AquaBounty Technologies, Inc.

Annual report and accounts 2014

About us

AquaBounty is a biotechnology company focused on the improvement of productivity in aquaculture.

Bringing together biological sciences and molecular technology, AquaBounty intends to facilitate the development of an aquaculture industry capable of large-scale, efficient and environmentally-sustainable production of seafood.

Increased growth rates, enhanced resistance to disease, better food-conversion rates and a more efficient use of aquatic production systems are all important components of a sustainable aquaculture industry of the future.

Our product

AquAdvantage® Salmon (AAS) includes a gene from the Chinook salmon, which provides the fish with the potential to grow to market size in half the time. In all other respects, AquAdvantage® Salmon are identical to other farmed Atlantic salmon.

The Chinook growth hormone is the same as the Atlantic salmon growth hormone; it is simply regulated differently. The ability to grow faster does not change the nutritional or biochemical make-up of the fish. The development of AAS is based on more than two decades of scientific research, making it the most studied line of Atlantic salmon.

Photo of eyed AAS eggs.

Our technology

AquAdvantage® Salmon is produced using a variety of biotechnologies – in particular, the regulation of gene expression.

The AquAdvantage® fish program is based upon a single, specific molecular modification in fish that results in more rapid growth in early development. This enables shorter production cycles and increased efficiency of production.

Its properties and benefits stem from the regulated expression of its specific gene construct, integrated in a specific and stable location in the Atlantic salmon genome.

Photo of AAS.

Highlights

During the year we:

- completed an equity subscription of US$10.0 million;
- expanded operations in preparation for regulatory approval;
- progressed towards registering the Company's common shares with the US Securities and Exchange Commission for a listing on NASDAQ;
- increased operating spend to US$7.1 million (2013: US$4.9 million) as the Company invested in operations and new research projects; and
- incurred a net loss of US$7.1 million (2013: US$4.7 million net loss).

Our market

Eighty-seven percent of the world's fish stocks are overexploited, depleted or endangered, while demand for fish protein is exploding.

(Source: FAO)

With the world population expected to reach nine billion by 2050, demand for critical sources of protein continues to outstrip supply. Aquaculture provides a means of partially meeting this demand by enhancing aquaculture productivity through biotechnology.

AquaBounty's objective is to contribute to increasing aquaculture productivity in an efficient, safe and sustainable manner to meet the demand for high quality seafood from a growing world population.

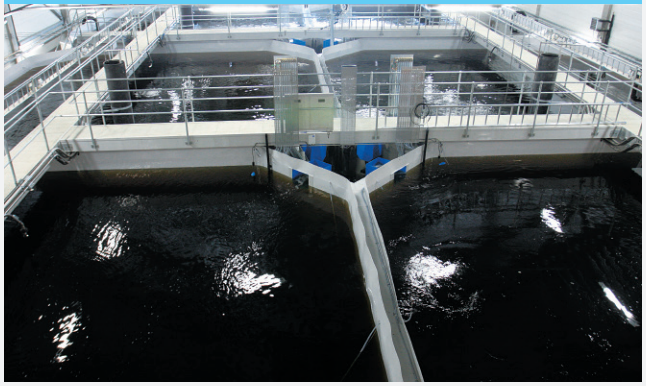


Photo courtesy of Billund.

Contents

Visit our new website at
www.aquabounty.com

At a glance

Land-based recirculating aquaculture systems

AAS enables the most sustainable method for farming Atlantic salmon:

› total control of the rearing environment, enabling optimal conditions for growth;

› eliminates escapes, thus no interaction or impact on wild fish populations;

› no use of antibiotics or pesticides;

› no exposure to environmental pollutants from external water sources; and

› minimal effluent discharge, resulting in lower environmental impact.

Photo courtesy of Billund.

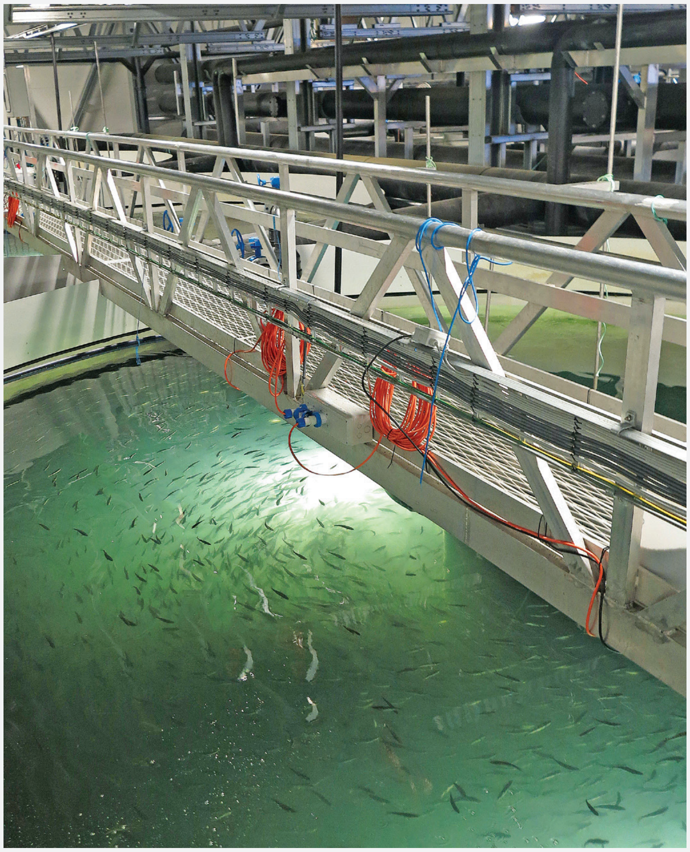


Photo courtesy of Krüger Kaldnes AS.

The benefits of having a system that can be located closer to consumer markets are:

- reduced transportation and greenhouse gas emissions – reduced carbon footprint;
- harvested and processed overnight and available in the market the following day;
- provide local markets with fresher fish;
- total traceability from egg to plate; and
- consistent, reliable production year round.

The benefits of AquAdvantage® Salmon

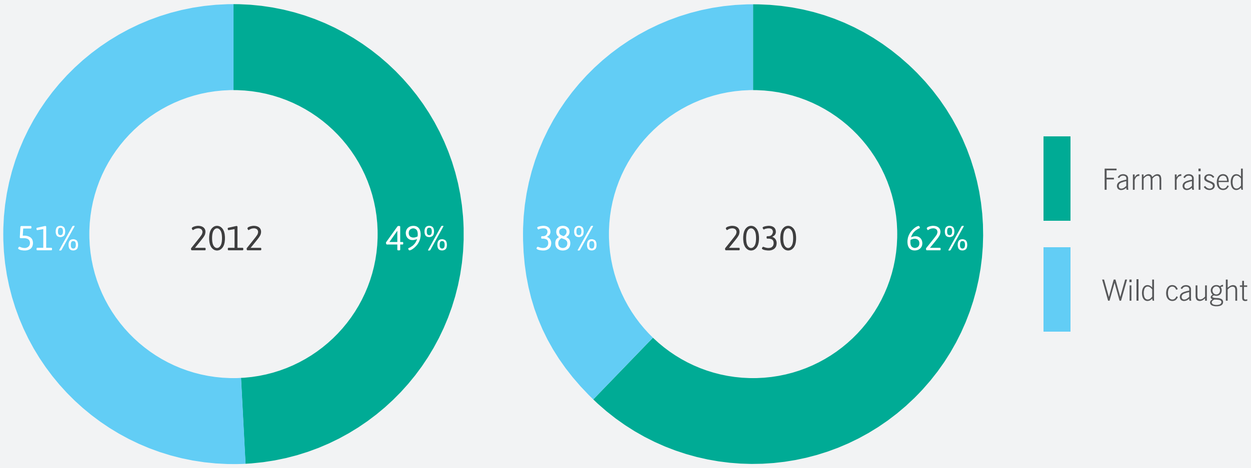
- **16–18 months to market size**
- **Better feed conversion**
- **Lower carbon footprint**
- **Lower disease risk**
- **No risk of escape**

AquAdvantage® Salmon makes land-based fish farming economically viable which is critical in addressing the world's growing food supply shortage.

When grown in land-based recirculating aquaculture systems located near major areas of consumption, AquAdvantage® Salmon will be the safest, freshest farmed fish you'll be able to buy in the market.

Our goal is to give consumers access to fresh fish in the most responsible, sustainable way possible.

Global seafood consumption



Source: FAO.

Chairman's statement

Key points

- Completed equity subscription for US$10 million
- Expanded operations in preparation for a regulatory approval
- Progressed towards listing common shares on NASDAQ

I reported last year that the Board would be working on the assumption that the approval of the New Animal Drug Application (NADA) for AquAdvantage® Salmon (AAS) from the US Food and Drug Administration (FDA) would be forthcoming during 2014 and, at which point, the Company would begin to move forward with its commercialization plans. This assumption was based on the release of the draft Environmental Assessment (EA) and preliminary Finding of No Significant Impact (FONSI) by the FDA in December 2012, with no further demands being made of the Company and no new scientific or legal argument being presented against our application. We were also greatly encouraged by the publication of the Significant New Activity Notice in November 2013 by Environment Canada that recognized that our hatchery, which produces sterile, all-female eggs, was no longer solely a research facility but could produce eggs on a commercial scale without harm to the environment or human health. Based on these two significant regulatory events, the Company began preparations for the commercial production of AAS. To date, however, the regulatory approval of our NADA has not been granted.

Commercial activities

The management team has been significantly strengthened by the addition of Alejandro Rojas, who has been appointed to the position of Chief Operating Officer of the AquaBounty Farms division. Mr Rojas, a salmon farming industry veteran, has responsibility for the development, and implementation once the appropriate approvals are received, of plans for the Company's commercial production activities.

During the year, the Company expanded its international commercial efforts with the commencement of the process to gain approval for the importation of AAS eggs for local field trials in Argentina, Brazil, South Africa and China. This would complement our farm site in Panama, which continues to demonstrate the remarkable performance of AAS on a commercial scale.

Fundraising

In January 2014, Intrexon Corporation ("Intrexon") agreed to undertake a subscription for new common shares to the value of US$10.0 million (approximately £6.0 million) before expenses. The subscription price was 31.5 pence per share (US$0.5252) and the aggregate number of common shares subscribed was 19,040,366. The transaction closed on 20 March 2014 with net proceeds to the Company of approximately US$9.7 million. This further increased Intrexon's shareholding to 59.85%.

US listing of shares

In preparation for an application to list on the NASDAQ exchange, AquaBounty sought to register its shares with the US Securities and Exchange Commission (SEC or the "Commission"). In conjunction with this, the Company transferred its stock ledger from the UK to the US and established a process to allow eligible shareholders to remove the restrictive legends on their shares and to dematerialize outstanding share certificates. This allowed the Company to obtain deposit eligibility for its shares in the Depository Trust Company in the US and in the CREST system in the UK. The Company has filed a registration statement with the SEC and received no further comments from the Commission. However, the Company's shares are currently ineligible for admission to NASDAQ as they do not meet the initial listing requirements. The Board is considering its options for resolving this issue and hopes to be able to fulfill the criteria for listing on NASDAQ in the coming months.

Financial outcome
Operating expenses for the year amounted to US$7.1 million (2013: US$4.9 million). The increase was in line with the Board's directive to push forward with commercial activities, expand research projects under the Exclusive Channel Collaboration agreement with Intrexon and seek the US listing for its shares. Consequently, sales and marketing expenses were US$1.4 million (2013: US$0.7 million); research and development expenses were US$2.5 million (2013: US$1.9 million); and general and administrative expenses were US$3.2 million (2013: US$2.3 million). As a result, the net loss for the year was higher at US$7.1 million (2013: US$4.7 million) and cash used for the year, net of new equity received, was US$6.5 million (2013: US$4.0 million). Funds available at the year end amounted to US$5.2 million.

Outlook
I reported last year that the FDA had been considering its responsibilities under the US National Environmental Policy Act and had been working to finalize the EA and FONSI in conjunction with the approval of the application for AAS. We cannot report any progress on this activity; however, it remains our view that the conclusion of this process is to be expected at any time. The strong support provided by Intrexon allows your Board to continue to work on the assumption that approval will be forthcoming in the US and to respond to the positive indications that the Company is receiving in other countries.

The Company entered 2015 with US$5.2 million of cash on hand. With the continuation of the efforts begun last year to prepare the Company to commercialize AAS upon regulatory approval, it is likely that a fundraise will be required during the first half of the year. More information on this will be communicated in the coming months.

R. J. Clothier
Chairman

"The strong support provided by Intrexon allows your Board to continue to work on the assumption that approval will be forthcoming in the US and to respond to the positive indications that the Company is receiving in other countries."

R. J. Clothier, Chairman

Board of directors

1. Richard J. Clothier
Non-executive Chairman of the Board

Richard J. Clothier has served as Chairman of the Board of AquaBounty since April 2006. Mr Clothier has been Chairman of Robinson Plc since 2004, Chairman of Spearhead International Ltd since 2005 and Exosect since 2013. He retired as Group Chief Executive of PGI Group Plc, an international agricultural products producer, following 20 years with Dalgety Plc where he was CEO of the genetics company PIC until 1992 and then Group CEO until 1997. He holds a BSc in agriculture from Natal University and an AMP from Harvard Business School.

Chairman, Corporate Governance and Nominations Committee.

2. Ronald L. Stotish, PhD
Executive Director, President and Chief Executive Officer

Ronald L. Stotish was appointed Executive Director, President and Chief Executive Officer of AquaBounty Technologies in May 2008. Dr Stotish joined AquaBounty in 2006 as Vice-President for Regulatory Affairs and then served as Senior Vice-President for R&D and Regulatory Affairs. Prior to joining AquaBounty, Dr Stotish was Executive Vice-President for R&D at MetaMorphix, Inc. He has served as Vice-President for Pharmaceutical R&D at Fort Dodge Animal Health and held a variety of positions at American Cyanamid. He began his career in research at Merck. Dr Stotish has degrees in biochemistry and over 40 years' experience in the discovery, development and commercialization of new animal health products.

3. Richard L. Huber
Non-executive Director

Richard L. Huber joined the Board of AquaBounty after the Company's public offering in 2006. Mr Huber is the former Chairman, President and CEO of Aetna, a major US health insurer, and is currently an independent investor in a number of companies operating in a wide range of businesses, mainly in South America. Following a 40 year career in the financial services industry, Mr Huber now serves as a Director of Viña San Rafael and Invina, both non-public wine producers in Chile. Previously, he served on the Boards of Gafisa, the largest integrated residential housing developer in Brazil, and Antarctic Shipping SA of Chile, as well as several other companies in the US and elsewhere in the world. He holds an AB in chemistry from Harvard.

Chairman, Audit Committee.

4. Thomas R. Kasser, PhD
Non-executive Director

Thomas Kasser joined the Board of AquaBounty in February 2013. He is the President of Animal Sciences and Agricultural Biotechnology Divisions and Senior Vice President at Intrexon Corporation. Dr Kasser brings over 25 years of business management experience in the biotechnology and life sciences industries. He was most recently President and CEO of Angionics, Inc., an early-stage biotech company focused on novel anti-angiogenic technology directed at therapies for cancer and ocular diseases. Prior to Angionics, he was a Covance Corporate VP and General Manager of Covance Research Products. Dr Kasser had over 20 years of experience at Monsanto Company both in commercial and scientific leadership roles, including tenures as General Manager of Monsanto Choice Genetics, directing new product development for the Nutrition and Consumer products business, and managing clinical safety and efficacy trials under the jurisdiction of the FDA Center for Veterinary Medicine. Dr Kasser was designated a Monsanto Fellow in recognition of his scientific and technical excellence. Dr Kasser received his PhD in nutrition from the University of Georgia and an MS in animal nutrition from the Pennsylvania State University. He also received an MBA from Washington University – St. Louis.

Chairman, Compensation Committee.

5. Christine T. St.Clare
Non-executive Director

Christine St.Clare joined the Board of AquaBounty in May 2014. She is a former partner and director at KPMG LLP. She currently serves as a director for Polymer Group, Inc., a global manufacturer of engineered materials, and for Fibrocell Science, Inc., a developer of personalized biologics. Ms St.Clare holds a BS in accounting from California State University at Long Beach and has been a CPA since 1977.

6. Rick Sterling
Non-executive Director

Rick Sterling joined the Board of AquaBounty in September 2013. He is the Chief Financial Officer at Intrexon Corporation. Prior to joining Intrexon, he was with KPMG where he worked in the audit practice for over 17 years, with a client base primarily in the healthcare, technology and manufacturing industries. Mr Sterling's experience includes serving clients in both the private and public sectors, including significant experience with SEC filings and Sarbanes-Oxley compliance. He has a BS in accounting and finance from Virginia Tech and is a licensed CPA.

7. James C. Turk, Jr.
Non-executive Director

James Turk joined the Board of AquaBounty in February 2013. Mr Turk has served as a partner in the firm Harrison & Turk, P.C. since 1987, having practiced two years before that with other firms. He has previously served as a member of the board of directors for multiple companies and foundations including Intrexon Corporation, the New River Community College Education Foundation, and the Virginia Student Assistance Authorities. He presently holds Board appointments to SunTrust Bank, Synchrony Inc., the Virginia Tech Athletic Foundation, and the Roanoke College President's Advisory Board. Mr Turk received a BA from Roanoke College and a JD from Cumberland School of Law at Samford University.

Management and advisors

Ronald L. Stotish, PhD
Executive Director, President and Chief Executive Officer
Ronald L. Stotish was appointed Executive Director, President and Chief Executive Officer of AquaBounty Technologies in May 2008. Dr Stotish joined AquaBounty in 2006 as Vice-President for Regulatory Affairs and then served as Senior Vice-President for R&D and Regulatory Affairs. Prior to joining AquaBounty, Dr Stotish was Executive Vice-President for R&D at MetaMorphix, Inc. He has served as Vice-President for Pharmaceutical R&D at Fort Dodge Animal Health and held a variety of positions at American Cyanamid. He began his career in research at Merck. Dr Stotish has degrees in biochemistry and over 40 years' experience in the discovery, development and commercialization of new animal health products.

David A. Frank
Chief Financial Officer, Treasurer and Secretary
David Frank was appointed Chief Financial Officer in October 2007. Previously he served as President and General Manager of TekCel LLC, a subsidiary of Magellan Biosciences, after serving as Magellan's CFO since the company's founding in 2004 and as TekCel's CFO since 2003. Mr Frank has over 30 years of financial management experience, including as CFO of SmartEnergy during its period of rapid growth from less than US$1 million in revenue in 2000 to more than US$45 million in 2002. He served as the corporate controller for Moldflow when the company completed its successful public offering and his earlier experience includes financial roles at PerSeptive Biosystems, Lotus Development Corporation, Apollo Computer and Honeywell. He has a BS in finance and accounting from Boston College and an MBA from Babson College.

Henry Clifford
Vice President of Marketing and Sales
Henry Clifford was appointed Vice President of Marketing and Sales in June 2005 and is responsible for the commercial deployment of the Company's product lines. Mr Clifford is an internationally recognized authority on aquaculture and genetic improvement programs with a career spanning more than 30 years in the industry. He has provided technical services in aquaculture to more than 250 clients in 20 countries. In addition to implementing sales and marketing strategies for the Company and overseeing customer relations, Mr Clifford directs domestic and international field trial evaluations of the Company's products, including the successful introduction and production of AquAdvantage® Salmon in Panama. Mr Clifford has an MS degree in aquaculture nutrition from Texas A&M University.

Alejandro Rojas, DVM
Chief Operating Officer, AquaBounty Farms
Alejandro Rojas joined AquaBounty as the Chief Operating Officer of its AquaBounty Farms division in February 2014. He formerly was the Production and Technical Manager for Marine Harvest from 1988 to 2000. Mr Rojas has a doctorate in veterinary medicine and for the past 14 years has been a technical advisor and consultant to numerous global aquaculture and biotech companies working with marine fish.

Nominated advisor
Stifel Nicolaus Europe, Ltd
150 Cheapside
London EC2V 6ET
United Kingdom

Independent registered public accounting firm
Wolf & Company, P.C.
99 High Street
Boston, MA 02110
United States

Corporate financial contact
David A. Frank
Chief Financial Officer

Transfer agent and registrar
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021
United States

Legal counsel
Jones Day
77 W. Wacker Drive, Suite 3500
Chicago, IL 60601
United States

Corporate governance

The Board of Directors is accountable to shareholders for the proper corporate governance of the Company. The principles of corporate governance and a code of best practice are set forth in the Combined Code on Corporate Governance (the "Combined Code"). Under the rules of AIM of the London Stock Exchange, where the Company's shares are listed, the Company is not required to comply with all provisions of the Combined Code. However, the Company intends, where practicable, to comply with the main provisions of the Combined Code. The responsibilities of the Board of Directors and Committees of the Board are set forth in greater detail below.

The Board

The Chairman of the Board of the Company is Mr Richard Clothier. Dr Ronald Stotish is the Chief Executive Officer and is responsible for running the organization on a day-to-day basis. In total, the Board consists of one Executive Director and six Non-executive Directors. Mr David Frank acts as Company Secretary.

The primary mission of the Board of Directors is to advance the interests of the Company's shareholders through oversight of the management of the Company's business affairs. The Board believes that this mission is best served by establishing a corporate culture of accountability, responsibility and ethical behavior through the careful selection and evaluation of senior management and members of the Board and by carrying out the Board's responsibilities with honesty and integrity. In fulfilling their responsibilities, Directors are required to keep themselves informed about the Company's activities and the business, political, social and market environments in which the Company operates.

Terms of reference

The Board of Directors has adopted terms of reference to define its objectives and those of each sub-committee. Key areas of responsibility include:

› to determine and review the Company's primary objectives;

› to review and agree upon the Company's strategy and to revise and develop the strategy as the market and competitive environment changes;

› to ensure that the Company is well managed at all levels and to foster management development and succession;

› to monitor and approve the allocation of financial resources between Company units, functions and activities that enhance short-term profitability and long-term development activities;

› to set standards for the Company in the areas of business ethics, employee relations, community involvement and environmental considerations;

› to maintain effective communication with shareholders and ensure that the Board has an understanding of the views of major shareholders;

› to fulfill AquaBounty Technologies' legal responsibilities as a Delaware corporation and as a UK listed company and to comply with the relevant codes of practice; and

› to review and evaluate the performance of the Board and its members against its terms of reference.

Audit Committee

The Audit Committee is chaired by Mr Richard Huber. The other members on the committee are Christine St.Clare and James Turk. The purpose of the Audit Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. The Audit Committee meets at least twice each year and has the responsibility to consider and recommend to the Board the appointment of the Company's independent registered public accounting firm and to review the annual accounts and any other formal statement relating to financial performance, before submission to the Board.

Compensation Committee

The Compensation Committee is chaired by Dr Thomas Kasser. The other seat on the committee is held by Mr Richard Huber. The purpose of the Compensation Committee is to determine the compensation of Directors, members of Executive management and employees generally. The Committee also reports to shareholders on behalf of the Board where required by the prevailing listing rules and codes of practice.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is chaired by Mr Richard Clothier. Other members of the Board participate as needed. The purpose of the Corporate Governance and Nominating Committee is to assist the Board in establishing corporate governance guidelines for the Company, to oversee the Board's operation and effectiveness and to identify, screen and recommend qualified candidates to serve as Directors of the Company.

Internal controls

The Board of Directors is ultimately responsible for the Company's system of internal controls and for reviewing and monitoring its effectiveness. The Company maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the Board of Directors before adoption. The Board receives a monthly report of the Company's operating performance compared against both the budget and the prior year's results with explanations of significant variances.

The implementation, maintenance, review and improvement of the Company's internal controls are the responsibility of the Chief Financial Officer. The independent registered public accounting firm reviews the internal financial controls as a basis for determining the nature and extent of their audit testing procedures. However, the independent registered public accounting firm does not express an opinion on the effectiveness of the Company's internal controls.

Directors' compensation report

The Directors present their report and the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activity of AquaBounty Technologies, Inc. is to research, develop and commercialize products that improve aquaculture productivity. A more detailed review of the Company's activities and outlook is set out in the Chairman's Statement.

Directors

The Directors who held office during the year were:

R. Clothier	Non-executive Chairman
Dr R. Stotish	Chief Executive Officer
T. Barton*	Non-executive Director
R. Huber	Non-executive Director
Dr T. Kasser	Non-executive Director
C. St.Clare*	Non-executive Director
R. Sterling	Non-executive Director
J. Turk	Non-executive Director

* T. Barton stepped down from the Board in May 2014 and was replaced by C. St.Clare.

Directors' interests

The Directors' beneficial interests in the share capital of the Company at 31 December 2014 were as follows:

Ordinary shares	**At 31 December 2014**	At 31 December 2013
R. Clothier	**862,987**	791,559
Dr R. Stotish	**—**	—
R. Huber	**639,321**	639,321
Dr T. Kasser	**—**	—
C. St.Clare	**—**	—
R. Sterling	**—**	—
J. Turk	**—**	—

Substantial shareholdings

On 31 January 2015 the following shareholders held 3% or more of the issued share capital of the Company:

	Ordinary shares	% of issued
Intrexon Corporation	86,386,624	59.8
Abbott	22,130,040	15.3

Going concern

The financial statements have been prepared presuming the Company will continue as a going concern. Due to the Company's adverse financial condition at December 31, 2014, the independent registered public accountants have modified their report to indicate that there is substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to this uncertainty include the raising of additional funds needed to meet its financial projections. While no plans have been arranged to date, management is confident that they will be able to raise such funds given their history of success in this area. The financial statements have not been adjusted to reflect the outcome of this uncertainty.

Directors' compensation report continued

Independent registered public accounting firm
Wolf & Company, P.C. indicated their willingness to continue in office as independent registered public accounting firm for the Company. The Directors have approved their re-appointment for 2015.

Compensation policy
The Compensation Committee's policy is to set compensation packages that are competitive in the market, thereby enabling the Company to attract, retain and motivate Executives of appropriate caliber and experience to effectively manage the business and thereby further the success of the Company. Compensation packages are designed to reward Executives for performance through annual bonus payments and awards of stock options. Together, these elements constitute a potentially significant proportion of total targeted compensation.

Directors' compensation
The following table details Directors' earned compensation for the year ended 31 December 2014:

	Salary	Benefits	Board fees	Total compensation
Executive Directors				
Dr R. Stotish	$ 327,563	$ 25,046	$ —	$ 352,609
Non-executive Directors				
R. Clothier[1]	—	—	93,577	93,577
T. Barton	—	—	3,000	3,000
R. Huber	—	—	32,500	32,500
Dr T. Kasser[2]	—	—	—	—
C. St.Clare	—	—	16,750	16,750
R. Sterling[2]	—	—	—	—
J. Turk	—	—	19,750	19,750
	$ 327,563	$ 25,046	$ 165,577	$ 518,186

1. R. Clothier's compensation includes both Board fees and an annual grant of ordinary shares. Included in his 2014 compensation is a share grant of US$25,577.
2. T. Kasser and R. Sterling are employees of Intrexon Corporation and did not receive cash compensation during 2014.

Directors' share options
At 31 December 2014 Directors had options to purchase ordinary shares under the Company's Equity Incentive Plan as follows:

	Options held at 31 December 2014	Weighted average exercise price	% vested at 31 December 2014
Dr R. Stotish	**2,570,000**	$ 0.19	92%
R. Huber	**192,000**	0.29	88%
Dr T. Kasser[1]	**—**	—	0%
C. St. Clare	**24,000**	0.36	0%
R. Sterling[1]	**—**	—	0%
J. Turk	**48,000**	0.36	50%
	2,834,000	$ 0.20	90%

1. T. Kasser and R. Sterling are employees of Intrexon Corporation and do not receive stock options.

Financial statements

Financial statements

Report of the independent registered public accounting firm

To the Board of Directors and stockholders of AquaBounty Technologies, Inc.:
We have audited the accompanying consolidated balance sheets of AquaBounty Technologies, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AquaBounty Technologies, Inc. as of December 31, 2014 and 2013, and the results of its operations, and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has a significant accumulated deficit and, at December 31, 2014, the company did not have sufficient capital to fund its operations. This raises substantial doubt about the company's ability to continue as a going concern. Management's plans in regards to these matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Wolf & Company, P.C.

Wolf & Company, P.C.
Boston, Massachusetts
March 13, 2015

Consolidated balance sheets

As of 31 December	Note	2014	2013
ASSETS			
Current assets:			
Cash and cash equivalents		**$ 5,163,262**	$ 1,875,749
Certificate of deposit		**12,353**	13,431
Other receivables		**26,717**	78,455
Prepaid expenses and other assets	6	**101,679**	220,888
Total current assets		**5,304,011**	2,188,523
Property, plant and equipment, net	4	**913,703**	1,016,843
Definite lived intangible assets, net	5	**177,119**	141,779
Indefinite lived intangible assets		**191,800**	191,800
Other assets	6	**21,628**	21,628
Total assets		**$ 6,608,261**	$ 3,560,573
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	7	**$ 677,162**	$ 704,028
Total current liabilities		**677,162**	704,028
Long-term debt	8	**2,421,720**	2,359,653
Total liabilities		**3,098,882**	3,063,681
Commitments and contingencies	11		
Stockholders' equity:	9		
Common stock, $0.001 par value, 200,000,000 shares authorized; 144,537,265 (2013: 125,305,471) shares outstanding		**144,537**	125,305
Additional paid-in capital		**87,591,702**	77,582,210
Accumulated other comprehensive loss		**(455,172)**	(566,310)
Accumulated deficit		**(83,771,688)**	(76,644,313)
Total stockholders' equity		**3,509,379**	496,892
Total liabilities and stockholders' equity		**$ 6,608,261**	$ 3,560,573

See accompanying notes to the consolidated financial statements and report of the independent registered public accounting firm.

Consolidated statements of operations and comprehensive loss

Years ended 31 December	Note	2014	2013	2012
COSTS AND EXPENSES				
Sales and marketing		**$ 1,444,628**	$ 678,153	$ 581,954
Research and development		**2,497,935**	1,895,056	1,628,593
General and administrative		**3,192,716**	2,302,279	2,101,260
Restructuring charge	1	**—**	—	93,780
Total costs and expenses		**7,135,279**	4,875,488	4,405,587
OPERATING LOSS		**(7,135,279)**	(4,875,488)	(4,405,587)
OTHER INCOME (EXPENSE):				
Gain on royalty based financing instrument	8	**—**	186,980	—
Interest and other income (expense), net		**7,904**	(530)	(9,026)
Total other income (expense)		**7,904**	186,450	(9,026)
NET LOSS		**$ (7,127,375)**	$ (4,689,038)	$ (4,414,613)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation gain (loss)		**111,138**	93,891	(9,397)
Total other comprehensive income (loss)		**111,138**	93,891	(9,397)
COMPREHENSIVE LOSS		**$ (7,016,237)**	$ (4,595,147)	$ (4,424,010)
Basic and diluted net loss per share		**$ (0.05)**	$ (0.04)	$ (0.05)
Weighted average number of common shares – basic and diluted		**140,389,712**	120,613,246	94,701,028

See accompanying notes to the consolidated financial statements and report of the independent registered public accounting firm.

Consolidated statements of changes in stockholders' equity (deficit)

	Common stock issued and outstanding	Par value	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance at 31 December 2011	68,780,968	$68,781	$69,700,198	$(650,804)	$(67,540,662)	$1,577,513
Net loss					(4,414,613)	(4,414,613)
Other comprehensive loss				(9,397)		(9,397)
Issuance of common stock, net of expenses	33,277,870	33,278	1,709,200			1,742,478
Share-based compensation – common stock	196,850	197	23,353			23,550
Share-based compensation – options			300,758			300,758
Balance at 31 December 2012	102,255,688	$102,256	$71,733,509	$(660,201)	$(71,955,275)	$(779,711)
Net loss					(4,689,038)	(4,689,038)
Other comprehensive income				93,891		93,891
Issuance of common stock, net of expenses	22,883,295	22,883	5,702,724			5,725,607
Exercise of options for common stock	29,500	29	3,971			4,000
Exercise of options for common stock – cashless	71,771	72	(72)			—
Share-based compensation – common stock	65,217	65	22,747			22,812
Share-based compensation – options			119,331			119,331
Balance at 31 December 2013	125,305,471	$125,305	$77,582,210	$(566,310)	$(76,644,313)	$496,892
Net loss					**(7,127,375)**	**(7,127,375)**
Other comprehensive income				**111,138**		**111,138**
Issuance of common stock, net of expenses	**19,040,366**	**19,041**	**9,724,445**			**9,743,486**
Exercise of options for common stock	**120,000**	**120**	**12,180**			**12,300**
Share-based compensation – common stock	**71,428**	**71**	**25,506**			**25,577**
Share-based compensation – options			**247,361**			**247,361**
Balance at 31 December 2014	**144,537,265**	**$144,537**	**$87,591,702**	**$(455,172)**	**$(83,771,688)**	**$3,509,379**

See accompanying notes to the consolidated financial statements and report of the independent registered public accounting firm.

Consolidated statements of cash flows

Years ended 31 December	2014	2013	2012
OPERATING ACTIVITIES			
Net loss	**$ (7,127,375)**	$ (4,689,038)	$ (4,414,613)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	**140,742**	147,101	225,416
Share-based compensation	**272,938**	142,143	324,308
Amortization (accretion) of discount (premium) on corporate bonds	**—**	—	(326)
Loss on disposed assets	**—**	—	5,776
Gain on royalty-based financing instrument	**—**	(186,980)	—
Changes in operating assets and liabilities:			
Other receivables	**48,054**	(57,264)	90,907
Prepaid expenses and other assets	**117,876**	(94,935)	121,481
Accounts payable and accrued liabilities	**(13,135)**	281,345	(68,404)
Net cash used in operating activities	**(6,560,900)**	(4,457,628)	(3,715,455)
INVESTING ACTIVITIES			
Purchases of equipment	**(116,911)**	(99,500)	(52,841)
Paid out (reinvested) interest on certificate of deposit	**—**	(6)	6
Payment of patent costs	**(35,340)**	(42,249)	(69,210)
Net cash used in investing activities	**(152,251)**	(141,755)	(122,045)
FINANCING ACTIVITIES			
Proceeds from issuance of bridge loan	**—**	300,000	200,000
Repayment of bridge loan	**—**	(500,000)	—
Proceeds from issuance of long-term debt	**268,491**	665,199	678,657
Repayment of other term debt	**—**	(68,327)	(68,575)
Proceeds from issuance of common stock, net	**9,743,486**	5,725,607	1,742,478
Proceeds from exercise of stock options	**12,300**	4,000	—
Net cash provided by financing activities	**10,024,277**	6,126,479	2,552,560
Effect of exchange rate changes on cash and cash equivalents	**(23,613)**	132	2,481
Net increase (decrease) in cash and cash equivalents	**3,287,513**	1,527,228	(1,282,459)
Cash and cash equivalents at beginning of year	**1,875,749**	348,521	1,630,980
Cash and cash equivalents at end of year	**$ 5,163,262**	$ 1,875,749	$ 348,521
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid in cash	**$ 62**	$ 4,223	$ 4,414

See accompanying notes to the consolidated financial statements and report of the independent registered public accounting firm.

Notes to the consolidated financial statements

for the year ended 31 December 2014

1. Nature of business and organization

Nature of business

AquaBounty Technologies, Inc. (the "Parent") was incorporated in December 1991 in the State of Delaware for the purpose of conducting research and development of the commercial viability of a group of proteins commonly known as antifreeze proteins (AFPs). In 1996, the Parent obtained the exclusive licensing rights for a gene construct (transgene) used to create a breed of farm-raised Atlantic salmon that exhibit growth rates that are substantially faster than traditional salmon.

AquaBounty Canada, Inc. (the "Canadian Subsidiary") was incorporated in January 1994 in Canada for the purpose of establishing a commercial biotechnology laboratory to conduct research and development programs related to the Parent's technologies.

AquaBounty Panama, S. de R.L. (the "Panama Subsidiary") was incorporated in May 2008 in Panama for the purpose of conducting commercial trials of the Company's AquAdvantage® Salmon.

AquaBounty Farms, Inc. (the "US Subsidiary") was incorporated in December 2014 in the State of Delaware for the purpose of conducting commercial trials of the Company's AquAdvantage® Salmon.

Basis of consolidation

The consolidated financial statements include the accounts of AquaBounty Technologies, Inc. and its wholly owned subsidiaries, AquaBounty Canada, Inc., AquaBounty Panama, S. de R.L. and AquaBounty Farms, Inc. The entities are collectively referred to herein as the "Company." All inter company transactions and balances have been eliminated upon consolidation.

Restructuring

In March 2012, the Company undertook a restructuring to reduce operating spend by approximately 30% per annum. Included in the restructuring was the spin-out and sale of the Company's research and development division for US$1 to Tethys Ocean, B.V., at the time the Company's largest Shareholder. The Company recorded a US$93,780 restructuring charge in 2012, including a US$5,776 loss on disposed assets. In connection with the restructuring, the Company entered into a contract research agreement with the new organization, Tethys Aquaculture Canada Inc. (Note 14).

Liquidity and management's plan

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced net losses and negative cash flows from operations since its inception and has cumulative losses attributable to common stockholders of US$84 million as of December 31, 2014. The Company has historically financed its operations through issuances of equity and the proceeds of debt instruments and will continue to do so until such time that the Company is able to achieve positive cash flows from operations. In March 2014, the Company closed on a fundraising resulting in net proceeds of approximately US$9.7 million.

The Company continues to actively pursue various funding options, including equity offerings, to obtain additional funds to continue the development of its products and bring them to commercial markets. Management continues to assess fundraising opportunities to ensure minimal dilution to its existing shareholder base and to obtain the best price for its securities. Management is optimistic based upon its ability to raise funds in prior years, through common stock offerings, that it will be able to raise additional funds in the future. If the Company is unable to raise additional capital as may be needed to meet its projections for operating expenses, it could have a material adverse effect on liquidity. These financial statements do not include any adjustments relating to the recoverability of recorded asset amounts that might be necessary as a result of the above uncertainty.

2. Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates.

Comprehensive loss

The Company displays comprehensive loss and its components as part of its consolidated financial statements. Comprehensive loss consists of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments.

Notes to the consolidated financial statements continued

for the year ended 31 December 2014

2. Summary of significant accounting policies continued

Foreign currency translation

The functional currency of the Parent is the US Dollar. The functional currency of the Canadian Subsidiary is the Canadian Dollar (C$) and the functional currency of the Panama Subsidiary and the US Subsidiary is the US Dollar. For the Canadian Subsidiary, assets and liabilities are translated at the exchange rates in effect at the balance sheet date, equity accounts are translated at the historical exchange rate and the income statement accounts are translated at the average rate for each period during the year. Net translation gains or losses are adjusted directly to a separate component of other comprehensive income (loss) within stockholders' equity (deficit).

Cash equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of business savings accounts.

Certificate of deposit

The Company has a one-year certificate of deposit at December 31, 2014 and 2013 that currently bears interest at 0.9%. It is renewable annually in January.

Intangible assets

Definite lived intangible assets include patents and licenses. Patent costs consist primarily of legal and filing fees incurred to file patents on proprietary technology developed by the Company. Patent costs are amortized on a straight-line basis over 20 years beginning with the issue date of the applicable patent. Licensing fees are capitalized and expensed over the term of the licensing agreement.

Indefinite lived intangible assets include trademark costs, which are capitalized with no amortization as they have an indefinite life.

Property, plant and equipment

Property, plant and equipment are carried at cost, except for those owned by the Canadian Subsidiary which records such assets net of any related Canadian government grants received. The Company depreciates all asset classes over their estimated useful lives.

Building	25 years
Equipment	7–10 years
Office furniture and equipment	3 years
Leasehold improvements	shorter of asset life or lease term
Vehicles	3 years

Impairment of long-lived assets

The Company reviews the carrying value of its long-lived tangible assets and definite lived intangible assets on an annual basis or more frequently if facts and circumstances suggest that they may be impaired. The carrying values of such assets are considered impaired when the anticipated identifiable undiscounted cash flows from such assets are less than their carrying values. An impairment loss, if any, is recognized in the amount of the difference between the carrying amount and fair value.

Indefinite lived intangible assets are subject to impairment testing annually or more frequently if impairment indicators arise. The Company's impairment testing utilizes a discounted cash flow analysis that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of the appropriate discount rate. An impairment loss, if any, is recognized in the amount of the difference between the carrying amount and fair value.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. A valuation allowance is established to reduce net deferred tax assets to the amount expected to be realized. The Company follows accounting guidance regarding the recognition, measurement, presentation and disclosure of uncertain tax positions in the financial statements. Tax positions taken or expected to be taken in the course of preparing the Company's tax returns are required to be evaluated to determine whether the tax positions are "more likely than not" to be upheld under regulatory review. The resulting tax impact of these tax positions is recognized in the financial statements based on the results of this evaluation. The Company did not recognize any tax liabilities associated with uncertain tax positions, nor has it recognized any interest or penalties related to unrecognized tax positions. Generally, the Company is no longer subject to federal and state tax examinations by tax authorities for years before 2011.

2. Summary of significant accounting policies continued

Royalty-based financing instruments

From time to time the Company will enter into financing arrangements whereby the funds received will be repaid through future royalties from revenues at agreed upon royalty rates. Amounts to be paid may be in excess of amounts borrowed. Additionally, in certain instances the repayment terms have expiration dates. The Company records outstanding borrowings under these arrangements as long-term debt liabilities and adjusts the balance based on the likelihood of future repayment, taking into consideration the terms of the individual arrangements.

Net loss per share

Basic and diluted net loss per share available to common stockholders has been calculated by dividing net loss by the weighted average number of common shares outstanding during the year. Basic net loss is based solely on the number of common shares outstanding during the year. Fully diluted net loss per share includes the number of shares of common stock issuable upon the exercise of warrants and options with an exercise price less than the fair value of the common stock. Since the Company is reporting a net loss for all periods presented, all potential common shares are considered anti-dilutive and are excluded from the calculation of diluted net loss per share.

Share-based compensation

The Company measures and recognizes all share-based payment awards, including stock options made to employees and Directors, based on estimated fair values. The fair value of share-based payment awards are estimated on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statement of operations. The Company uses the Black-Scholes option pricing model ("Black-Scholes") as its method of valuation. Non-employee stock-based compensation is accounted for using Black-Scholes to determine the fair value of warrants or options awarded to non-employees with the fair value of such issuances expensed over the period of service.

3. Risks and uncertainties

The Company is subject to risks and uncertainties common in the biotechnology and aquaculture industries. Such risks and uncertainties include, but are not limited to: (i) results from current and planned product development studies and trials; (ii) decisions made by the FDA or similar regulatory bodies in other countries with respect to approval and commercial sale of any of the Company's proposed products; (iii) the commercial acceptance of any products approved for sale and the Company's ability to manufacture, distribute and sell for a profit any products approved for sale; (iv) the Company's ability to obtain the necessary patents and proprietary rights to effectively protect its technologies; and (v) the outcome of any collaborations or alliances entered into by the Company.

Concentration of credit risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash equivalents and marketable securities. This risk is minimized by the Company's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Company's cash balances may at times exceed insurance limitations.

Financial instruments

The carrying amounts reported in the consolidated balance sheets for other receivables and accounts payable approximate fair value based on the short-term maturity of these instruments. The carrying value of debt approximates its fair value since it provides for market terms and interest rates other than as disclosed in Note 8 related to royalty-based financing instruments. These royalty-based financing instruments are adjusted at each reporting period to the amounts the Company expects to repay.

The Company groups its financial instruments measured at fair value, if any, in three levels, based on markets in which the instruments are traded and the reliability of the assumptions used to determine fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Financial instruments with readily available quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Notes to the consolidated financial statements continued
for the year ended 31 December 2014

3. Risks and uncertainties continued
Financial instruments continued

In certain cases, the input used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

4. Property, plant and equipment
Major classifications of property, plant and equipment are summarized as follows:

		2014		2013
Land	$	87,264	$	94,875
Building and improvements		1,356,463		1,471,883
Equipment		623,885		615,362
Office furniture and equipment		77,769		27,613
Vehicles		12,372		13,451
Total property and equipment		2,157,753		2,223,184
Less accumulated depreciation and amortization		(1,244,050)		(1,206,341)
Property, plant and equipment	$	913,703	$	1,016,843

During 2013, the Company retired US$41,856 of fully depreciated property and equipment in Panama that was turned over to the landowner at the expiration of the initial site lease. Depreciation and amortization expense for 2014 on property, plant and equipment was US$140,742 (2013: US$144,126; 2012: US$189,900).

5. Definite lived intangible assets
The following is a summary of definite lived intangible assets at 31 December 2014 and 2013:

		2014		2013
Patents, gross	$	181,333	$	145,993
Less accumulated amortization		(4,214)		(4,214)
Patents, net		177,119		141,779
Licenses, gross		30,000		30,000
Less accumulated amortization		(30,000)		(30,000)
Licenses, net		—		—
Total definite lived intangible assets	$	177,119	$	141,779

During 2013, the Company retired US$309,683 of fully amortized patent costs for which the underlying patents had expired. Patent amortization expense for 2014 was US$nil (2013: US$2,975; 2012: US$33,641). Estimated amortization expense for 2015 is US$nil. Gross patent costs include US$177,119 that have not yet begun to amortize as the patent has not yet been issued. License amortization expense for 2014 was US$nil (2013: US$nil; 2012: US$1,875). There are no further expenses for licenses.

6. Prepaid expenses and other assets

Prepaid expenses and other assets include the following at 31 December 2014 and 2013:

		2014		2013
Prepaid insurance	$	25,089	$	23,758
Prepaid supplies		17,629		16,525
Prepaid professional services		30,321		28,164
Prepaid rent and lease deposits, short-term (Note 11)		28,640		152,441
Prepaid expenses and other assets	$	101,679	$	220,888
Long-term investment		21,628		21,628
Other assets	$	21,628	$	21,628

Long-term investment consists of 2,162,809 shares of common stock of A/F Protein, Inc. (AFP) with a cost basis of US$21,628, which the Company believes to be the best estimate of market value. AFP and the Company have certain shareholders in common.

7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following at 31 December 2014 and 2013:

		2014		2013
Accounts payable	$	137,625	$	131,667
Accrued payroll including vacation		237,543		194,824
Accrued professional fees		147,798		115,439
Accrued research and development costs		134,776		255,409
Accrued other		14,420		3,313
Accrued taxes		5,000		3,376
Accounts payable and accrued liabilities	$	677,162	$	704,028

8. Long-term debt

The current terms and conditions of long-term debt outstanding at 31 December 2014 and 2013 are as follows:

Loan source	Amount	Interest rate	Monthly payment/ repayment terms	Maturity date	2014	2013
Royalty-based financing:						
ACOA AIF grant	C$2,816,281	0%	Royalties	—	$ 2,421,720	$ 2,359,653
TPC funding	C$2,964,900	0%	Royalties	June 2014	—	—
Long-term debt					$ 2,421,720	$ 2,359,653

Atlantic Canada Opportunities Agency (ACOA)

ACOA is a Canadian government agency that provides funding to support the development of businesses and to promote employment in the Atlantic region of Canada.

In January 2009, the Canadian Subsidiary was awarded a grant from ACOA to provide a contribution towards the funding of a research and development project. The total amount available under the award is C$2,871,900 which can be claimed over a five-year period. All amounts claimed by the Canadian Subsidiary must be repaid in the form of a 10% royalty on any products that are commercialized out of this research project, until the loan is fully paid. During 2014, the Canadian Subsidiary submitted claims and received funds in the amount of C$292,318 (2013: C$695,344). No repayments have been made to date. Cumulative draws on this award aggregate C$2,816,281 and the remaining balance available under this award at 31 December 2014 was C$55,619.

Notes to the consolidated financial statements continued

for the year ended 31 December 2014

8. Long-term debt continued

Technology Partnership Canada (TPC)

TPC is a Canadian government agency that provides funding to promote economic growth and create jobs in Canada.

In November 1999, TPC agreed to provide funding up to C$2,964,900 to support the Canadian Subsidiary's efforts to develop commercial applications of its transgenic growth enhanced fin fish technology. Funding under the TPC funding agreement was completed in 2003. This amount is repayable to TPC in the form of a 5.2% royalty on revenues generated from the sale of transgenic based growth enhanced fin fish commercial products. However, the Canadian Subsidiary would have no further repayment obligations after 30 June 2014 even if the total amount had not been repaid as of such date. In 2011, management concluded that the probable amount owed would not exceed C$200,000 and the balance owed to TPC was adjusted to C$200,000 at that time. In 2013, management concluded that the probable amount owed would be C$nil as no revenue would be generated to pay back the outstanding balance prior to the loan termination date. As a result, the balance owed to TPC was adjusted to C$nil and the Company recognized a gain of C$200,000 in 2013 (US$186,980 after foreign exchange adjustment).

The Company recognized interest expense in 2014 of US$nil (2013: US$3,877; 2012: US$4,631) on its interest-bearing debt.

9. Stockholders' equity

The Company is presently authorized to issue up to 240 million shares of stock, of which 40 million are authorized as preferred stock and 200 million as common stock. At 31 December 2014 the Company had nil shares (2013: nil) of preferred stock and 144,537,265 shares (2013: 125,305,471) of common stock, issued and outstanding.

Common stock

The holders of the common stock are entitled to one vote for each share held at all meetings of stockholders. Dividends and distribution of assets of the Company in the event of liquidation are subject to the preferential rights of any outstanding preferred shares. At 31 December 2014 the Company had reserved 7,347,000 shares of common stock for the exercise of options.

Recent issuances

In July 2014 the Company issued 71,428 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a compensation charge of US$25,577 in connection with the issuance.

In July 2014 the Company received proceeds of US$6,300 in connection with the exercise of options to purchase 60,000 shares of common stock.

In March 2014 the Company received proceeds of US$6,000 in connection with the exercise of options to purchase 60,000 shares of common stock.

In January 2014 the Board approved a fundraising of US$10.0 million before expenses by means of a subscription for new common shares by the Company's majority Shareholder, Intrexon Corporation. The subscription price was US$0.5252 per share and the aggregate number of common shares subscribed was 19,040,366. The transaction closed on 20 March 2014 with net proceeds to the Company of US$9.74 million.

In July 2013 the Company issued 65,217 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a compensation charge of US$22,812 in connection with the issuance.

In March 2013 the Company received proceeds of US$4,000 in connection with the exercise of options to purchase 29,500 shares of common stock. In addition, the Company issued 71,771 shares of common stock in a cashless exercise of 132,500 options.

In February 2013 the Board approved a fundraising of approximately £3.9 million (US$6.0 million) before expenses by means of a subscription for new common shares by certain existing shareholders. The subscription price was 16.89 pence per share (US$0.2622) and the aggregate number of common shares subscribed was 22,883,295. The transaction closed on 15 March 2013 with net proceeds to the Company of US$5.73 million.

In July 2012 the Company issued 196,850 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a compensation charge in 2012 of US$23,550 in connection with the issuance.

In January 2012 the Board approved a fundraising of approximately £1.26 million (US$2.0 million) before expenses by means of a subscription for new common shares by certain existing shareholders. The subscription price was 3.79 pence per share (US$0.0601) and the aggregate number of common shares subscribed was 33,277,870. The transaction closed on 22 March 2012 with net proceeds to the Company of US$1.74 million.

9. Stockholders' equity continued

Stock options

In 1998 the Company established a stock option plan. This plan was superseded by the 2006 Equity Incentive Plan (the "Plan"). The Plan provides for the issuance of incentive stock options to employees of the Company and non-qualified stock options and awards of restricted and direct stock purchases to Directors, officers, employees and consultants of the Company.

The Company's option activity under the Plan is summarized as follows:

	Number of options	Weighted average exercise price
Outstanding at 31 December 2011	8,355,000	$ 0.21
Issued	72,000	0.12
Exercised	—	—
Expired	(1,225,000)	0.20
Outstanding at 31 December 2012	7,202,000	$ 0.28
Issued	596,000	0.27
Exercised	(162,000)	0.12
Expired	(1,012,000)	0.51
Outstanding at 31 December 2013	6,624,000	$ 0.25
Issued	872,000	0.75
Exercised	(120,000)	0.10
Expired	(29,000)	0.33
Outstanding at 31 December 2014	**7,347,000**	**$ 0.31**
Exercisable at 31 December 2014	**6,171,520**	**$ 0.25**

The following table summarizes information about options outstanding and exercisable at 31 December 2014:

Weighted average price of outstanding options	Number of options outstanding	Weighted average remaining estimated life (in years)	Number of options exercisable	Weighted average price of exercisable options
$0.11	2,635,000	4.5	2,635,000	
$0.12	24,000	7.5	24,000	
$0.23	773,500	6.0	773,500	
$0.25	495,000	8.3	191,520	
$0.32	24,000	5.8	24,000	
$0.33	24,000	3.5	24,000	
$0.35	48,000	8.5	48,000	
$0.36	72,000	9.5	—	
$0.40	2,375,000	0.5	2,375,000	
$0.65	76,500	2.5	76,500	
$0.78	800,000	9.1	—	
	7,347,000		6,171,520	$ 0.25

Unless otherwise indicated, options issued to employees, members of the Board of Directors and non-employees are vested over one to three years and are exercisable for a term of ten years from the date of issuance.

Notes to the consolidated financial statements continued

for the year ended 31 December 2014

9. Stockholders' equity continued

Stock options continued

The weighted average fair value of stock options granted in 2014 was US$0.58 (2013: US$0.27; 2012: US$0.12). The total intrinsic value of options exercised in 2014 was US$40,428 (2013: US$3,254; 2012: US$nil). At 31 December 2014, the total intrinsic value of all options outstanding was US$442,475 (2013: US$3,756,724) and the total intrinsic value of exercisable options was US$438,226 (2013: US$3,440,172).

The market values of stock option grants/modifications to employees, members of the Board of Directors and non-employees during 2014, 2013 and 2012 were measured on the date of grant/modification using Black-Scholes, with the following weighted average assumptions:

	2014	2013	2012
Expected volatility	**105%**	160%	160%
Risk-free interest rate	**1.67%**	1.05%	0.60%
Expected dividend yield	**0.0%**	0.0%	0.0%
Expected life (in years)	**5**	5	3–5

The risk-free interest rate is estimated using the Federal Funds interest rate for a period that is commensurate with the expected term of the awards. The expected dividend yield is zero because the Company has never paid a dividend and does not expect to do so for the foreseeable future. The expected life was based on a number of factors including historical experience, vesting provisions, exercise price relative to market price and expected volatility. The Company believes that all groups of employees demonstrate similar exercise and post-vesting termination behavior and, therefore, does not stratify employees into multiple groups. The expected volatility was estimated using the Company's historical price volatility over a period that is commensurate with the expected term of the awards.

Total share-based compensation on stock-option grants amounted to US$247,361 in 2014 (2013: US$119,331; 2012: US$300,758). At 31 December 2014, the balance of unearned share-based compensation to be expensed in future periods related to unvested share-based awards is US$352,577. The period over which the unearned share-based compensation is expected to be earned is approximately two years.

Recent issuances

During July 2014 the Company issued 72,000 options at an exercise price of US$0.36 under the terms of its service agreement with Non-executive Directors. These options vest over a one-year period.

During January 2014 the Company granted options to purchase 800,000 shares of common stock to certain Executive officers and employees at an exercise price of US$0.78. These options vest over a one to three-year period.

During July 2013 the Company issued 96,000 options at an exercise price of US$0.35 under the terms of its service agreement with Non-executive Directors. These options vest over a one-year period.

During April 2013 the Company granted options to purchase 500,000 shares of common stock to certain Executive officers and employees at an exercise price of US$0.25. These options vest over a one to three-year period.

During July 2012 the Company issued 72,000 options at an exercise price of US$0.12 under the terms of its service agreement with Non-executive Directors. These options vest over a one-year period.

At the Company's Annual General Meeting in July 2012, the shareholders approved a three-year extension to the exercise term on 2,375,000 options belonging to previous Company Directors and that were due to expire. In conjunction with the extension, the exercise price of the options was increased from US$0.20 to US$0.40. The Company recognized an immediate non-cash stock-based compensation charge of US$202,987 in 2012 for this extension.

9. Stockholders' equity continued

Share-based compensation

The following table summarizes share-based compensation costs recognized in the Company's consolidated statements of operations for the years ended 31 December 2014, 2013 and 2012:

	2014	2013	2012
Research and development	$ 29,910	$ 6,454	$ 3,721
Sales and marketing	75,843	17,645	15,104
General and administrative	167,185	118,044	305,483
Total share-based compensation	$ 272,938	$ 142,143	$ 324,308

10. Income taxes

As at 31 December 2014 the Company has net domestic operating loss carryforwards of approximately US$12.5 million to offset future federal taxable income, which expires at various times through the year 2032. The future utilization of the net operating loss and tax credit carryforwards, however, are subject to annual use limitations based on the change in stock ownership rules of Internal Revenue Code Sections 382 and 383. The Company experienced a change in ownership under these rules during 2012 and revised its calculation of net operating loss carryforwards based on annual limitation rules. The Company also has foreign net operating loss carryforwards in the amount of approximately US$4.6 million and federal R&D tax credits of approximately US$2.6 million at 31 December 2014, which expire at various times through 2032. Since the Company has incurred only losses from inception and there is uncertainty related to the ultimate use of the loss carryforwards and tax credits, a valuation allowance has been recognized to offset the Company's deferred tax assets.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2014	2013
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 6,404,747	$ 4,571,597
Federal research and development tax credit carryforwards	2,890,390	3,010,329
Property and equipment	410,626	427,454
Accounts receivable and other	400	400
Stock options	711,149	695,417
Accrued royalties	—	56,094
Accrued vacation	28,944	24,708
Accrued compensation	46,289	34,475
Intangible assets	(157,959)	(164,002)
Total deferred tax assets	10,334,586	8,656,472
Valuation allowance	(10,334,586)	(8,656,472)
Net deferred tax assets	$ —	$ —

The valuation allowance increased by US$1,678,114 during 2014 and increased by US$617,705 during 2013. The increase in 2014 was due primarily to an increase in deferred tax assets for net operating loss carryforwards and stock options, offset by a decrease in federal research and development tax credit carryforwards. The increase in 2013 was due primarily to an increase in deferred tax assets for net operating loss carryforwards offset by a decrease in federal research and development tax credit carryforwards and capital loss carryforwards.

Notes to the consolidated financial statements continued

for the year ended 31 December 2014

11. Commitments and contingencies

The Company recognizes and discloses commitments when it enters into executed contractual obligations with other parties. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Lease commitments

Panama

In 2008, the Company established a subsidiary in Panama for the purpose of conducting commercial field trials of one of its products. The Company entered into a land lease agreement for a term of five years commencing 1 October 2008. Under the terms of the lease, the Company agreed to pay for improvements to the site in lieu of rent. The Company incurred costs of US$346,735 for the site improvements during 2008 and these costs were amortized to rent expense over the term of the lease. These fully amortized leasehold improvements were turned over to the landowner upon expiration of the initial lease in 2013.

In June 2013, the Company entered into a new lease with the landowner to lease the site for an additional two years. Under the terms of the new lease agreement, the Company would make payments totaling US$712,834 over the term of the agreement, including US$316,800 representing rental payments and US$396,034 representing a management fee, as all management services and operational expenses of the site were turned over to the landowner. Payments were due in monthly installments and a prepayment of US$180,000 was made in 2013 under the terms of the agreement.

In July 2014, the Company received notice that the landlord of its farm site had died. This resulted in the termination of the lease with no further obligations for either party and the Company wrote off the US$45,000 remaining balance of prepaid rent.

In August 2014, the Company executed a new lease agreement with the heirs of the landlord of the Panama site. The new lease has a term of one year with total rent payments of US$180,000. The Company prepaid US$21,600 of the total lease commitment at the time of execution.

Headquarters

In February 2012, the Company signed a one-year lease for office space in Maynard, Massachusetts, for its corporate headquarters for a total of US$17,901. In March 2013, this lease was extended for an additional three years at a total cost of US$59,670.

Total rent expense, including the management fee of the Panama site, under non-cancelable operating leases in 2014 was US$349,641 (2013: US$165,170; 2012: US$117,162). Future minimum commitments under its operating leases are as follows:

Year ending 31 December		Amount
2015	$	125,636
2016		5,221
2017		—
Lease commitments	$	130,857

License agreements

The Company was a party to a license agreement with Genesis Group, Inc. related to the Company's transgenic fish program. Under the terms of this agreement, the Company was required to make an annual royalty payment of US$25,000 or revenue-based royalty payments equal to 5% of any gross revenues generated from products that utilize the technology covered under the license agreement.

No revenue-based royalty payments were ever made under the original agreement. In consideration for a worldwide, royalty-free, fully paid-up, sub-licensable, assignable, non-exclusive right and license to the transgenic fish technology, the Company agreed to pay to Genesis Group, Inc. a one-time payment of C$150,000 (US$140,235). This amount was included as a component of accounts payable and accrued liabilities at 31 December 2013 and was paid in full during 2014.

11. Commitments and contingencies continued

Royalty obligations

As discussed in Note 8, the Canadian Subsidiary was obligated to pay royalties to TPC in an amount equal to 5.2% of gross sales generated from the sale of any growth enhanced transgenic based fin fish commercial products. Such royalties were payable until the earlier of: (i) 30 June 2014; or (ii) until cumulative royalties of C$5,750,000 had been paid. No royalty payments were made and the agreement terminated on 30 June 2014.

As discussed in Note 8, the Canadian subsidiary is obligated to pay royalties to ACOA in an amount equal to 10% of gross sales generated from the sale of any new products that are developed through the research project that is being co funded by ACOA. This royalty is for the repayment of the funds contributed by ACOA to the Canadian Subsidiary through the AIF grant. The first scheduled repayment is 30 June 2015 and subsequent repayments are due annually until the full balance of the contributed funds is paid. The Company does not expect to generate any revenue from the sale of products related to this research during 2015 and therefore does not expect to make a royalty payment during 2015. Total amount outstanding at 31 December 2014 is C$2,816,281 (US$2,421,720) and the maximum amount remaining available under the grant is C$55,619.

Employment agreements

The Company has employment agreements with certain of its officers. The agreements provide for base pay and benefits, as defined. Under certain circumstances of termination, the Company must make severance payments.

Contracts

In November, the Company entered into an agreement with an engineering services company for the design of a land-based recirculating aquaculture system facility. The total cost of the contract is US$275,000 of which US$55,000 was paid at the time of signing. The balance of the payments will be made during 2015.

12. Retirement plan

The Company has a savings and retirement plan for its US employees which qualifies under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees and provides for voluntary contributions by participating employees up to the maximum contribution allowed under the Internal Revenue Code. Contributions by the Company can be made, as determined by the Board of Directors, provided the amount does not exceed the maximum permitted by the Internal Revenue Code. Company contributions made and expensed in operations in connection with the plan during the year ended 31 December 2014 amounted to US$24,018 (2013: US$21,788; 2012: US$24,851). The Company also has a Registered Retirement Savings Plan for its Canadian employees. Company contributions made and expensed in operations in connection with the plan during the year ended 31 December 2014 amounted to US$16,566 (2013: US$14,312; 2012: US$13,730).

13. Government assistance

From time to time, the Company receives government assistance in the form of research grants, which are recorded as a reduction of the related expenditures. During 2014, grants of US$192,773 (2013: US$203,787; 2012: US$135,816) were recorded as a reduction of expenditures. Included in other receivables at 31 December 2014 are amounts due under research grants totaling US$nil (2013: US$11,096). All government assistance is subject to periodic audit by the agency involved in the grant.

14. Contract Research Agreement

In March 2012, and in connection with the restructuring (Note 1), the Company executed a contract research agreement with Tethys Aquaculture Canada Inc. (TAC), to provide the Company with the resources required for its ongoing development needs. Under the terms of the extended agreement, TAC would provide services to the Company through 1 April 2014 and month-to-month thereafter. Total costs incurred under the terms of this agreement amounted to US$338,993 in 2014 (2013: US$386,806; 2012: US$260,798) and is included as a component of research and development expense in the Consolidated Statements of Operations and Comprehensive Loss.

Notes to the consolidated financial statements continued

for the year ended 31 December 2014

15. Exclusive Channel Collaboration Agreement

In February 2013, the Company entered into an Exclusive Channel Collaboration Agreement (ECC) with Intrexon Corporation, its majority Shareholder, pursuant to which the Company will use Intrexon's UltraVector® and other technology platforms to develop and commercialize additional genetically modified traits in fin fish for human consumption. The ECC, which can be terminated by the Company upon 90 days' written notice, grants the Company a worldwide license to use specified patents and other intellectual property of Intrexon in connection with the research, development, use, importing, manufacture, sale and offer for sale of products involving DNA administered to fin fish for human consumption. Such license is exclusive with respect to any clinical development, selling, offering for sale or other commercialization of developed products and otherwise is non-exclusive.

Under the ECC and subject to certain exceptions, the Company is responsible for, among other things, the performance of the program, including development, commercialization and certain aspects of manufacturing developed products. Among other things, Intrexon is responsible for the costs of establishing manufacturing capabilities and facilities for the bulk manufacture of certain products developed under the program, certain other aspects of manufacturing, costs of discovery-stage research with respect to platform improvements and costs of filing, prosecution and maintenance of Intrexon's patents.

The Company will pay Intrexon quarterly 16.66% of the gross profits calculated under the terms of the agreement for each developed product. The Company has likewise agreed to pay Intrexon 50% of quarterly revenue obtained from a sublicensor in the event of a sublicensing arrangement. In addition, the Company will reimburse Intrexon for the costs of certain services provided by Intrexon.

Total Intrexon service costs incurred under the terms of this agreement amounted to US$1,091,021 in 2014 (2013: US$453,304), of which US$134,776 is included in accounts payable and accrued liabilities at 31 December 2014 (2013: US$106,647) and is included as a component of research and development expense in the Consolidated Statements of Operations and Comprehensive Loss.

16. Subsequent events

The Company has evaluated events occurring subsequent to 31 December 2014, and there were no subsequent events that require adjustment to or disclosure in the financial statements.

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Two Clock Tower Place
Suite 395
Maynard, MA 01754
USA
T. 1+978-648-6000