter; he is also the recipient of a stock option award of 24,065 options plus another 10,092 options vesting in one year as set forth in paragraph 3.1 above. On termination, no benefits (other than those accrued up to the date of termination) are payable to Mr. Donges.

(e) **Ian Johnson**

Mr. Johnson was appointed as a Non-Executive Director and Chairman of the Compensation Committee on 23 June 2011. He is paid a fee equal to US$11,500 per calendar quarter; he is also the recipient of a stock option award of 22,471 options plus 10,092 options vesting in one year as set forth in paragraph 3.1 above. In connection with his appointment to the Board, Mr. Johnson is subscribing for 5,000 Common Shares at a price of 105 pence per share, which is reflected in the table set out at paragraph 8.2 of this Part VIII. On termination, no benefits (other than those accrued up to the date of termination) are payable to Mr. Johnson.

(f) **Connie Mixon**

Ms. Mixon entered into an employment agreement with the Company on 29 July 2011 to serve as its Chief Executive Officer and to serve on the Board of Directors and to serve as Chair of the Executive Committee. The employment agreement provides for, among other things: (i) salary of US$325,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee; (ii) grant of 163,017 options to purchase Common Stock of the Company vesting ratably over a three-year period; and (iii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Employee upon six months notice or by the Company upon providing for one year base salary as severance if Employee is terminated without Cause or resigns for Good Reason (as defined therein). The agreement provides for customary non-solicitation, non-compete, and non-disclosure restrictions.

(g) **David Pattillo**

Mr. Pattillo entered into an employment agreement with the Company on 29 July 2011 to serve as its Senior Vice President and Chief Financial Officer and to serve on the Board at the request of the Company. The employment agreement provides for, among other things: (i) salary of US$190,000; (ii) grant of 40,972 options to purchase Common Stock of the Company vesting ratably over a three-year period and a restricted stock award of 153,063 shares of the Common Stock of the Company (together with a corresponding tax payment in respect of such restricted stock); and (iii) a one-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Employee upon six months' notice or by the Company upon providing for six months' base salary as severance if Employee is terminated without Cause or resigns for Good Reason (as defined therein). The agreement provides for customary non-solicitation and non-disclosure restrictions.

(h) **Brian Rochester:**

Mr. Rochester was elected as a Non-Executive Director in 1998. He is paid a fee equal to US$10,000 per calendar quarter; he is also the recipient of a stock option award of 31,051 options plus another 10,092 options vesting in one year as set forth in paragraph 3.1 above. On termination, no benefits (other than those accrued up to the date of termination) are payable to Mr. Rochester.

(i) **Dale Threadgill**

Dr. Threadgill was elected as a Non-Executive Director in 1998. He is paid a fee equal to US$10,000 per calendar quarter; he is also the recipient of a stock option award of 31,051 options plus another 10,092 options vesting in one year as set forth in paragraph 3.1 above. On termination, no benefits (other than those accrued up to the date of termination) are payable to Dr. Threadgill.

(j) **Mark Mixon**

Mr. Mixon entered into an employment agreement with the Company on 29 July 2011 to serve as its Senior Vice President and Chief Business Development Officer. The employment agreement provides for, among other things: (i) salary of US$200,000 with potential increases upon achieving certain sales targets and participation in the Executive Bonus Plan to be directed by the Compensation Committee; (ii) grant of 124,204 options to purchase Common Stock of the Company vesting ratably over a three-year period; and (iii) a one-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Employee upon six months notice or by the Company upon providing for six months' year base salary as severance if Employee is terminated without Cause or resigns for Good Reason (as

defined therein). The agreement provides for customary non-solicitation and non-disclosure restrictions.

8.3 Appointments of Directors are made subject to the Bylaws. Directors are elected annually and are subject to removal from office in accordance with the Bylaws. All compensation (cash or stock) is taxable as income to the recipient, and the recipient will be responsible for applicable taxes and withholdings to tax authorities. Compensation amounts are prorated for partial periods. Directors are not entitled to any payment when they cease to serve.

8.4 The Articles and Bylaws provide for the Company to indemnify any "Covered Person" (as defined in paragraph 4.2(e) above), so far as Georgia law allows, for liability and loss suffered and expenses (including legal advisors' fees) reasonably incurred by the Covered Person in the execution of office.

9. EMPLOYEES

9.1 The number of the Company's permanent employees at the end of each of the last three financial years, the last of which ended on 31 December 2010 is as follows:

	31 December 2008	*31 December 2009*	*31 December 2010*
Georgia	9	13	17
New York	0	0	1
Total employees	9	13	18

9.2 The Company also has five subcontractors and one temporary employee.

9.3 All of the Company's employees and sub-contractors other than Sherrie Douglas are currently based at the Company's head office in Gainesville, GA. Sherrie Douglas, a sales manager, is based out of New York.

9.4 The main categories of activity of the Company's employees are engineering and product management.

10. MAJOR SHAREHOLDERS

10.1 Save as disclosed in this paragraph 10, the Directors are not aware of any person (other than the Directors, as set out in paragraph 5.2 above) who, directly or indirectly, jointly or severally at the date of this document and at Admission is, or will be, interested in 3 per cent. or more of the issued share capital or the Enlarged Share Capital of the Company.

10.2 In addition to Hal Alper, John Mansfield, Sr. and Connie Mixon, the following shareholders own 3 per cent. or more of the Common Shares as at the date of this document and at the date of Admission:

Shareholder	*Number of Common Shares*	*Percentage of issued Common Share Capital*	*Percentage of Enlarged Share Capital*
Emerald Investment Group	651,972	9.96%	5.05%
Don Hammond	458,232	7.00%	3.55%
Infinity Associates LLC	267,421	4.09%	2.07%
Wilheit Family Properties, L.P.	257,603	3.94%	1.99%
Law Mumpower Adamson Trust	202,500	3.09%	1.57%

10.3 The Company is not, directly or indirectly, owned or controlled by any controlling shareholder.

10.4 Persons interested (directly or indirectly) in 3 per cent. or more of the Company's issued share capital do not and will not have different voting rights to those holding less than 3 per cent.

11. LITIGATION

11.1 Vigilant Marine Systems LLC ("Vigilant Marine"), a former distributor for the Company, contacted the Company on 27 August 2010 alleging that the Company had breached a Confidentiality Agreement dated 29 September 2008 by selling a product which purportedly uses technology that Vigilant Marine's claims it owns, specifically the "single pass cartridge" technology. The Company responded to state that the technology the Company uses was developed and put in service prior to any contact or discussion with Vigilant Marine, and is the subject of inventions patented by the Company prior to any contact or discussion with Vigilant Marine. To the contrary, Vigilant Marine's filter technology is based on filtration material that is commercially available from multiple sources, which the Directors believe does not perform at an equivalent standard to the Company's technology. Despite the Company's response to Vigilant Marine, Vigilant Marine repeated these allegations in an email to a customer of the Company on 18 January 2011. The Company's lawyers contacted Vigilant Marine on behalf of the Company on 14 March 2011 and demanded that it cease misrepresenting the Company's actions and position through incorrect statements. Vigilant Marine has not responded. Having taken advice from its professional advisers, the Directors consider that the Vigilant Marine claims referred to above are without foundation and the Directors do not consider that this matter is likely to materially adversely affect the Company.

11.2 Save as disclosed in paragraph 11.1, there are no governmental, legal or arbitration proceedings in which the Company is involved or of which the Company is aware, which are pending or threatened by or against the Company, which may have or have had in the twelve months preceding the date of this document a significant effect on the Company's financial position or profitability.

11.3 On 4 January 2005, William C. Rose filed a claim in the federal court in the District of Maryland, USA, alleging infringement of his US patent ("**Rose Patent**") by six defendants, including MyCelx. The claim was not served on MyCelx and was withdrawn by Mr. Rose on 2 February 2005. MyCelx's first patents pre-date the Rose Patent and having taken legal advice, the Company believed and continues to believe that Mr. Rose's claim against the Company was without merit. The Rose Patent expired on 6 May 2005 as a result of non-payment of maintenance fees by Mr. Rose, and the statutory period for reviving the Rose Patent has now expired. US patent laws preclude recovery of damages for patent infringement that occurs more than six years prior to the filing of an action for recovery, and since the patent expired more than six years ago and no infringement could occur or continue after the date of expiry of the patent, all claims by Mr. Rose in relation to alleged infringement of the Rose Patent are now time barred.

12. MATERIAL CONTRACTS

Set out below is a summary of each material contract entered into by the Company, either: (i) within the two years immediately preceding the date of this document; or (ii) which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document, in each case other than those entered into in the ordinary course of business:

12.1 **Placing agreement and Selling Shareholder's Agreement**

(a) On 29 July 2011, the Company (1), the Directors (2) and Numis (3) entered into the Placing Agreement pursuant to which Numis has agreed, conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 4 August 2011 (or such later time

or date as the Company and Numis shall agree being not later than 3.00 p.m. on 18 August 2011) to use its reasonable endeavours to arrange for relevant placees to subscribe for the Placing Shares and the Sale Shares. The Placing Shares and the Sale Shares are being placed with institutional investors including, in the case of some of the First Tranche Placing Shares and all of the Second Tranche Placing Shares, certain VCT investors and, in the case of some of the First Tranche Placing Shares, certain EIS investors. To the extent that placees are not procured for all of the Placing Shares and the Sale Shares, Numis has agreed itself to subscribe for/purchase such shares at the Placing Price. The Company will pay to Numis a corporate finance fee and, subject to Admission, a commission of 4 per cent. of the aggregate value of the relevant tranche of the Placing Shares (and Sale Shares) at the Placing Price together with certain costs and expenses and VAT where appropriate. The Placing Agreement provides for the payment by the Company of the expenses of the Placing and the application for Admission and the fees of the registrar. The Placing Agreement contains certain warranties, undertakings and indemnities given by the Company and certain warranties and undertakings from the Directors in favour of Numis. Numis may terminate the Placing Agreement in specified circumstances prior to Admission, including in the event of a breach of the warranties contained in the Placing Agreement. The liability of the Directors is limited in certain respects.

(b) On 29 July 2011, the Company entered into a Selling Shareholder Agreement with Mr. Haluk Alper. Pursuant to this agreement the Company agreed to purchase the Sale Shares from Mr Haluk Alper with effect immediately prior to Admission and for such shares to be held by the Company as treasury stock (rather than being retired or cancelled) and reserved for allotment and sale under the Placing Agreement. The purchase price payable by the Company to Haluk Alper for the Sale Shares is an amount equal to the net proceeds received by the Company for each Placing Share multiplied by the number of Sale Shares and minus any commissions payable by the Company under the Placing Agreement. In the event the Selling Shareholder's Agreement does not become unconditional, the Sale Shares must be returned to Haluk Alper. The Selling Shareholder's Agreement contains certain limited warranties (relating to title and capacity) and certain undertakings and indemnities in favour of the Company. The Company may terminate the Selling Shareholder Agreement in specified circumstances prior to Admission, including in the event of a breach of the warranties contained in the Selling Shareholder Agreement. The liability of the Selling Shareholder is limited in certain respects. Hal Alper is a Director of the Company and his business address is 470-B Woods Mill Road, Gainesville, GA 30501, USA. All sales of Sale Shares will be made by the Selling Shareholder to the Company, which will sell the Sale Shares to investors in the offering. Numis shall not make any sales of Shares on behalf of the Selling Shareholder.

12.2 **Nominated adviser and broker agreement**

On 29 July 2011, the Company, the Directors and Numis entered into a Nominated Adviser and Broker Agreement pursuant to which the Company has appointed Numis to act as Nominated Adviser and Broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Numis an annual fee for its services as Nominated Adviser and Broker under this agreement. The agreement contains certain undertakings and indemnities given by the Company. The agreement continues for a fixed period of one year from the date of Admission. The agreement is subject to termination by Numis or the Company on the giving of not less than one month's notice.

12.3 **Lock-in arrangements**

(a) Pursuant to the Placing Agreement, each of the Directors has entered into a lock-in arrangement with the Company and Numis pursuant to which each has agreed, save with the prior written consent of Numis and the Company: (i) not to dispose of any of their Restricted Shares at any time during the period commencing on the date of Admission and ending immediately prior to first anniversary of the Admission Date; and (ii) not to dispose of any of their Restricted Shares other than through such broker as Numis may suggest until the second anniversary of Admission. The exceptions to the lock-in include a transfer pursuant to acceptance of a takeover, transfers required by order of a competent court, transfers to beneficiaries of a Shareholder following death and otherwise with the consent of Numis and the Company. For these purposes "Restricted Shares" means: (i) any Existing Common Shares held; (ii) any Common Shares acquired pursuant to the Placing; and (iii) any Common Shares acquired pursuant to the exercise of any option by a Director or any of his connected persons.

(b) In addition, holders of 3,617,112 Common Shares as at the date of this document have entered into lock-up arrangements with the Company and Numis pursuant to which each has agreed, save with the prior written consent of Numis and the Company: (i) not to dispose of any of their holding of Common Shares at any time during the period commencing on the date of Admission and ending immediately prior to the first anniversary of the Admission Date; and thereafter (ii) not to dispose of any of their holding of Common Shares other than through such broker as Numis may suggest until the second anniversary of Admission. The lock-in agreements contain certain exceptions consistent with those in the Placing Agreement.

(c) William A. Gudenrath and William F. Gudenrath, holders of 5,085 Common Shares at the date of this document have entered into lock-up arrangements with the Company and Numis pursuant to which each has agreed, save with the prior written consent of Numis and the Çompany, not to dispose of any of their holdings of Common Shares at any time during the period commencing on the date of Admission and ending immediately prior to the first anniversary of the Admission Date.

12.4 **Warrant agreement**

On 29 July 2011 the Company (1) and Numis (2) entered into a warrant agreement pursuant to which the Company has agreed, conditional on Admission, to grant to Numis a warrant to subscribe for Common Shares representing 1.5 per cent. of the Enlarged Share Capital. The warrant will vest on Admission. The exercise price in respect of the Common Shares over which the warrant can be exercised is the Placing Price. The warrant is exercisable in whole or in part at any time in the period commencing on Admission and ending on the fifth anniversary of the date of Admission.

The warrant is exercisable, at the election of Numis, 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 Numis would have made if it had exercised its warrant 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 Numis would need to acquire (at nil acquisition cost) in order to achieve the same notional net gain. In the event that Numis exercises the warrant (or any part of it) in this manner, the warrant is 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 warrant been exercised at the exercise price.

The exercise price and the number of Common Shares over which the warrant can be exercised are subject to adjustment in certain circumstances. In addition, either Numis 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 warrant, calculated in accordance with a formula set out in the warrant agreement. In summary, that formula operates by calculating the notional net gain that Numis would have made if it had exercised its warrant at the exercise price and then sold its shares at the current market value. In the event neither Numis nor the Company elects to receive or provide (as the case may be) a cash payment in substitution for the warrant, then the warrant will remain exercisable.

12.5 **Intellectual property agreements**

See paragraph 7.

12.6 **Distributor and reseller agreements**

(a) The Company has entered into a 2006 Distributorship Agreement with Wilhelmsen Maritime Services AS granting exclusive rights to distribute certain listed Company products in the worldwide commercial marine market (ships over 400 gross tonnes) with the exception of US government vessels and specific customers currently serviced by other MyCelx distributors. Either party may terminate the agreement upon six months' written notice or after a breach by the other party that is not timely cured.

(b) The Company has entered into a 2006 Consulting Agreement with Osisco Environmental Technologies, Inc. Under the Consulting Agreement, Osisco has the non-exclusive right to sell MyCelx products in conjunction with the Foreign Military Sales Program in Egypt. The agreement automatically renews for successive one year terms unless a party gives notice 60 days before the end of the term of its intention not to renew. There have been no sales under this agreement recently.

13. Working capital

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Company following completion of the Placing will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

14. Related party transactions

14.1 Save as set out in paragraphs 3.3 (Warrants), 5 (Directors' interests in the Company), 7 (intellectual property), 12 (Material contracts) and this paragraph 14), the Company has not entered into any related party transaction in the period covered by the historical financial information disclosed in this document.

14.2 During the year ended 31 December 2010, the Company granted three employee loans, the details of which are set out below:

Employee	*Loan Amount*
Anand Narayanan	$25,000
Harikrishnan Parthasarathy	$25,000
David Medina	$3,500

The loan to each of Mr. Narayanan and Mr. Parthasarathy is due for repayment in April 2012. The loan to Mr. Medina is currently being repaid through monthly payroll deductions.

14.3 In June 2010, the Company also advanced a loan in the amount of $32,837 to Hal Alper, which was to be repaid over three years. The balance outstanding as at the financial year ended 31 December 2010 was $24,700.

14.4 Red Clay Interactive, a shareholder in the Company, provided web development services to the Company. The Company paid $2,000 to Red Clay for consulting services in 2009 and nil in 2010.

14.5 On 29 July 2011, the Company granted an exclusive royalty-bearing license to MRT Resources, LLC, a newly organised Georgia limited liability company owned by existing shareholders in proportion to their current ownership interests in the Company, for certain technology related to filtration of mercury from water to a separate limited liability company owned by the Company's existing Shareholders. Further details of this transaction are set out in paragraph 7.2 above.

15. NO SIGNIFICANT CHANGE

Other than as disclosed in this document, there has been no significant change in the trading or financial position of the Company since 31 December 2010, being the date to which the latest financial information set out in Part VI Section B has been prepared.

16. ENVIRONMENT

The following statements are intended only as a general guide to current United States environmental laws as of the date of this document and are subject to change. The environmental laws of the United States and of the State of Georgia generally place liability for releases of hazardous substances on the owner and the operator or other person(s) in control of the property or facility from which the release occurs and also on persons who arrange for the disposal of such hazardous substances. However, those laws often provide for contribution claims by the directly responsible party against other third parties that may have liability to the directly responsible party. Accordingly, it is unlikely that either the federal government or the State of Georgia would assert direct claims against the manufacturer of a product such as the Company in the event of such release from a property or facility where the Company's product was being used. Although the Company has never had such a claim asserted against it, the potential scenario would claims alleging defects in the Company's product made against the Company by customers of the Company who have been held responsible for such a release.

17. TAXATION

17.1 UK taxation

The following statements are intended only as a general guide to current UK tax legislation and to the published current practice of HM Revenue & Customs ("**HMRC**") as at the date of this document, both of which are subject to change, possibly with retrospective effect. Notably, the Finance Act 2011, which will be enacted in 2011 (upon receipt of Royal Asset which is expected in July or August 2011) may include provisions which ultimately impact the tax treatment set out in this section.

The following statements may not apply to certain classes of Shareholders, such as dealers in securities, insurance companies and collective investment schemes or shareholders who have (or are deemed to have) acquired their ordinary shares by virtue of an office or employment. They relate only to persons who are the absolute beneficial owners of Common Shares and any dividends paid on them, who are resident and (if individuals) ordinarily resident and domiciled in the UK for tax purposes (except where stated otherwise) and who hold Common Shares as investments. The tax position of any UK resident tax exempt entity is not dealt with below and specific advice should be sought.

This summary relates only to certain limited aspects of the taxation treatment of owners of Common Shares and should not be relied upon as constituting tax or legal advice. Any person who is in any doubt as to his tax position, or who is subject to tax in any jurisdiction other than the UK, should consult an appropriate professional adviser immediately. In addition, the tax position of any Shareholder who together with connected persons holds 10 per cent. or more of the Common Shares or any other class of Shares and voting rights of the Company is not dealt with below and specific advice should be sought.

(a) ***Tax on chargeable gains***

A disposal or deemed disposal of Common Shares by any Shareholder who is (at any time in the relevant UK tax year) resident or, in the case of an individual, ordinarily resident and domiciled in the UK may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains (subject to any available exemptions or reliefs). Special rules may apply to tax gains on disposals made by individuals at a time when they are temporarily neither resident nor ordinarily resident in the UK.

Any chargeable gain (or allowable loss) will generally be calculated by reference to the consideration received for the disposal of the Common Shares less the allowable cost to the Shareholder of acquiring such Common Shares.

For a Shareholder within the charge to UK corporation tax, an indexation allowance (calculated by reference to the UK retail prices index) in respect of the acquisition cost of the Common Shares should be available to reduce the amount of any chargeable gain realised on a subsequent disposal.

For an individual Shareholder subject to UK tax, the principal factors that will determine the extent to which a gain will be subject to UK capital gains are; the extent to which he or she realises any other capital gains in the tax year of assessment in which the gain arises, the extent to which he or she has incurred capital losses in that or any earlier tax year of assessment, the level of annual allowance of tax-free gains in the tax year of assessment in which the disposal takes place (the "annual exemption") (which is £10,600 for tax year 2011/12) and the applicable rate of capital gains tax. These rules have been substantially repealed except for certain transition rules. Capital gains tax is broadly charged at 18 per cent. for basic rate taxpayers and 28 per cent. for higher and additional rate taxpayers. Indexation allowance is not available for individual shareholders.

An individual Shareholder who for a period of less than five years either has ceased to be resident and ordinarily resident in the UK for UK tax purposes or has become resident in a territory outside the UK for the purposes of double taxation relief arrangements and who disposes of Common Shares during that period may also be liable on his or her return to the UK for UK capital gains tax despite the fact that the individual may not have been resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal. Nothing in any double taxation relief arrangements shall prevent such an individual from being subject to UK capital gains tax in such circumstances.

(b) ***Dividend withholding tax***

If any dividend has been subject to United States withholding tax, discussed in paragraph 17.2(b) below ("US Withholding Tax"), the amount received plus the US Withholding Tax will be included in the assessable income of UK resident individual Shareholders. In these circumstances, such Shareholders may be entitled to a credit for the foreign tax paid up to the amount of UK tax chargeable on the dividend. UK resident corporate shareholders who are exempt from corporation tax on such dividends will not typically be able to obtain a credit or repayment for US Withholding Tax.

(c) ***Tax on dividends***

Dividends received on the Common Shares by a Shareholder subject to UK corporation tax will generally be exempt from UK corporation tax, subject to certain specific anti-avoidance rules. UK resident corporate shareholders who are

exempt from corporation tax on such dividends will not be able to utilise a credit for US Withholding Tax. It should be noted that the UK government proposes to reduce the main rate of corporation tax from its current rate of 26 per cent. to 25 per cent. from 1 April 2012, 24 per cent. from 1 April 2013 and 23 per cent. from 1 April 2014.

Dividends received on the Common Shares by an individual Shareholder who is resident or ordinarily resident in the UK will generally be subject to UK income tax on the dividend. Such individual Shareholders will, subject to certain other conditions being met, be entitled to a non-refundable UK tax credit equal to one-ninth of the gross dividend (i.e. the amount of the dividend before deduction of any US withholding tax). Such individuals will be liable to UK income tax on the aggregate of the dividend and the associated tax credit at either the ordinary rate of 10 per cent., the higher rate of 32.5 per cent., or the additional rate of 42.5 per cent. Effectively those liable to tax at the basic rate will have no further liability to income tax in respect of the dividend. To the extent a Shareholder is liable to tax at the higher or additional rates, they will have an additional tax liability (after taking into account the tax credit) of 25 per cent., and 36.11 per cent., respectively, of the dividend. With the exception of individuals taxable at the dividend ordinary rate, credit for any US Withholding Tax may be available for set-off against a liability to UK income tax on the dividend. The amount of credit will normally be equal to the lesser of the amount withheld and the liability to UK income tax on the dividend. To the extent that such a credit is not set-off against the UK income tax on the dividend the credit will be lost.

There are also provisions within the UK tax legislation which seek to prevent the avoidance of income tax in circumstances where an individual who is resident in the UK makes a transfer of assets abroad but retains the ability to enjoy the income arising from those assets. This could include the purchase of shares in a non-UK incorporated company and any undistributed income of the company such that the income could be attributed to, and be taxed in the hands of, the shareholder. This legislation should not apply where it can be demonstrated that there are bona fide commercial reasons for the arrangement. Shareholders should consult their own tax advisers concerning this.

(d) ***UK stamp duty and stamp duty reserve tax ("SDRT")***

The statements below are intended as a general guide to the current position for UK resident and domiciled Shareholders. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or (except where stated otherwise) to persons connected with depositary arrangements or clearance services who may be liable at a higher rate.

(e) ***Common Shares held in certificated form***

No stamp duty or SDRT should be payable on the issue of Common Shares.

In respect of a subsequent transfer of shares, stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Common Shares.

An exemption from stamp duty is available on an instrument transferring Common Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

In practice no stamp duty will arise in relation to a subsequent transfer of Common Shares held in certificated form provided that all instruments relating to the transfer are executed and retained outside the UK and no do not relate to matters or actions performed in the UK. However any instrument effecting or evidencing a transfer of Common Shares held in certificated form whether executed in the UK or offshore will not be admissible as evidence in UK civil proceedings unless duly stamped.

Interest on unpaid stamp duty will accrue from 30 days after the date the instrument was executed.

No charge to SDRT will arise in respect of an agreement to transfer Common Shares held in certificated form, provided such shares are not registered in any register kept in the UK by or on behalf of the Company.

(f) ***Common Shares held in uncertificated form***

Due to the restrictions of the CREST system, shares of companies incorporated outside the UK, such as the Company, may not be settled directly on the CREST system. Accordingly, should Common Shares be held within the CREST system in uncertificated form, they will be held in the form of Depositary Interests issued by the Depositary. Agreements to transfer depositary interests in shares of companies listed on AIM are liable to SDRT at the rate of 0.5 per cent. of the value of the consideration for the transfer. The SDRT charge is generally borne by the purchaser unless other arrangements have been put in place.

17.2 **Material United States federal income and estate tax consequences to non-US holders**

United States Taxation – Material United States Federal Income and Estate Tax Consequences to Non-US Holders

(a) ***Circular 230 Disclaimer***

Under US IRS standards of professional practice, certain tax advice that may be used to support the promotion or marketing of transactions or arrangements must meet requirements as to form and substance. To assure compliance with these standards, the Company and its advisors in relation to the Admission inform you that: (i) this communication is not intended or written to be used, and cannot be used by the recipient or any other taxpayer for the purpose of avoiding penalties that may be imposed under the US Internal Revenue Code of 1986, as amended (the "IRS Code"); (ii) this advice was written to support the promotion or marketing of the transactions and matters addressed herein; and (iii) you should seek advice based on your particular circumstances from an independent tax advisor.

(b) ***General Summary***

The following is a general summary of the material US federal income and estate tax consequences that may be relevant to the purchase, ownership and disposition of the Shares as of the date of this document. Except where noted, this summary deals only with Shares that are held as a capital asset by a non-US holder (as defined below).

As used here, a "non-US holder" means a person (other than a partnership) that is not for United States federal income tax purposes any of the following:

(i) an individual citizen of the United States or resident of the United States for US federal income tax purposes (generally, the latter includes a non-US individual who: (i) is a lawful permanent resident of the United States; (ii) is present in the United States for or in excess of certain periods of time; or (iii) makes a valid election to be treated as a US Person);

(ii) a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organised in or under the laws of the United States or its political subdivisions;

(iii) an estate the income of which is subject to US federal income taxation without regard to its source; or

(iv) a trust if it: (1) is subject to the primary supervision of a court within the United States and one or more US Persons have the authority to control all substantial decisions of the trust; or (2) has a valid election in effect under applicable US Treasury Regulations promulgated under the IRS Code ("Treasury Regulations") to be treated as a United States person.

If a partnership holds the Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Shares, you should consult your tax advisers.

This summary is based upon provisions of the IRS Code and Treasury Regulations, rulings and judicial decisions, all in effect as of the date of this document. Those authorities may be subject to change or differing interpretations, perhaps retroactively, so as to result in US federal income and estate tax consequences different from those summarised below. This summary does not address all aspects of US federal income and estate taxes and does not deal with foreign, state, local or other tax considerations that may be relevant to non-US holders in light of their personal circumstances. In addition, it does not represent a detailed description of the US federal income and estate tax consequences applicable to you if you are subject to special treatment under the US federal income tax laws, including, for example, if you: (i) are a US expatriate, a life insurance company, a tax-exempt organisation, a regulated investment company, a dealer in securities or currency, a bank or other financial institution, a pension plan, an owner (directly, indirectly or constructively) of 5 per cent. or more of the Company's Shares, or an investor whose functional currency is other than the US dollar; (ii) have elected mark-to-market accounting; (iii) have acquired Shares as compensation; (iv) hold Shares as part of a hedge, straddle, constructive sale, conversion or other transaction; (v) are a special status corporation such as a "controlled foreign corporation" or a "passive foreign investment company," for US federal income tax purposes, or a corporation that accumulates earnings to avoid US federal income tax; or (vi) are an investor in a pass-through entity.

If you are considering the purchase of the Company's Shares, you should consult your own tax advisers concerning the particular US federal income and estate tax consequences to you of the ownership of the Shares, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

(c) ***Dividends***

Distributions (if any) on Shares by the Company will constitute dividends for US federal income tax purposes to the extent they are paid from current or accumulated earnings and profits, as determined under US federal income tax principles. The Company does not anticipate paying material dividends. If a distribution exceeds the Company's current and accumulated earnings and profits, the excess will be treated as a return of the non-US holder's investment up to such holder's tax basis in the Company's Shares. Any excess will be treated as capital gain, subject to the tax treatment described below in "Gain on Disposition of Shares".

Any dividend (out of earnings and profits) paid to a non-US holder of the Shares generally will be subject to withholding of US federal income tax at a 30 per cent. rate or such lower rate as may be specified by an applicable income tax treaty. A

non-US holder of the Company's Shares who wishes to claim the benefit of an applicable treaty rate for dividends will be required to complete, and provide to the Company, IRS Form W-8BEN (or other applicable form), certify under penalty of perjury that such holder is eligible for benefits under the applicable treaty, meet any limitation on benefits provisions contained in the treaty, if applicable, and provide other additional information as required. The non-US holder of Shares must periodically update the information on such forms. Special certification and other requirements apply to certain non-US holders that are flow-through entities rather than corporations or individuals. In addition, Treasury Regulations provide special procedures for payments of dividends through certain intermediaries.

Dividends that are effectively connected with the conduct of a trade or business by the non-US holder within the United States (and, where a tax treaty applies, are attributable to a US permanent establishment of the non-US holder) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied, including providing the Company with an IRS Form W-8ECI (or other applicable form). Instead, such dividends are subject to US federal income tax on a net income basis in the same manner as if the non-US holder were a United States person as defined under the IRS Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30 per cent. rate or such lower rate as may be specified by an applicable income tax treaty. Dividends on the Shares are not expected to be subject to the net tax and the branch profits tax.

US federal tax rules do provide a limited exception from withholding for dividends to a non-US holder from a US company meeting certain requirements with regard to the quantum of US and non-US source income (i.e., the so-called 80/20 rules). The Company does not anticipate meeting those requirements and non-US holders should not expect any withholding exemption based on those rules.

The Company will use reasonable efforts to withhold in accordance with the applicable treaties. If a non-US holder of the Shares eligible for a reduced rate of US withholding tax pursuant to an income tax treaty is improperly withheld upon he may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

(d) ***Treaty relief***

The United States has tax treaties with a number of foreign countries. Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate, or are exempt from US taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income. Most of these tax treaties provide two rates for dividends: one for direct investors, i.e., a shareholder with a significant interest in the corporation, and a second rate for "portfolio" investors, i.e., an investor with a smaller interest than the amount required for the direct investor. The US tax rates for the two types of investors under the 2006 Model Income Tax Treaty are 15 per cent. and 5 per cent., respectively. Each treaty is different, however, so prospective owners of Shares are urged to consult with their own tax advisors.

(e) ***Gain on disposition of shares***

Any gain realised on the sale or other disposition of the Shares generally will not be subject to US federal income tax unless:

(i) the gain is effectively connected with a trade or business of the non-US holder in the United States (and, if required by an applicable income tax treaty, is attributable to a US permanent establishment of the non-US holder);

(ii) the non-US holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

(iii) the Company is or has been a "United States real property holding corporation" for US federal income tax purposes and certain other conditions are met.

An individual non-US holder described in the first bullet point immediately above will be subject to tax on his or her net gain derived from the sale or other taxable disposition of his or her Shares in the same manner as if he or she were a US person, as defined in the IRS Code. If a non-US holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person, as defined in the IRS Code, and, in addition, may be subject to the branch profits tax equal to 30 per cent. of its effectively connected earnings and profits (including such gain) or at such lower rate as may be specified by an applicable income tax treaty.

An individual non-US holder described in the second bullet point immediately above will be subject to a flat 30 per cent. tax on the gain derived from the sale, which may be offset by US source capital losses, even though the individual is not considered a resident of the United States.

Although there can be no assurance, the Company does not believe it is, or has been, and does not anticipate becoming a "United States real property holding corporation" for US federal income tax purposes.

(f) ***Federal estate tax***

Shares held by an individual non-US holder at the time of death will be included in such holder's gross estate for US federal estate tax purposes, unless an applicable estate tax treaty provides otherwise. The holding of the Shares in of themselves should not subject the holder to US estate and gift taxes.

(g) ***Information reporting and backup withholding***

The Company must report annually to the IRS and to each non-US holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-US holder resides under the provisions of an applicable income tax treaty.

Dividend payments with respect to Shares and proceeds from the sale or other disposition of Shares may be subject to information reporting to the IRS and possible US backup withholding at the current rate of 28 per cent. Backup withholding will not apply to a non-US holder, however, if the non-US holder furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or if it is a recipient otherwise exempt from backup withholding (such as a corporation). Non-US holders generally are not subject to US information reporting or backup withholding. However, such non-US holders may be required to provide certification of non-US status (e.g., IRS Form W-8BEN) in connection with payments received in the United States. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability, and the holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

18. EFFECT OF US DOMICILE

The Company is incorporated in the State of Georgia, United States. There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in England under the Companies Act 2006. Whilst the Directors consider that it is appropriate to retain the majority of the usual features of a US corporation, they intend to take certain actions to meet UK standard practice adopted by companies under English law and admitted to AIM. Set out below is a description of the principal differences and, where appropriate, the actions the Board intends to take.

(a) **Pre-emption rights**

Shareholders do not have pre-emption rights under Georgia law over further issues of shares of the Company and the Company shall have no obligation to provide any pre-emptive rights to its shareholders.

(b) **Inapplicability of the City Code and anti-takeover effects of the Articles of Incorporation and Bylaws and other relevant law**

The Company is not subject to the City Code because its registered office and its place of central management are outside the UK, the Channel Islands and the Isle of Man. As a result, certain of the protections which are afforded to shareholders under the City Code, for example in relation to a takeover of a company or certain shareholding activities by shareholders, do not apply to the Company. However, the Articles of Incorporation contain similar procedures to the City Code in the event of any party (or parties acting in concert) obtaining 30 per cent. or more of the voting rights attaching to the issued Common Shares of the Company. See paragraph 4.2(h) of this Part VIII for more details.

(c) **Disclosure of Interests in Common Shares**

The Company's Articles of Incorporation provide that where a shareholder either: (i) to his knowledge acquires an aggregate nominal value of a class, or series, of shares in which his interest is equal to or more than 3 per cent. of the aggregate outstanding shares of that class of shares (a "Notifiable Interest"); (ii) ceases to have a Notifiable Interest; or (iii) becomes aware that he has acquired a Notifiable Interest, or that he has ceased to have a Notifiable Interest in which he was previously interested, he shall notify the Company of his interest. This obligation also arises where there is an increase or decrease in the level of a shareholder's Notifiable Interest through any single percentage up to 100 per cent.

It should be noted that the provisions regarding notification of interests in shares contained in the Disclosure and Transparency Rules of the FSA do not apply to the Company, therefore, the Company is not able to rely on such rules for the purpose of satisfying its obligations to publish notifications of relevant changes to its significant shareholders in accordance with Rule 17 of the AIM Rules.

(d) **Employment law differences**

Unlike in the UK, each of the US employees of the Company other than the Executives with employment agreements is employed "at will", as is customary in the US. Consequently, the Company can impose no contractual terms that require a US employee to give to the Company more than nominal notice when the employee voluntarily terminates their employment with the Company. Nevertheless, there are policies which the Company has in place with respect to providing notice. There is an expectation that more junior staff will provide two weeks notice which increases with seniority to one month for the executive officers.

In addition, in the US, unlike in the UK, an Executive Director can be terminated for cause as an employee by the Company, but will remain on the Board until he either resigns from

the Board, fails to be elected annually by the shareholders or is removed from the Board by a valid resolution of the Shareholders.

19. CONSENTS

19.1 Grant Thornton UK LLP has given and not withdrawn its consent to the inclusion herein of its report set out in Section A of Part VI in the form and context in which it is included and has accepted responsibility for such report.

19.2 Grant Thornton UK LLP is registered in England and Wales under number OC307742 and its registered office is at Grant Thornton House, Melton Street, Euston Square, Euston, London NW1 2EP. Grant Thornton UK LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

19.3 Numis Securities Limited has given and not withdrawn its consent to the issue of this document with inclusion herein of references to its opinion and name in the form and context in which they are included.

19.4 Douglas-Westwood LLC has given and not withdrawn its consent to the issue of its report asset out in Part III in the form and context in which it is included.

19.5 Sutherland Asbill & Brennan LLP has given and not withdrawn its consent to the issue of its report set out in Part IV in the form and context in which it is included and has accepted responsibility for such report.

20. GENERAL

20.1 Rushton & Company of 726 South Enota Drive, Suite A, Gainesville, GA 30501, USA are the auditors of the Company and were the auditors of the Company for the financial years ending 31 December 2008, 2009 and 2010. Rushton & Company is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants.

20.2 The gross proceeds of the Placing of the Placing Shares and the issue of the Director Shares are expected to be £12,117,791. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £1,773,849 (excluding VAT).

20.3 Other than the current application for Admission, the Common Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Common Shares.

20.4 Save as set out in this document, the Company has no investments in progress which are significant.

20.5 The Company's financial period ends on 31 December annually, with its latest set of audited financial statements made up to 31 December 2010.

20.6 Save as disclosed in this document, no person (other than professional advisers referred to in this document) has received, directly or indirectly, from the Company within one year preceding the date of this document or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.

20.7 Where information in this document has been sourced from a third party, the Company confirms that it has been accurately reproduced and, as far as the Company is aware and is

able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

20.8 For reference purposes only, an exchange rate of £1 = $1.6332 was prevailing at close of business on 28 July 2011 (being the latest practicable date prior to publication of this document).

21. AVAILABILITY OF DOCUMENTS

Copies of this document will be available free of charge to the public at the offices of Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 9LT and Addleshaw Goddard LLP, Milton Gate, 60 Chiswell Street, London EC1Y 4AG, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of one month from Admission.

The date of this document is 29 July 2011.