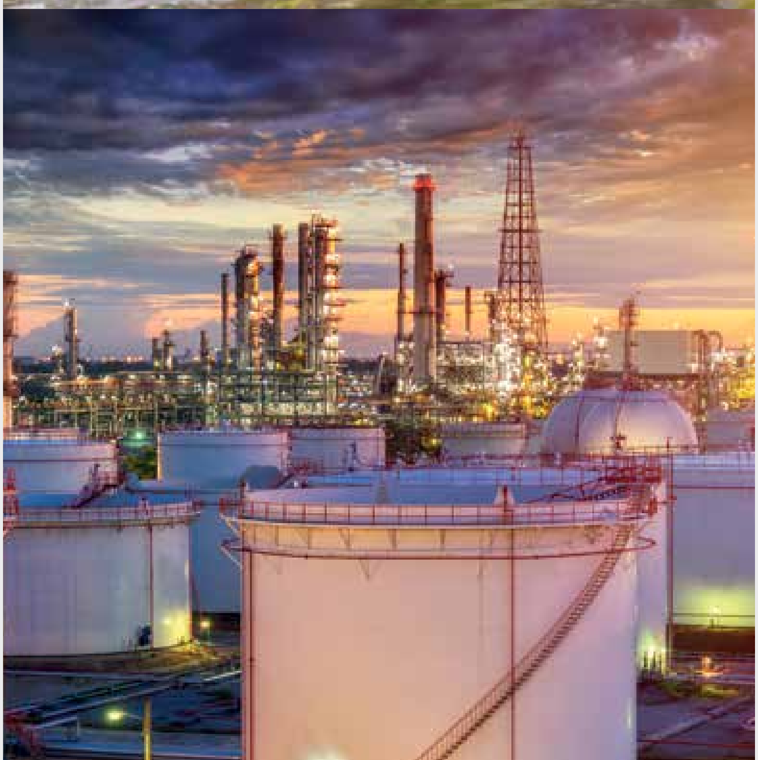
MYCELX Technologies Corporation

Expanding Our Horizons

Annual Report & Accounts 2022



At a Glance

MYCELX is a clean water technology company that tackles the world's most difficult water streams primarily in the PFAS remediation, oil and gas production, and petrochemical markets.

Since inception, the Company has focused on developing innovative solutions that can address a range of applications that greatly improve water and air quality. MYCELX's technologies are all unique, patented and have been developed within the business by our team of in-house experts.

The Company is focused on three large, lucrative core markets: Middle East downstream, PFAS Remediation and REGEN in Enhanced Oil Recovery. In recent years the Company has increased its footprint in each of these target markets and continues to secure high-margin, revenue-generating projects that enable MYCELX to further invest in its operations, expand its offering and form strategic partnerships.

Globally, there is significant attention on the environment and mitigating the impact of industry. We have set the standard for tackling these issues using innovative technology.

We work with our customers to ensure that their operations are efficient, high-performing and able to meet the highest levels of environmental standards.

MYCELX remains focused on leveraging its vast experience to deliver transformational solutions and increasing the adoption of its technologies, which in turn will generate value for our wider stakeholders and investors.

Contents

Find the latest investor relations at:
https://mycelx.com/investors/

Highlights

Operational

Continued focus on high-quality projects with high margins that deliver recurring revenue

PFAS Remediation

- A successful trial was completed in Australia using MYCELX proprietary technology for the treatment of PFAS
- Post period end: signed three pilot testing agreements for PFAS remediation in landfill leachate sites in the U.S.

REGEN in EOR

- Secured a second REGEN sale for water treatment during Enhanced Oil Recovery ('EOR') production

Middle East Downstream

- Continued momentum in Saudi Arabia:
  - Converted an emergency response project into a longer-term deployment
  - New project secured on contaminated industrial wastewater
- Fourth project signed with existing customer to provide clean water at a fertiliser production facility

Corporate

- Secured Global Contract with SABIC to treat targeted, difficult wastewater streams
- Added an experienced Business Development Director for the PFAS business segment
- Awarded the London Stock Exchange's Green Economy Mark

Financial

Revenue	Gross profit	EBITDA	Loss before tax	Cash & cash equivalents
$10.0m	$4.4m	-$2.5m	$3.6m	$1.7m
2021: $8.5m	2021: $3.3m	2021: $19,000	2021: loss before tax $1.1m	2021: $3.2m

Chairman's Statement

We remain in a strategically strong position to take advantage of increasing demand for innovative technologies

Tom Lamb
Chairman

MYCELX made continued progress in its core initiatives in 2022, while successfully navigating a highly volatile macro environment. Due to this progress, we remain in a strong position to capitalise on increasing demand for our innovative technologies that help companies achieve their environmental and operational objectives.

Following subdued energy markets in previous years, 2022 saw the price of oil and natural gas increase significantly with the price of oil exceeding $100 per barrel for the first time since 2014. This increase was due to events that occurred in Ukraine, changing travel policies and countries opening up post the COVID-19 pandemic. Natural gas prices across the world also soared, as countries, mainly in Europe, sought to bolster supply, with energy security becoming a highly important theme during the year.

These trends led to strong demand for our innovative technologies in the downstream Middle East market as well as with our REGEN media used in upstream Enhanced Oil Recovery ('EOR') production. Operators are requiring better performance from their water treatment technologies in order to cost-effectively meet their production targets and their environmental goals. Both of these oil and gas markets benefit from our technology by having the ability to significantly improve their overall water process management.

In addition to these opportunities in the Oil and Gas market, the PFAS Remediation market presents an exciting target segment because of its long-term growth potential. PFAS contamination is a global threat and its remediation presents a large potential market. The Company believes MYCELX's unique technology can become an industry leader in completely removing PFAS from contaminated streams and eliminating future liability. Following the signing of three paid trials in Q1 2023, we have taken important steps in proving the efficacy of our technology in the PFAS market.

In recent years, shareholders and the public have placed increasing importance on companies' adoption of Environmental, Social and Governance ('ESG') principles, thus increasing the expectation that organisations will behave in an environmentally sustainable and ethical manner. As a Board, we believe this trend will continue in the coming years and will fuel increased demand for MYCELX's innovative technologies. We are therefore highly focused on delivering on the promise of helping our partners to cost-effectively improve the environment.

I would like to take the opportunity to thank the new and existing investors that participated in the $2.3 million fundraise conducted in March 2022. Our rationale was that additional funds would allow us to accelerate our progress in capturing the significant opportunity presented by the PFAS remediation segment at a critical time in the market's development. I am pleased to report that since the raise we have made good progress in positioning our technology as a leader in the burgeoning PFAS Remediation market.

We remain highly upbeat about our prospects in the Middle East and with our REGEN offering globally. Historically we have experienced heightened bidding activity in stronger energy markets as operators look to increase margins and maximise output, especially in the EOR segment.

We are also bullish about our PFAS market opportunity and continue to believe that countries are just realising the significant threat of PFAS contamination to the environment. Addressing this problem will require significant levels of investment for remediation at the federal, state and local government levels, as well as by corporate entities. With our progress so far in 2023 and the favourable industry trends, we are optimistic about the growth prospects across the business for the remainder of the year.

In closing, we are very excited about MYCELX's position in our target markets. We have developed a unique and highly valued technological offering for our customers that is proven to address the industry's significant environmental challenges. We have shown that our products can help companies achieve pressing environmental goals which are priorities for the investment community and for the broader population. As a Board and Management team, we therefore look forward to further progress this year and continuing our journey to positively affect the impact our customers have on the environment.

Tom Lamb
Chairman
17 May 2023

Our Aims & Values

Safe solutions for everybody at all times
Safety is paramount for MYCELX. Our staff are our most valuable assets and our solutions always protect their well-being.

Protect the environment
MYCELX enables its customers to meet the strictest regulatory standards, thereby reducing their impact on the environment. This also allows them to guarantee their customers that they are complying or exceeding industry requirements.

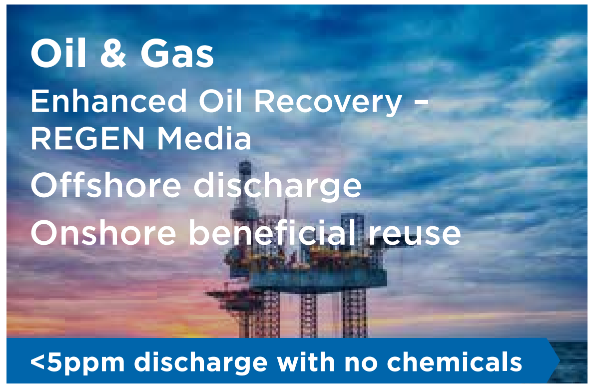
Deliver cost-effective, performance-optimising solutions
MYCELX systems are proven, reliable and robust, providing our customers with superior performance, significant cost savings and the comfort to focus solely on their production.

Realise value for shareholders
MYCELX seeks to gain widespread adoption for its applications to realise the full value of its technology.

Our Investment Case – Four key points to know about MYCELX

1 Proven Technology Differentiator

Own patented polymer technology we leverage as the differentiator in critical water treatment solutions



2 Defined Lucrative Markets

Our three core markets are large, highly lucrative and require advanced technology

MYCELX projects generate recurring, cumulative revenue

We sell, lease or retro-fit equipment that houses our unique media then benefit from media sales on a recurring basis in most cases for years to come.

3 Recurring Revenue Model

Our systems deliver reliable and elevated performance tackling the most difficult contaminants in industry

PFAS Remediation

Equipment sales or lease

Recurring media sales

Direct sales and Strategic Partners

O&G Water treatment – REGEN

Equipment sale, lease or retro-fit

Recurring media sales

Direct sales and Strategic Partners

Downstream – Petrochemical

Lease and operate installations

Recurring media and bundled services

Direct to End Users

4 Consistent High Gross Margins and Blue Chip Client Base

The 10-year average gross margin for sales of MYCELX equipment and media is 47.6%

PFAS Remediation

Emerging market globally

Trials with Blue Chip environmental engineering water treatment companies, and landfill owners

Expect > 45% GM

O&G Water treatment – REGEN

Established installations offshore with global oil companies and National Oil Companies ('NOCs')

New installations for EOR production in MENA with NOCs

High volume media sales with > 45% GM

Downstream – Petrochemical

Established footprint in KSA with SABIC and independent plants

Bundled services > 45% GM

Our Core Markets

PFAS – Global threat to human health and the environment

MYCELX offers advanced technology to treat water contaminated with the 'forever chemicals'

Reducing Health and Environmental Impact

- PFAS represents a significant environmental and health hazard
- Greater awareness of dangers to health from PFAS 'Toxic timebomb' with increased press coverage in U.S. and U.K.
- Recent EPA regulatory updates indicate limits are becoming more stringent and remediation must happen
- Studies in North America and Europe reveal how prevalent PFAS contamination has become due to 20 years of significant use and delayed response

MYCELX is critical to solving the PFAS threat

Comprehensive & future proof:

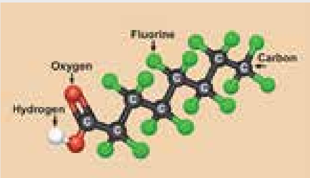
- MYCELX removes ALL PFAS analytes – so is able to provide a complete solution
- MYCELX offers a cost-efficient solution that requires less energy and generates less waste
- Other technologies leave some PFAS compounds behind which means continued contamination
- Up to 50% cheaper than alternative and incomplete solutions

Greater efficiency:

- Smaller footprint for MYCELX system compared to tank farms required by conventional approach
- Significantly less solid waste generated for incineration

PFAS – A Global Environmental Crisis

Growing realisation of the scale of the problem



Persistent

- 'Forever Chemical' that does not naturally degrade
- Destruction requires incineration at over 1,100˚C

Bioaccumulative

- Accumulates in the body
- 98% of Americans have detectable levels of PFAS in their bodies

Mobile

- Ubiquitous – quickly reaches groundwater and seawater
- Detected in all 50 U.S. States

Hazardous

- Toxic at <70ppt (less than 4 drops in 20 Olympic-sized swimming pools)
- Linked to cancers
- Endocrine disruptor

- Manmade synthetic organic compounds that do not naturally degrade over time
- Used in fast-moving consumer goods internationally such as Teflon-coated goods, takeaway containers and clothing since 1930s, as well as AFFF (firefighting foam)

Current Target Market:

$200m/year

Initial focus on Landfill Leachate as fastest entry into

$14bn PFAS Market

Targeting Lucrative Markets: PFAS

Landfill Leachate

- 3,000 active U.S. landfills
- >95% have PFAS contamination and >50% in breach of EPA PFAS levels
- U.S. Landfill market is worth >$30bn p.a.
- U.S. Landfill Leachate Treatment market estimated at $2bn p.a.
- Targeting <10% of landfills via channel partners
- Eligible for U.S. Gov $10bn funding support

Industrial Waste

- Highly complex water given mix of industrial and PFAS
- Can leverage off our Downstream capabilities
- Relevant portion of Industrial Water Treatment market is worth ~$4bn p.a.
- Opportunity to treat point source within industrial sites

Municipal Water

- ~155,000 Public Water Systems and 14,000 wastewater facilities in U.S.
- Extensive industry certification required
- MYCELX has significant advantage over current technologies deployed (GAC & IX)
- Relevant portion of Municipal Water Treatment worth $2bn p.a.

Residential Use

- Growing market given increasing media coverage of PFAS risks
- Extensive industry certification requirements
- Address the 82 million U.S. household market (worth >$3bn p.a.) via leading market provider

DoD Groundwater

- Significant funding for remediation efforts for water and soil (>$3bn)
- Access is via established DoD vendors
- Trial work undertaken successfully

Our Core Markets continued

REGEN – Advanced water treatment for Enhanced Oil Recovery Production

REGEN enables Oil and Gas companies to significantly improve their water management

Combined REGEN market opportunities of

$300m/year

Application:	Impact	MYCELX advantage:
EOR Market	• Oil & Gas producers are increasingly using EOR production as reservoirs age • Some EOR techniques consume 30–50% less water • However, EOR produced water is **harder to treat which means current treatment systems are often inefficient or ineffective** • Existing production infrastructure can be upgraded with MYCELX's proprietary retro-fit package • Retro-fit can increase production by 20-30% • Polymer used in EOR production remains in the produced water which can be reinjected	• Proven to treat EOR produced water to enable it to be reused which saves water • Can increase throughput by 30% • Patent pending retro-fit package enables use of existing equipment
Beneficial Reuse	• Oil & Gas producers are focused on **increasing beneficial reuse** of water from production activity • MYCELX has been involved in trials in the U.S. with a global producer to forge the most effective solution • Successful treatment will reduce pressure on scarce water resources	• Successfully trialled in the field by a supermajor for reuse in California • Superior removal capability of REGEN (>95% O&G @ 5micron) • Produced water volumes are increasing and REGEN's improved flowrates reduce additional capex requirements
<5ppm discharge	• REGEN enables producers looking to discharge into shallow waters in compliance with regulations • Where water cuts are high, **inability to handle produced water is impacting production** • MYCELX has installations in Nigeria that deploy REGEN to enable the producer to safely discharge overboard to specifications • Better-treated produced water can improve production recovery and reduce water demand	• Proven to treat produced water to meet strict 5ppm discharge limit • No additional chemicals required • Low power requirements and small footprint

Targeting Lucrative Markets: REGEN

EOR Market

- Secured long-term REGEN EOR projects with leading NOCs
- As fields mature, move to EOR techniques will increase and existing infrastructure will not be fit for purpose
- Current focus is on EOR producers in Middle East and North America
- Targeting $100m p.a. of potential sales

Current Target Market:
$100m/year

Beneficial Reuse

- Total Produced Water from U.S. operations: 19 billion barrels p.a.
- California's salinity is the most amenable for beneficial reuse and accounts for 3.1bn bbls a year
- Around 72% of Californian Produced Water is suitable for reuse for EOR or Irrigation
- Targeting $150m p.a. via channel partners

Current Target Market:
$150m/year

<5ppm discharge overboard

- DPR approval for shallow water discharge in Nigeria creates significant water treatment opportunities
- Building on three existing installations to expand footprint
- Currently targeting market of $50m p.a.

Current Target Market:
$50m/year

Our Core Markets continued

Downstream Middle East – Tackling the most difficult water streams

Reducing the environmental impact of Downstream processes by deploying MYCELX solutions

Application:

Wastewater Treatment Applications:

- O&G
- BTEX
- Ammonia
- Groundwater
- Rapid Response
- Turnaround

Impact

- Due to the strict regulations imposed by the Royal Commission, it is often not possible to dilute contaminated water down to the specifications acceptable for discharge
- Wastewater is often hauled off by truck or discharged into the sea
- The hauled off water is then mixed into large waste treatment ponds creating more complexity and inefficiency
- In addition to generating hazardous wastewater, contamination can be emitted into the air which can pose a threat to workers and residents living in the surrounding areas

MYCELX advantage:

- Point source treatment of contamination is more cost-efficient and allows water to be reused at site
- More robust capability than conventional technologies, able to handle operational variability
- Over 10 years of operational expertise treating downstream water sources
- Rental equipment fleet in Saudi Arabia allows for Rapid Response to clients' needs
- Size of equipment allows for easy deployment in petrochemical plants

MYCELX has years of experience successfully treating wastewater in the Middle East

Current target market

$100m/year

Targeting Lucrative Markets: Downstream Middle East

Wastewater Treatment

- Global Contract for wastewater treatment secured with leading petrochemical company in KSA
- Recognised by Royal Commission as Best Available Technology for wastewater contamination removal
- Relevant Wastewater Treatment market for current contamination removal worth $100m p.a.

Current Target Market:

$100m/year

Other Downstream & Upstream Applications

- Potential to grow as further applications are developed to address more contaminants
- As seawater discharge options are reduced, the need to treat on site will increase
- Additional Downstream applications could be worth >$200m p.a.
- Potential applications in the Upstream are also significant

Potential Target Market:

$200m/year

Waste Management Companies

- Assisting waste management companies to treat hazardous waste streams from different industries at treatment centres
- Exploring projects with several waste management companies currently
- Potential value of such collaborations could be worth $100m p.a.

Potential Target Market:

$100m/year

Municipal Water Companies

- Optimising water treatment at large-scale municipal water centres in KSA
- Pre-Reverse Osmosis support and upgrading obsolete technologies at extensive Desalination works in KSA
- Potential market value to be determined

Potential Target Market:

TBD

Chief Executive Officer's Statement

Intense focus on our three core markets in 2022 has produced a range of contract awards into 2023

Connie Mixon
Chief Executive

I am pleased to report that MYCELX continued to make solid progress in 2022 securing high-quality contracts in the Middle East in EOR and REGEN, and the petrochemical market. Laying critical groundwork in the PFAS remediation market was a top priority and is accelerating in 2023.

During the period and into 2023, we remain committed to further penetrating our three core markets of focus; PFAS remediation, our REGEN product for Enhanced Oil Recovery ('EOR') and Middle East downstream. I am pleased to report that substantial progress has been made in our core markets as evidenced by the range of new awards we have won.

In the Middle East, we made a strong start to 2022 with a contract extension signed in Q1 and an emergency response system, which was operational in Q2 2022. Furthermore, in Saudi Arabia, the Company commenced a rapid response project, the fifth ammonia removal installation undertaken with a global leader in fertiliser production. In addition, due to the superior results delivered by our technology, a project extension with a leading independent petrochemical company was secured. The aforementioned projects were sufficient to ensure the Company achieved its 2022 financial guidance.

The Company continues to generate momentum in Saudi Arabia with the conversion of an emergency response project into a longer-term deployment and a new project win to treat some of the most contaminated industrial wastewater in the country. Given Saudi Arabia has significant growth plans, we look forward to further establishment of our product offering in the region, not only in the downstream market, but upstream as well with our unique REGEN product for EOR.

During the period MYCELX was pleased with the number of REGEN-related orders secured, including a successful EOR trial with a major producer in the Middle East. A REGEN produced water system was also installed and commissioned in Nigeria, a region that we continue to focus on. In February 2023, we secured our second REGEN project to a National Oil Company in the Middle East for water treatment during EOR production.

Our unique REGEN offering has proven to outperform other technologies when applied to treatment for EOR water. Given the number of regions across the world where EOR production is either stable or increasing, this technology will continue to be in demand to tackle all of the wastewater operational issues associated with this type of production. Again, further evidence of our efforts to help our customers achieve the highest of environmental standards.

The PFAS remediation market remains one of the most exciting areas for MYCELX. This is a widespread global human health and environmental issue, and one that many governments have yet to acknowledge. Given that our technology is already installed and performing in Australia paves the way to success in the U.S. and globally. In August 2022, we hired an experienced Business Development Director for the PFAS segment of our business which has accelerated securing trials and a lease-to-own contract.

The work we did in 2022 is now reaping rewards. We targeted a number of global water treatment companies, environmental engineering firms and U.S. water treatment companies building relationships through technical webinars and presentations. We believe adoption of our PFAS solution will be accelerated with strategic partnerships we form in the early stages of trials and technology vetting. Since then, in 2023, we signed a six-month paid trial for treatment of PFAS contaminated leachate from a solid waste landfill in the United States. Then in March, we were pleased to secure two pilot testing agreements for PFAS remediation of landfill leachate in the U.S. A successful outcome at these paid trials will boost our position as the industry leader in PFAS remediation, but it will also enable us to leverage the successful sites and gain further market share with new contract wins.

As seen with the recently announced project wins, we are focusing on projects that have shorter cash conversion cycles, with longer total durations. Projects of this nature ensure regular cash flows that can support MYCELX's working capital requirements. Maintaining healthy operating margins on the projects we are involved in is also a priority for the Company, as we will continue to build our cash position.

In January 2022, we were pleased to announce that MYCELX was awarded the Green Economy Mark by the London Stock Exchange. The award validates the Company's claims that its product offering is supporting the transition to a low or net zero economy by enabling companies to reduce their impact on the environment. At a time when ESG-related themes are at the front of investors' minds, we believe that our commitment to providing technologies that have a positive impact on the environment remains strong.

I would like to thank the MYCELX team and Board for their diligence and hard work during the period and into 2023. The targeting of our three core markets, along with the focus on strategic partnerships, is building momentum, producing results, and is designed to generate substantial returns for our investors.

"MYCELX is uniquely equipped to help its industrial clients fulfil their commitments to more environmentally sustainable processes with technology that saves water, uses less energy and results in less waste.

Following the strong start we have made in 2023, we look forward to updating the market on further developments over the coming months.

Connie Mixon
Chief Executive
17 May 2023

Our Technology and Approach

MYCELX solutions are tackling some of the most demanding water treatment problems in the industry

The MYCELX polymer that we developed and subsequently patented has unique properties not found in other polymers. These properties enable our water treatment solutions to perform more effectively in removing contaminants from difficult water streams with less waste generation and in a smaller footprint.

This core technology has been coupled with other MYCELX proprietary technology to expand the scope of applications available to us. Our technology is based on molecular cohesion to remove hydrocarbons and PFAS chemicals from water to customer and regulatory specifications.

The processed, clean water can be reused at site or discharged back to the original water source with no environmental impact.

By removing contamination at the molecular level, MYCELX solutions have advantages over conventional physical separation methods in terms of performance, cost and footprint required.

MYCELX technology can achieve hydrocarbon removal to less than 1 ppm if required or tailored for specific discharge levels and contaminant removal as well as operational run time.

Its PFAS solution deploys the MYCELX polymer in concert with a specialised media to achieve full removal of all PFAS contaminants to non-detectable levels.

1 REVOLUTIONARY TECHNOLOGY

The polymer is the backbone technology that supports numerous critical water treatment applications worldwide and is protected by 36 global patents. It is infused into purpose-built back-washable media, specialised media, and standard filters.

2 STANDARDISED EQUIPMENT

Our proprietary medias are housed in standardised equipment to remove the most difficult contaminants in industrial water streams such as offshore oil production.

3 ENGINEERED SOLUTIONS BASED ON EXTENSIVE WATER EXPERTISE

Our engineers design tailor-made systems which meet our customers' requirements in terms of overall economics, frequency of media changeouts and whether they wish us to handle maintenance of the installation.

4 ENHANCED CUSTOMER PERFORMANCE

The end result is hydrocarbon or PFAS free water that allows MYCELX's clients to consistently meet their discharge requirements, regulations, cost savings and improve production uptime.

Our Business Model

We deploy our key assets to generate revenue on a recurring basis providing unique advantages not found in competing equipment or technology

Our key assets


Technology and IP


In-house Expertise


Fixed Assets


Reputation & Relationships

How we make money

Recurring Media
Our projects deploy equipment that leverages our patented technology which has superior contaminant removal capabilities and must be periodically replaced.

Design
We leverage our patented technology to design and engineer robust treatment systems that meet the client's specific contamination removal needs.

Capital Sales
Ongoing equipment and retro-fit sales that deploy our proprietary media.

Rental Fleet
Leases with bundled services operated 24/7 that provide long-term solutions to critical water problems.

...Our competitive advantages

- Patented Technology
- Best-in-class Performance and Competitive Pricing
- Smaller Footprint
- Better Understanding of Water Characteristics
- Strong Reputation and After-Sales Support
- Problem-Solving Attitude and Continuous Improvement Approach
- Strong R&D Capability

We are driven to improve the environment through science and technology, and create long-term value for our stakeholders

Driven by our clear purpose & values

Our Purpose
To reduce the environmental impact of industry and improve sustainability through science and our unique technology.

Our Vision
MYCELX aims to be the new standard in clean water treatment.

Our Aims and Values
- Safety
- Protect the Environment
- Cost-Effective Solutions
- Performance Optimisation
- Value Creation for Shareholders

...Value we create for all stakeholders

Clients
Provide environmentally beneficial water treatment that ensures the client meets their sustainability goals. Consistent superior performance lifts the performance and lowers maintenance and repair costs. A better understanding of the water characteristics allows them to manage their water challenges more cost-effectively.

Shareholders
Our robust business model has enabled MYCELX to grow into a company with a strong reputation and industry traction. As broad adoption is achieved, it will be possible to unlock further potential value for all stakeholders.

Local Communities
Benefit from the improved environmental standards, and MYCELX full support for local content initiatives in terms of employment and supply chain creation/local manufacture.

Employees
We are committed to develop and train our people and to keep them safe and healthy. As and when further business growth is achieved, additional opportunities will become available for our employees.

Environment
Our smart solutions mean that clients can meet stricter environmental regulations cost-effectively – improving overall adherence and protection.

Our Strategy

Strategic partnerships are key to accelerating and growing our footprint in PFAS, REGEN and Middle East Downstream

A Strategy Focused on Growth

MYCELX has developed a range of key applications across its three core markets and has pursued a focused strategy to gain widespread adoption by first proving technical superiority, usually through in-field trials, then gaining industry acceptance with installations or awards and finally leveraging those installations into partnerships to scale faster.

Our strategic relationships are built on our ability to fill technology and performance gaps of existing or new build projects, lowering their costs and the environmental impact of operations. The Company is currently working with global strategic partners in the Oil and Gas REGEN market and engaged with several global engineering and water treatment companies in the PFAS market.

In Downstream, SABIC awarded a Global Contract status to MYCELX based on our years of reliable higher performance over competitors. This cemented our technical, solution provider relationship.

Our key markets are well suited for strategic partnerships and to sell direct as we have in the Downstream petrochemical market. Each market is large with volumes of water to treat that require advanced, effective technology. In the case of the PFAS remediation market, water treatment in many applications will go on for years making it a major focus of the Company. In EOR oil production using REGEN, better water management creates water savings in some of the most water-starved regions of the world. In the U.S., the global integrated oil companies are working on beneficial reuse of produced water which can also provide water in areas where water is scarce. Leveraging our technology with our relationships gives the Company opportunities to build strategic partners and be a part of their global sales and marketing platforms.

Pathway to Value: PFAS Opportunities

Building momentum by addressing Landfill Leachate Market

PFAS Application Identified

- MYCELX team approached about treatment of PFAS by Australian partner that had success at HMS Stirling and Supermajor in Australia

2022

Success in the field

- MYCELX hired experienced PFAS Business Development Director
- Successful Paid Trial with Landfill Leachate with option to extend

Secure Channel / Strategic Partner

- Secured a lease-to-own project with leading Waste Management company

2023

Three key trials awarded since January 2023

Recognised as Best Available Technology

Forthcoming goals:
- Secure Channel Partners and recognised as the best complete solution for PFAS removal

System Optimised/ Approved

Forthcoming goals:
- Obtain industry certification for access to other PFAS markets

Expand Footprint and entry into adjunct markets

Pathway to Value: REGEN

REGEN Applications Identified

- Superior TSS and O&G removal down to 4-micron level, demonstrated in lab testing work
- Potential to replace Nutshell Filters in various applications:
  - EOR
  - 5ppm discharge
  - Beneficial Reuse

2014

Success in the field

- Successful trial installations at leading NOC companies in Middle East, Canada and U.S.

Secure Channel / Strategic Partner

- Channel partners for cEOR secured in 2016 – SLB & SNF
- For 5ppm discharge – Neconde
- For Beneficial Reuse – Chevron

2016

2018–2019

System Optimised

- Engineering design improvements to make the REGEN system more efficient in terms of flow rate and backwash generation
- Retro-fit package for existing vessels designed and engineered

Recognised as Best Available Technology

- Approved technology for Polymer Flood application by NOC
- Awarded final DPR approval for discharge into shallow waters in Nigeria

- Expecting first commercial sale for Beneficial Reuse

2023

- Patent pending retro-fit package sold to NOC

Expand Footprint and entry into adjunct markets

- EOR producers communicate on best technologies
- Discussions with Nigerian Oil Industry to spread REGEN usage across the OMLs
- Beneficial Reuse is a key focus area for water conservation by leading IOCs in U.S.

Pathway to Value: Downstream Middle East

Wastewater Application Identified

- MYCELX's superior Oil and BTEX removal made it perfect for applications in Downstream plants where highly contaminated wastewater must be treated prior to discharge

2011

Success in the field

- Successful trial installations at leading NOC companies in Middle East, Canada and U.S.

Secure Channel / Strategic Partner

- Consistent on-spec performance means that MYCELX is recommended by SABIC to Royal Commission and others to address wastewater challenges

2013–16

- 15 POs awarded over three years

2017–18

System Optimised

- During Rapid Response deployments in 2017–18 when faced with worst contamination levels seen to date, we further optimised the wastewater system for cost-efficiency and performance

Recognised as Best Available Technology

- Awarded wastewater Global Contract by SABIC in 2021

2021

- Global Contract for Wastewater treatment across all SABIC's 26 affiliate companies

Expand Footprint and entry into adjunct markets

- Waste Management Companies
- Other Downstream & Upstream Applications
- Municipal Water Treatment Companies

Financial Review

Due to increased demand in the Middle East and growth in legacy media sales, we saw revenue rise 18% to $10.0 million for 2022, compared to $8.5 million for 2021. Revenue from equipment sales and leases decreased by 5% to $3.6 million for 2022 (FY21: $3.8 million) and revenue from consumable filtration media and service increased by 36% to $6.4 million (FY21: $4.7 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 increased by 33% to $4.4 million during the year, compared to $3.3 million in 2021, and gross profit margin increased to 44% (FY21: 39%).

Total operating expenses for 2022, including depreciation and amortisation and the gain on sale of property and equipment, increased by 67% to $8.0 million (FY21: $4.8 million). Operating expenses in 2021 were reduced by a financial gain of approximately $2.6 million from the sale of the Company's building in Duluth, Georgia, U.S.

The largest component of operating expenses was selling, general and administrative expenses, which increased by approximately 10% to $7.6 million (FY21: $6.9 million) due to moving expenses, maintenance on lease equipment and payroll tax credits that did not extend to 2022. Depreciation and amortisation within operating expenses increased by 2% to $210,000 (FY21: $205,000).

EBITDA was negative $2.5 million, compared to $19,000 in 2021. Normalised EBITDA excluding the sale of the Company's building in Duluth, Georgia was negative $2.5 million in 2021. 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 $3.6 million in 2022, compared to a loss before tax of $1.1 million in 2021. The 2021 net loss included the $2.6 million gain the Company recognised on the sale of its building. Without the gain, net loss would have been $3.7 million in 2021. Basic loss per share was 17 cents in 2022, compared to basic loss per share of 7 cents in the previous year.

As of 31 December 2022, total assets were $13.6 million with the largest assets being inventory of $3.7 million, property and equipment of $3.2 million, $2.8 million of accounts receivable and $1.7 million of cash and cash equivalents including restricted cash.

Total liabilities as of 31 December 2022 were $2.8 million and stockholders' equity was $10.8 million, resulting in a debt-to-equity ratio of 26%.

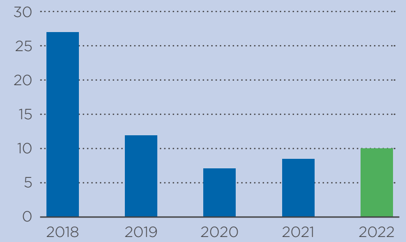
In March 2022, the Company completed the closing of a Placing of 3,539,273 Common Shares at a price of US$0.66 (50 pence) per new share raising gross proceeds of approximately $2.3 million before expenses. The Company incurred costs in the issuance of these shares of approximately $267,000. The proceeds from the transaction were used to accelerate the commercialisation of the Company's PFAS remediation system in the U.S. and in order to support working capital across the Company's core markets.

The Company ended the period with $1.7 million of cash and cash equivalents, including restricted cash, compared to $3.2 million in total at 31 December 2021. The Company used approximately $2.7 million of cash in operations in 2022 (FY21: $3.4 million used in operations) and $800,000 was used in investing activities (FY21: $5.1 million provided by investing activities). Proceeds from the Placing of Common Shares contributed $2.0 million provided by financing activities.

Kimberly Slayton
Chief Financial Officer
17 May 2023

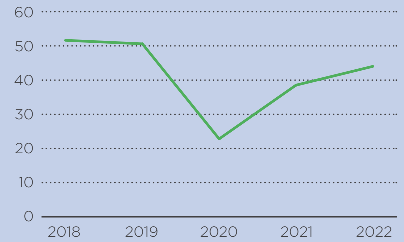
GOALS & KEY PERFORMANCE INDICATORS

Revenue ($m):



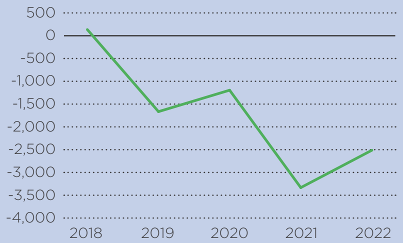
Revenue was impacted by increased demand in the Middle East and growth in legacy media sales.

Gross Margin (%):



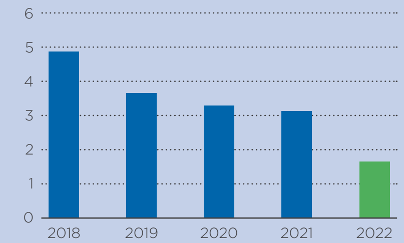
Gross margin continued to improve.

Cash Flow from Operations (US $000):



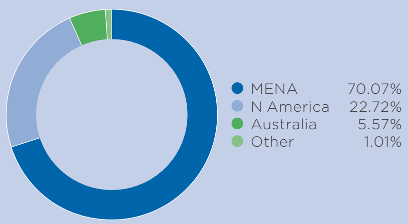
The Company continued to manage costs while also investing in strategic market initiatives.

Cash and Cash Equivalents ($m):



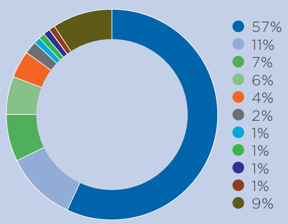
The Company continues to preserve the cash position whilst supporting revenue-generating growth activities.

Geographical Diversity



The geographical split of revenues reflects market conditions as well as successful Company business development efforts to grow footprint in other geographies.

Client Diversity



Currently top 10 customers make up 91% of Company revenue. These large customers are industry leaders. As we pursue our strategy of gaining industry acceptance and critical mass, the client mix will improve as a consequence.

Principal Risks and Uncertainties

RISK	DESCRIPTION	MITIGATION
Additional Funds	Should the Company require additional funds in order to carry out its strategy, there can be no assurance that the Company will be able to raise such additional capital on favourable terms or at all.	Following the fundraise in early 2022, the Company has adequate cash to meet working capital needs.
Retaining Key Personnel	The contribution of the existing Executive Directors, senior management team members and certain key employees to the immediate and near-term operations of the Company is likely to be of central importance to the Company's future success and growth.	The Company continuously monitors and reviews compensation and benefits offered to its employees. The Company desires to have competitive remuneration and benefit plans in place to reward and retain key individuals.
Existing Products and Service Optimisation	The future success of the Company will depend on its ability to enhance its existing products and services, address the increasingly sophisticated and diverse needs of its customers and respond to technological advances and emerging industry and regulatory standards and practices on a cost-effective and timely basis, specifically including further development of the REGEN market for which the Company holds significant inventory as disclosed in the financial statements.	The Company seeks and acts upon feedback from its customers and potential customers through various means including professional societies, industry conferences, trade shows and direct queries. The Company is continuously developing intellectual property to commercialise new products.
Reliance on Certain Key Manufacturers	The Company relies on certain key manufacturers for the fabrication of the Company's equipment in accordance with the specifications of the Company's customers.	To attempt to manage this risk, the Company has expanded the number of manufacturers it uses that are capable of conducting manufacture on similar terms. However, any disruption in the Company's relationship with a manufacturer could affect pending orders placed with that manufacturer and result in transition costs and delays.
Competitive Market	The Company operates in a competitive market and it can be expected that the competition will continue and/or increase in the future both from established competitors and from new entrants to the market. The Company's competitors include companies with greater financial, technical and other resources than the Company.	The Company is pursuing a growth strategy to continuously increase its financial and technical resources. The growth strategy includes partnering with companies with complementary technologies to expand scope and leverage relationships to garner more business.
Customer Diversification	The Company receives a significant portion of its revenue from one customer through multiple system installations at several of the customer's plants.	While the individual plants operate autonomously, any disruption in the Company's relationship with this customer could result in reduced revenue. The installations at this customer's various plants are performing critical functions and any stoppage of the Company's systems could have a severe impact on production and therefore it is unlikely that the customer would want to disrupt the relationship. Furthermore, the Company is pursuing a growth strategy that will diversify its customer base.
Oil & Gas Industry Cycles	Historically, the oil and gas industry has been subject to 'boom-and-bust' cycles. Recession-induced downturns can affect the development of various oil and gas projects, particularly high-cost projects such as those relating to oil sands, deepwater offshore and liquefied natural gas. High-cost oil projects like deepwater offshore and oil sands typically depend on high oil prices. The market price of oil is affected by numerous factors which are beyond the Company's control. Should oil prices fall and remain low for a prolonged period for any reason, high-cost oil projects may be scaled down, deferred or cancelled.	The Company's primary customers are located in the lowest quadrants of their respective industry curves, which provides them with some insulation against oil and related feedstock price declines. Furthermore, the Company is continuously developing intellectual property to commercialise new products for other industry sectors to broaden its client and market base.
Geopolitical Risk	Historically, oil supply is subject to periodic disruption due to political unrest or insurrection, sabotage or terrorism, nationalist policies, accident or embargo. These events generally prove to be transient; however, they can cause material reductions in production and are often difficult or impossible to predict. A disruption in oil supply can cause significant fluctuations in oil prices which, in turn, could have a material adverse effect on the Company's business.	Although the Company has significant revenue from the oil and gas industry, it is focused on growing other market segments and is continuously developing intellectual property to commercialise new products.

Board of Directors

Committee Membership key

- Audit Committee
- Compensation Committee
- Nomination and Governance Committee
- Executive Committee

Tom Lamb
Non-Executive Chairman

Committee Membership

Appointed
2019

Background & Experience
Mr. Lamb joined the MYCELX Board in July 2019 as a Non-Executive Director, and is currently Company Chairman, Chairman of the Nomination Committee and a member of the Audit and Compensation Committees. He was appointed Non-Executive Chairman by the Board in July 2021. Mr. Lamb has a wealth of strategic and operating expertise in the industrial and technology sectors, having spent over 30 years driving organic growth and leading businesses in multiple international settings. He has served in several executive leadership roles in public and private companies and his previous experience includes Chairman and CEO of Agilex Flavors and Fragrances, President and CEO of C.P. Kelco/J.M. Huber Corporation and Executive VP of Lexmark International. Mr. Lamb has also served on the boards of several for-profit companies in chemical, technology and healthcare spaces. Mr. Lamb received an MBA from the Stanford Graduate School of Business and a BA in Economics from Union College in Schenectady, New York.

Current Appointments
Mr. Lamb serves on a number of corporate and not-for-profit boards.

Connie Mixon
Chief Executive Officer and Director

Committee Membership

Appointed
2004

Background & Experience
Ms. Mixon joined MYCELX in 2004 and was responsible for rapidly developing the commercial and financial infrastructure to provide MYCELX products to a global customer base. In 2011, Ms. Mixon led the Company's Initial Public Offering on the AIM market of the London Stock Exchange and the subsequent expansion of MYCELX into the Middle East Downstream O&G market, its core business for over a decade. Prior to joining MYCELX in 2004, she was a Director for Global Markets for Deutsche Bank. Her career with investment banks included pioneering Deutsche Bank's institutional presence in the southern region of the United States. Before her tenure at Deutsche Bank, Ms. Mixon was Vice President at Donaldson, Lufkin & Jenrette. Ms. Mixon holds an MBA from the Goizueta Business School Emory University and a BA in politics from Wake Forest University.

Current Appointments
None.

Haluk (Hal) Alper
President, Chief Science Officer and Director

Committee Membership

Appointed
1994

Background & Experience
Mr. Alper co-founded the Company with John Mansfield Sr. in 1994. An inventor of chemistries and chemical processes, he has authored and been granted numerous patents in the areas of electrochemistry, polymer chemistry, and environmental technologies, including approximately 70 for MYCELX oil removal chemistry and related applications.

A published author with over 50 scientific and technical papers to his credit, Mr. Alper is a member of numerous professional societies, including NYAS (New York Academy of Sciences), AAAS (American Association for the Advancement of Science), ASNE (American Society of Naval Engineers), SNAME (Society of Naval Architects and Marine Engineers), NDIA (National Defense Industrial Association), AFS (American Filtration and Separations Society), ACS (American Chemical Society) and AICHE (American Institute of Chemical Engineers).

Current Appointments
Mr. Alper is a recipient of the 2005 Ronald Reagan Gold Medal from the National Republican Congressional Committee ('NRCC') for Technological Innovation, is on the Editorial Board of Filtration News Magazine and also serves on the Technical Advisory Board of Environmental Protection Magazine.

André Schnabl
Non-Executive Director

Committee Membership

Appointed
2019

Background & Experience
Mr. Schnabl joined the MYCELX Board as a Non-Executive Director and Senior Independent Director, and as Chairman of the Audit Committee and a member of the Compensation and Nomination Committees in January 2019. Mr. Schnabl was appointed Chair of the Compensation Committee in place of Mr. Lamb in December 2022. Mr. Schnabl is the managing principal of Tenor Capital Partners LLC, a boutique corporate finance firm focused on advising companies and shareholders in analysing, structuring and financing employee ownership through stock ownership plans. Prior to Tenor, Mr. Schnabl was the managing partner of the Atlanta office of Grant Thornton LLP, from which he retired in 2012. He joined Grant Thornton in Zimbabwe and also spent time in the firm's Montreal office before moving to the Atlanta office. Mr. Schnabl holds a Bachelor degree in Chemistry and Geology from the University of London and is a CPA.

Current Appointments
Mr. Schnabl serves on a number of corporate and not-for-profit boards.

Corporate Governance Statement

The Directors recognise the value and importance of high standards of corporate governance. The Company is incorporated in the State of Georgia, United States, and is governed by and complies with the Georgia Business Corporation Code ('GBCC'). There are a number of differences between the corporate structure of the Company and that of a public limited company incorporated in England under the Companies Act 2006. Whilst the Directors consider that it is appropriate to retain the majority of the usual features of a U.S. corporation, they intend to take certain actions to meet U.K. standard practice adopted by companies incorporated under English law and admitted to AIM.

The Company is committed to high standards of corporate governance and draws upon best practice available. Further to AIM Rule 26, the Board has determined to follow the QCA Code, published by the Quoted Companies Alliance, which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies. The following information is provided to describe how the Company applies the principles of that code and explain any departures from the specific provisions of that code. This review was originally carried out as at 21 September 2018, and updated on 17 May 2023.

The QCA's Ten Principles of Corporate Governance

The ten principles of corporate governance set out in the QCA Code and applied by the Company are as follows:

Deliver Growth

1. Establish a strategy and business model which promote long-term value for shareholders

MYCELX's business model and strategy can be found on pages 16 to 19 of this Annual Report.

2. Seek to understand and meet shareholder needs and expectations

At the Company's Annual Meeting, usually held in London, the Chairman and Chief Executive Officer are available before and after the meeting for further discussions with shareholders. A meeting with U.S. shareholders is also held annually. The Chief Executive Officer meets with institutional investors on various occasions during the year, primarily following the Company's Annual Results and Interim Results announcements. A number of such meetings took place in 2022 by way of video conference.

Further information on the 2023 Annual Meeting, which is scheduled to be held on 26 September 2023, is set out in the Notice of 2023 Annual Meeting, which is available on the Company's website.

Special arrangements were in place for the 2020 and 2021 Annual Meetings due to COVID-19.

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Company's website. The Company also uses its website to provide information to shareholders and other interested parties, subject to applicable restrictions of United States securities laws. The Chief Financial Officer and Secretary also deal with shareholder correspondence as and when it arises, and may be contacted through the address on the Company's website.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

Our business model which identifies the key resources and relationships on which the business relies can be found on pages 16 and 17 of this Annual Report.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company continues to face and address a number of risks and uncertainties, some of which are set out on pages 22 and 23 of this Annual Report.

The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness on an ongoing basis. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's strategic objectives, and cannot provide absolute assurance against material misstatement or loss. The key risk management processes and internal control procedures include the following:

- The involvement of the Executive Directors in day-to-day operations.
- Clearly defined responsibilities and limits of authority.
- A system of financial reporting, forecasting and budgeting. Budgets are prepared annually for the business based upon a multi-year strategic plan narrowed to a current year tactical plan to take advantage of current opportunities and address near-term risks. Reviews occur through the management structure culminating in a Company budget which is considered and approved by the Board. Company management accounts are prepared monthly and submitted to the Board for review. Variances from budget and prior year are monitored and the reasons for significant variances are reviewed.
- An ongoing process for identifying, evaluating and seeking to manage significant risks across the Company.

Maintain a Dynamic Management Framework

5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Board of the Company consists of two Non-Executive Directors with relevant experience to complement the two Executive Directors and to provide an independent view to the Executive Directors. The Non-Executive Directors are Tom Lamb (Chairman) and André Schnabl. The two Executive Directors are Connie Mixon (Chief Executive Officer) and Haluk Alper (President and Chief Science Officer).

Kimberly Slayton was appointed Chief Financial Officer on 16 March 2016, but is not a member of the Board of Directors.

Of the two Non-Executive Directors, Tom Lamb, who was appointed as a Director on 29 July 2019, was regarded as independent on appointment. Following his appointment as Chairman on 7 July 2021, the test of independence is not appropriate. André Schnabl, who was appointed as a Director on 1 January 2019, is regarded as independent and was appointed as Senior Independent Director on 1 January 2019.

The Company continues to have two independent Non-Executive Directors as required under the QCA Code. A high-level profile of a prospective additional Non-Executive Director has been completed, and the Board intends to engage in a search in due course.

6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board believes that, as a whole, it contains the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long term. Full details of the Directors are set out on pages 24 and 25.

Internal Advisory Responsibilities

The Company is incorporated in the State of Georgia, United States, and the role of Company Secretary is carried out by the U.S.-based Chief Financial Officer. An experienced qualified U.K.-based individual performs the role of Assistant Secretary, and provides a sounding board for the Board on U.K. regulatory issues. In addition, the Company relies on its external U.S. and U.K. advisers to provide additional advice when required, and to ensure the Directors are fully aware of their responsibilities as Directors of an AIM company.

There is a process for ensuring that any new Director receives advice, including from the Company's nominated adviser and external lawyers where appropriate, on his/her responsibilities as a Director of an AIM company, and the Board would ensure that any new appointee would benefit from a full induction programme.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Company has conducted an internal evaluation of the Board and its Committees, and their performance, annually since Admission to AIM in August 2011. Further information on the process used can be found below under QCA Principle 9 – Nomination and Governance Committee.

Succession planning at Board and Committee level, and of senior management, is formally reviewed on an annual basis. In addition, all Directors who wish to stand are subject to re-election at the Annual Meeting, and due consideration is given by the Nomination Committee as to whether individual Directors are recommended for re-election.

The Company regularly reviews the ongoing training requirements of Directors as part of the annual Board evaluation process, and Directors are encouraged to attend relevant training courses.

8. Promote a corporate culture that is based on ethical values and behaviours

The Board believes that the business culture is consistent with the Company's objectives, strategy and business model as set out in the Strategic Report and the description of principal risks and uncertainties.

The Board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected through the adoption of appropriate policies, including a Code of Ethics and Business Conduct, a Whistle-blower Policy, and a Policy on Equal Employment Opportunities.

In addition, in response to the Market Abuse Regulations ('MAR') which came into force on 3 July 2016, and which apply to AIM companies, the Company has adopted a Share Dealing Policy and Dealing Code which apply to all Directors and employees of the Company.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board met formally six times in 2022. All of the Board meetings were attended by all of the Board members.

Corporate Governance Statement continued

The Board has adopted policies in relation to a Schedule of Matters Reserved for Board Decision and the Separation of the Roles of Chairman and Chief Executive Officer, copies of which are available on the Company's website.

Board Committees

The Company has established an Audit Committee, a Compensation Committee, a Nomination and Governance Committee and an Executive Committee. The minutes of the committees are circulated to the Board, and the committee chairs also report to the Board on the outcome of committee meetings at the subsequent Board meeting. All of the committees annually review and re-adopt their terms of reference. The committees have the following roles:

Audit Committee

The members of the Audit Committee are André Schnabl (Chairman) and Tom Lamb. Meetings are held not less than three times a year, and take into account the work programme set out in the Audit Committee Guide published by the QCA. André Schnabl served as Chairman of the Audit Committee during the year ended 31 December 2022.

The role of the Committee is set out in its Terms of Reference which are available on the Company's website.

The Audit Committee met formally three times in 2022. The Committee meetings were attended by both Committee members. Further information on the work of the Audit Committee can be found on page 31.

Compensation Committee

The members of the Compensation Committee are André Schnabl (Chairman) and Tom Lamb. Mr. Schnabl was appointed Chair of the Compensation Committee in place of Mr. Lamb in December 2022. The primary duty of the Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors, the officers and such other members of the executive management as it is designated to consider. The remuneration of the Non-Executive Directors is a matter for the Chairman and the Company's Executive Directors. No Director or officer may be involved in any decisions as to their own remuneration.

Meetings of the Committee take place not less than three times a year. The Compensation Committee met formally three times in 2022. The Committee meetings were attended by both Committee members.

The Terms of Reference of the Compensation Committee are available on the Company's website. Further information on the work of the Compensation Committee can be found on pages 34 to 36.

Nomination and Governance Committee

The members of the Nomination and Governance Committee are Tom Lamb (Chairman) and André Schnabl. The Nomination and Governance Committee is responsible for identifying and nominating members of the Board, recommending Directors to be appointed to each Committee of the Board and the Chair of such Committees and overseeing the evaluation of the Board.

An internal evaluation of the Board and its Committees, and their performance, has been conducted annually since Admission to AIM in August 2011. The individual evaluation takes the form of interviews conducted by the Chairman with each Director. A performance evaluation of the Chairman is carried out by the Non-Executive Directors in conjunction with the Chief Executive Officer. Questionnaires covering the Board and each Committee are also completed by each relevant Director, and provide an opportunity to comment on Board and Committee procedures. The results of the 2022 evaluation were presented to the Board in January 2023, and any findings are followed up at subsequent Board meetings.

The Terms of Reference of the Nomination and Governance Committee are available on the Company's website. The Nomination and Governance Committee met formally three times in 2022. All the Committee meetings were attended by both Committee members. Further information on the work of the Nomination Committee can be found on page 33.

Executive Committee

The members of the Executive Committee are Connie Mixon (Chair) and Tom Lamb. The Executive Committee has the power to perform all functions of the Board between meetings of the full Board, except as otherwise provided by the GBCC.

Build Trust

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board ensures that the market is kept fully appraised of all material business developments through formal announcements. The Company announces the outcomes of all votes held at Annual Meetings.

Further information is shown under QCA Principle 2 above.

Kimberly Slayton
Chief Financial Officer and Secretary
17 May 2023

Directors' Report

for the year ended 31 December 2022

Principal Activities

MYCELX Technologies Corporation ('MYCELX' or the 'Company') is a clean water technology company, incorporated in the State of Georgia, United States, which provides novel water treatment solutions primarily to the PFAS remediation, oil and gas production, and petrochemical markets. MYCELX operates globally to deliver environmentally sustainable, low-cost solutions through sales of equipment and proprietary filtration media that can effectively treat PFAS-laden, produced, and downstream process water to the highest industry standards.

Future Developments

The Board aims to pursue its corporate strategies as detailed in the Strategic Report on pages 1 to 23.

Admission to AIM

MYCELX was admitted to trading on the AIM market of the London Stock Exchange on 4 August 2011, at which time 5,787,455 new Common Shares were placed to raise gross proceeds of approximately US$20 million.

On 9 December 2014, the Company received commitments under a U.S. private placement (the 'U.S. Placing') in accordance with Regulation D of the U.S. Securities Act of 1933, as amended, to subscribe for 468,773 Common Shares raising gross proceeds of approximately $1.1 million at a price of US$2.35 (150 pence) per new share.

On 10 December 2014, the Company completed a U.K. Placing of 4,826,296 new Common Shares of US$0.025 per value each with U.K. institutional investors at a price of US$2.35 (150 pence) per new share raising gross proceeds of approximately $10.7 million. On 5 January 2015, the Company completed the final closing of the U.S. Placing and issued 78,977 Common Shares at a price of US$2.35 (150 pence) per new share raising gross proceeds of approximately US$186,000. The Company incurred costs in the issuance of these shares of approximately $657,000.

On 27 February 2019, the Company completed the closing of a Placing of 577,246 Common Shares and a Subscription for 26,387 Common Shares, both at a price of 230 pence per new share, raising US$1.8 million before expenses. The Company incurred costs in the issuance of these shares of approximately $229,000.

On 21 March 2022, the Company completed the closing of a Placing of 3,539,273 Common Shares at a price of US$0.66 (50 pence) per new share raising gross proceeds of approximately $2.3 million before expenses. The Company incurred costs in the issuance of these shares of approximately $267,000.

Dividends

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

Directors

The following Directors held office throughout the year ended 31 December 2022 and up to the date of signing the financial statements.

Tom Lamb (Chairman)

Haluk (Hal) Alper (President and Chief Science Officer)

Connie Mixon (Chief Executive Officer)

André Schnabl (Non-Executive Director and Senior Independent Director)

Kimberly Slayton was appointed as Chief Financial Officer and Secretary on 16 March 2016. Ms. Slayton reports to, but is not a member of, the Board of Directors.

Biographical details of the Directors are shown on pages 24 and 25.

Election of Directors

Directors are elected annually at the Company's Annual Meeting of Shareholders.

2023 Annual Meeting

Further information will be set out in the Notice of 2023 Annual Meeting which will be mailed to Shareholders together with this Annual Report. Any change concerning those arrangements will be announced through the London Stock Exchange, and published on the Company's website.

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 34 to 36. It includes details of Directors' remuneration, interests in the Common Shares of the Company and share options.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 26 to 28.

Directors' Report continued

for the year ended 31 December 2022

Going Concern

Having considered the Company's funding position and financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and has prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, revenue forecasts and the latest working capital forecasts. These forecasts have been subject to sensitivity tests and the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. See Note 1 of the financial statements for further discussion.

Share Capital and Substantial Shareholdings

At 17 May 2023, a total of 22,983,023 Common Shares were outstanding. At 17 May 2023, the Company had received notification, or was otherwise aware, that the following are interested in more than three percent of the issued ordinary share capital:

Octopus Investments	23.02%
Connie Mixon	11.11%
Canaccord Genuity Wealth Management	11.06%
Hargreaves Lansdown Nominees	5.46%
Hal Alper	5.31%
Artemis Investment Management	5.30%

Directors' Statement as to Disclosure of Information to Auditors

The Directors who served as members of the Board at 31 December 2022 have approved this report. Each of these Directors confirms that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

During the year the Board engaged Deloitte & Touche LLP, who have indicated their willingness to continue in office. A resolution concerning their reappointment will be voted on at the Annual Meeting.

Directors Indemnity Insurance

All Directors benefit from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

By Order of the Board

Tom Lamb
Chairman
17 May 2023

Audit Committee Report

for the year ended 31 December 2022

Committee Members

The members of the Audit Committee are currently André Schnabl (Chair) and Tom Lamb. Meetings are normally held not less than three times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

Roles and Responsibilities

Under its Terms of Reference, which can be found on the Company's website, the Audit Committee reviews inter alia:

I. Monitoring the integrity of the Company's financial statements, including its annual and interim reports, preliminary announcements and any other formal statements relating to its financial performance, and reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain;

II. Reviewing the Company's internal financial controls that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;

III. Reviewing and making recommendations in relation to the adequacy and security of the Company's arrangements for its employees to raise concerns over compliance, whistleblowing and fraud; and

IV. Making recommendations to the Board in relation to the appointment, reappointment and removal of the Company's external auditor.

Committee Meetings

Meetings are attended by Committee members, and the Chairman, Chief Executive Officer, Chief Financial Officer and external auditors are invited as appropriate. The Committee normally meets at least once a year with the external auditors without the Executive Directors being present.

Both Committee members attended each of the three meetings held during the year ended 31 December 2022.

Financial Information

The Company prepares detailed budget and working capital projections, which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Financial Statements

The Audit Committee has considered the integrity of the Company's 2022 financial statements and reviewed the appropriateness of its critical accounting policies and the judgements made in applying them. The year-end financial statements were reviewed and discussed with Deloitte & Touche LLP, and the Committee concluded that in its view the statements were fair, balanced and understandable, and recommended their adoption to the Board.

Significant Areas

The significant reporting matters and judgements considered by the Committee during the year included:

- Going concern – see page 30, for consideration by the Board regarding going concern
- Valuation of assets (inventory)

Audit Review

The Audit Committee monitors the Group's relationship with the external auditor, Deloitte & Touche LLP, to ensure that external independence and objectivity has been maintained. The Committee has reviewed Deloitte & Touche LLP's audit process, the findings from the audit of the 2022 financial year, and the effectiveness of the external audit process. The Committee reviewed the quality and cost-effectiveness of the external audit, and the independence and objectivity of the auditors.

External Audit

Deloitte & Touche LLP have provided audit services to the Company since 2019.

The Audit Committee reviews annually the quality and cost-effectiveness of the external audit and the independence and objectivity of the external auditors. Audit performance is reviewed annually and audit partner rotation requirements are observed.

The Committee obtained confirmation from Deloitte & Touche LLP that their independence and ethics policies complied with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and the rules and standards of the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board, and that they are independent and maintain internal safeguards to ensure their objectivity. No contractual obligations exist that restrict the Company's choice of external auditor and the Committee is satisfied that the external auditor remains independent.

Audit Committee Report continued

for the year ended 31 December 2022

Non-Audit Services

The Committee has established policies determining the non-audit services that the external auditors can provide and the procedures required for approval of any such engagement, and on the engagement of any former employees of the auditors.

Deloitte & Touche LLP was engaged to perform the 2022 audit for fees of $185,000 (2021: $180,000) and was also engaged to perform tax work in Saudi Arabia and audit-related services in 2022.

Internal Audit

There is currently no formal internal audit function in place which the Audit Committee has concluded is appropriate given the size and complexity of the business and the mitigating controls in place. The Committee will continue to keep under review the need for the Group to introduce such a function.

Approved on behalf of the Audit Committee by:

André Schnabl
Chairman, Audit Committee
17 May 2023

Nomination Committee Report

for the year ended 31 December 2022

Committee Members

The members of the Nomination Committee are currently Tom Lamb (Chair) and André Schnabl (Senior Independent Director).

Committee Meetings

Meetings are held not less than twice a year and are attended by all Committee members. The Chief Executive Officer may also be invited as appropriate.

Both Committee members attended the three meetings held during the year ended 31 December 2022.

Roles and Responsibilities

Under its Terms of Reference, which can be found on the Company's website, the Nomination Committee inter alia:

- reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and makes recommendations to the Board with regard to any changes;
- gives full consideration to succession planning for Directors, officers and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeps under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace;
- reviews the results of the Board performance evaluation process that relate to the composition of the Board;
- considers the reappointment of Non-Executive Directors at the conclusion of their specified term of office;
- approves the re-election by shareholders of Directors under the annual re-election provisions of the Company's byelaws;
- reviews annually the time required from Non-Executive Directors and officers;
- considers Director independence under the Corporate Governance Code.

Diversity

As one of the duties of the Committee set out in its Terms of Reference (above), the Nomination Committee takes due recognition of the Company's commitment set out in its Equal Opportunities Policy which has been in place since Admission to AIM in August 2011:

"The Company provides equal employment opportunities to all employees and applicants without regard to race, color, religious creed, gender, sexual orientation, gender identity, national origin, ancestry, citizenship status, pregnancy, childbirth, physical disability, mental disability, age, military status or status as a Vietnam-era or special disabled veteran, or marital status.

In addition, the Company complies with applicable U.S. state and local laws, as well as international regulations, governing non-discrimination in employment in every location in which the Company has facilities. This policy applies to all terms and conditions of employment, including, but not limited to, hiring, placement, promotion, termination, layoff, recall, transfer, leaves of absence, compensation and training."

Significant Areas

The significant matters considered by the Committee during the year included:

- Ongoing reviews of the current structure, size and composition of the Board, including gender balance
- Ongoing reviews of succession plans for Executive Directors and Senior Management positions
- The potential appointment of a third Independent Non-Executive Director
- The appointment of André Schnabl to the position of Compensation Committee Chair in place of Tom Lamb

The Company continues to have two independent Non-Executive Directors as required under the QCA Code.

A high-level profile of a prospective additional Non-Executive Director has been completed, and the Board intends to engage in a search in due course.

Approved on behalf of the Nomination Committee by:

Tom Lamb
Chairman, Nomination Committee
17 May 2023

Directors' Remuneration Report

for the year ended 31 December 2022

As a U.S. incorporated AIM-listed Company, MYCELX is not required to comply with the following regulations: disclosure requirements of the Directors' Remuneration Report Regulations 2013; the UKLA Listing Rules; the disclosure provisions under schedule 8 to SI 2008/410 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Consequently, certain disclosures contained in these regulations are not included below.

The following disclosures are therefore made on a voluntary basis. The information is unaudited.

Remuneration Policy

The Company's remuneration policy is based on the following broad principles:

- to provide competitive remuneration packages to attract and retain quality individuals;
- to align the interests of management with the interests of shareholders; and
- to set the pay of the Executive Directors with due account taken of (i) pay and conditions throughout the Company and (ii) corporate governance best practice.

Remuneration Consists of the Following Elements:

Base Pay
Executive Directors' base pay is designed to reflect the role and responsibility of the individual within the Company. Salary levels are reviewed annually.

Annual Bonus
All Executive Directors and members of senior management participate in the Company's annual bonus scheme, which is based on the achievement of individual and Company performance targets. Annual bonuses are designed to incentivise performance and reward achievement in line with the agreed corporate strategy. Due to the continuing need for the Company to conserve its funds, no bonuses were paid in respect of 2022 to Executive Directors.

Long-term Incentives
The Compensation Committee considers that equity-based long-term incentive schemes are the most effective way to align the interests of participants and shareholders.

Service Contracts

Connie Mixon
Ms. Mixon entered into an employment agreement with the Company on 29 July 2011 to serve as its Chief Executive Officer and to serve on the Board of Directors and to serve as Chair of the Executive Committee. The employment agreement provides for, among other things: (i) salary of $325,000 and participation in the Executive Bonus Plan to be directed by the Compensation Committee; (ii) grant of 163,017 options to purchase Common Shares of the Company vesting ratably over a three-year period; and (iii) a two-year term (automatically renewing for successive one-year periods). The agreement may only be terminated by Ms. Mixon upon six months' notice or by the Company upon providing for one year's base salary as severance if she is terminated without cause or resigns for good reason. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

An increase in Ms. Mixon's base salary to $400,000 was approved by the Compensation Committee with effect 1 January 2019. As part of a programme to reduce costs, Ms. Mixon agreed to a reduction of 15 percent in base salary to $340,000 with effect 1 April 2019. In March 2020, Ms. Mixon agreed to a further reduction in base salary to $323,000 with effect 16 April 2020. Ms. Mixon's base salary was further reduced to $275,000 with effect 1 October 2020. On 1 January 2021, Ms. Mixon's base salary was partially restored to $350,000.

Hal Alper
Mr. Alper entered into an employment agreement with the Company on 29 July 2011 to serve as its President and Chief Science Officer and to serve on the Board of Directors. The employment agreement provides for, among other things: (i) salary of $225,000 and a technology incentive bonus between $75,000 and $150,000 per year; (ii) grant of 163,017 options to purchase Common Shares vesting ratably over a three-year period; (iii) a three-year term (automatically renewing for successive one-year periods) and no termination without cause by either party; and (iv) Company ownership of intellectual property developed by Mr. Alper: (a) until 4 August 2013; or (b) that relates to the Company's principal business or the mercury filtration technology, and a Company option to purchase any intellectual property developed by Mr. Alper that is developed after 4 August 2013 and does not relate to the principal business or the mercury filtration technology. The terms of purchase are that Mr. Alper will be entitled to receive three percent on gross sales of products relating to that intellectual property, six percent on license fees received by the Company for the license of such intellectual property and a non-refundable royalty equal to the amount of $100,000 for each new and distinct area of business covered by such intellectual property. The agreement provides for customary non-solicitation, non-compete and non-disclosure restrictions.

As part of a programme to reduce costs, the agreement with Mr. Alper was amended in September 2015 (i) to reduce Mr. Alper's base salary by 15 percent to $219,013 which is fixed for the period ending 15 September 2018; (ii) to replace the technology incentive bonus with an entitlement to a bonus in respect of each calendar year of employment as determined and administered by the Company's Compensation Committee; and (iii) to extend the term of the agreement for the three-year period ending 15 September 2018.

In September 2018, Mr. Alper's agreement was extended for another year and an increase in his base salary to $250,000 was approved by the Compensation Committee with effect 16 September 2018.

As part of a programme to reduce costs, Mr. Alper agreed to a reduction of 20 percent in base salary to $200,000 with effect 1 April 2019. In March 2020, Mr. Alper agreed to a further reduction in base salary to $190,000 with effect 16 April 2020. Mr. Alper's base salary was further reduced to $171,000 with effect 1 October 2020. On 1 January 2021, Mr. Alper's base salary was partially restored to $200,000.

Annual Re-election of Directors

All Directors are elected each year by the shareholders at the Annual Meeting, to serve until the next succeeding Annual Meeting and until their successors are elected and qualified, or until their earlier death, resignation or removal.

Directors' Remuneration

The Directors' Remuneration for 2022 was as follows:

	Salary And Directors' Fees $US	Benefits In Kind $US	Performance Related Bonus $US	**2022 Total $US**	2021 Total $US
Non-Executive Chairman					
Tom Lamb	$52,725	–	–	**$52,725**	$43,597
Tim Eggar*	–	–	–	**–**	$25,147
Executive					
Connie Mixon	$350,000	$17,508	–	**$367,508**	$367,295
Hal Alper	$200,000	$30,567	–	**$230,567**	$223,597
Non-Executive					
André Schnabl	$42,550	–	–	**$42,550**	$39,100

* For period 1 January to 7 July 2021.

Benefits in kind include medical and life insurance.

As part of a programme to reduce costs, Tim Eggar, André Schnabl and Tom Lamb agreed to a 15 percent reduction in Directors' fees with effect 1 April 2020.

The interests of the Directors at 17 May 2023 in the shares of the Company, not including interests of investment funds in respect of which the Director may have a managerial interest, and with respect to which such Director disclaims beneficial ownership, were:

	Number of Common Shares	Percentage of Issued Share Capital
Tom Lamb	292,175	1.27
Hal Alper	1,219,546	5.31
Connie Mixon (1)	2,552,636	11.11
André Schnabl	46,413	0.20

(1) The aggregate number of shares shown for Ms. Mixon includes: (a) 150,000 shares held by limited liability companies controlled by Ms. Mixon; (b) 202,646 shares held by or on behalf of Ms. Mixon's children; and (c) 10,000 shares which are held by the estate of her late husband Mark Mixon (0.05 percent of the issued share capital) as a custodian.

Directors' Remuneration Report continued

for the year ended 31 December 2022

Share Options

Options over Common Shares awarded to Directors under the Omnibus Performance Incentive Plan in place on 31 December 2022 were:

Option Holder	Type of Award	Date of Vesting	Exercise Price ($US)	Number of Shares
Connie Mixon	Employee Stock Option	1 January 2013	$3.44	54,339
		1 January 2014	$3.44	54,339
		31 December 2017	$0.75	20,000
		31 December 2018	$0.75	20,000
		9 April 2021	$0.69	210,000
Hal Alper	Employee Stock Option	9 April 2021	$0.69	70,000

No Director exercised any options over Common Shares during the year.

Tom Lamb
Chairman, Compensation Committee
17 May 2023

Directors' Responsibilities Statement

Under the GBCC, all corporate powers are exercised by or under the authority of, and the business and affairs of the corporation managed under the direction of, its Board of Directors, subject to any limitation set forth in the articles of incorporation. Under the GBCC, the corporation is required to prepare and disseminate to its shareholders, upon request, financial statements for each fiscal year. Consequently, the Company has prepared financial statements in accordance with Generally Accepted Accounting Principles in the United States ('U.S. GAAP').

Under the GBCC:

1. A Director shall discharge the duties of a Director, including duties as member of a committee, in a manner he or she believes in good faith to be in the best interests of the corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.
2. In discharging the duties of a Director, a Director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:
   a. One or more officers or employees of the corporation whom the Director reasonably believes to be reliable and competent in the matters presented; or
   b. Legal counsel, public accountants, or other persons as to matters the Director reasonably believes are within the person's professional or expert competence; or
   c. A committee of the Board of Directors of which the Director is not a member if the Director reasonably believes the committee merits confidence.
3. A Director is not entitled to rely if the Director has knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (2) above unwarranted.
4. A Director is not liable to the corporation or its shareholders for any action taken as a Director, or any failure to take any action, if the Director performed the duties of the Director's office in compliance with the foregoing.

André Schnabl
Chairman, Audit Committee
17 May 2023

Contents

Deloitte.

Deloitte & Touche LLP
191 Peachtree Street
Suite 2000
Atlanta, Georgia 30303
USA
Tel: +1 404 220 1530
Fax: +1 404 220 1530
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
MYCELX Technologies Corporation:

Opinion

We have audited the financial statements of MYCELX Technologies Corporation (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Deloitte & Touche LLP

May 17, 2023

Statements of Operations

(USD, in thousands, except share data)

For the Year Ended 31 December:	2022	2021
Revenue	**10,026**	8,478
Cost of goods sold	**5,584**	5,203
Gross profit	**4,442**	3,275
Operating expenses:		
Research and development	**218**	223
Selling, general and administrative	**7,589**	6,939
Depreciation and amortisation	**210**	205
Gain on sale of property and equipment	**(2)**	(2,584)
Total operating expenses	**8,015**	4,783
Operating loss	**(3,573)**	(1,508)
Other income (expense)		
Gain upon extinguishment of debt	**-**	403
Interest expense	**-**	(24)
Loss before income taxes	**(3,573)**	(1,129)
Provision for income taxes	**(418)**	(296)
Net loss	**(3,991)**	(1,425)
Loss per share – basic	**(0.18)**	(0.07)
Loss per share – diluted	**(0.18)**	(0.07)
Shares used to compute basic loss per share	**22,214,884**	19,443,750
Shares used to compute diluted loss per share	**22,214,884**	19,443,750

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

Balance Sheets

(USD, in thousands, except share data)

As at 31 December:	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	**1,645**	3,128
Restricted cash	**84**	84
Accounts receivable – net	**2,778**	1,867
Unbilled accounts receivable	**-**	175
Inventory	**3,737**	4,320
Prepaid expenses	**99**	203
Other assets	**138**	399
Total Current Assets	**8,481**	10,176
Property and equipment – net	**3,229**	3,249
Intangible assets – net	**733**	774
Operating lease asset – net	**1,176**	1,459
Total Assets	**13,619**	15,658
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**795**	683
Payroll and accrued expenses	**758**	758
Contract liability	**-**	54
Customer deposits	**18**	74
Operating lease obligations – current	**326**	251
Total Current Liabilities	**1,897**	1,820
Operating lease obligations – long-term	**890**	1,216
Total Liabilities	**2,787**	3,036
Stockholders' Equity		
Common stock, $0.025 par value, 100,000,000 shares authorised, 22,983,023 shares issued and outstanding at 31 December 2022 and 19,443,750 shares issued and outstanding at 31 December 2021	**574**	486
Additional paid-in capital	**44,768**	42,655
Accumulated deficit	**(34,510)**	(30,519)
Total Stockholders' Equity	**10,832**	12,622
Total Liabilities and Stockholders' Equity	**13,619**	15,658

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

Statements of Stockholders' Equity

(USD, in thousands, except share data)

	Common Stock Shares	Common Stock $	Additional Paid-in Capital $	Accumulated Deficit $	Total $
Balances at 31 December 2020	19,443,750	486	42,400	(29,094)	**13,792**
Stock-based compensation expense	–	–	255	–	**255**
Net loss for the period	–	–	–	(1,425)	**(1,425)**
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**

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

Statements of Cash Flows

(USD, in thousands)

For the Year Ended 31 December:	2022	2021
Cash flow from operating activities		
Net loss	**(3,991)**	(1,425)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortisation	**1,091**	1,124
Gain on sale of property and equipment	**(2)**	(2,584)
Inventory reserve adjustment	**(5)**	(45)
Gain upon extinguishment of debt	**-**	(401)
Stock compensation	**156**	255
Change in operating assets and liabilities:		
Accounts receivable – net	**(911)**	(388)
Unbilled accounts receivable	**175**	(175)
Inventory	**402**	1,265
Prepaid expenses	**104**	(119)
Prepaid operating leases	**32**	40
Other assets	**261**	(292)
Accounts payable	**112**	210
Payroll and accrued expenses	**-**	218
Contract liability	**(54)**	(691)
Customer deposits	**(56)**	(418)
Net cash used in operating activities	**(2,686)**	(3,426)
Cash flow from investing activities		
Payments for purchases of property and equipment	**(814)**	(327)
Proceeds from sale of property and equipment	**-**	5,455
Payments for internally developed patents	**(28)**	(43)
Net cash (used in) provided by investing activities	**(842)**	5,085
Cash flows from financing activities		
Net proceeds from stock issuance	**2,045**	–
Payments on notes payable	**-**	(1,643)
Proceeds from notes payable	**-**	401
Payments on line of credit	**-**	(997)
Net cash provided by (used in) financing activities	**2,045**	(2,239)
Net decrease in cash, cash equivalents and restricted cash	**(1,483)**	(580)
Cash, cash equivalents and restricted cash, beginning of year	**3,212**	3,792
Cash, cash equivalents and restricted cash, end of year	**1,729**	3,212
Supplemental disclosures of cash flow information:		
Cash payments for interest	**-**	30
Cash payments for income taxes	**390**	300
Non-cash movements of inventory and fixed assets	**186**	102
Non-cash operating ROU assets	**1,049**	1,192
Non-cash operating lease obligations	**1,049**	1,192

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. The Company had a Note Payable (Note 10) with an original maturity in March 2023 and access to a line of credit (Note 8) that renewed annually. However, the Note and the line of credit were paid in full, and $500,000 of cash was reclassified from restricted cash, during H1 2021 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 is being used for working capital purposes to support the business needs. In March 2022, the Company completed the closing of a placing raising gross proceeds of approximately $2.3 million before expenses. The proceeds from the transaction are being used to accelerate the commercialisation of the Company's PFAS remediation system in the U.S., and in order to support working capital across the Company's core markets. 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.

Whilst macro events are creating uncertainty within world markets and volatility in oil prices, today's high oil price bodes well for the completion of new commercial agreements with both existing and new international customers. 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 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.

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 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. Unbilled accounts receivable at 31 December 2022 and 2021, and 1 January 2021 was $nil, $175,000 and $nil, respectively. Contract liability at 31 December 2022 and 2021, and 1 January 2021 was $nil, $54,000 and $745,000, respectively.

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 Services Recognised at a Point in Time	
	2022	2021	**2022**	2021
Middle East	**6,453**	4,550	**572**	838
United States	**–**	–	**2,094**	1,311
Australia	**–**	–	**558**	257
Nigeria	**–**	–	**–**	1,312
Other	**–**	–	**349**	185
Total revenue recognised under ASC 606	**6,453**	4,550	**3,573**	3,903
Total revenue recognised under ASC 842	**–**	25	**–**	–
Total revenue	**6,453**	4,575	**3,573**	3,903

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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 2022 and 2021, 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 2022, 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 2022 and 2021, cash in non-U.S. institutions was $159,000 and $25,000, 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 2022 and 2021, 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 2022 and 2021:

	31 December 2022 US$000	31 December 2021 US$000
Cash and cash equivalents	**1,645**	3,128
Restricted cash	**84**	84
Total cash, cash equivalents and restricted cash	**1,729**	3,212

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 2022 and 2021 was $168,000 and $90,000, 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 2022 and 2021, the Company had REGEN-related inventory of 41 percent and 39 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:

Building	39 years
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 2022 and 2021.

Research and development costs – Research and development costs are expensed as incurred. Research and development expense for the years ended 31 December 2022 and 2021 was approximately $218,000 and $223,000, respectively.

Advertising costs – The Company expenses advertising costs as incurred. Advertising expense for the years ended 31 December 2022 and 2021 was $nil and $5,000, 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.

Notes to the Financial Statements continued

2. Summary of Significant Accounting Policies continued

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 2022 and 2021 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 2,019,118 for the year ended 31 December 2022 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	
	2022	2021
Basic weighted average outstanding shares of common stock	**22,214,884**	19,443,750
Effect of potentially dilutive stock options	**–**	–
Diluted weighted average outstanding shares of common stock	**22,214,884**	19,443,750
Anti-dilutive shares of common stock excluded from diluted weighted average shares of common stock	**2,019,118**	1,782,420

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 2022 or 2021.

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 2022 and 2021 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 11).

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 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The guidance will become effective for the Company in fiscal years beginning after 15 December 2022, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this guidance but does not expect it to have a material impact on the Company's 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 Company adopted this guidance effective 1 January 2021. 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 2022 and 2021:

	31 December 2022 US$000	31 December 2021 US$000
Accounts receivable	**2,946**	1,957
Less: allowance for doubtful accounts	**(168)**	(90)
Total receivable – net	**2,778**	1,867

4. Inventories

Inventories consist of the following at 31 December 2022 and 2021:

	31 December 2022 US$000	31 December 2021 US$000
Raw materials	**1,957**	1,950
Work-in-progress	**–**	202
Finished goods	**1,780**	2,168
Total inventory	**3,737**	4,320

Notes to the Financial Statements continued

5. Property and Equipment

Property and equipment consist of the following at 31 December 2022 and 2021:

	31 December 2022 US$000	31 December 2021 US$000
Leasehold improvements	**617**	107
Office equipment	**636**	636
Manufacturing equipment	**943**	888
Research and development equipment	**545**	545
Purchased software	**222**	222
Equipment leased to customers	**10,221**	10,254
Equipment available for lease to customers	**-**	272
	13,184	12,924
Less: accumulated depreciation	**(9,955)**	(9,675)
Property and equipment – net	**3,229**	3,249

In March 2021, the Company completed the sale of its building in Duluth, Georgia for total consideration of $5.4 million enabling the Company to right-size its office space needs across its main operating locations. The net book value of the building and land was $2.8 million so the Company recognised a financial gain of approximately $2.6 million.

During the years ended 31 December 2022 and 2021, the Company removed property and equipment and the associated gross and accumulated depreciation of approximately $742,000 and $856,000, respectively, to reflect the disposal of property and equipment.

Depreciation expense for the years ended 31 December 2022 and 2021 was approximately $1,022,000 and $1,066,000, 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 2022 and 2021 was $881,000 and $919,000, 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 $77,000 and $70,000 as of 31 December 2022 and 2021, 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 2022, there was $47,000 of new internally developed patents and fees on patents in progress.

Intangible assets as of 31 December 2022 and 2021 consist of the following:

	Weighted Average Useful Lives	31 December 2022 US$000	31 December 2021 US$000
Internally developed patents	15 years	**1,475**	1,447
Purchased patents	17 years	**100**	100
		1,575	1,547
Less accumulated amortisation – Internally developed patents		**(765)**	(703)
Less accumulated amortisation – purchased patents		**(77)**	(70)
Intangible assets – net		**733**	774

At 31 December 2022, internally developed patents include approximately $361,000 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)	
2023	54
2024	52
2025	51
2026	48
2027	43
Thereafter	123

Amortisation expense for the years ended 31 December 2022 and 2021 was approximately $69,000 and $58,000, respectively.

7. Income Taxes

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

	31 December 2022 US$000	31 December 2021 US$000
Current:		
Federal	**-**	–
Foreign	**415**	291
State	**3**	5
Total current provision	**418**	296
Deferred:		
Federal	**-**	–
Foreign	**-**	–
State	**-**	–
Total deferred provision	**-**	–
Total provision for income taxes	**418**	296

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 2022	31 December 2021
Federal statutory income tax rate	**21.0%**	21.0%
State tax rate, net of federal benefit	**0.8%**	(4.9%)
Valuation allowance	**(18.8%)**	(13.3%)
Other	**(5.6%)**	(8.8%)
Foreign withholding tax	**(9.1%)**	(20.2%)
Effective income tax rate	**(11.7%)**	(26.2%)

Notes to the Financial Statements continued

7. Income Taxes continued

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

	31 December 2022 US$000	31 December 2021 US$000
Deferred tax assets		
Net operating loss	**6,598**	5,802
Equity compensation	**227**	272
Research and development credits	**159**	159
Right of use liability	**263**	316
Inventory valuation reserve	**350**	349
Other	**145**	102
Total gross deferred tax asset	**7,742**	7,000
Deferred tax liabilities		
Property and equipment	**(708)**	(578)
Right of use asset	**(254)**	(314)
Total gross deferred tax liability	**(962)**	(892)
Net deferred tax asset before valuation allowance	**6,780**	6,108
Valuation allowance	**(6,780)**	(6,108)
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 2022 and 2021, the Company has recorded a valuation allowance of $6.8 million and $6.1 million, respectively, a change of $670,000 and $300,000 for each year, 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 2022, the Company has 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 that will begin to expire in the 2023 tax year and will continue through 2042 when the current year net operating losses will expire. As of 31 December 2021, the Company had approximately $26.5 million of gross U.S. federal net operating loss carry forwards and $3.6 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 2022 or 2021.

The Company's tax years 2018 through 2022 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 allowed for borrowings up to $500,000. The line of credit was revolving and was payable on demand. In November 2018, the maximum borrowing capacity was increased to $1,875,000. The facility renewed annually and was 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 carried a floating rate of interest equal to the lender's Prime Rate and was subject to change any time the Prime Rate changed. Under terms of the line of credit, the Company was required to maintain a minimum cash balance and a specified cash flow coverage ratio, as those terms were defined, and the Company was in compliance as throughout the term of the facility. In March 2021, the line of credit was paid in full with proceeds from the sale of the Company's building in Duluth, Georgia and the facility was closed. Interest expense related to this loan was $9,000 for the year ended 31 December 2021.

9. Paycheck Protection Program Loan

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 Loan'), Title I of the CARES Act, which was enacted 27 March 2020. In January 2021, the Company applied for and was granted a PPP Loan from Pinnacle Bank in the amount of approximately $401,000. The PPP Loan issued to the Company matures in January 2026 and bears an interest 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. On 5 August 2021, 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 was secured by the property and building from which the Company continued to operate through March 2022. The carrying amount of the property and building was $2.9 million as of 31 December 2020. Upon selling the collateral, the Company was required to repay the term loan in full. The lender was 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 had a 10-year term with monthly payments based on a 20-year amortisation. The result was 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 was required to keep $500,000 in a deposit account with the lending bank. In March 2021, the Note Payable was paid in full with proceeds from the sale of the Company's building in Duluth, Georgia and $500,000 of cash was reclassified from restricted cash.

11. 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.

Notes to the Financial Statements continued

11. Stock Compensation continued

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 2,105,080 shares allocated as of 31 December 2022. 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 2022 and 2021 were as follows:

	Number of Options Granted	Grant Date	Risk-free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
2021	762,000	09/04/2021	1.10%	5.7 years	76.00%	$0.69	$0.45
	100,000	11/11/2021	1.23%	5.2 years	63.00%	$1.00	$0.54
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 2022 and 2021:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2020	1,324,338	$2.04	5.8	$1.01
Granted	862,000	$1.69	5.7	$0.46
Forfeited	(143,000)	$2.83		
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
Exercisable at 31 December 2022	**1,362,080**	**$1.57**	**5.7**	

The total intrinsic value of the stock options exercised during the years ended 31 December 2022 and 2021 was approximately $nil.

A summary of the status of unvested options as of 31 December 2022 and changes during the years ended 31 December 2022 and 2021 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2020	365,000	$0.34
Granted	862,000	$0.46
Vested	(374,000)	$0.46
Forfeited	(2,000)	
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**

As of 31 December 2022, total unrecognised compensation cost of approximately $171,000 was related to unvested share-based compensation arrangements awarded under the Plan.

Total stock compensation expense for the years ended 31 December 2022 and 2021 was approximately $156,000 and $255,000, respectively.

12. Commitments and Contingencies

Operating leases – As of 31 December 2022, the Operating Lease ROU Asset has a balance of $1,176,000, net of accumulated amortisation of $567,000, and an Operating Lease Liability of $1,216,000, 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 3.86 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
2023	381
2024	321
2025	280
2026	290
2027	74
2028	–
Total future maturities	1,346
Portion representing interest	(130)
	1,216

Total lease expense for the years ended 31 December 2022 and 2021 was approximately $341,000 and $259,000, respectively.

Total cash paid for leases for the years ended 31 December 2022 and 2021 was $307,000 and $227,000, 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 $322,000 and $447,000 for the years ended 31 December 2022 and 2021, respectively.

Notes to the Financial Statements continued

12. Commitments and Contingencies continued

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.

13. Related Party Transactions

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

14. 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 2022. For the year ended 31 December 2022, 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)	2022	2021
Middle East	**7,025**	5,388
United States	**2,094**	1,336
Australia	**558**	257
Nigeria	**–**	1,312
Other	**349**	185
Total	**10,026**	8,478

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

Year Ending 31 December (USD, in thousands)	2022	2021
Middle East	**2,016**	2,380
United States	**2,389**	2,328
Other	**–**	–
Total	**4,405**	4,708

15. Concentrations

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.

At 31 December 2021, two customers, one with four contracts with four separate plants, represented 82 percent of accounts receivable. During the year ended 31 December 2021, the Company received 78 percent of its gross revenue from five customers, one with six contracts with four separate plants.

16. 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 17 May 2023, the date the financial statements were available to be issued, and no events have occurred which require further disclosure.

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