AquaBounty Technologies, Inc.

Annual report and accounts 2013



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) include 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.

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.

Review of the year

Highlights

- U.S. Food and Drug Administration completed the public comment period on its draft Environmental Assessment and Preliminary Finding of No Significant Impact for AquAdvantage® Salmon (AAS).
- Environment Canada decided that AAS is not harmful to the environment or human health when produced in contained facilities.
- Completed an equity subscription of US$6.0 million.
- Operating spend was higher at US$4.9 million (2012: US$4.4 million) as the Company invested in new research projects.
- Net loss increased to US$4.7 million (2012: US$4.4 million net loss).

Contents

Review of the year
About us IFC
Highlights 01
How we produce AquAdvantage® Salmon eggs 02
Chairman's statement 04

Corporate governance
Board of directors 06
Management and advisors 07
Corporate governance 08
Directors' compensation report 09

Financial statements
Report of the independent auditors 11
Consolidated balance sheets 12
Consolidated statements of operations and comprehensive loss 13
Consolidated statements of changes in stockholders' equity (deficit) 14
Consolidated statements of cash flows 15
Notes to the consolidated financial statements 16

Notice of annual general meeting
Notice of annual general meeting 27



Visit our new website at
www.aquabounty.com

Review of the year

How we produce AquAdvantage® Salmon eggs

AquAdvantage® Salmon (AAS) eggs are produced using the same methods as employed by commercial hatcheries to produce conventional Atlantic salmon eggs.





1

The process starts with male and female broodstock which are carefully selected to produce the highest quality milt (sperm) and eggs.

2

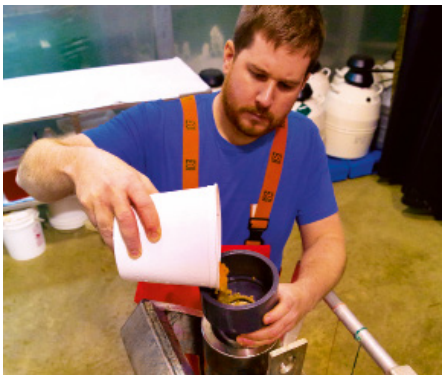
The female broodstock is comprised of superior lines of non-transgenic conventional Atlantic salmon which, when fully mature, are gently massaged to extrude the unfertilized (also known as "green") eggs.

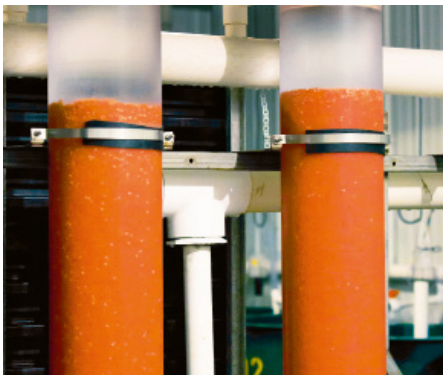
3

To those green eggs is added milt that has been extruded from male Atlantic salmon that carry the AAS transgene enabling fast growth. This transgene is a permanent part of the male's genome and is heritable, meaning it is passed naturally from one generation to the next.

AquAdvantage® Salmon are identical to conventional Atlantic salmon in all respects when it comes to their consumption. AquAdvantage® Salmon are a healthy and sustainable seafood choice.







4

The resulting combination of the non-transgenic conventional Atlantic salmon eggs and the AAS milt is fertilized AAS eggs. Using these methods, AquaBounty Technology's breeding program has successfully produced ten generations of AquAdvantage® Salmon at the Company's breeding hatchery in Canada.

5

The fertilized AAS eggs are then pressure shocked to induce sterility, making the fish produced from these eggs unable to reproduce.

6

Finally, the fertilized, sterile, all-female AquAdvantage® Salmon eggs are placed in incubators until they develop ("eyed-up") and are ready for shipping as "eyed eggs".

Review of the year

Chairman's statement

"The Board is working on the assumption that approval of the NADA will be forthcoming in 2014."

R. J. Clothier, Chairman

Key points

- FDA completed public comment period on draft EA and FONSI
- Environment Canada ruled AAS is not harmful to the environment or human health
- Completed equity subscription for US$6 million



Throughout 2013, AquaBounty operated under the expectation that the approval of its New Animal Drug Application (NADA) for AquAdvantage® Salmon (AAS) from the US Food and Drug Administration (FDA) would be forthcoming. This assumption was based on the release of the draft Environment Assessment (EA) and preliminary Finding of No Significant Impact (FONSI) by the FDA in December 2012. By comparison with other NADA approvals, it appears that the process in this case is all but complete. The Company continues to believe the FDA will conclude its review and approve our application and thus has begun to prepare for commercial production of AAS.

FDA approval process

I reported last year that the FDA had been considering its responsibilities under the US National Environmental Policy Act and preparing its EA for AAS. This occurred on 26 December 2012, along with a draft FONSI, meaning that AAS is safe for the environment under its conditions of use. Both the EA and the FONSI were then subject to a period of open public comment that expired on 26 April 2013. Since that time, we believe that the FDA has been working to finalize the EA and FONSI in conjunction with the approval of the NADA for AAS. Though it is our view that the conclusion of this process is near, we have not received specific guidance from the FDA regarding the timing for an approval.

Production approval in Canada

In November, Environment Canada, the agency of the government of Canada with responsibility for regulating environmental policies and issues, decided that AAS is not harmful to human health nor to the environment when produced in contained facilities. The publication of the Significant New Activity Notice by the Canadian government recognizes that our hatchery, which produces sterile, all-female eggs, is no longer solely a research facility but can produce eggs on a commercial scale without harm to the environment or human health.

Operations

AquaBounty began 2013 with just US$360,000 of cash and this was augmented by a short-term bridge loan from our new major shareholder, Intrexon Corporation (Intrexon), for US$500,000 to fund operations until a larger fundraise could be completed. Given the positive news of the issuance of the EA and FONSI, the Company decided to raise additional funds sufficient to continue operations for another year and also implement new research programs under its Exclusive Channel Collaboration (ECC) agreement with Intrexon. It was considered in the best interests of all shareholders to raise US$6.0 million by means of a limited equity placing to certain existing shareholders, and this was completed on 15 March 2013.

During the year, management continued its existing research and development programs through an extension of the Contract Research Agreement with the Center for Aquaculture Technologies and commenced work on two new research projects under the ECC with Intrexon. In Panama, the Company extended its lease on its production site for an additional two years and a new commercial-scale batch of AAS commenced at the site in May. As with the previous field trials, this batch of fish are thriving and performing in line with the Company's expectations, once again clearly demonstrating the benefits of this product. Preliminary discussions with prospective producers within the US and elsewhere have revealed considerable interest in commencing commercial production of AAS.

Operating expenses for the year amounted to US$4.9 million (2012: US$4.4 million). The increase was primarily due to increased spending on research activities. The net loss for the year was higher at US$4.7 million (2012: US$4.4 million) and included a gain of US$0.2 million due to an adjustment to a long-term, royalty-based financing instrument. Cash used for the year, net of new equity and bridge funding, was higher at US$4.0 million (2012: US$3.2 million). Funds available at the year end amounted to US$1.9 million.

Intrexon Corporation

Intrexon became the Company's largest shareholder in 2012 after purchasing all of the common shares then held by Linnaeus Capital Partners. Shortly thereafter, Intrexon agreed to provide AquaBounty with a US$500,000 bridge loan to fund operations until a larger funding could be put in place. The loan, plus interest, was repaid from the proceeds of the Company's fundraising in March 2013. Intrexon's participation in the funding round increased its ownership in AquaBounty to 53.75% and thus it became the majority shareholder with four of the seven seats on our Board.

Post period-end activities

In January 2014 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 has further increased Intrexon's shareholding to 59.85%.

In March, the Company began preparations to register its common shares with the US Securities and Exchange Commission and to seek a listing on NASDAQ. We believe this will allow for greater liquidity and access for investors to our shares.

Outlook

Although we cannot be certain about the timing, the Board is working on the assumption that approval of the NADA will be forthcoming in 2014, following the finalization of the EA and FONSI. The strong support provided by Intrexon allows the Company to look ahead to post-approval activities and carry out appropriate preparations. Our financial resources are now sufficient to fund operations through mid-2015 and once AAS is approved for commercial development, more robust plans for commercialization will be finalized.



R. J. Clothier
Chairman

Corporate governance

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 and he has also served as 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, most recently, was 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 Gafisa, the largest integrated residential housing developer in Brazil, and Antarctic Shipping SA in 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 V.P. 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 personalised 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.

Corporate governance

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, most recently, was 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
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
Oriel Securities Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Independent auditors
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
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

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

Corporate governance

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 overall responsibility of the Board of Directors is to ensure that the affairs of the Company are managed in the best long-term interests of shareholders, having regard to the interests of the employees and the community. 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 Chief Financial Officer, the Corporate Controller and the external auditors may also attend a portion or all of the meetings of the Audit Committee as required. The Audit Committee meets at least twice each year. The Committee has the responsibility to consider and recommend to the Board the appointment of the Company's external auditors and to review the interim statements and 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 primary responsibility of the Committee is to determine the compensation of Directors and members of Executive management. 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 primary responsibility of the Committee is to advise the Board as appropriate concerning its composition and that of its Committees and to recommend to the Board when new members should be added.

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 external auditors review the internal financial controls as a basis for determining the nature and extent of their audit testing procedures. However, the external auditors do not express an opinion on the effectiveness of the Company's internal controls.

Corporate governance

Directors' compensation report

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

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
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 2013 were as follows:

Ordinary shares	**At 31 December 2013**	At 31 December 2012
R. Clothier	**791,559**	726,342
Dr R. Stotish	**—**	—
T. Barton	**—**	—
R. Huber	**639,321**	639,321
Dr T. Kasser	**—**	—
R. Sterling	**—**	—
J. Turk	**—**	—

Substantial shareholdings

On 31 March 2014 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
Alejandro Weinstein[1]	22,130,040	15.3

1. Percentage includes shares held by Western Pharmaceuticals and CFR International. Dr Weinstein is a controlling shareholder of both companies.

Going concern

The Directors have reviewed the Company's financial position and have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Corporate governance

Directors' compensation report continued

Auditors

Wolf & Company, P.C. indicated their willingness to continue in office as auditors for the Company. The Directors have approved their re-appointment for 2014.

Compensation policy

The 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 2013:

	Salary	Benefits	Board fees	Total compensation
Executive Directors				
Dr R. Stotish	$ 315,167	$ 24,057	$ —	$ 339,224
Non-executive Directors				
R. Clothier[1]	—	—	87,798	87,798
T. Barton[2]	—	—	—	—
R. Huber	—	—	31,875	31,875
Dr T. Kasser[2]	—	—	—	—
R. Sterling[2]	—	—	—	—
J. Turk[2]	—	—	—	—
	$ 315,167	$ 24,057	$ 119,673	$ 458,897

1. R. Clothier's compensation includes both Board fees and an annual grant of ordinary shares. Included in his 2013 compensation is a share grant of US$22,812.

2. Mssrs Barton, Kasser, Sterling and Turk are appointees to the Board by Intrexon Corporation and did not receive cash compensation during 2013.

Directors' share options

At 31 December 2013 Directors had options to purchase ordinary shares under the Company's Equity Incentive Plan as follows:

	Options held at 31 December 2013	Weighted average exercise price	% vested at 31 December 2013
Dr R. Stotish	**2,370,000**	$ 0.14	100%
T. Barton	**24,000**	0.35	0%
R. Huber	**168,000**	0.28	86%
Dr T. Kasser[1]	**—**	—	—
R. Sterling[1]	**—**	—	—
J. Turk	**24,000**	0.35	0%
	2,586,000	$ 0.15	97%

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

Financial statements

Report of the independent auditors

To the Board of Directors and stockholders of AquaBounty Technologies, Inc.:
We have audited the accompanying consolidated financial statements of AquaBounty Technologies, Inc. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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.

Wolf & Company, P.C.

Wolf & Company, P.C.
Boston, Massachusetts
March 20, 2014

Financial statements

Consolidated balance sheets

As of 31 December	Note	2013	2012
ASSETS			
Current assets:			
Cash and cash equivalents		**$ 1,875,749**	$ 348,521
Certificate of deposit		**13,431**	14,405
Other receivables		**78,455**	24,429
Prepaid expenses and other assets	6	**220,888**	127,104
Total current assets		**2,188,523**	514,459
Property, plant and equipment, net	4	**1,016,843**	1,131,214
Definite lived intangible assets, net	5	**141,779**	102,504
Indefinite lived intangible assets		**191,800**	191,800
Other assets	6	**21,628**	21,628
Total assets		**$ 3,560,573**	$ 1,961,605
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable and accrued liabilities	7	**$ 704,028**	$ 435,849
Current debt	8	**—**	270,560
Total current liabilities		**704,028**	706,409
Long-term debt, net of current portion	8	**2,359,653**	2,034,907
Total liabilities		**3,063,681**	2,741,316
Commitments and contingencies	11		
Stockholders' equity (deficit):	9		
Common stock, $0.001 par value, 200,000,000 shares authorized; 125,305,471 (2012: 102,255,688) shares outstanding		**125,305**	102,256
Additional paid-in capital		**77,582,210**	71,733,509
Accumulated other comprehensive loss		**(566,310)**	(660,201)
Accumulated deficit		**(76,644,313)**	(71,955,275)
Total stockholders' equity (deficit)		**496,892**	(779,711)
Total liabilities and stockholders' equity (deficit)		**$ 3,560,573**	$ 1,961,605

See accompanying notes to the consolidated financial statements.

Financial statements

Consolidated statements of operations and comprehensive loss

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

See accompanying notes to the consolidated financial statements.

Financial statements

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**

See accompanying notes to the consolidated financial statements.

Financial statements

Consolidated statements of cash flows

Years ended 31 December	2013	2012
OPERATING ACTIVITIES		
Net loss	**$ (4,689,038)**	$ (4,414,613)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**147,101**	225,416
Share-based compensation	**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	**(57,264)**	90,907
Prepaid expenses and other assets	**(94,935)**	121,481
Accounts payable and accrued liabilities	**281,345**	(68,404)
Net cash used in operating activities	**(4,457,628)**	(3,715,455)
INVESTING ACTIVITIES		
Purchases of equipment	**(99,500)**	(52,841)
Paid out (reinvested) interest on certificate of deposit	**(6)**	6
Payment of patent costs	**(42,249)**	(69,210)
Net cash used in investing activities	**(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	**665,199**	678,657
Repayment of other term debt	**(68,327)**	(68,575)
Proceeds from issuance of common stock, net	**5,725,607**	1,742,478
Proceeds from exercise of stock options	**4,000**	—
Net cash provided by financing activities	**6,126,479**	2,552,560
Effect of exchange rate changes on cash and cash equivalents	**132**	2,481
Net increase (decrease) in cash and cash equivalents	**1,527,228**	(1,282,459)
Cash and cash equivalents at beginning of year	**348,521**	1,630,980
Cash and cash equivalents at end of year	**$ 1,875,749**	$ 348,521
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid in cash	**$ 4,223**	$ 4,414

See accompanying notes to the consolidated financial statements.

Financial statements

Notes to the consolidated financial statements

for the year ended 31 December 2013

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 produce antifreeze proteins and to conduct research and development programs related to the commercialization of cryopreservatives and the antifreeze gene construct.

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.

Basis of consolidation

The consolidated financial statements include the accounts of AquaBounty Technologies, Inc. and its wholly owned subsidiaries, AquaBounty Canada, Inc. and AquaBounty Panama, S. de R.L. 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 13).

Liquidity and management's plan

The Company has recurring net losses and has relied on its fundraising efforts to finance its operations 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 to the Company of approximately US$9.7 million (see Note 15).

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.

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 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 money market funds.

Certificate of deposit

The Company has a one-year certificate of deposit at 31 December 2013 and 2012 that currently bears interest at 0.8%. It is renewable annually in January.

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 the year, an amount of US$175,665 (2012: US$118,657) was recorded as a reduction of expenditures. Included in other receivables at 31 December 2013 is US$5,914 (2012: US$11,193) of amounts due under research grants. All government assistance is subject to periodic audit by the agency involved in the grant.

2. Summary of significant accounting policies continued

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 2010.

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 the 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.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

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 which 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.

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:

		2013		2012
Land	**$**	**94,875**	$	101,796
Building and improvements		**1,471,883**		1,579,255
Equipment		**615,362**		566,014
Office furniture and equipment		**27,613**		32,689
Leasehold improvements		**—**		23,626
Vehicles		**13,451**		28,459
Total property and equipment		**2,223,184**		2,331,839
Less accumulated depreciation and amortization		**(1,206,341)**		(1,200,625)
Property, plant and equipment	**$**	**1,016,843**	$	1,131,214

4. Property, plant and equipment continued

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 2013 on property, plant and equipment was 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 2013 and 2012:

		2013		2012
Patents, gross	$	145,993	$	413,427
Less accumulated amortization		(4,214)		(310,923)
Patents, net		141,779		102,504
Licenses, gross		30,000		30,000
Less accumulated amortization		(30,000)		(30,000)
Licenses, net		—		—
Total definite lived intangible assets	$	141,779	$	102,504

During 2013, the Company retired US$309,683 of fully amortized patent costs for which the underlying patents have expired. Patent amortization expense for 2013 was US$2,975 (2012: US$33,641). Estimated amortization expense for 2014 is US$nil. Gross patent costs include US$141,779 that have not yet begun to amortize as the patent has not yet been issued. License amortization expense for 2013 was US$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 2013 and 2012:

		2013		2012
Prepaid insurance	$	23,758	$	25,449
Prepaid supplies		16,525		7,794
Prepaid professional services		28,164		23,979
Prepaid rent and lease deposits, short-term (Note 11)		152,441		69,882
Prepaid expenses and other assets	$	220,888	$	127,104
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 2013 and 2012:

		2013		2012
Accounts payable	$	387,076	$	240,878
Accrued payroll including vacation		194,824		90,955
Accrued professional fees		115,439		87,846
Accrued other		3,313		11,000
Accrued taxes		3,376		5,170
Accounts payable and accrued liabilities	$	704,028	$	435,849

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

8. Long-term debt

The current terms and conditions of long term debt outstanding at 31 December 2013 and 2012 are as follows:

Loan source	Amount	Interest rate	Monthly payment/ repayment terms	Maturity date	2013	2012
Term and bridge debt:						
EPEI loan	C$300,000	6.657%	C$3,738	December 2013	—	$ 42,714
ACOA loan	C$250,000	0%	C$2,315	December 2013	—	27,846
Intrexon bridge loan	$500,000	3%	None	May 2013	—	200,000
Royalty-based financing:						
ACOA AIF grant	C$2,523,963	0%	Royalties	—	**2,359,653**	1,834,287
TPC funding	C$2,964,900	0%	Royalties	June 2014	—	200,620
Total debt					**2,359,653**	2,305,467
Less: current portion					—	(270,560)
Long-term debt					**$ 2,359,653**	$ 2,034,907

All term debt was repaid in full in 2013. The difference between 2012 balances and closing payoff amounts are due to foreign exchange adjustments.

Enterprise PEI (EPEI)

EPEI is a provincial government agency that provides funding to promote the growth and development of companies within the province of Prince Edward Island.

In August 2003, the Canadian subsidiary obtained a loan with EPEI in the amount of C$300,000. This loan was being repaid through monthly payments of principal and interest and was collateralized by a demand note executed by the Canadian Subsidiary. In addition, the loan provided additional collateralization including fixed or floating liens on substantially all of the Canadian Subsidiary's assets, including land, building and fixtures and accounts receivable, as well as an assignment of fire insurance. The loan was fully repaid upon maturity in December 2013.

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.

Term debt

In October 2003, the Canadian Subsidiary obtained a loan with ACOA in the amount of C$250,000. The loan was being repaid through monthly payments of principal and was unsecured. The loan was fully repaid upon maturity in December 2013.

Royalty-based financing

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 2013, the Canadian Subsidiary submitted a claim and received funds in the amount of C$695,344 (2012: C$678,504). No repayments have been made to date. Cumulative draws on this award aggregate C$2,523,963 and the remaining balance available under this award at 31 December 2013 is C$347,937.

Intrexon Corporation (Intrexon)

Intrexon is a public company specializing in next generation synthetic biology. In November 2012, Intrexon purchased the common shares of AquaBounty that had been previously held by Linnaeus Capital Partners, B.V. and thus became the majority shareholder in the Company.

In December 2012, Intrexon agreed to provide the Company with a US$500,000 bridge loan to help fund operations until permanent financing could be completed. The loan could be drawn-down in increments of US$100,000 and carried an interest rate of 3%. All funds borrowed, plus interest, were to be repaid from the proceeds of the Company's next fundraising, but no later than May 2013. As of 31 December 2012, the Company had borrowed US$200,000 under this debt facility. In January and February 2013, the Company borrowed the additional US$300,000 available under this debt facility. All amounts were repaid in full in March 2013, including accrued interest of US$2,567.

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 finfish 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 finfish commercial products. However, the Canadian Subsidiary will have no further repayment obligations after 30 June 2014 even if the total amount has 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 $0 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 $0 and the Company recognized a gain of C$200,000 in 2013 ($186,980 after foreign exchange adjustment).

The Company recognized interest expense in 2013 of $3,877 (2012: $4,631) on their 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 2013 the Company had nil shares (2012: nil) of preferred stock and 125,305,471 shares (2012: 102,255,688) of common stock, issued and outstanding.

Common stock

The holders of the common shares 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 2013 the Company had reserved 6,624,000 shares of common stock for the exercise of options.

Recent issuances

On 1 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.

On 2 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.

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

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**	**$**	**0.25**
Exercisable at 31 December 2013	**6,052,000**	**$**	**0.25**

The following table summarizes information about options outstanding and exercisable at 31 December 2013:

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 outstanding and exercisable options
$0.10	90,000	5.4	90,000		
$0.11	2,665,000	5.5	2,665,000		
$0.12	24,000	8.5	24,000		
$0.23	773,500	7.0	773,500		
$0.25	500,000	9.3	—		
$0.32	24,000	6.8	24,000		
$0.33	24,000	4.5	24,000		
$0.35	72,000	9.5	—		
$0.40	2,375,000	1.5	2,375,000		
$0.65	76,500	3.5	76,500		
	6,624,000		6,052,000	$	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.

The weighted average fair value of stock options granted in 2013 was US$0.27 (2012: US$0.12). The total intrinsic value of options exercised in 2013 was US$3,254 (2012: US$nil). At 31 December 2013, the total intrinsic value of all options outstanding was US$3,756,724 (2012: US$681,029) and the total intrinsic value of exercisable options was US$3,440,172 (2012: US$622,140).

9. Stockholders' equity continued

Stock options continued

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

	2013	2012
Expected volatility	**160%**	160%
Risk free interest rate	**1.05%**	0.60%
Expected dividend yield	**0.0%**	0.0%
Expected life (in years)	**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$119,331 in 2013 (2012: US$300,758). At 31 December 2013, the balance of unearned share-based compensation to be expensed in future periods related to unvested share-based awards is US$97,394. The period over which the unearned share-based compensation is expected to be earned is approximately three years.

Recent issuances

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 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 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 which 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.

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 2013 and 2012:

		2013		2012
Research and development	**$**	**6,454**	$	3,721
Sales and marketing		**17,645**		15,104
General and administrative		**118,044**		305,483
Total share-based compensation	**$**	**142,143**	$	324,308

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

10. Income taxes

As at 31 December 2013 the Company has net domestic operating loss carryforwards of approximately US$8.3 million to offset future federal taxable income, which expires at various times through the year 2031. 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$4.1 million and federal R&D tax credits of approximately US$2.7 million at 31 December 2013, which expire at various times through 2031. 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:

		2013		2012
Deferred tax assets (liabilities):				
Net operating loss carryforwards	**$**	**4,571,597**	$	3,653,409
Federal research and development tax credit carryforwards		**3,010,329**		3,098,157
Property and equipment		**427,454**		456,008
Accounts receivable and other		**400**		400
Stock options		**695,417**		882,600
Accrued royalties		**56,094**		—
Accrued vacation		**24,708**		21,777
Accrued compensation		**34,475**		—
Capital loss carryforwards		**—**		63,214
Intangible assets		**(164,002)**		(136,798)
Total deferred tax assets		**8,656,472**		8,038,767
Valuation allowance		**(8,656,472)**		(8,038,767)
Net deferred tax assets	**$**	**—**	$	—

The valuation allowance increased by US$617,705 during 2013 and decreased by US$11,036,117 during 2012. 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 as well as a decrease in stock options. The 2012 decrease was due primarily to a decrease in deferred tax assets for expired net operating loss carryforwards.

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

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 will make payments totalling 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 are due in monthly installments and a prepayment of US$180,000 was made in 2013 under the terms of the agreement.

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.

11. Commitments and contingencies continued

Lease commitments continued

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

Year ended 31 December		Amount
2014	$	379,641
2015		290,636
2016		5,221
Lease commitments	$	675,498

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 have been made to date. 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 ($140,235). This amount is included as a component of accounts payable and accrued liabilities at 31 December 2013.

Royalty obligations

As discussed in Note 8, the Canadian Subsidiary is 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 finfish commercial products. Such royalties are payable until the earlier of: (i) 30 June 2014; or (ii) until cumulative royalties of C$5,750,000 have been paid. No royalty payments have been made to date.

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. Total amount outstanding at 31 December 2013 is C$2,523,963 ($2,359,653) and the maximum amount available under the grant is C$2,871,900.

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.

Bonus obligation

The Company is obligated to pay a bonus to its Chief Executive Officer of US$80,062 upon the successful approval of its AquAdvantage® Salmon New Animal Drug Application by the Food and Drug Administration. The Company has recorded an accrual for this bonus as of 31 December 2013 based on management's expectation regarding payment.

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 2013 amounted to 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 2013 amounted to US$14,312 (2012: US$13,730).

Financial statements

Notes to the consolidated financial statements continued

for the year ended 31 December 2013

13. 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 AquaBounty with the resources required for its ongoing development needs. Under the terms of the extended agreement, TAC will provide services to the Company through 1 April 2014. Total costs incurred under the terms of this agreement amounted to US$386,806 in 2013 (2012: US$260,798) and are included as a component of research and development expense in the Consolidated Statements of Operations and Comprehensive Loss.

14. 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 finfish 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 finfish 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$453,304 in 2013, of which US$106,647 is included in accounts payable and accrued liabilities at 31 December 2013, and is included as a component of research and development expense in the Consolidated Statements of Operations and Comprehensive Loss.

15. Subsequent events

Management has evaluated subsequent events through 20 March 2014, which is the date the financial statements were available to be issued.

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 approximately US$9.7 million.

There were no other subsequent events that require adjustment to or disclosure in the financial statements.

Notice of annual general meeting

Notice of annual general meeting

To our shareholders

Notice is hereby given that the Annual General Meeting (AGM) of shareholders of AquaBounty Technologies, Inc. (the "Company") will be held on Tuesday 8 July 2014 at 8:30 a.m., Eastern Daylight Time, at the Millennium Bostonian Hotel in Boston, Massachusetts for the following purposes:

(1) to elect a Board of Directors to serve until the next AGM of shareholders or until their respective successors have been elected or appointed; and

(2) to consider such other business as may properly come before the AGM or any adjournments thereof.

The Board of Directors has fixed the close of business on Friday 6 June 2014 as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting.

The AGM is open to shareholders and those guests invited by the Company. We encourage you to vote on the issues included in this proxy statement as soon as possible. You can vote in following ways:

(1) by internet: go to www.capitashareportal.com and log in and select the "Proxy Voting" link. If you have not previously registered for electronic communications, you will first be asked to register as a new user, for which you will require your investor code (which can be found on the enclosed proxy form, your share certificate and tax voucher), family name and post code (if resident in the UK);

(2) by mail: mark, sign, date and promptly return your proxy card. UK shareholders should fold the proxy card as directed so that the postage paid return address is visible. Shareholders outside the UK should use the overseas postage paid envelope provided; or

(3) at the meeting: attend the meeting and vote in person.

If you have any questions regarding your proxy card, you can contact Capita Asset Services. UK shareholders can call 0871 664 0300 (calls cost 10 pence per minute plus network extras). Shareholders outside of the UK can call +44 208 639 3399.

By order of the Board of Directors,



David A. Frank
Chief Financial Officer and Secretary

Notes

(1) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Capita Asset Services, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(2) A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him or her.

To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorized to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(3) Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6.00 p.m. (BST) on 6 July 2014. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(4) Shareholders wishing to vote online should visit www.capitashareportal.com and follow the instructions.

Notice of annual general meeting

Notice of annual general meeting continued

Explanation of resolutions

Proposal 1 – election of Directors

Number of nominees, classification and voting

The number of Board seats is currently seven. Each Director serves a one-year term, with all Directors subject to annual election.

The following seven individuals are the nominees to be elected to serve until the 2015 annual meeting or until their successors are elected: The seven current Directors nominated for re-election are Richard Clothier, Dr Ronald Stotish, Richard Huber, Dr Thomas Kasser, Christine St.Clare, Rick Sterling and James Turk.

The election of each Director shall be decided by plurality vote. This means that the eight individuals receiving the most votes will be elected. As a result, any shares not voted for a Director (whether by withholding authority or otherwise) will have no impact on the election of Directors.

Information as to nominees

The nominees, their ages, principal occupations or positions and experience are shown below. None of the nominees are related to each other or to any other nominee or to any Executive Officer of the Company or its subsidiaries by blood, marriage or adoption. Except for Dr Stotish, no nominee has been an employee of the Company within the past five years.

The Board of Directors recommends a vote "FOR" the election to the Board of each of the following nominees. Proxies solicited by the Board of Directors will be voted "FOR" each of the nominees, unless a contrary vote is specified.

Nominees for Directors

Richard J. Clothier (68) – Chairman

Mr Clothier joined the Board of AquaBounty Technologies in 2006 as Non-executive Chairman. He is currently also Chairman of Exosect, Inc., Robinson Plc, Imagelinx Plc and Spearhead International Ltd.

Dr Ronald L. Stotish (64) – President and Chief Executive Officer

Ronald L. Stotish, PhD was named CEO and President of AquaBounty Technologies in May 2008. He joined the Company in 2006 as Vice-President for Regulatory Affairs, and also served as Senior Vice-President for R&D and Regulatory Affairs.

Richard L. Huber BA (77) – Non-executive Director

Richard Huber joined the Board of AquaBounty in 2006. He is currently serving as a Director of Gafisa and Antarctic Shipping, as well as several other companies.

Dr Thomas R. Kasser (59) – Non-executive Director

Thomas Kasser, PhD 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. He was most recently President and CEO of Angionics, Inc. Prior to Angionics, he was a Covance Corporate V.P. after having served over 20 years at Monsanto Company.

Christine T. St.Clare 63 – Non-executive Director

Christine joined the Board of AquaBounty in May 2014. She is the founder and President of St.Clare Advisors LLC and currently serves as a Director of the Polymer Group and Fibrocell Science. She previously was a Partner and Director at KPMG LLP.

Rick Sterling (50) – Non-executive Director

Rick Sterling joined the Board of AquaBounty in September 2013. He is the Chief Financial Officer at Intrexon. 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. He has a BS in Accounting and Finance from Virginia Tech and is a licensed CPA.

James C. Turk, Jr. (57) – Non-executive Director

James Turk joined the Board of AquaBounty in February 2013. He has served as a partner in the firm Harrison & Turk, P.C. since 1987. He presently holds Board appointments to SunTrust Bank, Synchrony, Inc., the Virginia Tech Athletic Foundation, and the Roanoke College President's Advisory Board.

Other business

Management is unaware of any business, other than that described in this proxy statement that may be presented for action at the Annual Meeting of Stockholders. If any other matters are properly presented at the Annual Meeting for action, the persons named in the accompanying proxy will vote upon them in accordance with their best judgment.

By Order of the Board of Directors,



David A. Frank
Chief Financial Officer and Secretary

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

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