26 May 2021

MYCELX TECHNOLOGIES CORPORATION (AIM: MYX)
Final Results for the year ending 31 December 2020

MYCELX Technologies Corporation ("MYCELX" or the "Company"), the clean water and clean air technology experts, announces its audited results for the year ended 31 December 2020.

Highlights

Financial

- Revenue of $7.1 million (2019: $11.9 million)
- Gross profit of $1.6 million (2019: $6.1 million)
- EBITDA of negative $4.2 million (2019: negative $1.2 million)
- Net loss of $6.1 million (2019 net loss of $3.0 million)
- Total operating expenses reduced by 10% year-on-year

Operational

- No disruption to ongoing operations during COVID-19 lockdowns
- $0.8 million contract win for a new downstream application
- Optimisation of the REGEN Retrofit Package
- Assigned dedicated team to progress PFAS market opportunities

Post-period end

- Middle East: Two contract extensions signed in Q1 2020, valued at $2.4 million
- Nigeria: Equipment sale valued at $0.7 million
- Sale of office in Duluth, Georgia, yielded net proceeds of $2.8 million
- Validation and capacity upgrade of PFAS system at Australian Department of Defence location
- In light of customer focus on ESG credentials MYCELX remains well placed to benefit from bidding activity

Corporate

- Tom Lamb will assume the role of Chairman, following the planned departure of Tim Eggar in July 2021

Connie Mixon, CEO, said:

"2020 was a challenging year for the Company, with the combined impact of COVID-19 and the well-publicised issues facing the oil and gas industry. Whilst we have been successfully diversifying, with products that address markets in addition to oil and gas, MYCELX is not immune to the unprecedented slowdown in the global economy.

However, with oil prices now stabilised and Brent crude trading above $60 a barrel, the Company continues to see signs of a recovery taking place, with more robust bidding activity expected to follow in the second half of 2021. We remain upbeat both about our product offering and also the markets and regions where we operate, so we look forward to keeping all our stakeholders updated on the Company's progress throughout the rest of the year."

For further information please contact:

MYCELX Technologies Corporation
Connie Mixon, CEO   Tel: +1 888 306 6843
Kim Slayton, CFO

Canaccord Genuity, Nominated Adviser

Henry Fitzgerald-O'Connor
Georgina McCooke

Tel: + 44 20 7523 8000

Celicourt
Mark Antelme
Jimmy Lea

Tel: +44 20 8434 2754

Chairman's Statement

MYCELX's offering has never been more relevant in the fight for a clean environment

I would like to thank all of those involved with the Company for their hard work and support during my tenure as Non-Executive Chairman. Since joining in 2011, the Company has achieved much in challenging markets, in addition to successfully navigating periods of low oil prices and a pandemic. I can stand down knowing that the business is in excellent hands, with Connie Mixon as CEO and Tom Lamb set to assume the role of Chairman upon my departure in July.

We have faced a number of major unforeseeable external challenges since flotation; but throughout that time, we have continued to improve our patented technology. Our REGEN and PFAS solutions are unique and ideally placed to assist our clients in addressing their present and historic environmental and operational challenges.

2020 was a very difficult year for the global economy. The energy and industrial markets were adversely affected by the outbreak of the COVID-10 pandemic, which sent oil and gas prices to multi-year lows. We witnessed unprecedented events, such as the price for WTI futures turning negative in April 2020.

We have now entered a period of almost universal Governmental and private sector concern for the environment so MYCELX's offering has never been more relevant. The effective treatment of wastewater is critical to the fight for a clean environment. We are proud to be able to offer our customers a solution that enables them to address that issue while helping them to reduce costs and increase operating margins at the same time.

Investors and the public markets are laser focused on the Environmental, Social and Governance ('ESG') measures being taken by corporates. Our offering can offer a real solution to enterprises in need of safe and sustainable wastewater treatment. We aim to operate to the highest of ESG standards and continue to monitor changing trends in our decision making as appropriate.

During this difficult period MYCELX was able to maintain operations at all of our sites and further cement our position as a leading global clean water technology company. MYCELX sought to leverage our footprint within our core regions of focus, which delivered commercial opportunities, but also expand into new industry segments, which our patented proprietary technology is well suited to.

In 2020 we acted quickly to reduce our cost base and safeguard the Company's financial position. The Company is well funded to capitalise on new bidding opportunities as they emerge.

Outlook

At the time of writing, although the markets remain fragile, we are starting to see opportunities appear across the industries we are targeting. We have already signed a number of new commercial agreements in 2021 and, with the resurgence in oil prices, we hope to see renewed bidding activity as we move into the second half of 2021 and into 2022. We are excited about the paid trial we have secured for REGEN and expect that in the event of a successful outcome, this will lead to renewed interest from leading Enhanced Oil Recovery players in the oil and gas space. The Company also sees considerable opportunity in the treatment of Per- and polyfluoroalkyl substances ('PFAS'). The treatment of PFAS is not only an environmental imperative, but it is also likely to be a growth market for the foreseeable future. It is therefore important to note that MYCELX's solution is a highly robust form of treatment that is proven to be superior to conventional methods, which has been shown to remove a broader range of PFAS contaminants to below detectable levels.

In closing, I do not know of another business out there that is more 'of the moment' as MYCELX. The environmental benefits, along with the cost savings our technologies generate are unparalleled. I believe that the Company is poised to benefit from greater levels of demand than ever from corporates committed to behave in an environmentally responsible manner.

I look forward to watching the Company's progress after I stand down at the AGM and I would like to thank our shareholders, employees and wider stakeholders for their continued support during what has been a challenging period for the business.

Chief Executive's Statement

MYCELX supports sustainable operations with proven technology

2020 was a challenging year for the Company, with the combined impact of COVID-19 and the well-publicised issues facing the oil and gas industry. Whilst we have been successfully diversifying, with products that address markets in addition to oil and gas, MYCELX is not immune to the unprecedented slowdown in the global economy.

MYCELX carefully deployed its resources and expert personnel in response to the COVID-19 travel and work restrictions. On the delivery side, this took the form of ensuring staff safety, adapting to new operating realities, whilst still providing the superior water and air treatment and a high quality of service to our customers in our key markets. It further involved the development of novel applications of MYCELX patented technologies to address critical water and air treatment challenges in markets beyond the oil and gas sector.

We began 2020 strongly, with three purchase orders in Q1, which gave us confidence that we could build on 2019 to deliver a successful year. Whilst much of the rest of the year was characterised by the pandemic, we took the opportunity to ensure that MYCELX is well positioned to take advantage of the opportunities that lie ahead. This included making strides in product development and decisions to properly scale operations and right-size the business to current needs.

The ever-broadening regulatory framework and focus on the environment has gripped many industries worldwide, and oil and gas is no exception. MYCELX is well positioned to support the oil and gas industry, as well as these wider industries, as they seek to operate in a sustainable manner, with proven technology already in service around the globe.

There are increasing opportunities for MYCELX outside the energy sector in groundwater remediation and air filtration. The technology that we have developed, patented, own and have been successfully rolling out, is ideally positioned to take advantage of this ever-increasing need in industry to deploy the most effective technology that supports and achieves their corporate environmental goals.

Operational performance

MYCELX made several positive developments during 2020. These included contract wins, contract extensions and progress with product developments. Of particular note were contract awards in the Middle East, which we were delighted to win against very competitive and testing conditions. These achievements were made against a backdrop of the team working from home and a slowdown in bidding activity in core markets.

The successes delivered in 2020 clearly demonstrate the value our clients place in having the MYCELX solution in place. It is not only a superior and completely reliable answer to their water and air management needs, it also supports them in the delivery of their ESG reporting and business requirements. Above all, it is cost effective and has been proven to lower both the capital and operational costs of any individual client site.

A new purchase order was signed with a SABIC affiliate later in the first half of the year, valued at $0.8 million. The contract related to an emergency response project, treating process water to maintain plant performance to desired specifications. Supporting a further SABIC affiliate expands our footprint in the key Saudi Arabian market and strengthens our position generally in the Middle East.

In June, we saw a further contract extension provided by SABIC, with the lease of a water treatment system. The value of the contract was $1.8 million. As part of that agreement, MYCELX also undertook to run a trial with a further SABIC affiliate. The trial not only again reaffirmed the Company's position in that market, it also presents a further purchase order opportunity.

The most notable product development during the year was the successful development and commercialisation of a retrofit package that enables MYCELX's REGEN media technology to be placed into existing installed filter systems. In addition to providing the customer with significant operational efficiencies and improved performance, this technology reduces the capital outlay, encouraging customer adoption and interest. The retrofit package was developed by the Company's in-house R&D team, requiring significant engineering and design input.

Decisive action was taken early in the pandemic to protect the safety of employees and reduce the Company's day to day costs. This entailed stopping all non-essential travel and installing a work from home policy. It also involved a reduction in salaries across the business, with the exclusion of those working on an hourly rate. These measures were effective in supporting our employees as well as protecting the business from the inevitable challenges of COVID-19. It is a huge testament to the loyalty and hard work of our team that, as the business emerges from this turbulent time, we are poised to move on and take advantage of the opportunities before us.

Looking to the future

We feel increasingly confident that MYCELX is well placed to pick up again on the momentum it saw pre-pandemic. A large part of this is down to being well situated to benefit from the dramatic growth in environmental regulation worldwide, combined with more stringent requirements for effective and definitive ESG reporting. ESG reporting effects every aspect of a customer's business today, from funding to winning contracts, and has become central to the way business is conducted, driving strategy and board level decisions.

Against this backdrop, the Company has made a strong start to the year with two project extensions, signed with customers in Saudi Arabia. The Company has also delivered equipment for the third sale in Nigeria and has commenced contract execution for a paid trial of the newly developed REGEN solution. A successful outcome of the trial is expected to lead to further interest among EOR producers.

MYCELX is benefiting from efforts made to right-size the business for the future. This culminated in the successful sale of the office in Duluth, Georgia, post the period end, for a total consideration of $5.4 million. Net cash proceeds from the sale, of $2.8 million, support the Company's net cash position of $6 million, providing a good platform for the future.

As per the announcement of 23 March 2021, Tom Lamb will be assuming the role of Chairman, following the planned departure of Tim Eggar in July. Tom is currently a Non-Executive Director and I look forward to working closer with him in his new role. On behalf of the team at MYCELX, I would again like to take the opportunity to thank Tim for the tremendous contribution he has made to the Company, including supporting its expansion into new territories and taking it public on the London Stock Exchange in 2011.

The Board is fully focused on maximising shareholder returns, and thereby maximising shareholder value. We are thus very mindful of the importance of regular and interactive dialogue with our shareholder base. We will make every effort to not only adhere to best guidance but to actively look to address and answer any shareholder concerns that may arise. As a significant shareholder myself, this is paramount in my thinking.

I am delighted to report that following all the hard work in 2020, MYCELX is well placed and has had a strong start to the year, trading very much in line with the Board's expectations. This, combined with encouraging signs across our key markets, means that the Board remains confident of the Company's prospects for the year ahead.

Financial Review

Due to the combined impact of COVID-19 and the well-publicised issues facing the oil and gas industry, total revenue decreased 40% to $7.1 million for 2020, compared to $11.9 million for 2019. Revenue from equipment sales and leases decreased by 55% to $4.3 million for 2020 (FY19: $9.5 million) and revenue from consumable filtration media and service increased by 17% to $2.8 million (FY19: $2.4 million).

Gross profit decreased by 74% to $1.6 million (FY19: $6.1 million) and gross profit margin decreased by 23% (FY19: 51%). The decrease in profit margin was the result of a large inventory reserve for slow moving and obsolete inventory.

Total operating expenses for 2020, including depreciation and amortisation, decreased by 10% to $7.6 million (FY19: $8.5 million). The largest component of operating expenses was selling, general and administrative ('SG&A') expenses, which decreased by 6% to $7.3 million (FY19: $7.8 million) as the Company implemented a series of company-wide cost saving measures.

Depreciation and amortisation within operating expenses decreased by 20% to $310,000 (FY19: $386,000), primarily due to older equipment reaching the end of its useful life.

EBITDA was negative $4.2 million, compared to negative $1.2 million in 2019. EBITDA is defined as net profit before interest expense, provision for income taxes, and depreciation and amortisation of fixed and intangible assets, including depreciation of leased equipment which is included in cost of goods sold. The Company recorded a loss before tax of $5.8 million in 2020, compared to a loss before tax of $2.5 million in 2019. Basic loss per share was 31 cents in 2020, compared to basic loss per share of 15 cents in the previous year.

As of 31 December 2020, total assets were $19.1 million with the largest assets being property and equipment of $6.8 million, inventory of $5.6 million, $3.8 million of cash and cash equivalents including restricted cash and $1.5 million of accounts receivable.

Total liabilities as of 31 December 2020 were $5.3 million and stockholders' equity was $13.8 million, resulting in a debt-to-equity ratio of 38%.

The Company used $1.5 million of cash in operations in 2020 (FY19: $1.9 million used in operations). The Company used $159,000 in investment activities compared to $867,000 for 2019. In 2020, the Company's financing activities included net proceeds of $997,000 from advances on the line of credit, $401,000 from a forgivable loan, and $96,000 paid towards debt.

Post the period end, the Company completed the sale of its building in Duluth, Georgia, USA for a total consideration of $5.4 million. The Company recognised a financial gain of approximately $2.5 million on the sale of the property and net cash proceeds were approximately $2.8 million. The Note Payable and line of credit were paid in full and $500,000 of cash was reclassified from restricted cash. The sale enabled the Company to right-size its office space needs across its main operating locations and provided cash proceeds which will be used for working capital purposes to support the business needs.

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2020	2019
Revenue	7,104	11,908
Cost of goods sold	5,512	5,822
Gross profit	1,592	6,086
Operating expenses:		
Research and development	64	352
Selling, general and administrative	7,271	7,754
Depreciation and amortisation	310	386
Total operating expenses	7,645	8,492
Operating loss	(6,053)	(2,406)
Other income (expense)		
Gain upon extinguishment of debt	404	–
Loss on disposal of equipment	–	(13)
Interest expense	(117)	(80)

Loss before income taxes	(5,766)	(2,499)
Provision for income taxes	(328)	(460)
Net loss	(6,094)	(2,959)
Loss per share – basic	(0.31)	(0.15)
Loss per share – diluted	(0.31)	(0.15)
Shares used to compute basic loss per share	19,443,750	19,312,664
Shares used to compute diluted loss per share	19,443,750	19,312,664

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

Balance Sheets

(USD, in thousands, except share data)

As at 31 December:	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	3,292	3,647
Restricted cash	500	500
Accounts receivable – net	1,479	3,987
Inventory	5,642	6,141
Prepaid expenses	84	218
Other assets	107	387
Total Current Assets	11,104	14,880
Property and equipment – net	6,756	8,016
Intangible assets – net	790	798
Operating lease asset – net	482	808
Total Assets	19,132	24,502
Liabilities and Stockholders’ Equity		
Current Liabilities		
Accounts payable	473	786
Payroll and accrued expenses	540	503
Contract liability	745	–
Customer deposits	492	864
Operating lease obligations – current	175	282
Note payable – current	102	97
Line of credit	997	–
Total Current Liabilities	3,524	2,532
Operating lease obligations – long-term	275	484

Note payable – long-term	1,541	1,642
Total Liabilities	5,340	4,658
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 19,443,750 shares issued and outstanding at 31 December 2020 and 2019.	486	486
Additional paid-in capital	42,400	42,358
Accumulated deficit	(29,094)	(23,000)
Total Stockholders' Equity	13,792	19,844
Total Liabilities and Stockholders' Equity	19,132	24,502

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

Statements of Stockholders' Equity

(USD, in thousands)

Capital	Common Stock Shares	Common Stock $	Additional Paid-in $	Accumulated Deficit $	Total $
Balances at 31 December 2018	18,808	470	40,544	(20,041)	20,973
Issuance of common stock, net of offering costs	604	15	1,573	–	1,588
Exercise of stock options	32	1	42	–	43
Stock-based compensation expense	–	–	199	–	199
Net loss for the period	–	–	–	(2,959)	(2,959)
Balances at 31 December 2019	19,444	486	42,358	(23,000)	19,844
Stock-based compensation expense	–	–	42	–	42
Net loss for the period	–	–	–	(6,094)	(6,094)
Balances at 31 December 2020	19,444	486	42,400	(29,094)	13,792

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

Statements of Cash Flows
(USD, in thousands)

For the Year Ended 31 December:	2020	2019
Cash flow from operating activities		
Net loss	(6,094)	(2,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortisation	1,427	1,269
Loss from disposition of equipment	–	13
Inventory reserve adjustment	1,061	168
Gain upon extinguishment of debt	(401)	–
Stock compensation	42	199
Change in operating assets and liabilities:		
Accounts receivable – net	2,508	4,238
Unbilled accounts receivable	–	20
Inventory	(562)	(1,506)
Prepaid expenses	134	10
Prepaid operating leases	10	(42)
Other assets	280	(345)
Accounts payable	(313)	(2,126)
Payroll and accrued expenses	37	(1,447)
Contract liability	745	(125)
Customer deposits	(372)	734
Other current liabilities	–	(23)
Net cash used in operating activities	(1,498)	(1,922)
Cash flow from investing activities		
Payments for purchases of property and equipment	(110)	(805)
Payments for internally developed patents	(49)	(62)
Net cash used in investing activities	(159)	(867)
Cash flows from financing activities		
Net proceeds from stock issuance	–	1,588
Net proceeds from exercise of stock options	–	43
Payments on notes payable	(96)	(86)
Proceeds from notes payable	401	–
Advances on line of credit	2,875	–
Payments on line of credit	(1,878)	–
Net cash provided by financing activities	1,302	1,545

Net decrease in cash, cash equivalents and restricted cash	(355)	(1,244)
Cash, cash equivalents and restricted cash, beginning of year	4,147	5,391
Cash, cash equivalents and restricted cash, end of year	3,792	4,147
Supplemental disclosures of cash flow information:		
Cash payments for interest	117	74
Cash payments for income taxes	247	496
Non-cash movements of inventory and fixed assets	–	96

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

Notes to the Financial Statements

1. Nature of Business and Basis of Presentation

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

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

Liquidity – The Company meets its day-to-day working capital and other cash flow requirements through operations and loan facilities. The Company has a Note Payable (Note 10) that matures in March 2023 and access to a line of credit (Note 8) that renews annually. However, the Note and the line of credit were paid in full, and $500,000 of cash was reclassified from restricted cash post the period end when the Company completed the sale of its building in Duluth, Georgia, USA for total consideration of $5.4 million. The sale enabled the Company to right-size its office space needs across its main operating locations and provided cash proceeds, after repayment of the Note Payable and line of credit, of $2.8 million which will be used for working capital purposes to support the business needs. The Company actively manages its financial risk by operating Board-approved financial policies that are designed to ensure that the Company maintains an adequate level of liquidity and effectively mitigates financial risks.

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

Unbilled accounts receivable represents revenue recognised in excess of amounts billed. Contract liability represents billings in excess of revenue recognised. Contract liability at 31 December 2020 included $745,000 to be recognised as revenue in 2021. There were no unbilled accounts receivable at 31 December 2020 and 2019, and no contract liability at 31 December 2019.

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

Year Ending 31 December (USD, in thousands)	Equipment Leases, Turnkey Arrangements, and Services Recognised Over Time		Consumable Filtration Media, Equipment Sales and Service Recognised at a Point in Time	
	2020	2019	2020	2019
Middle East	5,181	3,931	88	4,324
United States	–	1	1,394	2,448
Other	3	–	321	916
Total revenue recognised under ASC 606	5,184	3,932	1,803	7,688
Total revenue recognised under ASC 842	117	288	–	–
Total revenue	5,301	4,220	1,803	7,688

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

During the years ended 31 December 2020 and 2019, the Company did not have any costs to obtain a contract and any costs to fulfil a contract were inconsequential.

Cash, cash equivalents and restricted cash – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At 31 December 2020, all of the Company's cash, cash equivalent and restricted cash balances were held in checking and money market accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At 31 December 2020 and 2019, cash in non-U.S. institutions was $83,000 and $7,000, respectively. The Company has not experienced any losses in such accounts. The Company classifies as restricted cash all cash whose use is limited by contractual provisions. At 31 December 2020 and 2019, restricted cash included $500,000 cash on deposit in a money market account as required by a lender (see Note 10).

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

	31 December 2020 US$000	31 December 2019 US$000
Cash and cash equivalents	3,292	3,647
Restricted Cash	500	500
Total cash, cash equivalents and restricted cash	3,792	4,147

Accounts receivable – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company's expectations and, historically, have not been significant. The allowance for doubtful accounts at 31 December 2020 and 2019 was $33,000 and $nil, respectively.

Inventories – Inventories consist primarily of raw materials and filter media finished goods as well as equipment to house the filter media and are stated at the lower of cost or net realisable value. Equipment that is in the process of being constructed for sale or lease to customers is also included in inventory (work-in-progress). The Company applies the Average Cost method to account for its inventory. Manufacturing work-in-progress and finished products inventory include all direct costs, such as labour and material, and those indirect costs which are related to production, such as indirect labour, rents, supplies, repairs and depreciation costs. A valuation reserve is recorded for slow moving or obsolete inventory items to reduce the cost of inventory to its net realisable value. The Company determines the valuation by evaluating expected future usage as compared to its past history of utilisation and future expectations of usage. At 31 December 2020 and 2019, the Company had REGEN related inventory of 34 percent and 27 percent of the total inventory balance, respectively. The inventory is associated with efforts to expand into the Enhanced Oil Recovery market that the Company has identified as a large global market.

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

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

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

Building	39 years

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

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

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

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

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2020 and 2019 was approximately $64,000 and $352,000, respectively.

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

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

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

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

The Company recognises interest accrued related to tax in interest expense and penalties in selling, general and administrative expenses. During the years ended 31 December 2020 and 2019 the Company recognised no interest or penalties.

Earnings per share – Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options. Potentially dilutive shares are excluded from the computation if their effect is antidilutive. Total common stock equivalents consisting of unexercised stock options that were excluded from computing diluted net loss per share were approximately 1,348,638 for the year ended 31 December 2020 and there were no adjustments to net income available to stockholders as recorded on the statement of operations.

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

	Years Ended 31 December	
	2020	2019
Basic weighted average outstanding shares of common stock	19,443,750	19,312,664
Effect of potentially dilutive stock options	–	–
Diluted weighted average outstanding shares of common stock	19,443,750	19,312,664
Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock	1,348,638	1,324,968

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

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

There were no transfers into and out of each level of the fair value hierarchy for assets measured at fair value for the years ended 31 December 2020 or 2019.

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

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

The Company's financial instruments as of 31 December 2020 and 2019 include cash and cash equivalents, restricted cash, accounts receivable, accounts payable, the line of credit, and the note payable. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short-term nature of those assets and liabilities. The fair value of the note payable approximates face value.

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

Stock compensation – The Company issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date is expensed, based on the Company's estimate of shares that will eventually vest, on a straight-line basis over the vesting period. Fair value for the share awards representing equity interests identical to those associated with shares traded in the open market is determined using the market price at the date of grant. Fair value is measured by use of the Black Scholes valuation model (see Note 12).

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

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

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

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

In August 2018, the FASB issued ASU 2018-13, 'Fair Value Measurement (Topic 820): Disclosure Framework', which removes, modifies and adds to the disclosure requirements on fair value measurements in Topic 820. The amendments on changes in unrealised gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted this guidance effective 1 January 2020. The adoption of this new guidance did not have a material impact on the financial statements.

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

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

3. Accounts Receivable

Accounts receivable and their respective allowance amounts at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Accounts receivable	1,512	3,987
Less: allowance for doubtful accounts	(33)	–
Total receivable – net	1,479	3,987

4. Inventories

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

	31 December 2020 US$000	31 December 2019 US$000
Raw materials	2,158	2,125
Finished goods	3,484	4,016
Total inventory	5,642	6,141

5. Property and Equipment

Property and equipment consist of the following at 31 December 2020 and 2019:

	31 December 2020 US$000	31 December 2019 US$000
Land	709	709
Building	2,724	2,724
Leasehold improvements	277	277
Office equipment	710	707
Manufacturing equipment	930	926
Research and development equipment	551	551
Purchased software	222	222
Equipment leased to customers	10,009	9,378
Equipment available for lease to customers	89	617
	16,221	16,111
Less: accumulated depreciation	(9,465)	(8,095)
Property and equipment – net	6,756	8,016

During the years ended 31 December 2020 and 2019, the Company removed property, plant and equipment and the associated gross and accumulated depreciation of approximately $nil and $369,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the years ended 31 December 2020 and 2019 was approximately $1,370,000 and $1,217,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the years ended 31 December 2020 and 2019 was $1,117,000 and $883,000, respectively.

6. Intangible Assets

During 2009, the Company entered into a patent rights purchase agreement. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately $64,000 and $58,000 as of 31 December 2020 and 2019, respectively.

In addition to the purchased patent, the Company has internally developed patents. Internally developed patents include legal and registration costs incurred to obtain the respective patents. The Company currently holds various patents and numerous pending patent applications in the United States, as well as numerous foreign jurisdictions outside of the United States. In 2020, there was $49,000 of new internally developed patents and fees on patent in progress.

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

	Weighted Average Useful Lives	31 December 2020 US$000	31 December 2019 US$000
Internally developed patents	15 years	1,405	1,356
Purchased patents	17 years	100	100
		1,505	1,456
Less accumulated amortisation		(715)	(658)
Intangible assets – net		790	798

Internally developed patents include approximately $353,000 for costs accumulated for patents that have not yet been issued and are not depreciating.

Approximate aggregate future amortisation expense is as follows:

Year Ending 31 December (USD, in thousands)	
2021	57
2022	57
2023	50
2024	47
2025	47
Thereafter	179

Amortisation expense for the years ended 31 December 2020 and 2019 was approximately $57,000 and $52,000, respectively.

7. Income Taxes

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

	31 December 2020 US$000	31 December 2019 US$000
Current:		
Federal	–	–
Foreign	320	462
State	8	(2)
Total current provision	328	460
Deferred:		
Federal	–	–
Foreign	–	–
State	–	–

Total deferred provision	–	–
Total provision for income taxes	328	460

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

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

	31 December 2020	31 December 2019
Federal statutory income tax rate	21.0%	21.0%
State tax rate, net of federal benefit	(0.4%)	3.8%
Valuation allowance	(24.0%)	(28.9%)
Other	2.0%	0.3%
Foreign withholding tax	(4.4%)	(14.6%)
Effective income tax rate	(5.8%)	(18.4%)

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

	31 December 2020 US$000	31 December 2019 US$000
Deferred tax assets		
Net operating loss	5,589	4,660
Equity compensation	327	324
Research and development credits	159	159
Right of use liability	97	168
Inventory valuation reserve	358	132
Other	22	16
Total gross deferred tax asset	6,552	5,459
Deferred tax liabilities		
Property and equipment	(635)	(687)
Right of use asset	(104)	(178)
Total gross deferred tax liability	(739)	(865)
Net deferred tax asset before valuation allowance	5,813	4,594
Valuation allowance	(5,813)	(4,594)
Net deferred tax asset (liability)	–	–

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 31 December 2020, the Company has recorded a valuation allowance of $5.8 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 31 December 2020, the Company has approximately $25.2 million of gross U.S. federal net operating loss carry forwards and $4.4 million of gross state net operating loss carry forwards that will begin to expire in the 2024 tax year and will continue through 2031 when the current year net operating losses will expire. As of 31 December 2019, the Company had approximately $20.8 million of gross U.S. federal net operating loss carry forwards and $4.4 million of gross state net operating loss carry forwards.

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

On 27 March 2020, the U.S. Government enacted the Coronavirus Aid, Relied, and Economic Security Act (the “CARES Act”). The CARES Act includes, but is not limited to, tax law changes related to (1) accelerated depreciation deductions for qualified improvement property placed in service after 27 September 2017, (2) reduced limitation of interest deductions, and (3) temporary changes to the use and limitation of NOLs. There was no material impact of the CARES ACT to the Company’s income tax provision for 2020.

The Company’s tax years 2017 through 2020 remain subject to examination by federal, state and foreign income tax jurisdictions.

8. Line of Credit

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to $500,000. The line of credit is revolving and is payable on demand. In November 2018, the maximum borrowing capacity was increased to $1,875,000. The facility renews annually and is secured by the assignment of a deposit account held by the lender and a second deed to the property owned by the Company in Duluth, Georgia. The line of credit carries a floating rate of interest equal to the lender’s Prime Rate and is subject to change any time the Prime Rate changes. Under terms of the line of credit, the Company is required to maintain a minimum cash balance and a specified cash flow coverage ratio, as those terms are defined, and the Company was in compliance as of 31 December 2020. The balance on the line of credit at 31 December 2020 and 2019 was $997,000 and $nil, respectively. The interest rate on 31 December 2020 and 2019 was 4.50 percent and 4.75 percent, respectively. Interest expense related to this loan was $38,000 and $nil for the years ended 31 December 2020 and 2019, respectively. See the subsequent events Note 17 for a description of the settlement of this debt balance after the balance sheet date.

9. Paycheck Protection Program Loan

On 16 April 2020, the Company was granted a loan from Pinnacle Bank, the Company’s existing lender, in the amount of approximately $401,000, pursuant to the Paycheck Protection Program (‘PPP Loan’), Title I of the CARES Act, which was enacted 27 March 2020. The PPP Loan issued to the Company matures on 16 April 2022 and bears interest at a fixed rate of 1 percent per annum and may be prepaid in whole or in part without penalty. No interest payments are due within the initial six months of the PPP Loan. The interest accrued during the initial six-month period is due and payable, together with the principal, on the maturity date. The Company used all proceeds from the PPP Loan to retain employees, maintain payroll and make lease and utility payments to support business continuity during the COVID-19 pandemic. All or a portion of the PPP Loan may be forgiven by the Small Business Administration (‘SBA’) upon application by the Company and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the twenty-four-week period beginning on the date of receipt of the PPP Loan with certain stipulated restrictions. On 8 December 2020, the Company’s PPP Loan was forgiven in full, including all principal and interest outstanding as of the date of the forgiveness. Any amount forgiven when the Company was legally released as the primary obligor under the loan was recognised in the Statement of Operations as a gain upon the extinguishment of the loan.

10. Note Payable

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The note is secured by the property and building from which the Company continues to operate. The carrying amount of the property and building as of 31 December 2020 and 2019 was $2.9 million and $2.9 million, respectively. Upon selling the collateral, the Company is required to repay the term loan in full. The lender is not allowed to sell the collateral during the term of the loan. The Company borrowed proceeds of $2,285,908 at a fixed interest rate of 4.45 percent. The loan has a 10 year term with monthly payments based on a 20 year amortisation. This will result in a one-time balloon payment at the end of the term of the note of approximately $1,400,000 during 2023. In accordance with the terms of the agreement, the Company is required to keep $500,000 in a deposit account with the lending bank. As of 31 December 2020 and 2019, the Company had restricted cash of $500,000 related to the loan agreement. Future maturities of long-term debt are as follows as of 31 December 2020:

Year Ending 31 December (US$000)	
2021	102
2022	107
2023	1,434
	1,643

See the subsequent events Note 17 for a description of the settlement of this debt balance after the balance sheet date.

11. Public Offering of Common Stock

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

12. Stock Compensation

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

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

In July 2019, the Company's shareholders approved the extension of the Plan to 2029 and the increase in the possible number of shares to be awarded pursuant to the Plan to 15 percent of the Company's issued capital at the date of any award. The total number of shares reserved for stock options under this Plan is 2,916,563 with 1,324,338 shares allocated as of 31 December 2020. The shares are all allocated to employees, executives and consultants.

Any options granted to Non-Executive Directors, unless otherwise agreed, vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.

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

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. The Company's expected volatility is calculated as the historical volatility of the Company's stock over a period equal to the expected term of the awards. The expected terms of options are calculated using the weighted average vesting period and the contractual term of the options. The risk-free interest rate is based on a blended average yield of two- and five-year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2020 and 2019 were as follows:

	Number of Options Granted	Grant Date	Risk-free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
2019	10,000	28/02/2019	2.58%	6.0 years	72.00%	$3.20	$2.08
	50,000	04/11/2019	1.65%	6.0 years	76.00%	$0.68	$0.45
2020	325,000	06/08/2020	0.17%	5.7 years	77.00%	$0.45	$0.29

The Company assumes a dividend yield of 0.0 percent.

The following table summarises the Company's stock option activity for the years ended 31 December 2020 and 2019:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2018	1,347,042	$2.43	5.9	$1.14
Granted	60,000	$1.10	6.0	$0.72
Exercised	(32,500)	$1.29		
Outstanding at 31 December 2019	1,374,542	$2.40	5.7	$1.13
Granted	325,000	$0.45	5.7	$0.29
Forfeited	(375,204)	$1.97		
Outstanding at 31 December 2020	1,324,338	$2.04	5.8	$1.01
Exercisable at 31 December 2020	959,338	$2.61	5.9	

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

A summary of the status of unvested options as of 31 December 2020 and changes during the years ended 31 December 2020 and 2019 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2018	216,667	$1.14
Granted	60,000	$0.72
Vested	(108,333)	$1.50
Unvested at 31 December 2019	168,334	$0.76
Granted	325,000	$0.29
Vested	(70,000)	$1.33
Forfeited	(58,334)	
Unvested at 31 December 2020	365,000	$0.34

As of 31 December 2020, total unrecognised compensation cost of approximately $58,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the years ended 31 December 2020 and 2019 was approximately $42,000 and $199,000, respectively.

13. Commitments and Contingencies

Operating leases – As of 31 December 2020, the Operating Lease ROU Asset has a balance of $482,000, net of accumulated amortisation of $555,000, and an Operating Lease Liability of $449,000, which are included in the accompanying balance sheet. The weighted average discount rate used for leases accounted for under ASU 2016-02 is 5.25 percent, which is based on the Company's secured incremental borrowing rate.

The Company's leases do not include any options to renew that are reasonably certain to be exercised. The Company's leases mature at various dates through May 2024 and have a weighted average remaining life of 2.99 years.

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

Year Ending 31 December	Future Lease Payments

	US$000
2021	192
2022	120
2023	122
2024	51
Total future maturities	485
Portion representing interest	(36)
	449

Total lease expense for the years ended 31 December 2020 and 2019 was approximately $315,000 and $313,000, respectively.

Total cash paid for leases for the years ended 31 December 2020 and 2019 was $313,000 and $322,000, respectively.

The Company has elected to apply the short-term lease exception to all leases of one year or less and is not separating lease and non-lease components when evaluating leases. Total costs associated with short-term leases was $130,000 and $156,000 for the years ended 31 December 2020 and 2019, respectively.

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

14. Related Party Transactions

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

15. Segment and Geographic Information

ASC 280-10, Disclosures About Segments of an Enterprise and Related Information (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (‘CODM’) in deciding how to allocate resources and in assessing performance. The Company’s CODM is the Chief Executive Officer (‘CEO’). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 31 December 2020. For the year ended 31 December 2020, the Company’s revenues were generated primarily in the Middle East and the United States (‘U.S.’). Additionally, the majority of the Company’s expenditures and personnel either directly supported its efforts in the Middle East and the U.S., or cannot be specifically attributed to a geography. Therefore, the Company has only one reportable operating segment.

Revenue from customers by geography is as follows:

Year Ending 31 December (USD, in thousands)	2020	2019
Middle East	5,269	8,255
United States	1,511	2,737
Other	324	916
Total	7,104	11,908

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

Year Ending 31 December (USD, in thousands)	2020	2019
Middle East	3,127	4,321
United States	4,109	4,390
Other	2	113
Total	7,238	8,824

16. Concentrations

At 31 December 2020, one customer with three contracts represented 72 percent of accounts receivable. During the year ended 31 December 2020, that same customer, along with the Company's second largest customer, account for 78 percent of its gross revenue.

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

17. Subsequent Events

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 25 May 2021, the date the financial statements were available to be issued, and no events have occurred which require further disclosure other than the following:

In December 2020, Congress enacted the Consolidated Appropriations Act, 2021. The Act is an approximately $900 billion COVID-19 relief package and includes $284 billion for a second round of the Paycheck Protection Program (PPP). In January 2021, the Company applied for and was approved for a second PPP loan in the amount of approximately $401,000 with an interest rate of 1 percent and a maturity date of January 2026. The Company anticipates meeting the requirements for forgiveness of the loan as laid out in the Act.

In March 2021, the Company completed the sale of its building in Duluth, Georgia, USA, for total consideration of $5.4 million enabling the Company to right-size its office space needs across its main operating locations. The Company recognised a financial gain of approximately $2.5 million on the sale of the property and net cash proceeds were approximately $2.8 million. The Note Payable and line of credit were paid in full and $500,000 of cash was reclassified from restricted cash.