16 May 2024

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

**Final Results for the Year Ending 31 December 2023**

MYCELX Technologies Corporation ("MYCELX" or the "Company"), the clean water and clean air technology company transforming the environmental impact of industry, announces its audited results for the year ended 31 December 2023.

## Highlights

### Financial

- Revenue of $10.9 million (2022: $10.0 million)
- Gross profit of $3.9 million (2022: $4.4 million)
- EBITDA[1] of negative $2.5 million (2022: negative $2.5 million)
- Loss before tax of $3.3 million (2022: loss before tax $3.6 million)
- Cash & cash equivalents of $0.4 million (2022: $1.7 million)
- Post period end: Sale of Saudi business operations for upfront cash of $3.125 million and potential deferred consideration of $4 million over the next 24 months

### Operational

PFAS Remediation

- Installed a pilot system at a landfill leachate site that will continue in H1 of 2024 addressing other high-level contaminants comingled with the PFAS contamination; a common step required to treat water from landfills
- Multiple discussions with strategic partners in all four targeted PFAS vertical markets
- Granted NSF 61 certification for treating drinking water
- Passed the TCLP test verifying non-leaching of specific targeted contaminants from PFAS filter media
- Post period end:
    - Awarded a short-term project treating PFAS-laden firefighting foam (AFFF) at a refinery in the U.S.
    - Hired a seasoned PFAS technical expert to work alongside the PFAS Business Director
    - Working with a potential partner to sell residential Point-of-Entry PFAS systems
    - Chosen to participate in large Municipal Wastewater PFAS treatment trial in 2024
- Commenced RSSCT (Rapid Small Scale Column Tests) accepted by industry with third party lab verification leading to accelerated PFAS data collection

REGEN for EOR Production

- Secured contract with a National Oil Company (NOC) for a REGEN system and media valued at $5.4 million to treat produced water with delivery expected in late 2024
- REGEN Retrofit project sold replacing failing nutshell filters at major Middle East producer
- Two successful trials in the U.S. for beneficial use of produced water at mature assets belonging to major U.S. producers
- Post period end:
    - Completed sale and delivery of first Retrofit package to global EOR producer to begin conversion of their existing nutshell filters to MYCELX REGEN media
    - Startup of months-long pilot with a large strategic partner in the Middle East to showcase the superior performance of REGEN over nutshell filtration

Middle East Downstream

- Continued momentum in Saudi Arabia:
    - Installed wastewater treatment systems for two customers opening a new market
    - Secured a contract valued at $1.8 million to treat process water and protect internal equipment components
    - Renewal of two contracts during the year to treat water and wastewater from plant production
    - Delivered a process water treatment system for a new petrochemical plant customer

Corporate

- Post period end: The Company sold its Saudi Arabia operations to a Saudi Arabian-led consortium transitioning the established MYCELX business into an exclusive MYCELX distributorship lead by the legacy MYCELX team

**Outlook**

The Company remains upbeat about the progress made to date in 2024 and intends to capitalise on positive recent developments in the U.S., following the publishing of the EPA PFAS Drinking Water regulations, as it continues to aggressively pursue partnerships, pilots, data collection and projects in its core markets. There is tremendous opportunity in the EOR market for the REGEN product. The Company is engaged with multiple producers who require better performance during production for EOR and beneficial reuse. Both the PFAS and REGEN offerings are designed to be best in class in their applications and the Company expects to see a continued uptick in demand for sales and/or pilot projects from globally recognisable firms over the rest of 2024.

**Connie Mixon, CEO, commented:**

*"During 2023, MYCELX delivered steady progress in its core areas of focus. This can be seen with the number of new project awards and recurring work agreed during the period. We believe we have tremendous upside with differentiated technology that provides clear economic and environmental benefits that will result in significant growth for the Company into the future.*

*I would like to take the time to thank the Board and the enthusiastic team at MYCELX for their hard work and dedication during 2023, in what was a period of change for our business. Post the sale of our Saudi business operations, we sit as a leaner, better capitalised company, focused on significant opportunities within our reach and we look forward to updating our stakeholders on further developments in the coming months."*

**For further information, please contact:**

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

**Canaccord Genuity Limited (Nomad and Sole Broker)**
Henry Fitzgerald-O'Connor — Tel: +44 20 7523 8000
Ana Ercegovic

**Celicourt Communications (Financial PR)**
Mark Antelme — Tel: +44 20 2770 6424
Jimmy Lea
Charlie Denley-Myerson

[1] *EBITDA is a non-U.S. GAAP measure that the Company uses to measure and monitor performance and liquidity and is calculated 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. This non-U.S. GAAP measure may not be directly comparable to other similarly titled measures used by other companies and may have limited use as an analytical tool.*

## Chairman's Statement

Throughout 2023, MYCELX made considerable progress in strengthening its market leading position as clean water technology experts. Against a dynamic global economic backdrop, MYCELX's international customers have continued their strong demand for cost-effective solutions that both optimise their operations and help them achieve their ever-important sustainability goals.

Over the course of 2023, and into 2024, MYCELX continued to develop and hone its strategy and offerings, reflecting the evolving needs of its customers and ensuring it is best placed to capitalise on growing market opportunities.

MYCELX refined its strategic focus by divesting (post period end) its business operations in Saudi Arabia. This allows the Company to better focus on, and invest in, its core PFAS and REGEN offerings, both of which are highly attractive opportunities for the Company. Following this divesture, MYCELX has a more targeted strategy in two large, high-margin markets, which the Board believes have the potential to create significant value for shareholders. With these positive changes in its business portfolio, MYCELX still retains a clear and common purpose to improve the ESG performance of industry and to achieve cleaner water around the world. Furthermore, the Board firmly believes this will provide access to fast-growing markets for the Company's proven technology, while also providing diversification in terms of products, customers and geographies.

MYCELX is well placed to play a key role in the PFAS remediation industry, which is increasingly recognised as an unprecedented health and environmental challenge and therefore a major market opportunity. In the U.S., new Government regulations and funding will positively impact PFAS remediation market demand. MYCELX's internationally recognised solution is vital in combating the widespread risks to human health posed by PFAS-contaminated water. The total global PFAS remediation market is estimated to be in excess of $250 billion, and we believe that early moving companies such as MYCELX, with patented, proven solutions, are well positioned to capture valuable share in this large and growing market.

The Company continues to make progress with its REGEN offering, which targets water treatment in the EOR market and other specialty remediation segments of the oil and gas sector. MYCELX's patent-protected REGEN solution has been successfully deployed with multiple leading oil and gas companies, and the Company hopes to build on this success to secure more business going forward. MYCELX believes that these markets will remain attractive for the foreseeable future, and will likely play a role in unlocking new, attractive opportunities in the oil and gas sector.

Underpinned by world leading, patented technologies, MYCELX has adapted to evolving markets and has positioned itself to deliver long-term value for all shareholders by capitalising on its two main market offerings - PFAS and REGEN. This is an exciting time for MYCELX, not only in terms of helping its customers meet their essential environmental commitments, but also for the continued growth of the Company.

Finally, I would like to thank our shareholders for their continued support, as well as the outstanding, committed employees at MYCELX for their unwavering efforts to capitalise on the attractive opportunities in our targeted markets.

## Chief Executive Officer's Statement

During 2023, MYCELX delivered steady progress in its core areas of focus. This can be seen with the number of new project awards and recurring work agreed during the period.

In terms of agreements signed, they included a significant REGEN project award in the EOR sector in the Middle East that has positive, long-term implications for widespread REGEN media adoption. We were also awarded our fourth in-country project, valued at $5.4 million, with a National Oil Company deploying REGEN for onshore produced water treatment.

We also made notable progress in the PFAS remediation market with pilot trials initiated in the United States, equipment and media sales and trials in Australia, receiving national health and safety accreditation for our PFAS product and forging relationships with potential strategic partners, which led to multiple, ongoing discussions throughout the year continuing into 2024. Our downstream operations in Saudi Arabia received three new contracts and renewed two existing contracts. During the year, the Company also began negotiations to sell its business operations in Saudi Arabia and transition it into an exclusive distributorship. The Board believed this approach was in the best interest for all stakeholders, and post period end, the operation was bought by a Saudi Arabian consortium with strong relationships in-country and the ability to expand into new markets with MYCELX technology. We look forward to supporting the new owners and the country's Vision 2030 initiatives with which our advanced water treatment products are very well aligned to.

The PFAS remediation market in the United States, and elsewhere in the world, continues to develop as regulations are being issued to address the magnitude of the problem and as public awareness increases through global media exposure. It is a market opportunity in which we are highly engaged with proven technology that we intend to capitalise on. The size of the market continues to grow as more PFAS-contaminated sites continue to be identified. Effective, efficient technology is essential to clean up PFAS contamination in the challenging applications and equally necessary is the ability to scale technology cost effectively, which is one of the important differentiators that sets us apart when compared with our peers.

Oil and gas markets were, and continue to be, robust, with producers globally planning upgrades and expansion of existing fields. We continue to see the trend of greater adoption of cleaner production solutions, while operators increase production, all of which have high commercial value with clear environmental benefits. Our REGEN product achieves those goals. The EOR and beneficial reuse markets are our focus as well as offshore production. Each one of these areas of oil and gas production offer tremendous opportunity for global adoption of our REGEN media product.

**Operational Highlights**

PFAS Remediation

MYCELX has chosen to target four markets in the PFAS sector: landfill leachate, municipal drinking water, residential use and industrial wastewater. In 2023, MYCELX installed a pilot system at a landfill leachate site working with a global engineering company and began the process of identifying a pre-treatment system to prevent fouling of the MYCELX system and PFAS removal media. The pre-treatment project has continued into Q2 2024 and, if successful, should lead to further project work with the lead engineering company in the leachate application. In the municipal drinking water sector, the Company received National Sanitation Foundation (NSF) 61 certification, a national health and safety stamp-of-approval required for filtration media that will be used to treat drinking water. The media was also tested and found compliant with the Toxic Characteristic Leaching Procedure (TCLP) that certified our PFAS media product does not leach specific PFAS chemicals at levels that exceed the regulatory limits. This benefits the business in waste disposal, given the captured PFAS will not re-enter the environment after coming in contact with our PFAS media. During the year, our Business Development Director held multiple meetings with potential strategic partners in each market vertical we are targeting. We know that many technologies, including the incumbent carbon and resin media, have gaps in performance that MYCELX PFAS media can address. It has provided an opening to work with several domestic and global partners who recognise the benefits of integrating our technology as an effective solution and for MYCELX to leverage pre-treatment technologies as well.

Post period, the Company won a short-term project treating water contaminated with AFFF firefighting foam. Working with a global engineering company, MYCELX has been able to showcase the performance of our solution in a common application that can be replicated at many AFFF-contaminated sites. Our aim is to continue this application in additional AFFF-contaminated sites and potentially become their go-to solution for AFFF remediation. In the municipal wastewater market, the Company tested PFAS-laden water samples from a wastewater treatment plant that is trialling several technologies they chose for potential implementation. After third-party lab verification of MYCELX PFAS removal capability, the Company was chosen as one of the technologies to be tested on-site for the trial which will commence in Q1 2025. The outcome of the trial will determine the lucrative project award expected to be announced in later 2025. After a long search for an experienced PFAS technical expert, MYCELX brought onboard a professional with nine years of PFAS experience from a global water equipment and solutions provider. The PFAS market is very large, lucrative and in need of new technology. We intend to break into the four markets we have identified with a two-fold approach; i) strategic partnerships and ii) distributors who service and sell to customers who need reliable technology and have years of experience in water treatment sales. Recently, the Company sold media to a national residential drinking water company who we intend to partner with to sell our media used in their point-of-entry ('POE') systems to protect homes from PFAS contamination.

As the year progresses, our trials will continue to operate, gathering critical data that will help us refine and optimise our offering and the pre-treatment steps required by some of our systems going forward. We are confident that we will be able to convert trials to revenue-generative projects in 2024 and 2025.

REGEN for Enhanced Oil Recovery and Beneficial Reuse

In our REGEN division, we secured a contract with a National Oil Company ('NOC') for a REGEN system and media valued at $5.4 million with delivery expected in late 2024. This will be our fourth project installation in-country. Our systems ensure discharge into surface water is in compliance with regulations. We believe we will continue to sell our REGEN systems for this application given the increased focus on environmental concerns in the region as well as the proven, superior performance and reliability to meet or exceed discharge regulations. The Company contracted its first project with a NOC in the Middle East to treat water during EOR production. They are replacing their nutshell media with REGEN, based on our unique innovation of a retrofit package that enables their equipment to be modified to accept our REGEN media. This is the first of several projects MYCELX is engaged in with this producer and expects to participate in future projects with others in the region who intend to upgrade to REGEN to increase their production and reduce water consumption. In the U.S., the Company operated successful pilots at mature assets for beneficial reuse of produced water with two U.S. oil and gas producers. Beneficial reuse of water in oil and gas production is being embraced in the U.S. to recycle and reuse water that is scarce in areas where oil is produced. After successful trials and technical acceptance of the REGEN media in 2023, we expect a contract award in 2024 as producers adopt Beneficial Reuse into their production process.

Downstream Middle East

In Saudi Arabia the Company won three new purchase orders and renewed two contracts. Post period end, executing on our strategic plan, we sold our Saudi Arabia business operations to Twarid Water Treatment LLC ('Twarid'), a Saudi Arabian owned consortium, and transitioned the business to a MYCELX exclusive distributorship. The transaction was structured as an Earn Out, with the Company receiving $3.125 million upon closing, with the potential of an additional $4.0 million received based on achieving the revenue targets historically reached over the last several years of operations.

This strategic decision has the potential to be a seminal event for MYCELX. Saudi Arabia has played an important role in the Company's growth and under the leadership of the legacy MYCELX management team in the region and Twarid's strong relationships, we believe that this distributorship has the potential to significantly accelerate the growth of our existing media business in addition to unlocking significant upside potential in oil and gas, petrochemicals, industrial wastewater, PFAS remediation and marine applications. Although MYCELX will no longer be involved in the ongoing operations in-country, this has significant benefits to the business, as it reduces our cost base, increases personnel bandwidth for executing plans in our two other core markets, and allows us to support Twarid as they increase market share and grow media sales in one of the largest and most robust water-scarce countries in the world.

The sale leaves the Company in a stronger financial position, and as ever, we continue to adopt a strict capital allocation policy, ensuring that our costs are as low as possible, while ensuring adequate money is being invested in the growth of the business.

The decision also enables us to focus on what we believe are the Company's two largest market opportunities – PFAS remediation and EOR REGEN. The size of the prize in both of these markets is significant and we believe that focusing on these two very large opportunities will provide the Company with high-margin, long-term revenue for decades to come.

Following our progress in recent years, we believe we have laid the foundations to achieve further market penetration with our REGEN offering in the U.S. onshore oil and gas sector. As we have seen over the last 12 months, significant consolidation has occurred, with now only a handful of players possessing dominant positions in key areas such as the Permian Basin. We have successfully trialled in the Permian with major players and expect to move to a contract in 2024 provided the project progresses on schedule.

Given our track record in the U.S., we know we have the technology to assist operators with their water handling needs, and we believe that with there now being a more concentrated number of operators, we have a strong opportunity to increase our market presence. MYCELX technology has been proven across a wide range of applications to deliver operational efficiencies, cost savings and better environmental solutions to customers.

We have made a strong start to 2024 and we anticipate MYCELX will achieve revenues in the range of $9.0 to $10.0 million during the year. The Company continues to focus on a number of other potential opportunities which could positively influence 2024 revenue and the final outturn is dependent on projects meeting delivery timelines.

In closing, I would like to take the time to thank the Board and the enthusiastic team at MYCELX for their hard work and dedication during 2023, in what was a period of change for our business. Post the sale of our Saudi business operations, we sit as a leaner, better capitalised company, focused on significant opportunities within our reach.

We believe we have tremendous upside with differentiated technology that provides clear economic and environmental benefits that will result in significant growth for the Company into the future. We look forward to updating our stakeholders on further developments in the coming months.

## Financial Review

Due to growth in long-term legacy media sales and a sale of REGEN and a retrofit package to an EOR producer in the Middle East, total revenue increased 9% to $10.9 million for 2023, compared to $10.0 million for 2022. Revenue from equipment sales and leases decreased by 17% to $3.0 million for 2023 (FY22: $3.6 million) and revenue from consumable filtration media and service increased by 23% to $7.9 million (FY22: $6.4 million). Whilst the equipment sales are one-off by nature, there is longevity to the media sales and ongoing lease and service revenues.

Gross profit decreased by 12% to $3.9 million during the year, compared to $4.4 million in 2022, and gross profit margin decreased to 36% (FY22: 44%) due to increases in costs for ancillary services in Saudi Arabia.

Total operating expenses for 2023, including depreciation and amortisation, decreased by 10% to $7.2 million (FY22: $8.0 million). The largest component of operating expenses was selling, general and administrative expenses, which decreased by approximately 11% to $6.7 million (FY22: $7.6 million) due to moving expenses for relocating the Company's office in Georgia in 2022. Depreciation and amortisation within operating expenses increased by 10% to $231,000 (FY22: $210,000).

EBITDA was negative $2.5 million, unchanged from negative $2.5 million in 2022. EBITDA is a non-U.S. GAAP measure that the Company uses to measure and monitor performance and liquidity and is calculated 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. This non-U.S. GAAP measure may not be directly comparable to other similarly titled measures used by other companies and may have limited use as an analytical tool.

The Company recorded a loss before tax of $3.3 million in 2023, compared to a loss before tax of $3.6 million in 2022. Basic loss per share was 16 cents in 2023, compared to basic loss per share of 18 cents in the previous year.

As of 31 December 2023, total assets were $10.4 million with the largest assets being inventory of $3.4 million, property and equipment of $2.6 million, $1.8 million of accounts receivable and $433,000 of cash and cash equivalents including restricted cash.

Total liabilities as of 31 December 2023 were $3.4 million and stockholders' equity was $7.2 million, resulting in a debt-to-equity ratio of 47%.

The Company ended the period with $433,000 of cash and cash equivalents, including restricted cash, compared to $1.7 million in total at 31 December 2022. The Company used approximately $1.1 million of cash in operations in 2023 (FY22: $2.7 million used in operations) and $180,000 was used in investing activities (FY22: $840,000 used in investing activities). Proceeds from the Placing of Common Shares contributed $2.0 million provided by financing activities in FY22.

Post period end, the Company sold its Saudi Arabia business operations, including equipment, inventory and contracts, for an acquisition price of up to $7.125 million (the 'Total Consideration') to Twarid Water Treatment LLC ('Twarid'). The Total Consideration was split $3.125 million at closing with up to $4 million deferred on a 24 month earn-out structure based on Twarid achieving defined revenue targets. The assets sold had a net book value of $2.2 million. The proceeds of the sale will enable the Company to focus on accelerating its marketing and sales plan for its unique technologies in the PFAS remediation and EOR markets while continuing to grow its propriety media and product sales in Saudi Arabia through an exclusive distribution agreement with Twarid.

# STATEMENTS OF OPERATIONS

(USD, in thousands, except share data)

| For the Year Ended 31 December: | **2023** | 2022 |
|---|---|---|
| **Revenue** | **10,907** | 10,026 |
| Cost of goods sold | **7,017** | 5,584 |
| **Gross profit** | **3,890** | 4,442 |
| **Operating expenses:** | | |
| Research and development | **248** | 218 |
| Selling, general and administrative | **6,743** | 7,589 |
| Depreciation and amortisation | **231** | 210 |
| Gain on sale of property and equipment | - | (2) |
| **Total operating expenses** | **7,222** | 8,015 |
| **Operating loss** | **(3,332)** | (3,573) |

| Other expense | | |
|---|---|---|
| Interest expense | **9** | – |
| **Loss before income taxes** | **(3,341)** | (3,573) |
| Provision for income taxes | **(365)** | (418) |
| **Net loss** | **(3,706)** | (3,991) |
| **Loss per share – basic** | **(0.16)** | (0.18) |
| **Loss per share – diluted** | **(0.16)** | (0.18) |
| **Shares used to compute basic loss per share** | **22,983,023** | 22,214,884 |
| **Shares used to compute diluted loss per share** | **22,983,023** | 22,214,884 |

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

# BALANCE SHEETS

(USD, in thousands, except share data)

| As at 31 December: | **2023** | 2022 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **383** | 1,645 |
| Restricted cash | **50** | 84 |
| Accounts receivable – net | **1,812** | 2,778 |
| Unbilled accounts receivable | **255** | – |
| Inventory | **3,417** | 3,737 |
| Prepaid expenses | **123** | 99 |
| Other assets | **153** | 138 |
| **Total Current Assets** | **6,193** | 8,481 |
| Property and equipment – net | **2,594** | 3,229 |
| Intangible assets – net | **759** | 733 |
| Operating lease asset – net | **844** | 1,176 |
| **Total Assets** | **10,390** | 13,619 |
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | **1,541** | 795 |
| Payroll and accrued expenses | **793** | 758 |
| Customer deposits | **10** | 18 |
| Operating lease obligations – current | **282** | 326 |
| **Total Current Liabilities** | **2,626** | 1,897 |
| Operating lease obligations – long-term | **607** | 890 |
| **Total Liabilities** | **3,233** | 2,787 |
| **Stockholders' Equity** | | |
| Common stock, $0.025 par value, 100,000,000 shares authorised, 22,983,023 shares issued and outstanding at 31 December 2023 and 31 December 2022 | **574** | 574 |

| | | |
|---|---|---|
| Additional paid-in capital | **44,799** | 44,768 |
| Accumulated deficit | **(38,216)** | (34,510) |
| **Total Stockholders' Equity** | **7,157** | 10,832 |
| **Total Liabilities and Stockholders' Equity** | **10,390** | 13,619 |

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

# STATEMENTS OF STOCKHOLDERS' EQUITY

(USD, in thousands, except share data)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | **Total** |
|---|---|---|---|---|---|
| | Shares | $ | $ | $ | **$** |
| **Balances at 31 December 2021** | 19,443,750 | 486 | 42,655 | (30,519) | **12,622** |
| Issuance of common stock, net of offering costs | 3,539,273 | 88 | 1,957 | – | **2,045** |
| Stock-based compensation expense | – | – | 156 | – | **156** |
| Net loss for the period | – | – | – | (3,991) | **(3,991)** |
| **Balances at 31 December 2022** | 22,983,023 | 574 | 44,768 | (34,510) | **10,832** |
| Stock-based compensation expense | – | – | 31 | – | **31** |
| Net loss for the period | – | – | – | (3,706) | **(3,706)** |
| **Balances at 31 December 2023** | 22,983,023 | 574 | 44,799 | (38,216) | **7,157** |

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

# STATEMENTS OF CASH FLOWS

(USD, in thousands)

| For the Year Ended 31 December: | **2023** | 2022 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net loss | **(3,706)** | (3,991) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortisation | **868** | 1,091 |
| Gain on sale of property and equipment | **–** | (2) |
| Inventory reserve adjustment | **(415)** | (5) |
| Stock compensation | **31** | 156 |
| Change in operating assets and liabilities: | | |
| Accounts receivable – net | 966 | (911) |
| Unbilled accounts receivable | **(255)** | 175 |
| Inventory | **657** | 402 |
| Prepaid expenses | **(24)** | 104 |
| Prepaid operating leases | **5** | 32 |
| Other assets | **(15)** | 261 |
| Accounts payable | **746** | 112 |
| Payroll and accrued expenses | **35** | – |
| Contract liability | **–** | (54) |
| Customer deposits | **(8)** | (56) |

| | | |
|---|---|---|
| **Net cash used in operating activities** | **(1,115)** | (2,686) |
| | | |
| **Cash flow from investing activities** | | |
| Payments for purchases of property and equipment | **(90)** | (814) |
| Payments for internally developed patents | **(91)** | (28) |
| **Net cash used ininvesting activities** | **(181)** | (842) |
| | | |
| **Cash flows from financing activities** | | |
| Net proceeds from stock issuance | **–** | 2,045 |
| **Net cash provided by financing activities** | **–** | 2,045 |
| **Net decrease in cash, cash equivalents and restricted cash** | **(1,296)** | (1,483) |
| Cash, cash equivalents and restricted cash, beginning of year | **1,729** | 3,212 |
| **Cash, cash equivalents and restricted cash, end of year** | **433** | 1,729 |
| | | |
| **Supplemental disclosures of cash flow information:** | | |
| Cash payments for interest | **9** | – |
| Cash payments for income taxes | **394** | 390 |
| Non-cash movements of inventory and fixed assets | **78** | 186 |
| Non-cash operating ROU assets | **889** | 1,049 |
| Non-cash operating lease obligations | **889** | 1,049 |

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 Norcross, 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 the United States.

**Liquidity** – The Company meets its day-to-day working capital and other cash flow requirements through cash flow from operations. Post period end, the Company sold its Saudi Arabia business operations for $7.125 million which included $3.125 at closing and up to $4 million deferred on a 24 month earn-out structure. The proceeds of the sale will enable the Company to focus on accelerating its marketing and sales plan for its unique technologies in the PFAS remediation and EOR markets while also supporting other working capital 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.

On the basis of current financial projections, including a downside scenario sensitivity analysis considering only revenues that are contracted or that the Company considers probable and adjusting for direct cost of goods sold within the analysis, the Company believes that it has adequate resources to continue in operational existence for the foreseeable future of 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. Should the projected cash flow not materialise under certain scenarios, alternative actions to increase liquidity may need to be considered.

## 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 the 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 leased assets, 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 (part of equipment sales) 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 either factory acceptance testing or shipment of the equipment to the customer because the control transfers at acceptance or 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.

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 judgement. Judgement 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 customers 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. Unbilled accounts receivable at 31 December 2023 and 2022, and 1 January 2022 was $255,000, $nil and $175,000, respectively. Contract liability at 31 December 2023 and 2022, and 1 January 2022 was $nil, $nil and $54,000, respectively.

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

| | Equipment Leases, Turnkey Arrangements, and Services Recognised Over Time | | Consumable Filtration Media, Equipment Sales and Services Recognised at a Point in Time | |
|---|---|---|---|---|
| **Year Ending 31 December (USD, in thousands)** | **2023** | 2022 | **2023** | 2022 |
| Middle East | **6,967** | 6,453 | **615** | 572 |
| United States | **–** | – | **2,683** | 2,094 |
| Australia | **–** | – | **369** | 558 |
| Other | **–** | – | **248** | 349 |
| Total revenue recognised under ASC 606 | **6,967** | 6,453 | **3,915** | 3,573 |
| Total revenue recognised under ASC 842 | **25** | **–** | **–** | – |
| Total revenue | **6,992** | 6,453 | **3,915** | 3,573 |

**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 and averages one year.

During the years ended 31 December 2023 and 2022, 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 days of purchase. At 31 December 2023, 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 2023 and 2022, cash in non-U.S. institutions was $92,000 and $159,000, 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 2023, restricted cash included $50,000 in a money market account to secure the Company's corporate credit card. At 31 December 2022, restricted cash included $84,000 in a money market account to secure the Company's corporate credit card and a stand-by letter of credit.

Reconciliation of cash, cash equivalents and restricted cash at 31 December 2023 and 2022:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| Cash and cash equivalents | **383** | 1,645 |
| Restricted cash | **50** | 84 |
| **Total cash, cash equivalents and restricted cash** | **433** | 1,729 |

**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 2023 and 2022 was $208,000 and $168,000, 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 materials, 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 2023 and 2022, the Company had REGEN-related inventory of 44 percent and 41 percent of the total inventory balance, respectively, which is in excess of the Company's current requirements based on the recent level of sales. The inventory is associated with efforts to expand into the Enhanced Oil Recovery and Beneficial Reuse markets that the Company has identified as large global markets. These efforts should reduce this inventory to desired levels over the near term and management believes no loss will be incurred on its disposition. However, there is a risk that management will sustain a loss on the value of the inventory before it is sold. No estimate can be made of a range of amounts of loss that are reasonably possible should the efforts not be successful.

**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:

| | |
|---|---|
| Leasehold improvements | Lease period or 1–5 years (whichever is shorter) |
| 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 2023 and 2022.

**Research and development costs** – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2023 and 2022 was approximately $248,000 and $218,000, respectively.

**Advertising costs** – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2023 and 2022 was $9,000 and $nil, respectively, and is recorded in selling, general and administrative expenses.

**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 2023 and 2022 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. Total common stock equivalents consisting of unexercised stock options that were excluded from computing diluted net loss per share were approximately 1,903,694 for the year ended 31 December 2023 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 | |
|---|---|---|
| | **2023** | 2022 |
| Basic weighted average outstanding shares of common stock | **22,983,023** | 22,214,884 |
| Effect of potentially dilutive stock options | **–** | – |
| Diluted weighted average outstanding shares of common stock | **22,983,023** | 22,214,884 |
| Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock | **1,903,694** | 2,019,118 |

**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 2023 or 2022.

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 2023 and 2022 include cash and cash equivalents, restricted cash, accounts receivable and accounts payable. The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to the short-term nature of those assets and liabilities.

**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 8).

**Recently issued accounting standards** – In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires measurement and recognition of expected credit losses for financial assets held. The standard is to be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company adopted this guidance effective 1 January 2023. The adoption of this new guidance did not have a material impact on the financial statements.

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 2023 and 2022:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| Accounts receivable | **2,020** | 2,946 |
| Less: allowance for doubtful accounts | **(208)** | (168) |
| **Total receivable – net** | **1,812** | 2,778 |

## 4. Inventories

Inventories consist of the following at 31 December 2023 and 2022:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| Raw materials | **1,637** | 1,957 |
| Finished goods | **1,780** | 1,780 |
| **Total inventory** | **3,417** | 3,737 |

## 5. Property and Equipment

Property and equipment consist of the following at 31 December 2023 and 2022:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| Leasehold improvements | **617** | 617 |
| Office equipment | **636** | 636 |
| Manufacturing equipment | **975** | 943 |
| Research and development equipment | **545** | 545 |
| Purchased software | **222** | 222 |
| Equipment leased to customers | **10,114** | 10,221 |
| | **13,109** | 13,184 |

| | | |
|---|---|---|
| Less: accumulated depreciation | **(10,515)** | (9,955) |
| **Property and equipment – net** | **2,594** | 3,229 |

During the years ended 31 December 2023 and 2022, the Company removed property and equipment and the associated gross and accumulated depreciation of approximately $243,000 and $742,000, respectively, to reflect the disposal of property and equipment.

Depreciation expense for the years ended 31 December 2023 and 2022 was approximately $803,000 and $1,022,000, 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 2023 and 2022 was $637,000 and $881,000, 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 $83,000 and $77,000 as of 31 December 2023 and 2022, respectively.

In January 2023, the Company entered into a patent rights purchase agreement. The patents are amortised utilising the straight-line method over useful lives of 13 and 14.75 years which represent the remaining legal life of the patents on the date of purchase. Accumulated amortisation on the patents was approximately $4,000 at 31 December 2023.

In addition to the purchased patents, 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 2023, there was $41,000 of new internally developed patents and fees on patents in progress.

Intangible assets as of 31 December 2023 and 2022 consist of the following:

| | Weighted Average Useful Lives | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|---|
| Internally developed patents | 15 years | **1,516** | 1,475 |
| Purchased patents | 17 years | **150** | 100 |
| | | **1,666** | 1,575 |
| Less accumulated amortisation – Internally developed patents | | **(824)** | (765) |
| Less accumulated amortisation – purchased patents | | **(83)** | (77) |
| **Intangible assets – net** | | **759** | 733 |

At 31 December 2023, internally developed patents include approximately $237,000 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) | |
|---|---|
| 2024 | 67 |
| 2025 | 66 |
| 2026 | 63 |
| 2027 | 59 |
| 2028 | 52 |
| Thereafter | 215 |

Amortisation expense for the years ended 31 December 2023 and 2022 was approximately $65,000 and $69,000, respectively.

## 7. Income Taxes

The components of income taxes shown in the Statements of Operations are as follows:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| **Current:** | | |
| Federal | **–** | – |

| | | |
|---|---|---|
| Foreign | **363** | 415 |
| State | **2** | 3 |
| Total current provision | **365** | 418 |
| **Deferred:** | | |
| Federal | **–** | – |
| Foreign | **–** | – |
| State | **–** | – |
| Total deferred provision | **–** | – |
| **Total provision for income taxes** | **365** | 418 |

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 2023** | 31 December 2022 |
|---|---|---|
| Federal statutory income tax rate | **21.0%** | 21.0% |
| State tax rate, net of federal benefit | **(0.7%)** | 0.8% |
| Valuation allowance | **(23.0%)** | (18.8%) |
| Other | **0.3%** | (5.6%) |
| Foreign withholding tax | **(8. 5%)** | (9.1%) |
| Effective income tax rate | **(10.9%)** | (11.7%) |

The significant components of deferred income taxes included in the Balance Sheets are as follows:

| | **31 December 2023 US$000** | 31 December 2022 US$000 |
|---|---|---|
| **Deferred tax assets** | | |
| Net operating loss | **7,478** | 6,598 |
| Equity compensation | **208** | 227 |
| Research and development credits | **159** | 159 |
| Right of use liability | **196** | 263 |
| Inventory valuation reserve | **265** | 350 |
| Other | **68** | 145 |
| Total gross deferred tax asset | **8,374** | 7,742 |
| | | |
| **Deferred tax liabilities** | | |
| Property and equipment | **(638)** | (708) |
| Right of use asset | **(186)** | (254) |
| Total gross deferred tax liability | **(824)** | (962) |
| | | |
| Net deferred tax asset before valuation allowance | **7,550** | 6,780 |
| Valuation allowance | **(7,550)** | (6,780) |
| **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 2023 and 2022, the Company has recorded a valuation allowance of $7.6 million and $6.8 million, respectively, 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 2023, the Company has approximately $34.4 million of gross U.S. federal net operating loss carry forwards and $3.6 million of gross state net operating loss carry forwards that will begin to expire in the 2024 tax year and will continue through 2043 when the current year net operating losses will expire. As of 31 December 2022, the Company had approximately $30.2 million of gross U.S. federal net operating loss carry forwards and $3.7 million of gross state net operating loss carry forwards.

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 2023 or 2022.

On 16 August 2022, the Inflation Reduction Act of 2022 ('IRA') was signed into law. The IRA levies a 1% excise tax on net stock repurchases after 31 December 2022 and imposes a 15% corporate alternative minimum tax ('CAMT') for tax years beginning after 31 December 2022. There was no material impact of the IRA on the Company's income tax provision for 2023 or 2022.

The Company's tax years 2019 through 2023 remain subject to examination by federal, state and foreign income tax jurisdictions. However, net operating losses that were generated in previous years may still be adjusted by the Internal Revenue Service if they are used in a future period.

## 8. 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 its 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 3,447,453 with 1,753,357 shares allocated as of 31 December 2023. 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 the option vests. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors, Consultants 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 2023 and 2022 were as follows:

| | Number of Options Granted | Grant Date | Risk-free Interest Rate | Expected Term | Volatility | Exercise Price | Fair Value Per Option |
|---|---|---|---|---|---|---|---|
| 2022 | 250,000 | 27/06/2022 | 3.25% | 6.0 years | 279.00% | $0.55 | $0.54 |
| | 25,000 | 28/09/2022 | 4.18% | 6.0 years | 279.00% | $0.33 | $0.33 |

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 2023 and 2022:

| Stock Options | **Shares** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Term (in years)** | **Average Grant Date Fair Value** |
|---|---|---|---|---|
| **Outstanding at 31 December 2021** | 2,043,338 | $1.43 | 5.8 | $0.76 |
| Granted | 275,000 | $0.53 | 6.0 | $0.52 |
| Forfeited | (213,258) | $2.41 | | |
| **Outstanding at 31 December 2022** | 2,105,080 | $1.22 | 5.8 | $0.68 |

| | | | | |
|---|---|---|---|---|
| Forfeited | (351,705) | $1.70 | | |
| **Outstanding at 31 December 2023** | 1,753,375 | $1.12 | 5.8 | $0.66 |
| **Exercisable at 31 December 2023** | **1,411,708** | **$1.27** | **5.4** | |

The total intrinsic value of the stock options exercised during the years ended 31 December 2023 and 2022 was approximately $nil.

A summary of the status of unvested options as of 31 December 2023 and changes during the years ended 31 December 2023 and 2022 is presented below:

| **Unvested Options** | **Shares** | **Weighted-Average Fair Value at Grant Date** |
|---|---|---|
| Unvested at 31 December 2021 | 851,000 | $0.41 |
| Granted | 275,000 | $0.52 |
| Vested | (356,334) | $0.46 |
| Forfeited | (26,666) | |
| Unvested at 31 December 2022 | 743,000 | $0.43 |
| Vested | (301,333) | $0.42 |
| Forfeited | (100,000) | |
| **Unvested at 31 December 2023** | **341,667** | **$0.40** |

As of 31 December 2023, total unrecognised compensation cost of approximately $86,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the years ended 31 December 2023 and 2022 was approximately $31,000 and $156,000, respectively.

## 9. Commitments and Contingencies

**Operating leases** – As of 31 December 2023, the Operating Lease ROU Asset has a balance of $843,000, net of accumulated amortisation of $899,000, and an Operating Lease Liability of $890,000, which are included in the accompanying balance sheet. The weighted-average discount rate used for leases 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 March 2027 and have a weighted-average remaining life of 3.1 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 |
|---|---|
| 2024 | 320 |
| 2025 | 280 |
| 2026 | 291 |
| 2027 | 74 |
| Total future maturities | 965 |
| Portion representing interest | (75) |
| | **890** |

Total lease expense for the years ended 31 December 2023 and 2022 was approximately $386,000 and $341,000, respectively.

Total cash paid for leases for the years ended 31 December 2023 and 2022 was $381,000 and $307,000, respectively, and is part of prepaid operating leases on the Statements of Cash Flows.

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 $237,000 and $322,000 for the years ended 31 December 2023 and 2022, 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.

## 10. Related Party Transactions

The Company has held a patent rights purchase agreement since 2009 with a Director, who is also a shareholder, as described in Note 6.

## 11. Segment and Geographic Information

ASC 280-10, *Disclosures About Segments of an Enterprise and Related Information*, 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 2023. For the year ended 31 December 2023, 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) | **2023** | 2022 |
|---|---|---|
| Middle East | **7,582** | 7,025 |
| United States | **2,708** | 2,094 |
| Australia | **369** | 558 |
| Other | **248** | 349 |
| **Total** | **10,907** | 10,026 |

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

| Year Ending 31 December (USD, in thousands) | **2023** | 2022 |
|---|---|---|
| Middle East | **1,518** | 2,016 |
| United States | **1,075** | 2,389 |
| **Total** | **2,593** | 4,405 |

## 12. Concentrations

At 31 December 2023, five customers, one with three contracts with three separate plants, represented 90 percent of accounts receivable. During the year ended 31 December 2023, the Company received 87 percent of its gross revenue from seven customers, one with three contracts with three separate plants.

At 31 December 2022, two customers, one with four contracts with four separate plants, represented 88 percent of accounts receivable. During the year ended 31 December 2022, the Company received 85 percent of its gross revenue from five customers, one with four contracts with four separate plants.

## 13. 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 15 May 2024, the date the financial statements were available to be issued, and no events have occurred which require further disclosure other than the following:

On 29 February 2024, the Company sold its Saudi Arabia business operations, including equipment, inventory and contracts, for an acquisition price of up to $7.125 million (the 'Total Consideration') to Twarid Water Treatment LLC ('Twarid'). The Total Consideration was split $3.125 million at closing with up to $4 million deferred on a 24 month earn-out structure based on Twarid achieving defined revenue targets. The assets sold had a net book value of $2.2 million. The proceeds of the sale will enable the Company to focus on accelerating its marketing and sales plan for its unique technologies in the PFAS remediation and EOR markets while continuing to grow its propriety media and product sales in Saudi Arabia through an exclusive distribution agreement with Twarid.