MaxCyte®

Annual Report and Financial Statements 2016

Driving a new generation of cell-based medicines

MaxCyte is a U.S.-based global company driving the acceleration of the discovery/development, manufacturing and commercialisation of next-generation, cell-based medicines.

The Company provides its patented, high-performance cell-engineering platform to biopharmaceutical partners engaged in drug discovery and development, biomanufacturing and cell therapy, including gene editing and immuno-oncology. With its robust delivery platform, MaxCyte's team of scientific experts helps its partners unlock the potential of their products and solve development and commercialisation challenges.

This platform allows for the engineering of nearly all cell types, including human primary cells, with any molecule, at any scale. It also provides unparalleled consistency and minimal cell disturbance, thereby facilitating rapid, large-scale, clinical and commercial grade cell engineering in a non-viral system and with low-toxicity concerns. The Company's cell-engineering platform is U.S. FDA-cleared, providing MaxCyte's customers and partners with an established regulatory path to commercialise cell-based medicines.

MaxCyte is developing CARMA, its proprietary, breakthrough platform in immuno-oncology, to rapidly manufacture chimeric antigen receptor (CAR) therapies for a broad range of cancer indications, including solid tumours where existing chimeric antigen receptor T cell (CAR-T) approaches face significant challenges.

Strategic and financial highlights

Strategic highlights

- Non-exclusive commercial licence agreement signed March 2017 with CRISPR Therapeutics and Casebia Therapeutics (a joint venture established by CRISPR Therapeutics and Bayer AG) to develop CRISPR/Cas9-based therapies for haemoglobin-related diseases and severe combined immunodeficiency (SCID). Under the terms of the licence, MaxCyte will receive upfront, milestone and sales-based payments
- Continued advancement of CARMA collaboration with Johns Hopkins Kimmel Cancer Center and initiation of strategic research collaboration with the Washington University in St. Louis to develop CARMA platform in blood cancers and related pipeline of next-generation cell therapies
- Continued growth of customer base, comprising leading pharmaceutical and biotechnology companies, including nine of the top ten global biopharmaceutical companies by revenue and with more than 170 instruments placed
- Expansion to more than 40 high-value cell therapy partnered programmes covering cutting-edge fields of immuno-oncology, gene editing and regenerative medicine, delivering high-value recurring licensing revenue. More than 15 programmes licensed for clinical development and two programmes for commercial use
- Continued collaboration with world leaders in the CAR field in both solid cancers and haematological malignancies, with eight academic clinical trials initiated that use MaxCyte's technology
- Publication of results in *Science Translational Medicine* from a collaborative study with the National Institutes of Health's (NIH) National Institute of Allergy and Infectious Diseases (NIAID) demonstrating CRISPR-Cas9 repair in stem cells from patients with a rare immunodeficiency disorder, enabled by MaxCyte's technology
- Expansion of Asian distribution network, adding distributors in Japan and Singapore to support growing market demand for MaxCyte STX® Scalable Transfection System and MaxCyte VLX® Large Scale Transfection System
- Appointment of Debra K. Bowes as executive vice president, business and strategic development, to lead alliance-building efforts for MaxCyte

Financial highlights

- Successful initial public offering (IPO) on the AIM market of the London Stock Exchange on 29 March 2016 raising £10.0 million (before expenses)
- Revenues of $12.3 million, a 32% increase over $9.3 million in 2015
- Gross margins remained stable at 89%
- Operating expenses increased to $12.4 million before CARMA expenses in 2016, compared to $8.7 million in 2015
- CARMA investment totalled $1.3 million for 2016, compared to $0.3 million for 2015
- Net loss before CARMA investment was $2.0 million including $0.9 million in public limited company (PLC) expenses post-IPO (net loss before CARMA expenses of $1.1 million in 2015)
- Total assets were $16.1 million at the end of 2016, compared to $6.4 million at the end of 2015
- Cash and cash equivalents totalled $11.7 million at the end of 2016, compared to $2.4 million at the end of 2015

Strategic Report

Governance

Financial Statements

Discovery platform and infrastructure investment allow us to continue to be a leader in the future of cell-based medicines

In 2016, our first year as a publicly traded company, MaxCyte made significant progress across the business: in selling and licensing our unique cell-engineering platform for use in drug discovery/development and cell therapy, including immuno-oncology and gene editing; in investing in global sales, marketing and scientific applications support for its customers and partners; and in continuing to enable the development of a new generation of cell-based medicines for treatment of patients.

CARMA immuno-oncology platform

MaxCyte has made many advances in developing CARMA, its breakthrough, proprietary platform in immuno-oncology that seeks and destroys cancer cells. The CARMA platform is used to rapidly manufacture CAR therapies for a broad range of cancer indications, including solid tumours where existing CAR-T approaches face significant challenges. CARMA offers the potential to deliver precise therapies for patients against a range of cancers, significantly faster and without the cost and complexity of centralised manufacturing and adverse effects seen in first generation, viral-based CAR therapies. MaxCyte's first CARMA drug candidate is advancing toward clinical development via a strategic collaboration with the Johns Hopkins Kimmel Cancer Center in Baltimore, Maryland. In addition, in 2016, the Company entered into a second collaboration for CARMA with the Siteman Cancer Center at Washington University in St. Louis, Missouri, to develop CAR therapy drug candidates for blood cancers.

"The MaxCyte team remains firmly dedicated to making possible key advancements for human healthcare in the revolutionary fields of immuno-oncology and gene editing."

MaxCyte is also enabling a new generation of cell therapies growing out of the convergence of technological advances, such as emerging immunotherapy approaches and CRISPR-Cas9 gene editing, which allows deletion, addition or alteration of specific sites in a gene, enabling precise control over gene function. Proof of concept for our technology's potential in gene editing was evidenced by publication of results in the peer-reviewed journal *Science Translational Medicine.* This collaborative study between MaxCyte and the NIH's NIAID, published in January 2017, demonstrated CRISPR-Cas9 repair in stem cells from patients with a rare immunodeficiency disorder. The data published in this study of a potential treatment for X-linked chronic granulomatous disease (CGD) demonstrates proof of concept for the unique effectiveness of MaxCyte technology for enabling CRISPR-based gene repair, thereby significantly enhancing the Company's potential addressable market.

Publications and scientific integrity

The Company's proprietary Flow Electroporation™ Technology, a cell-engineering platform designed to safely and reproducibly modify any cell, including primary human cells, with high efficiency, low cytotoxicity, and at the scale required to treat patients, continues to advance its position as an industry standard.

MaxCyte understands the importance of validation for any new technology and throughout the year the Company continued our engagement with the wider scientific community, publishing our scientific findings in a peer-reviewed article in *Science Translational Medicine*, and presenting additional findings at conferences worldwide, including the American Society of Gene and Cell Therapy Annual Meeting, the Keystone Symposia on Precision Genome Engineering, the Annual Biophysical Society Meeting, the BioProcess International Conference & Exposition, and CHI's Cancer Biotherapeutics Conference.

Outlook

The Company remains focused on progressing its CARMA programme and driving top-line growth by expanding licensing and sales of its technology to new and existing customers. MaxCyte sees its technology becoming more widely adopted because of the unique power of its proprietary cell-engineering platform to advance drug discovery and cell-based therapeutics, including through expansion of the geographies it serves and advances into new therapeutic areas to broaden the overall addressable market. The MaxCyte team remains firmly dedicated to making possible key advancements for human healthcare in the revolutionary fields of immuno-oncology and gene editing based on the Company's technology, and management is confident of delivering continued strong growth in 2017.

Summary

MaxCyte offers sincere thanks to our investors, Board of Directors, partners and collaborators, and employees, who have shared our vision of the critical importance of cell engineering in the development of treatments for human health, and who have helped us drive to our present success. MaxCyte looks forward to forming new partnerships and collaborations in 2017 and continuing to remain on the cutting-edge of science, advancing a new generation of cell-based medicines.

J. Stark Thompson, PhD
Non-Executive Chairman

Doug Doerfler
President and
Chief Executive Officer

J. Stark Thompson, PhD
Non-Executive Chairman

Doug Doerfler
Chief Executive Officer

2016/2017 accomplishments

Further significant accomplishments achieved in the 2016 financial year and 2017 year-to-date have included:

The Company generated revenues in 2016 of $12.3 million from sales of instruments and disposables for drug discovery and development and biomanufacturing, as well as from licensing of instruments and disposable sales for cell therapy development. This represents a 32% increase over 2015.

Securing the Company's first commercial-phase gene editing license agreement for non-exclusive rights to its cell-engineering platform with CRISPR Therapeutics (NASDAQ:CRSP), a biopharma focused on creating transformative gene-based medicines for serious diseases, and Casebia Therapeutics, a joint-venture established by CRISPR Therapeutics and Bayer AG, for the development of CRISPR/Cas9 therapies targeting hemoglobin-related diseases and severe combined immunodeficiency (SCID) . This agreement is a key milestone in the validation of the Company's cell therapy business strategy of achieving higher value agreements as partners move through development.

Expanding our customer base of leading pharmaceutical and biotechnology companies, which includes nine of the top ten global biopharmaceutical companies by revenue. In addition, the Company is currently engaged in more than 40 cell therapy partnered programmes covering a diverse range of fields, including immuno-oncology, CAR-based immuno-oncology, gene editing and regenerative medicine. More than 15 of these programmes are licensed for clinical stage use.

Collaborating with world leaders in the CAR field in applying our proprietary high-performance cell-engineering platform to develop novel therapies through the use of non-viral loading of CAR messenger RNA (mRNA), seeking to overcome many of the challenges associated with current viral-based CAR therapies. These collaborations include eight academic-initiated clinical trials that use MaxCyte's technology, some of which have shown early indications of anti-tumour activity with no overt evidence of on-target, off-tumour toxicity.

Bolstering the Company's Asia distribution network by appointing distributor partners in Japan and Singapore and advancing existing distributor relationships in India, South Korea and China to serve growing demand for the Company's products in the Asia market.

Appointing industry veteran Debra K. Bowes as Executive Vice President, Business and Strategic Development, to lead alliance-building efforts for CARMA.

Publishing and presenting our novel scientific findings in a peer-reviewed journal and at a number of conferences worldwide.

Recognition of our technology by the *Best Technology Award* at the 2016 AIM Awards and from the London Stock Exchange through its *Future of Healthcare Investor Forum* where MaxCyte was noted as a key example of U.S.-based life sciences companies successfully listed in London.

Global cell-engineering solution provider

MaxCyte is a leading global cell-engineering solution provider with a proprietary technology that accelerates the discovery, development, manufacturing and commercialisation of next-generation, highly-effective medicines across diverse markets. MaxCyte generates value by leveraging its capabilities as an established and revenue-generating developer and supplier of Flow Electroporation™ Technology and instrumentation to companies and research institutions engaged in drug discovery and development, biomanufacturing, cell therapy, gene editing and immuno-oncology – helping to make possible the next generation of cell-based medicines. In addition, the Company is advancing development of CARMA – its proprietary platform in immuno-oncology – to deliver a validated non-viral approach to CAR therapies in multiple cancer indications, including solid and liquid tumours.

Our technology

MaxCyte's proven delivery platform is a non-viral, highly scalable and adaptable cell-engineering technology with consistently reproducible high-level performance, including for use in clinical settings.

MaxCyte's delivery platform for cell engineering uses Flow Electroporation™ Technology, a non-viral, inherently low-risk technology that does not require the use of viruses or chemical transfection reagents. Unlike other transfection methods, Flow Electroporation™ Technology uses a protein free and animal-component free, physiologically balanced salt solution as a universal electroporation buffer for all cell types. Results with MaxCyte's delivery platform exceed those of other transfection methods, producing minimal cell disturbance, and routinely achieving cell viabilities greater than 90% and greater than 95% transfection efficiencies for a broad range of cell types. These include historically difficult to transfect cells such as primary cells, including stem cells.

The Company's instruments and technology are sold in the drug discovery and development and biomanufacturing markets, and are licensed in the cell therapy development and commercialisation markets enabling the development of novel cell-based therapeutics in partnered programmes. This provides high-value upfront revenue from sales and annual licensing fees, which are complemented by an attractive and growing recurring revenue stream from the sale of its proprietary single-use disposable processing assemblies. MaxCyte's diverse and international customer base of leading pharmaceutical and biotechnology companies includes nine of the top ten global pharmaceutical companies by revenue. Examples of MaxCyte customers include AstraZeneca, Sangamo BioSciences, Editas, Valneva, Pfizer, Novimmune, CRISPR Therapeutics, and Casebia Therapeutics (a joint venture established by CRISPR Therapeutics and Bayer AG).

The Company sells to its customers through a dedicated team of sales professionals and applications scientists in Europe and North America, and through a growing network of distributors in Asia.

Our innovative approach to fostering cell therapy drug development

MaxCyte is collaborating with world leaders and pioneers in the CAR field in applying its Flow Electroporation™ Technology to develop novel mRNA-based CAR therapies. These collaborations seek to overcome many of the challenges associated with current viral-based CAR therapies. To date, eight academic-initiated clinical trials are underway in solid tumours and haematological malignancies, including *ex vivo* gene-edited adoptive onco-immunotherapies. These studies demonstrate an ability to robustly manufacture mRNA CAR-transfected immunotherapy products, and initial results indicate no overt evidence of on-target, off-tumour toxicity as well as preliminary evidence of anti-tumour activity.

MaxCyte is also advancing development of its revolutionary class of immunotherapy, known as CARMA, which enables the rapid manufacture of CAR therapies for a broad range of cancer indications, including solid tumours where existing CAR-T approaches face significant challenges. MaxCyte's proprietary cell-engineering platform enables the targeting of tumours while delivering low-cost, close-to-the-patient manufacturing. In April 2015, MaxCyte entered a strategic research collaboration with the Johns Hopkins Kimmel Cancer Center to develop its CARMA cell therapy, with promising preclinical results to date. In 2016, MaxCyte entered a second strategic research collaboration for CARMA – this time with the Washington University in St. Louis to further study the platform in liquid tumours and a related pipeline of next-generation cell therapies.

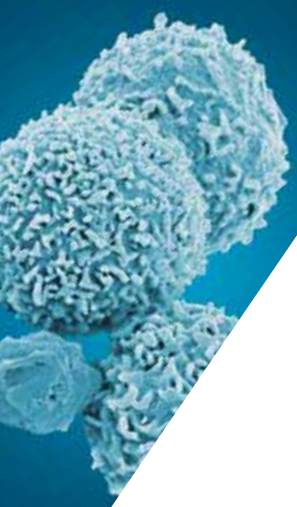
MaxCyte has also partnered with world leaders in the gene editing field who are applying the Company's Flow Electroporation™ Technology to develop novel cell therapies including CAR therapies enhanced by site-specific gene repair. Proof-of-concept for application of its technology in the gene editing field was demonstrated in 2016 with the publication of data in *Science Translation Medicine* from the Company's collaboration with the NIH's NIAID, which highlighted proof of concept for the unique effectiveness of MaxCyte technology for enabling CRISPR-based gene repair in stem cells from patients with a rare immunodeficiency disorder.

Scientific leadership

MaxCyte researchers and our partners have continued to publish and present scientific findings, supported by the use of MaxCyte's technology in CAR, gene editing and other areas, in peer-reviewed journals and at conferences worldwide. In January 2017, the peer-reviewed journal *Science Translational Medicine* published results from a collaborative study between MaxCyte and the NIH's NIAID, demonstrating proof of concept for the unique effectiveness of MaxCyte technology for enabling CRISPR-based gene repair. In October 2016, at the BioProcess International Conference & Exposition, two scientific posters were presented on the use of MaxCyte's platform for streamlining production of biologics, vaccines and cell-based medicines and for producing consistent antibody quality and glycosylation patterns. In March 2016, data resulting from a collaboration with Matthias Peipp, PhD, of Christian-Albrechts-University in Kiel, Germany was presented at CHI's Cancer Biotherapeutics Conference in London showing that the MaxCyte platform can produce biologically active bispecific antibodies via transient expression in CHO cells.

Our outlook

Looking forward, the Company remains focused on progressing its CARMA programme and driving top-line growth from expanding licensing and sales of its technology. Due to its ability to rapidly advance drug discovery and cell-based therapeutics, the Company expects MaxCyte's technology to continue to become more widely adopted. The MaxCyte team remains firmly dedicated to making possible key advancements for patients in the revolutionary fields of immuno-oncology and gene editing based on the Company's technology. Company management is confident in the Company's technology platform and looks forward to strong growth for the year.



Fast, reliable and scalable cell engineering driving the future of cell-based medicine

The MaxCyte business is based on several key areas of strength, including:

- Fast, reliable and consistent cell engineering: MaxCyte's Scalable Transfection Systems are built with patented cell-engineering technology, capable of scaling from early-stage research and development use to patient treatment.
- MaxCyte Scalable Transfection Systems are supported by a U.S. FDA master file, offering a clear regulatory pathway to MaxCyte and its partners.
- Broad applicability across biotechnology and pharmaceutical markets: the performance, scalability and consistency of MaxCyte's technology delivers improved productivity, simple process integration, higher throughput and improved safety for global biotechnology and pharmaceutical users including cell therapy development and commercialisation, drug discovery and development, and high volume biomanufacturing.
- Validated technology and a strong intellectual property portfolio: key aspects of MaxCyte's technology are protected by 21 U.S. and international issued patents and 17 pending patent applications. The Company holds patents on the use of its technology platform in large-scale production of infectious vectors, including lentiviral and retroviral vectors, production of stable cell lines for biomanufacturing, site-specific gene editing, and loading of mRNA into freshly isolated cells (PBMCs), a key patent area supporting the CARMA platform.
- High-quality client base: MaxCyte's customer base of leading pharmaceutical and biotechnology companies includes nine of the top ten global pharmaceutical companies by revenue. Customers include among others AstraZeneca, Sangamo BioSciences, Editas, Valneva, Pfizer and Novimmune, CRISPR Therapeutics, and Casebia Therapeutics (a joint venture established by CRISPR Therapeutics and Bayer AG).
- Growth business with strong margins and high revenue visibility: the Company generated revenues of $12.3 million in 2016, a 32% increase over 2015 revenues of $9.3 million, which was a 30% increase over 2014 revenues of $7.2 million and gross margins have consistently been above 85% over the last three years. Revenues include a substantial and growing base of recurring revenues, consisting of annual instrument licences and recurring purchases of single-use disposable processing assemblies by licensees and purchasers of MaxCyte's systems.
- Growing number of cell-based partnered programmes: our partners include leading cell therapy and gene editing companies and academic institutions, who use our technology for the development of novel cell therapies, principally in the fields of immuno-oncology and therapeutic gene editing. MaxCyte has licensed its technology and instruments to partners for use in more than 40 programmes. Of those, more than 15 are licensed for clinical use. These partnered programmes, if they continue to progress through clinical development towards therapeutic product approval and commercialisation, may result in significant commercial licensing agreements encompassing upfront fees, milestone payments and/or sales-based payments.
- Developing the next generation of non-viral CAR therapies, including the CARMA platform: the Company is leveraging its patented, high-performance cell-engineering platform and expertise to support its partners, including world-leading research institutions and commercial product developers, in their development of non-viral CAR therapies, while simultaneously working to develop its own therapeutic platform, CARMA, and related pipeline of next-generation mRNA CAR cell therapies. The CARMA platform has the potential to overcome many of the challenges faced by other viral and non-viral CAR therapies, including reduction of toxicity and cost, while adding the capability for use in solid tumour cancers. It is differentiated from traditional CAR therapy due to its use of mRNA to engineer the immune cells that are delivered back into a patient. By utilising transient expression via mRNA delivery, CARMA has been shown in preclinical studies to control the severe adverse side-effects seen in first-generation, viral-based CAR therapies, opening the high potency of CAR immunotherapies to a broader range of cancers than traditional CAR approaches, and offering the potential to deliver precise therapies for patients significantly faster and without the cost and complexity of virus-based CAR therapies that involve longer manufacturing time and require centralised manufacturing.
- Experienced management team: MaxCyte's management team has more than 100 years of aggregate experience developing successful life sciences products, with well-established connections in the scientific and commercial community.

Future revenue opportunities

High value commercial cell therapy licence agreements may provide future enhanced revenue opportunities for MaxCyte for programmes partnered with commercial product developers. The Company has licensed its technology for use in more than 40 cell therapy partnered programmes covering a diverse range of fields, including immuno-oncology, gene editing and regenerative medicine. More than 15 of these programmes are currently licensed for clinical use in disease indications including HIV, cardiovascular disease, inherited genetic disorders and many cancer types. If these programmes continue to progress through clinical development towards regulatory approval and commercialisation, the Company may enter commercial agreements that could generate substantial upside through upfront fees, milestone payments and/or sales-based payments. MaxCyte anticipates revenue growth from our investments in our sales team and the expansion of our distributor network. In addition, future revenue opportunities may arise through the potential commercialisation of a next generation of cell therapy products developed through the Company's CARMA platform, should clinical candidates progress successfully through the drug development process.

MaxCyte's Flow Electroporation™ Technology

MaxCyte's proprietary cell-engineering technology is designed to meet the stringent demands of clinical use – namely the ability to safely and reproducibly modify primary human cells with high efficiency, low cytotoxicity, and at the scale required to treat patients. Flow Electroporation™ Technology leverages a fundamental property of cells – the reversible permeability of cell membranes in the presence of an electrical charge – to create a transformative method for universally delivering molecules such as nucleic acids and proteins into cells. This core capability, uniquely advanced in MaxCyte's Flow Electroporation™ Technology, enables users to efficiently and consistently use cells across the drug development spectrum; for protein production, to create stable cell lines, as assay tools and many other uses, most critically through turning cells directly into drugs for human health.

Unlike other methods, Flow Electroporation™ Technology is a fully scalable delivery platform that enables small-scale R&D through large-scale cell engineering for patient treatment. It is the leading non-viral delivery platform for cell engineering in clinical use, with more than 15 licensed programmes and a commercial cell-based immunotherapy in Japan.

MaxCyte pairs its high-performance delivery platform with its cell-engineering expertise to accelerate the discovery, development and manufacturing of next-generation, cell-based medicines – overcoming critical challenges and enabling previously unfeasible cell-engineering applications. As cell-based medicines and associated cell-engineering technologies have become an important pillar of the drug discovery, development and manufacturing process, these capabilities have found broad applicability across a wide range of healthcare markets. Furthermore, as cell-based therapeutic products progress through clinical development towards therapeutic product approval and commercialisation, MaxCyte has the opportunity to enter into higher value deals to provide commercial use rights to the developer, such as the licence deal with CRISPR Therapeutics and its partners announced on 14 March 2017. Such deals can include upfront licence fees, milestones and sales-based payments as well as further instrument licence fees and processing assembly sales.

The high transfection efficiencies and minimal cell disturbance post electroporation using MaxCyte's delivery platform lead to excellent performance of the cells in downstream applications such as functional cell-based assays, protein and antibody expression, stable cell line development, viral vector production, gene editing and cellular immunotherapies. Because MaxCyte Flow Electroporation™ Technology is based on a fundamental principle of cell membranes, specifically the reversible permeability of membranes in the presence of electrical fields, it is a universal transfection technology capable of high-performance delivery of virtually any molecule to any cell type.

Specifically, using MaxCyte's Flow Electroporation™ Technology, temporary openings are created in the cell membrane by exposing the cells to a brief series of highly-tailored electrical pulses allowing any type of molecule(s), including DNA, mRNA, siRNA, proteins and cell lysates, to be delivered into the cells. MaxCyte scientists have developed robust electroporation protocols optimised for over 80 different cell types as well as the ability to identify the optimum parameters for virtually all other cell types, thereby creating a high-performance, easy-to-use delivery platform. Scientists place the cells and molecules in the single-use processing assembly (or PA), they select the desired protocol from a drop-down menu, and then initiate 'start'; the system automatically processes the sample without further user intervention. The cells are then available for additional processing, cryopreservation and/or administration to the patient.

MaxCyte's Scalable Transfection Systems deliver fast, reliable and scalable cell engineering to multiple high-value markets to drive a new generation of cell-based medicines. MaxCyte's core markets are:

- cell therapy development and commercialisation;
- drug discovery and development; and
- biomanufacturing.

The Company is collaborating with world leaders in the CAR field and is engaged in the development of its proprietary CARMA platform, a patented process based on its Flow Electroporation™ Technology, which the Directors believe to be potentially ground breaking. The CARMA platform aims to overcome the challenges of conventional viral-based CAR therapies, including reduction of toxicity and cost, while adding the capability to be used in solid cancers.

Continued strong revenue growth from instrument sales and licences as CARMA academic research collaborations advance

During 2016, the Company focused on expanding its partnered programmes supporting cell therapy product developers, growing its user base in drug discovery and development, and supporting the progress of its current customers. The Company also advanced its collaboration with the Johns Hopkins Kimmel Cancer Center and entered a collaboration with Washington University in St. Louis for preclinical animal studies of its CARMA immunotherapy in solid tumours and haematological malignancies, respectively. CARMA investment in 2016 principally included research studies at Johns Hopkins and in MaxCyte's laboratories, as well as regulatory and planning work.

During the year, the Company invested in growing its field applications and sales teams in the U.S. and Europe and invested in its global marketing efforts to take advantage of momentum in demand for its offerings. These investments will support the advancement of its cell therapy business, business development activities around its CARMA programme, and sales and licensing of its delivery platform globally.

Results for the year ended 31 December 2016

The Company maintains its accounts under U.S. GAAP and the following information is provided on that basis:

Income statement and operations

Revenues were $12.3 million in 2016, compared to $9.3 million in 2015.

Gross margins remained stable at 89%.

CARMA investment totalled $1.3 million for 2016, compared to $0.3 million for 2015.

Net loss before CARMA investment was $2.0 million for 2016, including $0.9 million in PLC expenses post-IPO (net loss before CARMA expenses of $1.1 million in 2015).

Operating expenses (including CARMA investment) increased to $13.7 million in 2016, compared to $9.0 million in 2015.

Following its March 2016 IPO, the Company made important progress towards planned growth in its marketing efforts and in its investments in the Company's sales, field applications, customer support and platform teams to support its focus on technology adoption and revenue growth. These investments included increasing its global sales force by 50% and doubling the number of field support application scientists. The Company employed a worldwide staff of 32 employees as of 31 December 2016.

Balance sheet and capital structure

Total assets on the balance sheet were $16.1 million at the end of 2016, compared to $6.4 million at the end of 2015.

Cash and cash equivalents totalled $11.7 million, compared to $2.4 million at the end of 2015.

Deferred revenues increased from $2.0 million at 31 December 2015 to $2.7 million at 31 December 2016 due principally to growth in instrument licences.

The principal balance of the Company's credit facility at 31 December 2016 was $5.1 million.

As of 31 December 2015, the Company had five classes of preferred stock and one class of common stock. Upon the occurrence of the March 2016 IPO, all preferred classes of stock were converted into the Company's single class of common stock. Immediately following the IPO, 43,470,461 shares of common stock were outstanding. As of 31 December 2016, 43,539,527 shares of common stock were outstanding.

Ron Holtz
Chief Financial Officer
17 March 2017

Risks and uncertainties

Competition and technological change

The Company's business faces competition from a range of pharmaceutical, biotechnology and transfection technology companies, many of which are large, multinational companies with extensive resources. In addition, technological advancements and changes could overtake products being offered or developed by the Company. The results of such competition and change may have a material adverse effect on the Company's financial results. Furthermore, research and discoveries by others may result in medical insights or breakthroughs that render the Company's products less competitive or even obsolete.

Intellectual property

The Company's success and ability to compete effectively are in large part dependent on its ability to protect, enforce, maintain and leverage its proprietary technologies and products and associated intellectual property rights.

There can be no assurance that the scope of the Company's patents provides and will continue to provide the Company with a sufficiently strong competitive advantage covering all its products and technologies, or potentially competing technologies.

The Company may incur substantial costs as a result of disputes with third parties relating to the infringement or protection of intellectual property.

To date, the Company has also relied on copyright, trademark and trade secret laws, regulatory laws regarding its FDA Master File, as well as confidentiality procedures, non-compete and/or work for hire invention assignment agreements and licensing arrangements with its employees, consultants, customers and vendors to establish and protect its rights to its technology and to control the access to and distribution of its technology. Despite these precautions, it may be possible for a third party to copy, replicate or otherwise obtain and use for the benefit of third parties its technology or confidential information without authorisation.

The Company's patents cover a limited set of countries. There can be no assurance that all patent rights material to the Company's success are, or will be, in place in all jurisdictions necessary to the successful conduct of the Company's business.

Product development risk

Developing drugs and technologies is subject to numerous external influences including economic and regulatory environments that are outside of the Company's control.

The Company cannot be certain that its current or future drug development efforts, including those within the Company's CARMA platform, will result in drug candidates that progress into human trials and subsequently into validated products that are safe and effective or that are commercially viable for the Company to license.

The Company's partnered mRNA CAR products and/or the products of others who use the Company's technology also may not develop into validated products that are safe and effective or that are commercially viable.

Clinical and therapeutic products resulting from the Company's research and development efforts, whether developed in-house or through partnered programmes, may not receive or continue to maintain regulatory approvals. Even if the products developed by the Company, its customers or through partnered programmes are approved, they may still face subsequent regulatory or commercialisation difficulties.

Revenue risk

MaxCyte relies on sales and licences of its GT, STX and VLX instruments, as well as sales of single-use disposable processing assemblies, for nearly all of its revenue. The Company may be unable to sell or licence its instruments to new customers and existing customers may cease or reduce their utilisation of the Company's instruments or fail to renew licences of the Company's instruments.

The Company is generally dependent on third parties for the development and commercialisation of cell-based therapeutics programmes and the Company has little, if any, control over their partners' strategies to develop and commercialise those cell-based medicines. In addition, there can be no assurance that any company that enters into agreements with the Company will not pursue alternative technologies.

The Company's success is, in part, dependent on future commercial licensing or collaboration arrangements and on similar arrangements for future therapeutic products and platforms in development that have not yet been partnered. There can be no assurance that any of the therapeutic products or platforms that the Company intends to develop or the therapeutics that are being or might be developed by its partners using MaxCyte technology will continue to advance through development or be successfully developed into any commercially viable products.

Operational risks

The Company is at an early stage of operations, has consistently incurred net losses and faces operating risks that include:

- ability to achieve its business strategy;
- ability to recruit and retain skilled personnel and dependence on key personnel;
- ability to adequately manage rapid growth in personnel and operations;
- unexpected facility shutdowns or inadequate disaster recovery procedures;
- dependency on a limited number of customers, collaborators and partners;
- failure of information systems;
- external economic conditions; and
- dependency on third-party suppliers for the products or components of the products that it sells.

Experienced leadership

J. Stark Thompson, PhD

Non-Executive Chairman

Dr. Thompson has nearly five decades of corporate leadership and business management experience, dating back to when he joined the DuPont Company in 1967 where he spent more than 20 years. From 1988 until 2000, Dr. Thompson served as President, CEO and board member of Life Technologies, Inc. (LTI; NASDAQ: LTEK). Dr. Thompson has served on and led various boards of directors, including for companies such as Gene Logic, Inc. and Luminex Corporation (NASDAQ: LMNX). Dr. Thompson received his BS degree from Muskingum University, and his MSc and PhD in Physiological Chemistry from Ohio State University.

Doug Doerfler

President and Chief Executive Officer

Mr. Doerfler has over 35 years' experience in the discovery, development, commercialisation and international financing of biotechnology products and companies. He was a founder of MaxCyte in July 1998. Previously, Mr. Doerfler was President, Chief Executive Officer and a director of Immunicon Corporation, a cell-based therapy and diagnostics company. Mr. Doerfler also held various executive positions with Life Technologies, Inc. that included leading its global businesses, mergers and acquisitions and its IPO. Mr. Doerfler plays an active role as a life sciences industry advocate, serving as Chair Emeritus of the Maryland Tech Council and on the Executive Committees of the Alliance for Regenerative Medicine and the Biotechnology Innovation Organization. Mr. Doerfler received his BS in finance from the University of Baltimore School of Business, and holds a certificate in Industrial Relations.

Ron Holtz

Chief Financial Officer

Mr. Holtz serves as MaxCyte's Chief Financial Officer (CFO), having joined the Company in 2005. Previously, he has been CFO of both public and private companies and has raised more than $100 million in debt and equity capital. He also has previous experience with Ernst & Young LLP's Financial Advisory Services Group. He earned an MBA in finance from the University of Maryland, a BS in mathematics from the University of Wisconsin and is a Certified Public Accountant.

Will Brooke

Non-Executive Director

Mr. Brooke is Executive Vice President and a director of Harbert Management Corporation (HMC), which he co-founded in 1993. With approximately $4 billion under management, HMC sponsors and co-invests in alternative asset strategies worldwide. Mr. Brooke organised and led one of HMC's investment strategies, Harbert Venture Partners, for over a decade. He has been advising and investing in early stage and growth companies for more than 20 years, and served on the boards of numerous pharmaceutical and medical equipment companies (e.g., Aldagen Corporation, Atherotech, Inc. and Emageon Corporation). Mr. Brooke has also served as HMC's General Counsel, its Chief Operating Officer, and as Chairman of its Real Estate Services subsidiary. Prior to joining HMC, Mr. Brooke practised law for a decade. Mr. Brooke holds a JD and a BS, both from the University of Alabama.

Stan Erck

Non-Executive Director

Mr. Erck is President and CEO, and director of Novavax Corporation. His 35 years of management experience in the healthcare and biotechnology industry include positions at Baxter International, Procept, Integrated Genetics and Iomai. In addition to successfully negotiating major alliances with pharmaceutical and biotechnology companies and bringing products into clinical trials, he has managed the process of developing companies from private funding through to IPO. Mr. Erck received his BS from the University of Illinois and an MBA from the University of Chicago.

Art Mandell

Non-Executive Director

Mr. Mandell is a senior executive in the healthcare industry with over 30 years of experience running companies, executing large corporate and business development deals in both the pharmaceutical and biotechnology sectors, and developing and commercialising a number of products. Mr. Mandell served as President and Chief Operating Officer of Prestwick Pharmaceuticals, Inc. Prior to Prestwick, Mr. Mandell was President, Chief Executive Officer, and a director of Cellective Therapeutics, Inc., which was acquired by Astra Zeneca/MedImmune under his leadership. Before Cellective, Mr. Mandell served as President, Chief Executive Officer, and director of Stemron Corporation, and as Senior Vice President and Chief Business Officer of Human Genome Sciences, Inc. Mr. Mandell began his healthcare career at Syntex Pharmaceutical Corporation.

John Johnston

Non-Executive Director

Mr. Johnston is currently a Non-Executive Director of Flowgroup plc, Action Hotels plc and Midatech Pharma plc. He also served as Non-Executive Chairman of Constellation Healthcare Technologies Inc. through 2016 until the successful sale of the company on 30 January 2017. In 2003, Mr. Johnston founded Revera Asset Management, where he oversaw an investment trust, a unit trust and a hedge fund, which he ran until 2007. From 1992 to 1997, Mr. Johnston was Head of Small Companies at Scottish Amicable, before spending a year at Ivory and Sime. He joined Legg Mason Investors for three years as director of Small Companies Technology and Venture Capital Trusts, from 2000 to 2003, having previously spent two years as Head of Small Companies with Murray Johnstone. Mr. Johnston began his investment career at the Royal Bank of Scotland.

Each of J. Stark Thompson, Will Brooke, Stan Erck, Art Mandell and John Johnston are considered by the Board to be independent in character and judgement.

Senior management

Doug Doerfler

President and Chief Executive Officer

For Biography see page 10

Ron Holtz

Chief Financial Officer

For Biography see page 10

Madhusudan Viswanath Peshwa, PhD

Chief Scientific Officer, Executive Vice President, Cellular Therapies

Dr. Peshwa currently serves as Chief Scientific Officer at MaxCyte. Before joining the Company in 2005, he was Limited Partner and Executive Vice President for Research and Development at NewNeural, LLC, a start-up company focused on small molecule drugs and *ex vivo* stem cell therapies for CNS diseases. Prior to that, Dr. Peshwa served as Vice President of Manufacturing and as Vice President of Process Sciences at Dendreon Corporation (NASDAQ: DNDN), where he was responsible for: development, characterisation and manufacture of an autologous dendritic cell vaccine product, from concept to late Phase III pivotal studies and design of commercial manufacturing infrastructure; scale-up and production of recombinant protein using baculovirus transient transfection system at 2000L bioreactor scale; and CE mark, 510(k), IDE and PMA for a cell separation technology platform. His expertise is in the areas of ideation, design, development, characterisation, scale-up and commercial development of recombinant proteins; engineered cell and tissue products; and medical devices. Dr. Peshwa obtained his PhD in chemical engineering from the University of Minnesota and his BTech in chemical engineering from the Indian Institute of Technology, Kanpur, India. He is a co-author of over 30 scientific publications and is a co-inventor on over 10 patent applications.

Debra K. Bowes

Executive Vice President, Business and Strategic Development

Ms. Bowes has more than 25 years' experience in corporate strategy, licensing and in the creation of partnerships to advance the development and commercialisation of biopharmaceutical products, with a main emphasis in oncology. Before joining MaxCyte in 2016, Ms. Bowes was Interim President and Chief Executive Officer of CapGenesis Pharma, in Bethesda, MD. Previously, she served as President and Founder of Chevy Chase BioPartners, LLC, a strategic planning consultancy, as well as in leadership positions at CBLI Pharmaceuticals, MedImmune, Amylin Pharmaceuticals, Pfizer, Ligand Pharmaceuticals, Centocor and Hybritech. She has also served as national president of Women In Bio. Ms. Bowes holds a Master's Degree from Johns Hopkins University, and has a BS in cell biology from the University of Cincinnati.

Tom M. Ross

Executive Vice President, Global Sales

Mr. Ross serves as MaxCyte's Executive Vice President of Global Sales, having joined the Company in 2014. Mr. Ross has extensive experience in all elements of commercial operations and has over 25 years of successful sales and marketing leadership in the Life Science and Clinical Diagnostics markets. Most recently, Mr. Ross was Senior Vice President of Commercial Operations at OpGen®. Mr. Ross also served as Chief Commercial Officer at Predictive BioScience and Vice President of North America Medical Diagnostics Sales at Qiagen/Digene Corporation. Prior to working at Digene Corporation, Mr. Ross held several senior leadership roles in Manufacturing Operations at Life Technologies, Inc. and Cambrex. Mr. Ross has a Bachelor's of Business Administration from The Citadel.

Directors' report

The Directors of the Company (Directors) present their report and audited financial statements for the year ended 31 December 2016.

Principal activity

MaxCyte is a U.S.-based company dedicated to accelerating the discovery, development, manufacturing and commercialisation of next-generation, cell-based medicines. The Company provides its patented, high-performance cell-engineering platform to biopharmaceutical partners engaged in drug discovery and development, biomanufacturing and cell therapy, including gene editing and immuno-oncology. This platform allows for the engineering of nearly all cell types, including human primary cells, with any molecule, at any scale. It also provides a high degree of consistency and minimal cell disturbance, thereby facilitating rapid, large-scale, clinical and commercial grade cell engineering in a non-viral system and with low-toxicity concerns. The Company's cell-engineering platform is FDA-cleared, providing MaxCyte's customers and partners with an established regulatory path to commercialise cell-based medicines. With its robust delivery platform, MaxCyte's team of scientific experts helps its partners to solve problems and unlock the potential of their products.

MaxCyte is also developing CARMA, its proprietary, breakthrough platform in immuno-oncology, to rapidly manufacture CAR therapies for a broad range of cancer indications, including solid tumours where existing CAR-T approaches face significant challenges.

Dividends

The Directors do not recommend the payment of a dividend currently.

Employee involvement

The Company's policy is to encourage employee involvement at all levels, as it believes that this is essential for the success of the business.

Board meeting attendance

	Board and Committee Meetings held during tenure	Board and Committee Meetings attended	Number of external corporate appointments held
J. Stark Thompson, PhD	14	14	0
Douglas Doerfler	9	9	4
Ron Holtz	11	11	0
William Brooke	20	20	1
Stan Erck	14	12	2
Art Mandell	11	11	0
John Johnston	9	9	3

Directors and their interests

The Directors as of the date of this report are as follows:

Executive

- Doug Doerfler, President and Chief Executive Officer
- Ron Holtz, Chief Financial Officer

Non-Executive

- J. Stark Thompson, PhD, Chairman
- Will Brooke
- Stan Erck
- John Johnston
- Art Mandell

Directors' interests in shares are shown in the Compensation Committee report.

Advisers

Nominated adviser and broker

Panmure Gordon (UK) Limited, One New Change, London EC4M 9AF

Auditor

Aronson LLC, 805 King Farm Boulevard, Suite 300, Rockville, MD 20850

Aronson LLC has expressed willingness to continue in office as auditor.

Registrars

Capita plc, Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH

This report was approved by the Board on 12 April 2017.

Doug Doerfler
Executive Director, President and Chief Executive Officer

Principles of good corporate governance

MaxCyte is committed to high standards of corporate governance. In anticipation of the IPO on 29 March 2016, the Company undertook a programme to refine its procedures to institute good governance insofar as it is practical and appropriate for an organisation located in the U.S. of its size and stage of development. The Directors recognise the importance of good governance and intend to comply as soon as reasonably practicable with the provisions of the Corporate Governance Code for Small- to Mid-Sized Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate for a company located in the U.S. of the size, stage of development and resources of the Company.

As the Company grows, it will regularly review the extent and appropriateness of its corporate governance practices and procedures.

Application of principles

Board of Directors

Since immediately before the IPO, the Board consists of a Non-Executive Chairman, two Executive Directors and four Non-Executive Directors.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of the budget, approval of significant borrowing and major capital expenditure projects, and consideration of significant operational and financial matters. The Board monitors the exposure to key business risks and reviews the progress of the Company towards achievement of its strategic goals, budgets and forecasts. The Board oversees compliance with relevant legislation and regulations, including European Economic Area Market Abuse Regulations. The Board also considers employee issues and key appointments. This is achieved by the close involvement of the Executive Directors in the day-to-day running of the business and by regular reports submitted to and considered at meetings of the Board and its committees.

The Board has an Audit Committee, a Compensation Committee and a Nominations Committee. Details of the composition and activities of the Audit Committee and Compensation Committee are found in their respective reports on pages 17 and 15 of this annual report.

The members of the Nominations Committee are Doug Doerfler, Stan Erck and Art Mandell, who is the Chair of the committee. The responsibilities of the committee include:

- Reviewing the structure, size and composition of the Board, and recommending changes to the Board.
- Identifying individuals qualified to become members of the Board.
- Recommending Directors to be appointed to the Committees.

All Directors are able to take independent professional advice in relation to their duties, as necessary, at the Company's expense.

The Nominations Committee met once during the year.

The Directors are divided into three classes, as nearly equal in number as possible, designated: Class I, Class II and Class III. Each Director initially appointed to Class I served for an initial term that expired on the Company's 2016 Annual General Meeting, at which meeting the Class I Directors Doug Doerfler and Ron Holtz were reappointed for a three-year term. Each Director initially appointed to Class II is serving for an initial term expiring on the Company's 2017 Annual General Meeting. Each Director initially appointed to Class III is serving for an initial term expiring on the Company's 2018 Annual General Meeting. The Class II Directors are Art Mandell and Stan Erck, and the Class III Directors are Will Brooke, John Johnston and J. Stark Thompson.

Relationship with stockholders

The Board attaches high importance to maintaining good relationships with all stockholders. The Executive Directors intend to hold regular meetings with institutional stockholders to keep them updated on the Company's performance, strategy, management and Board membership. The Executive Directors give regular briefings to analysts who cover the industry and actively encourage more analysts to follow the Company.

On behalf of the Board

J. Stark Thompson, PhD
Chairman
6 April 2017

Compensation report

Compensation Committee

The Compensation Committee was reconstituted with revised terms of reference immediately prior to the Company's IPO. Along with the Board, the Compensation Committee is responsible for: monitoring and providing advice on the framework and broad policy for compensation of Executive management, taking into account all factors it deems appropriate; determining the compensation of Executive Directors including compensation benefits and payments; reviewing the design of all share incentive plans and all share incentive grants for approval by the Board and stockholders; and ensuring that all provisions regarding disclosure of compensation are clear and transparent.

The Compensation Committee comprises J. Stark Thompson, who acts as the Chairman of the Compensation Committee, Will Brooke and Stan Erck. The Compensation Committee meets at least twice a year. The Compensation Committee's terms of reference specify its authority and duties.

Compensation policy

The Company's policy on executive compensation is intended to attract and retain high-quality executives by paying competitive compensation packages relevant to each Executive's role, experience and the external market. The packages include a basic salary, an incentive bonus, benefits and stock options.

Severance agreements

Executive Directors Doug Doerfler and Ron Holtz have severance agreements that provide certain benefits detailed below. Messrs. Doerfler and Holtz were re-elected as Directors by the stockholders last year to terms ending in 2019. The Non-Executive Directors were elected by the stockholders to terms ending in 2017 (Messrs. Erck and Mandell) and in 2018 (Messrs. Brooke, Johnston and Thompson). Non-Executive Director Johnston has a contract. The other Non-Executive Directors do not.

Directors' compensation

Ron Holtz and John Johnston were appointed immediately prior to the IPO as an Executive Director and Non-Executive Director, respectively. The Non-Executive Directors are compensated for their services as Directors at $35,000 per annum as approved by the Board, plus $23,000 per annum for the Non-Executive Chairman, $11,000 per annum for the Chairman of the Audit Committee, $5,500 per annum for the other Non-Executive members of the Audit Committee, $10,000 per annum for the Chairman of the Compensation Committee, and $5,000 per annum for the other Non-Executive members of the Compensation Committee. In addition, each Non-Executive Director, following publication of the Company's 2015 annual report, received in 2016 a grant of stock options for 40,900 common stock of the Company for John Johnston and Will Brooke (initial grants) vesting monthly over three years beginning on the date of grant and 20,400 common stock of the Company for all other Non-Executive Directors vesting monthly over one year, beginning on the date of grant.

Following the IPO, Mr. Doerfler earned an annual salary of $381,000 until 1 November 2016, at which time his annual salary was increased to $435,000, and Mr. Holtz earned an annual salary of $270,000 until 1 November 2016, at which time his annual salary was increased to $310,000. Mr. Doerfler has a target bonus equal to 50% of his base salary, and Mr. Holtz has a target bonus equal to 35% of his base salary, payable in each case as determined by the Board. In addition, Mr. Doerfler and Mr. Holtz received in 2016 grants of stock options, following publication of the Company's 2015 annual report, for 296,000 and 134,800 common stock of the Company, respectively, vesting monthly over the 48 months following grant.

Mr. Doerfler's severance agreement provides that on termination of his employment by the Company without cause, termination by Mr. Doerfler for good reason, or termination by virtue of Mr. Doerfler's death or disability, the Company will pay Mr. Doerfler one hundred percent (100%) of his annual base salary over a twelve- (12) month period, provided, however, that if any of such terminations occurs within twenty-four (24) months following a change of control, the Company will accelerate the vesting of all options granted to Mr. Doerfler and will pay Mr. Doerfler the sum of one hundred fifty percent (150%) of his annual base salary plus the greater of (i) the actual bonus amount earned by Mr. Doerfler under the Company's bonus plan with respect to the calendar year prior to the calendar year in which termination occurs, (ii) the actual bonus amount earned by Mr. Doerfler under the Company's bonus plan for the calendar year in which termination occurs, or (iii) Mr. Doerfler's target bonus amount under the Company's bonus plan for the calendar year in which termination occurs, in each case less any amounts paid under the Company's disability plans during the twelve-month severance period. During such severance period, the Company will reimburse Mr. Doerfler for payments made by him under the Consolidated Omnibus Budget Reconciliation Act and continue his coverage under the Company's insurance benefit programmes. Any voluntary termination by Mr. Doerfler requires three- (3) months' notice.

Mr. Holtz's severance agreement provides that on termination of his employment by the Company without cause, termination by Mr. Holtz for good reason, or termination by virtue of Mr. Holtz's death or disability, the Company will pay Mr. Holtz seventy-five percent (75%) of his annual base salary over a nine- (9) month period, provided, however, that if any of such terminations occurs within twenty-four (24) months following a change of control, the Company will accelerate the vesting of all options granted to Mr. Holtz and will pay Mr. Holtz the sum of seventy-five percent (75%) of his annual base salary plus the greater of (i) the actual bonus amount earned by Mr. Holtz under the Company's bonus plan with respect to the calendar year prior to the calendar year in which termination occurs, (ii) the actual bonus amount earned by Mr. Holtz under the Company's bonus plan for the calendar year in which termination occurs, or (iii) Mr. Holtz's target bonus amount under the Company's bonus plan for the calendar year in which termination occurs, in each case less any amounts paid under the Company's disability plans during the

nine-month severance period. During such severance period, the Company will also reimburse Mr. Holtz for payments made by him under the Consolidated Omnibus Budget Reconciliation Act and continue his coverage under the Company's insurance benefit programmes. Any voluntary termination by Mr. Holtz requires three-(3) months' notice.

Other equity compensation

During the period beginning 1 January 2016 and ending 31 December 2016, the Company issued a total of 1,776,565 stock options to Directors, employees, and consultants including 573,800 options previously announced to Directors and Officers of the Company. Options exercised and expired during the period beginning 1 January 2016 and ending on 31 December 2016 were 69,066 and 53,759, respectively. Total stock options outstanding at the beginning of the period 1 January 2016 were 4,120,626 and were 5,774,366 at the end of the period 31 December 2016.

Directors' interests and compensation

The Directors who held office at the date of this Report had the following beneficial interests in the common stock of the Company at the date of this Report:

Name	Common stock	Stock options	Total
J. Stark Thompson	110,918	213,733	324,651
Will Brooke	50,302	40,900	91,202
Doug Doerfler	433,197	1,841,080	2,274,277
Stan Erck	247,751	163,467	411,218
Ron Holtz	150,251	790,092	940,343
John Johnston	75,000	40,900	115,900
Art Mandell	374,484	20,400	394,884

Compensation for Directors for 2016 was as follows:

	Base salary US$*	2016 bonus US$**	Total compen-sation US$***	Number of stock options granted 2016
Executive Director	–	–	–	–
Doug Doerfler	399,696	184,286	583,982	296,000
Ron Holtz	282,936	91,352	374,288	134,800
Non-Executive Director				
J. Stark Thompson	51,559	–	51,559	20,400
Will Brooke	38,669	–	38,669	40,900
Stan Erck	30,329	–	30,329	20,400
Art Mandell	30,708	–	30,708	20,400
John Johnston	30,708	–	30,708	40,900
Dennis Dougherty (pre-IPO)	–	–	–	–
Sinclair Dunlop (pre-IPO)	–	–	–	–

* The Executive Director salary shown above includes payment of $30,636 and $21,579 to Doug Doerfler and Ron Holtz, respectively, related to salary adjustments that occurred between 2007 and 2009 and disclosed in the notes to the Company's financial statements.

** Bonuses shown include compensation attributable to 2016 but not paid until 2017 and excludes bonuses paid in 2016 attributable to 2015.

*** In addition to the compensation noted above, the Executive Directors receive standard Company health and other customary benefits. Non-Executive Directors did not receive any such benefits.

In anticipation of the Company's 29 March 2016 AIM offering, on 15 March 2016 Dennis Dougherty and Sinclair Dunlop, shown as Directors above, resigned and Ron Holtz and John Johnston were appointed to the Board. The Compensation Committee met five times during the year.

On behalf of the Compensation Committee

J. Stark Thompson, PhD
Chairman, Compensation Committee
6 April 2017

Audit Committee report

Role and responsibilities

The Audit Committee is responsible for ensuring that the financial performance of the Company is properly monitored and reported. The Audit Committee reviews the independence and objectivity of the external auditor each year. The Audit Committee also reviews the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditor reports to the Non-Executive Directors.

Membership and meetings

The Audit Committee was reconstituted with revised terms of reference immediately prior to the IPO and comprises Will Brooke who acts as the Audit Committee Chairman, Art Mandell and John Johnston. The Audit Committee's terms of reference specify its authority and duties. It meets at least two times a year, with the Executive Directors and the external auditor attending by invitation.

The Board has decided that the size of the Company does not currently justify a dedicated internal audit function. This position will be reviewed as the Company's activities increase.

Financial reporting

The Audit Committee monitors the integrity of the financial statements of the Company, including its annual and interim reports, interim management statements, preliminary results announcements, and any other formal announcement relating to the Company's financial performance. It also reviews significant financial reporting issues and judgements they may contain. The Audit Committee also reviews summary financial statements and any financial information contained in certain other documents, such as announcements of a price-sensitive nature.

The Audit Committee reviews and challenges where necessary:

- the Company's accounting standards and the consistency of, and any changes to, accounting policies both on a year-to-year basis and across the Company;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- the appropriateness of any estimates and judgements in the Company's financial reporting, while taking into account the views of the independent auditor;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as they relate to the audit and risk management).

Internal control and risk management

The Board has overall responsibility for ensuring that the Company has processes to identify, evaluate and manage key risks. These processes are designed to manage and minimise risk of failure to achieve the Company's strategic objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Directors consider that the present system of internal controls is sufficient for the needs of the Company and adequately addresses the risks to which the Company is perceived to be exposed. The Audit Committee met twice during the year.

On behalf of the Audit Committee

Will Brooke
Chairman, Audit Committee
6 April 2017

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The AIM Rules require the Directors to prepare financial statements for each financial year. Under those rules, the Directors have elected to prepare the financial statements in accordance with U.S. GAAP.

The Directors believe that the accounts should not be approved unless the Directors are satisfied that accounts give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period presented. In preparing financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in U.S. GAAP are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Company's financial position and financial performance.

The Directors are responsible for ensuring the Company maintains adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with U.S. GAAP and the AIM Rules. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge the financial statements, prepared in accordance with U.S. GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

Independent auditor's report

To the Board of Directors and Stockholders
MaxCyte, Inc.

We have audited the accompanying financial statements of **MaxCyte, Inc.**, which comprise the Balance Sheets as of 31 December 2016 and 2015, and the related Statements of Operations, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit), and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of **MaxCyte, Inc.** as of 31 December 2016 and 2015, 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.

Rockville, Maryland
17 March 2017

Balance sheets

As of 31 December

(amounts in U.S. dollars except share amounts)

	31 December 2016	31 December 2015
Assets		
Current assets:		
Cash and cash equivalents	**11,727,000**	2,411,900
Accounts receivable	**2,410,700**	1,451,300
Inventory	**1,334,600**	1,085,900
Other current assets	**318,400**	1,244,600
Total current assets	**15,790,700**	6,193,700
Property and equipment, net	**281,500**	207,300
Total assets	**16,072,200**	6,401,000
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Current portion of note payable, net of discount and fees	**–**	805,700
Current portion of capital lease obligations	**14,400**	16,600
Accounts payable and accrued expenses	**3,174,500**	2,257,000
Deferred revenue	**2,463,100**	2,011,800
Total current liabilities	**5,652,000**	5,091,100
Note payable, net of discount and fees, and net of current portion	**4,989,100**	4,203,900
Preferred stock purchase warrant liabilities	**–**	85,400
Capital lease obligations, net of current portion	**3,100**	17,500
Other liabilities	**344,600**	85,600
Total liabilities	**10,988,800**	9,483,500
Commitments and contingencies (Note 9)		
Redeemable convertible preferred stock:		
Redeemable Convertible Series E Preferred Stock, $0.01 par, 1,700,000 shares authorised, issued and outstanding at 31 December 2015; aggregate liquidation preference $2,730,700 at 31 December 2015. No shares authorised or issued and outstanding at 31 December 2016.	**–**	1,633,100
Redeemable Convertible Series D Preferred Stock, $0.01 par, 1,602,500 shares authorised, 1,500,000 shares issued and outstanding at 31 December 2015; aggregate liquidation preference $6,935,900 at 31 December 2015. No shares authorised or issued and outstanding at 31 December 2016.	**–**	3,339,500
Redeemable Convertible Series C Preferred Stock, $0.01 par, 2,500,000 shares authorised, 2,225,968 shares issued and outstanding at 31 December 2015; aggregate liquidation preference $8,307,500 at 31 December 2015. No shares authorised or issued and outstanding at 31 December 2016.	**–**	3,977,400
Redeemable Convertible Series B Preferred Stock, $0.01 par, 22,000,000 shares authorised, 19,125,475 shares issued and outstanding at 31 December 2015; carrying amount approximates liquidation preference. No shares authorised or issued and outstanding at 31 December 2016.	**–**	35,299,100
Redeemable Convertible Series A–1 Preferred Stock, $0.01 par, 4,000,000 shares authorised, 3,129,406 shares issued and outstanding at 31 December 2015. No shares authorised or issued and outstanding at 31 December 2016.	**–**	1,028,100
Total redeemable convertible preferred stock	**–**	45,277,200
Stockholders' equity (deficit)		
Common stock, $0.01 par; 200,000,000 and 34,000,000 shares authorised, 43,539,527 and 1,947,302 shares issued and outstanding at 31 December 2016 and 2015, respectively.	**435,400**	19,500
Additional paid-in capital	**56,372,700**	–
Accumulated deficit	**(51,724,700)**	(48,379,200)
Total stockholders' equity (deficit)	**5,083,400**	(48,359,700)
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	**16,072,200**	6,401,000

See accompanying notes to the financial statements.

Statements of operations
For the years ended 31 December
(amounts in U.S. dollars except share amounts)

	2016	2015
Revenue	**12,269,500**	9,290,300
Cost of goods sold	**1,307,600**	1,031,800
Gross profit	**10,961,900**	8,258,500
Operating expenses:		
Research and development	**4,696,400**	3,008,100
Sales and marketing	**4,784,200**	3,344,400
General and administrative	**4,204,700**	2,667,100
Total operating expenses	**13,685,300**	9,019,600
Operating loss	**(2,723,400)**	(761,100)
Other income (expense):		
Interest expense	**(637,800)**	(704,400)
Other income	**15,700**	20,000
Total other income (expense)	**(622,100)**	(684,400)
Net loss	**(3,345,500)**	(1,445,500)
Cumulative preferred stock dividends	**(505,400)**	(2,072,600)
Net loss attributable to common stock	**(3,850,900)**	(3,518,100)
Basic and diluted net loss per common share	**(0.11)**	(1.86)
Weighted average common shares outstanding, basic and diluted	**33,515,664**	1,887,765

See accompanying notes to the financial statements.

Statements of redeemable convertible preferred stock and stockholders' equity (deficit)
For the years ended 31 December

	Redeemable convertible preferred stock				
	Series E US$	Series D US$	Series C US$	Series B US$	Series A–1 US$
Balance 1 January 2015	1,633,100	3,339,500	3,977,400	33,769,100	1,028,100
Stock-based compensation expense	–	–	–	–	–
Exercise of stock options	–	–	–	–	–
Accretion of redeemable preferred stock	–	–	–	1,530,000	–
Net loss	–	–	–	–	–
Balance 1 January 2016	**1,633,100**	**3,339,500**	**3,977,400**	**35,299,100**	**1,028,100**
Accretion of preferred stock	**222,200**	**972,500**	**1,683,900**	**373,100**	**–**
Conversion of preferred stock upon IPO	**(1,855,300)**	**(4,312,000)**	**(5,661,300)**	**(35,672,200)**	**(1,028,100)**
Exchange of warrant upon IPO	**–**	**–**	**–**	**–**	**–**
Issuance of common stock upon IPO	**–**	**–**	**–**	**–**	**–**
Stock-based compensation expense	**–**	**–**	**–**	**–**	**–**
Exercise of stock options	**–**	**–**	**–**	**–**	**–**
Net loss	**–**	**–**	**–**	**–**	**–**
Balance 31 December 2016	**–**	**–**	**–**	**–**	**–**

See accompanying notes to the financial statements.

Common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity (deficit)
Shares	Amount US$	US$	US$	US$
1,879,980	18,800	–	(45,413,200)	(45,394,400)
–	–	1,200	–	1,200
67,322	700	8,300	–	9,000
–	–	(9,500)	(1,520,500)	(1,530,000)
–	–	–	(1,445,500)	(1,445,500)
1,947,302	**19,500**	**–**	**(48,379,200)**	**(48,359,700)**
–	**–**	**(3,251,700)**	**–**	**(3,251,700)**
27,151,531	**271,500**	**48,257,400**	**–**	**48,528,900**
85,914	**900**	**84,500**	**–**	**85,400**
14,285,714	**142,800**	**11,116,700**	**–**	**11,259,500**
–	**–**	**154,100**	**–**	**154,100**
69,066	**700**	**11,700**	**–**	**12,400**
–	**–**	**–**	**(3,345,500)**	**(3,345,500)**
43,539,527	**435,400**	**56,372,700**	**(51,724,700)**	**5,083,400**

Statements of cash flow
For the years ended 31 December

	2016 US$	2015 US$
Cash flows from operating activities:		
Net loss	**(3,345,500)**	(1,445,500)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortisation	**105,700**	93,300
Net book value of consigned equipment sold	**38,900**	30,100
Stock-based compensation	**154,100**	1,200
Change in fair value of derivative liability	**–**	(20,000)
Non-cash interest expense	**42,600**	79,000
Changes in operating assets and liabilities:		
Accounts receivable	**(959,400)**	(49,400)
Inventory	**(248,700)**	(144,800)
Other current assets	**(109,100)**	(15,300)
Accounts payable and accrued expenses	**1,276,100**	525,800
Deferred revenue	**638,300**	657,400
Other liabilities	**72,000**	107,700
Net cash used in operating activities	**(2,335,000)**	(180,500)
Cash flows from investing activities:		
Purchases of property and equipment	**(218,800)**	(94,500)
Net cash used in investing activities	**(218,800)**	(94,500)
Cash flows from financing activities:		
Proceeds from issuance of notes payable and warrants, net of issuance costs	**–**	121,800
Issuance costs related to debt amendment	**(63,100)**	–
Proceeds from exercise of stock options	**12,400**	9,000
Principal payments on notes payable	**–**	(150,000)
Principal payments on capital leases	**(16,600)**	(26,200)
Costs of anticipated offering paid in advance	**–**	(676,700)
Net proceeds from issuance of common stock in IPO	**11,936,200**	–
Net cash provided by (used in) financing activities	**11,868,900**	(722,100)
Net increase (decrease) in cash and cash equivalents	**9,315,100**	(997,100)
Cash and cash equivalents, beginning of period	**2,411,900**	3,409,000
Cash and cash equivalents, end of period	**11,727,000**	2,411,900
Supplemental cash flow information:		
Cash paid for interest	**525,100**	518,200
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of preferred stock in conjunction with IPO	**48,528,900**	–
Exchange of stock warrants in conjunction with IPO	**85,400**	–

See accompanying notes to the financial statements.

Notes to the financial statements

1. Organisation and description of business

MaxCyte, Inc. (the Company or MaxCyte) was incorporated as a majority owned subsidiary of EntreMed, Inc. (EntreMed) on 31 July 1998, under the laws and provisions of the state of Delaware, and commenced operations on 1 July 1999. In November 2002, MaxCyte was recapitalised and EntreMed was no longer deemed to control the Company.

MaxCyte is a developer and supplier of proprietary electroporation technology to biotechnology and pharmaceutical firms engaged in cell therapy, including gene editing and immuno-oncology and in drug discovery and development and biomanufacturing. The Company licenses its instruments and technology and sells its consumables to developers of cell therapies. The Company also sells and licenses its instruments and sells its consumables to pharmaceutical and biotechnology companies for use in drug discovery and development and biomanufacturing. MaxCyte is also developing CARMA, a CAR-based cell therapy targeting solid and liquid cancers, through internal research and collaborations with academic institutions.

In January 2016, the Board of Directors approved an amended Plan of Recapitalisation (the 'Plan of Recapitalisation', which replaced the previous Plan of Conditional Recapitalisation which had been approved in December 2014). The Plan of Recapitalisation provided that, immediately prior to completion of an AIM IPO, (i) all Series A-1, B, C and D preferred stock shall be converted automatically into common stock based on a formula set out in and otherwise in accordance with the terms of the Recapitalisation and (ii) the Series E preferred stock shall be converted automatically into common stock at a discount from the AIM IPO placing price. Additionally, holders of the outstanding Series D preferred stock warrants shall have confirmed that such warrants would be exchanged for common stock based on a formula as set out in, and otherwise in accordance with, the terms of the warrants and the Plan of Recapitalisation. The Plan of Recapitalisation was effective on 29 March 2016 upon the Company's completion of its AIM IPO.

On 29 March 2016, the Company completed its initial public offering (IPO) of its common stock on the Alternative Investments Market (AIM) of the London Stock Exchange (AIM IPO). The Company issued approximately 14.3 million shares of its common stock at an initial price of £0.70 per share (or approximately $1.01 per share), generating gross proceeds of approximately £10 million (or approximately $14.4 million). See Note 5.

2. Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications related to certain work-in-process inventory disclosed in the inventory footnote being reclassified to finished goods to more accurately reflect the status of such inventory for which manufacturing has been completed.

The Company operates in a single business segment.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, allowance for inventory obsolescence, valuation of derivative liabilities and other financial instruments, accruals for contingent liabilities, deferred taxes and valuation allowance, and the depreciable lives of fixed assets. Actual results could differ from those estimates.

Concentration

During the years ended 31 December 2016 and 2015, one customer represented 11% and 17% of net revenues, respectively. As of 31 December 2016 and 2015, accounts receivable from this customer totalled 3% and 2% of net accounts receivable, respectively.

During the years ended 31 December 2016 and 2015, the Company purchased approximately 63% and 65%, respectively, of inventory from one supplier. As of 31 December 2016 and 2015, amounts payable to this supplier totalled 24% and 27% of total accounts payable, respectively.

Foreign currency

The Company's functional currency is the U.S. dollar; transactions denominated in foreign currencies are transacted at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in foreign currency is consummated and the date on which it is either settled or at the reporting date are recognised in the Statement of Operations as general and administrative expenses. The foreign currency transaction losses were $72,700 and $50,100 for the years ended 31 December 2016 and 2015, respectively.

Fair value

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritises and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 – Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3 – Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

See Note 6 for additional information regarding fair value.

2. Summary of significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents consist of financial instruments with original maturities of less than three months. At times the Company's cash balances may exceed federally insured limits and cash may also be deposited in foreign bank accounts that are not covered by federal deposit insurance. The Company does not believe that this results in any significant credit risk.

Inventory

The Company sells or licenses products to customers. The Company uses the average cost method of accounting for its inventory and adjustments resulting from periodic physical inventory counts are reflected in costs of goods sold in the period of the adjustment. Inventory consisted of the following at 31 December:

	2016 US$	2015 US$
Raw materials inventory	**426,000**	192,300
Finished goods inventory	**908,600**	893,600
Total inventory	**1,334,600**	1,085,900

The Company determined no allowance for obsolescence was necessary at 31 December 2016 or 2015.

Accounts receivable

Accounts receivable are reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All accounts or portions thereof that are deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. The Company determined that no allowance was necessary at 31 December 2016 or 2015.

Property and equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method. Office equipment (principally computers) is depreciated over an estimated useful life of three years. Laboratory equipment is depreciated over an estimated useful life of five years. Furniture is depreciated over a useful life of seven years. Leasehold improvements are amortised over the shorter of the estimated lease term or its useful life. Consigned instruments represent equipment held at a customer's site that is typically leased to customers on a short-term basis and is depreciated over an estimated useful life of five years. Property and equipment consist of the following at 31 December:

	2016 US$	2015 US$
Furniture and equipment	**1,084,100**	1,012,700
Consigned instruments	**443,900**	339,900
Leasehold improvements	**72,500**	72,500
Accumulated depreciation and amortisation	**(1,319,000)**	(1,217,800)
Property and equipment, net	**281,500**	207,300

For the years ended 31 December 2016 and 2015, the Company incurred depreciation and amortisation expense of $105,700 and $93,300, respectively. Maintenance and repairs are charged to expense as incurred.

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets held for disposal are reportable at the lower of the carrying amount or fair value, less costs to sell. Management did not identify any such events or changes in circumstances in 2016 or 2015, and no assets were held for disposal as of 31 December 2016 or 2015.

Redeemable convertible preferred stock

Prior to the completion of the Company's AIM IPO and in accordance with the Plan of Recapitalisation, all shares of the Company's preferred stock were converted into shares of the Company's common stock. See Note 1. Prior to its conversion, the Company's preferred stock was accounted for as follows:

The Company's Series B redeemable convertible preferred stock was classified since issuance as temporary equity since it was redeemable in certain circumstances outside of the Company's control. The Series B redeemable convertible preferred stock was increased by the accretion of any related discounts and accrued but unpaid dividends so that the carrying amount equals the redemption amount at the estimated redemption date.

The Company's Series E convertible preferred stock issued in December 2014 was classified at issuance as temporary equity as a result of an embedded contingent conversion option that is potentially settleable by issuing a variable number of shares.

The Company's Series A-1 convertible preferred stock and the Series C perpetual preferred stock and Series D perpetual preferred stock were initially classified as permanent equity. As part of the adoption of the Plan of Conditional Recapitalisation in December 2014, the Company's Series A-1, C and D preferred stock were modified to include an embedded contingent conversion option that is potentially settleable by issuing a variable number of shares; as a result, the Series A-1, C and D preferred stock were reclassified to temporary equity upon modification.

Revenue recognition

Revenue is recognised when there is persuasive evidence that an arrangement exists, delivery has occurred, the sales price is fixed and determinable, and collection is reasonably assured.

Revenue is principally from the sale or license of instruments and processing assemblies, as well as from warranties, installation and maintenance. In some arrangements, product and services have been sold together in multiple element arrangements. In such arrangements, when the elements have standalone value to the customer, the Company allocates the sale price to the various elements in the arrangement on a relative selling price basis. Under this basis, the Company determines the estimated selling price of each element in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis.

Revenue from the sale of instruments and disposables is generally recognised at the time of shipment to the customer, provided no significant vendor obligations remain and collectability is probable. Licensing fee revenue is recognised ratably over the licence period.

Research and development costs

Research and development costs consist of independent proprietary research and development costs, and the costs associated with work performed for fees from third parties. Research and development costs are expensed as incurred. Research costs performed for fees from third parties are included in cost of goods sold.

Stock-based compensation

The Company grants stock-based awards in exchange for employee, consultants and non-employee Director services. The value of the award that is ultimately expected to vest is recognised as expense on a straight-line basis over the requisite service period.

The Company uses the Black-Scholes option pricing model for estimating fair value of its stock options granted. Option valuation models, including the Black-Scholes model, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant-date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility and the expected life of the award. A discussion of management's methodology for developing each of the assumptions used in the Black-Scholes model is as follows:

Fair value of common stock

Prior to the IPO, the Company's Board of Directors determined the fair value of the common stock. In the absence of a public market, the Company believed that it was appropriate to consider a range of factors to determine the fair value of the common stock at each grant date. The factors included, but were not limited to: (1) the achievement of operational milestones by the Company; (2) the status of strategic relationships with collaborators; (3) the significant risks associated with the Company's stage of development; (4) capital market conditions for life science and medical diagnostic companies, particularly similarly situated, privately held, early-stage companies; (5) the Company's available cash, financial condition and results of operations; (6) the most recent sales of the Company's preferred stock; and (7) the preferential rights of the outstanding preferred stock.

Expected volatility

Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company does not currently have enough history with its common stock post its 2016 IPO. The Company has been able to identify several public entities of similar size, complexity and stage of development; accordingly, historical volatility has been calculated at between 35% and 48% for 2016 and 40% for 2015 using the volatility of these companies.

Expected dividend yield

The Company has never declared or paid common stock dividends and has no plans to do so in the foreseeable future.

Risk-free interest rate

This approximates the U.S. Treasury rate for the day of each option grant during the year, having a term that closely resembles the expected term of the option. The risk-free interest rate was between 1.1% and 2.2% for 2016 grants and 1.9% 2015 grants.

Expected term

This is the period of time that the options granted are expected to remain unexercised. Options granted have a maximum term of 10 years. The Company estimates the expected term of the option to be 6.25 years for options with a standard four-year vesting period, using the simplified method. Over time, management intends to track estimates of the expected term of the option term so that estimates will approximate actual behaviour for similar options.

Expected forfeiture rate

The forfeiture rate is the estimated percentage of options granted that is expected to be forfeited or cancelled on an annual basis before becoming fully vested. The Company estimates the forfeiture rate based on turnover data with further consideration given to the class of the employees to whom the options were granted. The Company estimated the annual forfeiture rate to be 10% for both 2016 and 2015.

2. Summary of significant accounting policies continued

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that such tax rate changes are enacted. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that all or a portion of the deferred tax asset will not be realised.

Management uses a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. For those benefits to be recognised, a tax position must be more likely than not to be sustained on examination by taxing authorities. The Company recognises interest and penalties accrued on any unrecognised tax exposures as a component of income tax expense. The Company has not identified any uncertain income tax positions that could have a material impact on the financial statements.

The Company is subject to taxation in various jurisdictions in the United States and abroad and remains subject to examination by taxing jurisdictions for 2013 and all subsequent periods. The Company had a Net Operating Loss (NOL) carry forward of $22.8 million as of 31 December 2016, which was generally available as a deduction against future income for U.S. federal corporate income tax purposes, subject to applicable carryforward limitations. As a result of the March AIM IPO, the Company's NOLs are limited on an annual basis, subject to certain carryforward provisions, pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, as a result of a greater than 50% change in ownership that occurred in the three-year period ending at the time of the March AIM IPO. The Company has calculated that for the period ending on 31 December 2022, the cumulative limitation amount is in excess of the NOLs subject to the limitation.

Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding during the period.

For periods of net income, and when the effects are not anti-dilutive, diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding plus the impact of all potential dilutive common shares, consisting primarily of common stock options and stock purchase warrants using the treasury stock method, and convertible preferred stock using the if-converted method.

For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common shares is anti-dilutive. The number of anti-dilutive shares, consisting of (i) common stock options, (ii) stock purchase warrants, and (iii) convertible preferred stock exchangeable into common stock, which has been excluded from the computation of diluted loss per share, was 5.8 million and 31.9 million for the years ended 31 December 2016 and 2015, respectively.

The Company's convertible preferred stock, prior to its conversion, contained non-forfeitable rights to dividends, and therefore was considered to be a participating security; the calculation of basic and diluted income (loss) per share excludes net income (but not net loss) attributable to the convertible preferred stock from the numerator and excludes the impact of those shares from the denominator.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognise revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after 15 December 2017, with early adoption permitted only for reporting periods beginning after 15 December 2016. In March 2016, the FASB issued guidance to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross rather than net, with the same deferred effective date. In April 2016, the FASB issued guidance to clarify the implementation guidance on identifying performance obligations and the accounting for licences of intellectual property, with the same deferred effective date. In May 2016, the FASB issued guidance rescinding SEC paragraphs related to revenue recognition, pursuant to two SEC Staff Announcements at the 3 March 2016 Emerging Issues Task Force meeting. In May 2016, the FASB also issued guidance to clarify the implementation guidance on assessing collectability, presentation of sales tax, non-cash consideration, and contracts and contract modifications at transition, with the same effective date. The Company does not intend to adopt the guidance early. The Company has not yet begun to evaluate the specific impacts of this guidance nor have MaxCyte determined the manner in which the Company will adopt this guidance.

In August 2014, the FASB issued guidance requiring management to evaluate on a regular basis whether any conditions or events have arisen that could raise substantial doubt about the entity's ability to continue as a going concern. The guidance 1) provides a definition for the term 'substantial doubt', 2) requires an evaluation every reporting period, interim periods included, 3) provides principles for considering the mitigating effect of management's plans to alleviate the substantial doubt, 4) requires certain disclosures if the substantial doubt is alleviated as a result of management's plans, 5) requires an express statement, as well as other disclosures, if the substantial doubt is not alleviated, and 6) requires an assessment period of one year from the date the financial statements are available to be issued. The standard is effective for the Company's reporting year beginning 1 January 2016 and early adoption is permitted. The Company adopted this guidance for the year ended 31 December 2016 and such adoption did not have a material impact on the Company's financial statements.

In April 2015, the FASB issued guidance as to whether a cloud computing arrangement (e.g. software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements) includes a software licence and, based on that determination, how to account for such arrangements. If a cloud computing arrangement includes a software licence, then the customer should account for the software licence element of the arrangement consistent with the acquisition of other software licences. If a cloud computing arrangement does not include a software licence, the customer should account for the arrangement as a service contract. The guidance is effective for reporting periods beginning after 15 December 2015, and can be adopted on either a prospective or retrospective basis. The Company adopted this guidance for the year ended 31 December 2016, on a prospective basis. The adoption of this new guidance did not have a material impact on the Company's financial statements.

In July 2015, the FASB issued guidance for inventory requiring an entity to measure inventory within the scope of this guidance at the lower of cost or net realisable value, except when inventory is measured using LIFO or the retail inventory method. Net realisable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. In addition, the FASB has amended some of the other inventory guidance to more clearly articulate the requirements for the measurement and disclosure of inventory. The guidance is effective for reporting periods beginning after 15 December 2016 and early adoption is permitted. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its financial statements.

In February 2016, the FASB issued guidance for the accounting for leases. The guidance requires lessees to recognise assets and liabilities related to long-term leases on the balance sheet and expands disclosure requirements regarding leasing arrangements. The guidance is effective for reporting periods beginning after 15 December 2018 and early adoption is permitted. The guidance must be adopted on a modified retrospective basis and provides for certain practical expedients. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its financial statements.

In March 2016, the FASB issued guidance to clarify the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The guidance is effective for reporting periods beginning after 15 December 2016, and early adoption is permitted. Entities are required to apply the guidance to existing debt instruments using a modified retrospective transition method as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its financial statements.

In March 2016, the FASB issued guidance simplifying the accounting for and financial statement disclosure of stock-based compensation awards. Under the guidance, all excess tax benefits and tax deficiencies related to stock-based compensation awards are to be recognised as income tax expenses or benefits in the income statement and excess tax benefits should be classified along with other income tax cash flows in the operating activities section of the statement of cash flows. Under the guidance, companies can also elect to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. In addition, the guidance amends some of the other stock-based compensation awards guidance to more clearly articulate the requirements and cash flow presentation for withholding shares for tax-withholding purposes. The guidance is effective for reporting periods beginning after 15 December 2016 and early adoption is permitted, though all amendments of the guidance must be adopted in the same period. The adoption of certain amendments of the guidance must be applied prospectively, and adoption of the remaining amendments must be applied either on a modified retrospective basis or retrospectively to all periods presented. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its financial statements.

In June 2016, the FASB issued guidance with respect to measuring credit losses on financial instruments, including trade receivables. The guidance eliminates the probable initial recognition threshold that was previously required prior to recognising a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years. The adoption of certain amendments of this guidance must be applied on a modified retrospective basis and the adoption of the remaining amendments must be applied on a prospective basis. The Company is currently evaluating the impact, if any, that this new accounting pronouncement will have on its financial statements.

The Company has evaluated all other issued and unadopted Accounting Standards Updates and believes the adoption of these standards will not have a material impact on its results of operations, financial position or cash flows.

3. Debt

In March 2014, the Company entered into a credit facility with Midcap Financial SBIC, LP (MidCap) which provided for a total facility of up to $4,000,000, plus an additional $1,000,000 subject to certain performance requirements. The facility carries a variable interest rate equal to the greater of (i) 1.50% above the LIBOR then in effect, or (ii) 10.00%. The credit facility is collateralised by substantially all tangible assets of the Company and was originally set to mature in March 2017. The Company borrowed the initial $4,000,000 in March 2014 (and used a portion of the proceeds to pay in full the outstanding balance on a prior facility). The facility was amended in December 2014, at which time the additional $1,000,000 was drawn.

In connection with this facility, in March 2014 and December 2014, the Company issued stock purchase warrants to MidCap to purchase shares of its series D perpetual preferred stock at an exercise price of $1.00 per share. The warrants were recorded as a liability with an offsetting debt discount at their estimated fair value and such discount was being amortised as interest expense over the term of the debt using the effective interest method (see Note 6). The warrants were exercised in whole in March 2016 in conjunction with the Company's AIM IPO (see Note 5).

3. Debt continued

The Company amended the MidCap facility in February 2015 and in June 2015, to, among other things, (i) waive certain existing events of default, (ii) allow certain otherwise prohibited investments, (iii) extend the maturity date to 1 July 2019, (iv) revise principal amortisation payments and other contingent payments, and (v) increase the principal amount to $5,105,400. Additionally, the Company amended the MidCap facility in June 2016, to, among other things, (i) revise certain covenants, (ii) extend the maturity date to 1 June 2021, (iii) extend the interest only period to 1 July 2018 and increase the exit fee to 6.75%. The Company accounted for all amendments as modifications to the facility.

The Company incurred fees and expenses in conjunction with the various amendments. Accordingly, the Company has deferred additional fees incurred and paid to the lender in connection with the amendments and expensed all fees paid to third parties. The deferred fees are being amortised using the effective interest method over the remaining term of the amended debt. Unamortised deferred financing costs were approximately $107,700 and $82,100 as of 31 December 2016 and 2015, respectively, and are included as reductions to the note payable balance.

The total balance of the MidCap credit facility at both 31 December 2016 and 31 December 2015 was $5,105,400, with an interest rate of 10%; the balance of the unamortised debt discount at 31 December 2016 and 2015 was $8,700 and $13,800, respectively. Future minimum principal payments under the MidCap credit facility are expected to be approximately $850,000 in 2018, approximately $1,702,000 in 2019 and 2020, and approximately $851,000 in 2021.

4. Preferred stock

All of the Company's outstanding preferred stock was converted to common stock in accordance with the Company's Plan of Recapitalisation immediately prior to the Company's AIM IPO in March 2016 as follows:

- Series A-1 Preferred converted into 961,893 shares of common stock;
- Series B Preferred converted into 16,844,615 shares of common stock;
- Series C Preferred converted into 3,855,283 shares of common stock;
- Series D Preferred converted into 3,214,720 shares of common stock;
- Series E Preferred converted into 2,275,020 shares of common stock.

Prior to the conversion in March 2016, the Company had outstanding Series A-1 convertible preferred stock (the Series A-1 Preferred), Series B redeemable convertible preferred stock (the Series B Preferred), Series C and D perpetual preferred stock (the Series C Preferred and Series D Preferred) and Series E convertible preferred stock (the Series E Preferred), each with various rights and preferences, as discussed further below.

Rights to nominate Directors

In accordance with the Company's restated certificate of incorporation, rights to elect members of the Board of Directors consist of eight directors designated as follows: (i) three individuals to be selected by the holders of the Series B Preferred, (ii) one individual to be selected by holders of the Series C Preferred, (iii) two individuals to be elected by the holders of Series B Preferred and common stock, voting together as a single class, and (iv) two individuals selected by the holders of the common stock.

Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, each share of Series E Preferred is entitled to receive, prior and in preference to all other capital stock of the Company, an amount equal to $1.50 (one and one-half times the Series E purchase price) plus all accrued and unpaid Series E accruing dividends. After paying the Series E preference, the remaining preferred stockholders are entitled to (in order of preference):

- each share of Series D Preferred is entitled to receive, prior and in preference to all other capital stock of the Company, an amount equal to $4.00 (four times the Series D purchase price) plus all accrued and unpaid Series D accruing dividends;
- each share of Series C Preferred is entitled to receive an amount equal to $3.00 (three times the Series C Purchase Price) plus all accrued and unpaid Series C accruing dividends;
- each share of Series B Preferred will be entitled to receive, prior and in preference to all other capital stock of the Company, an amount equal to $1.00 (the Series B Purchase Price) plus all accrued and unpaid Series B accruing dividends (the Series B Preferential Amount);
- the assets of the Company legally available for distribution in such liquidation event (or the consideration received in such transaction), if any, are to be distributed ratably to the holders of the Series E Preferred, the Series B Preferred, Series A-1 Preferred, and common stock at the time outstanding on an as-if-converted-to-common-stock basis until such time as such holders have received an aggregate amount of $100,000,000;
- the holders of the Series A-1 Preferred shall be entitled to share in the distribution of up to $6,000,000 of the remaining assets of the Company on a pro rata basis; and
- thereafter, all remaining assets of the Company will be distributed pro rata among the holders of the Series E Preferred, Series B Preferred, Series A-1 Preferred, and common stock on an as-converted-into-common-stock pro rata basis.

Specific provisions of the Series A-1 preferred

Prior to the effect of the Plan of Recapitalisation, the Series A-1 Preferred had the following specific provisions:

Voting

Holders are entitled to vote on an as-converted basis with Series E Preferred, Series B Preferred and common holders.

Dividends
The holders of the Series A-1 Preferred shall be entitled to receive dividends each time the Company declares or pays any dividend in an amount equal to the amount of dividends that would have been received if the shares of Series A-1 Preferred had been converted to common stock. No dividends were declared during the periods presented.

Conversion
Each share of Series A-1 Preferred is convertible to one share of common stock at any time, subject to adjustments. If the Company consummates a public offering, which does not trigger the Plan of Recapitalisation, from which the Company receives gross proceeds of at least $35,000,000 at a price not less than $6.00 per share, the conversion becomes mandatory. Also, the conversion becomes mandatory if the holders of at least two-thirds of the then outstanding shares of Series A-1 elect to convert.

Specific provisions of the Series B Preferred
Prior to the effect of the Plan of Recapitalisation, the Series B Preferred had the following specific provisions:

Voting
Holders are entitled to vote on an as-converted basis with Series E Preferred, Series A-1 Preferred and common stock holders, and have separate voting rights on specified matters.

Dividends
The holders of Series B Preferred will be entitled to receive cumulative dividends, when and as declared by the Board of Directors, payable in cash or in kind, and in preference to any dividend on any other capital stock other than the Series C Preferred, Series D Preferred and Series E Preferred at a rate of 8% per annum (as adjusted for stock splits, stock dividends, recapitalisations and re-combinations). In the event of certain defaults by the Company, the dividend for the Series B Preferred shall increase to 12% per annum until such default is corrected, at which point the dividend rate returns to 8%. The Board of Directors has not declared any dividends.

Redemption
The Series B Preferred may be redeemed on the election of the holders of two-thirds of the then-outstanding Series B Preferred. However, no shares can be redeemed unless approved by a vote or written consent of the holders of at least a majority in interest of the outstanding Series E Preferred, Series D Preferred, the Series C Preferred, each voting as a separate class. The redemption price is the greater of original issue price plus accrued and unpaid dividends or the fair market value as determined by the Board of Directors.

Conversion
Each share of Series B Preferred (including any accrued and unpaid dividends) may be converted at the holder's option at any time into one share of common stock, subject to adjustments. If the Company consummates a public offering, which does not trigger the Plan of Recapitalisation, from which the Company receives gross proceeds of at least $35,000,000 at a price not less than $6.00 per share, the conversion becomes mandatory. Also, the conversion becomes mandatory if the holders of at least two-thirds of the then outstanding shares of Series B elect to convert.

Anti-dilution adjustments
The conversion price of the Series B Preferred is subject to adjustment to prevent dilution, on a weighted average basis, in the event that the Company issues additional shares of capital stock (or the right to acquire shares of capital stock) at a price per share that is less than the then-applicable conversion price of the Series B Preferred.

Specific provisions of the Series C Preferred
Prior to the effect of the Plan of Recapitalisation, the Series C Preferred had the following specific provisions:

Voting
In addition to any other vote required by law, the vote or written consent of the holders of at least a majority of the outstanding Series C Preferred shares is necessary for effecting or validating (i) any action that alters or changes any of the powers, preferences or other special rights, privileges or restrictions of the Series C Preferred, (ii) any authorisation or any designation of any class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series C Preferred in right of redemption, liquidation preference, voting or dividends, or (iii) any action that results in the payment or declaration of a dividend or distribution of property on any shares of common stock or preferred stock other than the Series C Preferred.

Dividends
The holders of Series C Preferred are entitled to receive cumulative dividends, when and as declared by the Board of Directors, payable in cash and in preference to any dividend on any other capital stock other than the Series E Preferred and Series D Preferred at a rate of 10% per annum (as adjusted for stock splits, stock dividends, recapitalisations and re-combinations). The Board of Directors has not declared any dividends.

Conversion
Prior to the Plan of Recapitalisation, the Series C Preferred was not convertible. The Plan of Recapitalisation provides that in the event that an AIM IPO closes before 30 June 2016, the Series C Preferred is automatically converted into common stock based on a formula of value (with multiples of existing liquidation preferences) and on a discount from the AIM IPO price.

4. Preferred stock continued

Specific provisions of the Series D Preferred

Prior to the effect of the Plan of Recapitalisation, the Series D Preferred had the following specific provisions:

Voting

In addition to any other vote required by law, the vote or written consent of the holders of at least a majority in interest of the outstanding Series D Preferred, voting together as a separate class, shall be necessary for effecting or validating (i) any action that alters or changes any of the powers, preferences, or other special rights, privileges or restrictions of the Series D Preferred (whether by merger, consolidation or the like), (ii) any authorisation or any designation, whether by reclassification or otherwise, of any class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series D Preferred in right of redemption, liquidation preference, voting or dividends, or (iii) any action that results in the payment or declaration of a dividend or distribution of property.

Dividends

The holders of Series D Preferred are entitled to receive cumulative dividends, when and as declared by the Board of Directors, payable in cash, and in preference to any dividend on any other capital stock other than the Series E Preferred, at a rate of 10% per annum (as adjusted for stock splits, stock dividends, recapitalisations and re-combinations). The Board of Directors has not declared any dividends.

Conversion

Prior to the Plan of Recapitalisation, the Series D Preferred was not convertible. The Plan of Recapitalisation provides that in the event that an AIM IPO closes before 30 June 2016, the Series D Preferred is automatically converted into common stock based on a formula of value (with multiples of existing liquidation preferences) and on a discount from the AIM IPO price.

Specific provisions of the Series E Preferred

Prior to the effect of the Plan of Recapitalisation, the Series E Preferred had the following specific provisions:

Voting

Holders are entitled to vote on an as-converted basis with Series A-1 Preferred, Series B Preferred and common holders, and have separate voting rights on specified matters. Also, and in addition to any other vote required by law, the vote or written consent of the holders of at least a majority interest of the outstanding Series E Preferred, voting together as a separate class, shall be necessary for effecting or validating (i) any action that alters or changes any of the powers, preferences, or other special rights, privileges or restrictions of the Series E Preferred (whether by merger, consolidation or the like), (ii) any authorisation or any designation, whether by reclassification or otherwise, of any class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series E Preferred in right of redemption, liquidation preference, voting or dividends, or (iii) any action that results in the payment or declaration of a dividend or distribution of property.

Dividends

The holders of Series E Preferred are entitled to receive cumulative dividends, when and as declared by the Board of Directors, payable in cash, and in preference to any dividend on any other capital stock, at a rate of 10% per annum (as adjusted for stock splits, stock dividends, recapitalisations and re-combinations). The Board of Directors has not declared any dividends.

Conversion

Each share of Series E Preferred is convertible to one share of common stock at any time, subject to adjustments. If the Company consummates a public offering in any jurisdiction prior to 31 December 2016, the conversion becomes mandatory at a conversion price calculated at a 15% discount from the applicable offering price.

5. Stockholders' equity

Common stock

On 29 March 2016, the Company completed its initial public offering (IPO) of its common stock on the Alternative Investments Market of the London Stock Exchange. The Company issued approximately 14.3 million shares of its common stock at an initial price of £0.70 per share (or approximately $1.01 per share), generating gross proceeds of approximately £10 million (or approximately $14.4 million). In conjunction with the transaction the Company incurred costs of approximately $3.1 million which resulted in the Company receiving net proceeds of approximately $11.3 million.

Immediately prior to the AIM IPO and in accordance with the Plan of Recapitalisation, the Company issued 27,151,531 shares of common stock upon the conversion of all of its outstanding shares of preferred stock. The Company also issued 85,914 shares of common stock upon the exchange of all outstanding stock purchase warrants.

During the year ended 31 December 2016, the Company issued 69,066 shares of common stock as a result of stock option exercises, receiving gross proceeds of $12,400.

Stock options

The Company adopted the MaxCyte, Inc. Long-Term Incentive Plan (the Plan) in January of 2016 to amend and restate the MaxCyte 2000 Long-Term Incentive Plan to provide for the awarding of (i) stock options, (ii) restricted stock, (iii) incentive shares, and (iv) performance awards to employees, officers and Directors of the Company and to other individuals as determined by the Board of Directors. Under the Plan, the maximum number of shares of common stock of the Company that the Company may issue is (a) 6,264,682 shares plus (b) ten percent (10%) of the shares that are issued and outstanding at the time awards are made under the Plan.

The Company has not issued any restricted stock, incentive shares or performance awards under the Plan. Stock options granted under the Plan may be either incentive stock options as defined by the Internal Revenue Code or non-qualified stock options. The Board of Directors determines who will receive options under the Plan and determines the vesting period. The options can have a maximum term of no more than ten years. The exercise price of options granted under the Plan is determined by the Board of Directors and must be at least equal to the fair market value of the common stock of the Company on the date of grant.

A summary of stock option activity for the years ended 31 December 2016 and 2015 is as follows:

	Number of options	Weighted average exercise price US$	Weighted average remaining contractual life (in years)	Aggregate intrinsic value US$
Outstanding at 1 January 2015	4,299,703	0.05	9.3	–
Granted	15,000	0.04		
Exercised	(67,322)	0.13		46,900
Forfeited	(126,755)	0.15		
Outstanding at 31 December 2015	4,120,626	0.05	8.5	3,227,800
Granted	1,776,565	1.17		
Exercised	(69,066)	0.18		84,000
Forfeited	(53,759)	0.14		
Outstanding at 31 December 2016	**5,774,366**	**0.39**	**8.3**	**7,520,400**
Exercisable at 31 December 2016	**4,424,978**	**0.14**	**7.9**	**6,866,600**
Vested and expected to vest	**5,262,322**	**0.37**	**8.2**	**7,461,000**

The weighted average fair values of the options granted during 2016 and 2015 were estimated to be $0.46 and $0.01, respectively.

As 31 December 2016, total unrecognised compensation expense was $595,600 which will be recognised over three years.

Stock-based compensation expense for the years ended 31 December was as follows:

	2016 US$	2015 US$
General and administrative	**45,100**	–
Sales and marketing	**85,100**	800
Research and development	**23,900**	400
Total	**154,100**	1,200

Stock purchase warrants

Immediately prior to the Company's AIM IPO and pursuant to the Plan of Recapitalisation, on 29 March 2016 all stock purchase warrants were exchanged for 85,914 shares of common stock. Prior to such exercise, the warrants were classified as liabilities. At 31 December 2016, the Company had no outstanding stock purchase warrants.

6. Fair value

The Company's Balance Sheets include various financial instruments (primarily cash and cash equivalents, accounts receivable and accounts payable and accrued expenses) that are carried at cost, which approximates fair value due to the short-term nature of the instruments. Notes payable and capital lease obligations are reflective of fair value based on market comparable instruments with similar terms.

Financial assets and liabilities measured at fair value on a recurring basis

After the adoption of the Plan of Conditional Recapitalisation and prior to their exercise in March 2016, the Company's stock purchase warrants were exchangeable into Series D Preferred which could have been required to be settled by issuance of a variable number of shares; as such, the warrants were classified as liabilities, measured at fair value and marked to market each reporting period until settlement. The fair value of the warrants was measured using Level 3 inputs and was determined based on the value of the warrants relative to the value of the Company's other equity securities assuming an AIM IPO and effectiveness of the Plan of Conditional Recapitalisation. The primary Level 3 unobservable inputs included various assumptions about the potential AIM IPO. The warrants were exchanged for 85,914 shares of common stock on 29 March 2016.

The following table presents the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy at 31 December 2015:

	Fair value US$	Level 1 US$	Level 2 US$	Level 3 US$
At 31 December 2015				
Warrant liabilities	85,400	–	–	85,400

6. Fair value continued

The Company had no financial assets or liabilities measured at fair value on a recurring basis at 31 December 2016.

The following table presents a summary of changes in the fair value of Level 3 warrant liabilities measured at fair value on a recurring basis for the years ended 31 December 2016 and 2015:

Description	Balance at 1 January 2015 US$	Established in 2015 US$	Change in fair value in 2015 US$	Balance at 31 December 2015 US$
Warrant liabilities	105,400	–	(20,000)	85,400

Description	**Balance at 1 January 2016 US$**	**Exchanged for common stock in 2016 US$**	**Change in fair value in 2016 US$**	**Balance at 31 December 2016 US$**
Warrant liabilities	**85,400**	**(85,400)**	**–**	**–**

Financial assets and liabilities measured at fair value on a non-recurring basis

The Company has no financial assets and liabilities that are measured at fair value on a non-recurring basis.

Non-financial assets and liabilities measured at fair value on a recurring basis

The Company has no non-financial assets and liabilities that are measured at fair value on a recurring basis.

Non-financial assets and liabilities measured at fair value on a non-recurring basis

The Company measures its long-lived assets, including property and equipment, at fair value on a non-recurring basis. These assets are recognised at fair value when they are deemed to be impaired. No such fair value impairment was recognised during the years ended 31 December 2016 and 2015.

7. Income taxes

The Company did not recognise a provision (benefit) for income taxes in 2016 or 2015. Based on the Company's historical operating performance, the Company has provided a full valuation allowance against its net deferred tax assets.

Net deferred tax assets as of 31 December 2016 and 2015 are presented in the table below:

	2016 US$	2015 US$
Deferred tax assets:		
Net operating loss carryforwards	**8,872,300**	8,358,100
Research and development credits	**492,200**	410,600
Stock-based compensation	**312,500**	249,800
Deferred revenue	**1,112,000**	844,200
Accruals and other	**76,800**	397,500
Deferred tax liabilities:		
Depreciation	**(1,200)**	(28,700)
	10,864,600	10,231,500
Valuation allowance	**(10,864,600)**	(10,231,500)
Net deferred tax assets	**–**	–

The Federal net operating loss (NOL) carryforwards of approximately $22.8 million as of 31 December 2016 will begin to expire in various years beginning in 2025. The use of NOL carryforwards is limited on an annual basis under Internal Revenue Code Section 382 when there is a change in ownership (as defined by this code section). Based on changes in Company ownership in the past, the Company believes that the use of its NOL carryforwards generated prior to the date of the change is limited on an annual basis; NOL carryforwards generated subsequent to the date of change in ownership can be used without limitation. The use of the Company's net operating loss carryforwards may be restricted further if there are future changes in Company ownership. Additionally, despite the net operating loss carryforwards, the Company may have a future tax liability due to alternative minimum tax or state tax requirements.

Income tax expense reconciled to the tax computed at statutory rates for the years ended 31 December is as follows:

	2016 US$	2015 US$
Federal income taxes (benefit) at statutory rates	**(1,137,400)**	(491,300)
State income taxes (benefit), net of Federal benefit	**(266,300)**	(115,000)
Permanent differences and rate changes	**770,600**	(105,000)
Change in valuation allowance	**633,100**	711,300
	–	–

8. Capital leases

The Company leases computer and lab equipment under agreements that are classified as capital leases. The assets under capital leases are recorded at the lower of net present value of the related lease payments or the fair value of the asset. The assets are amortised over their economic useful life.

The following is a schedule of future minimum lease payments under the capital lease obligations together with the net present value of the minimum lease payments as of 31 December 2016:

	US$
2017	15,500
2018	3,300
Total	18,800
Less: amount representing interest	(1,300)
Net present value of future minimum lease payments	17,500

The net present value of the minimum lease payments related to the leased equipment is included in the balance sheet at 31 December 2016 as follows:

Current portion	$14,400
Long-term portion	$3,100
Total capital lease obligations	$17,500

The following is a summary of property held under capital leases as of 31 December:

	2016 US$	2015 US$
Original asset value	**99,800**	99,800
Less: accumulated amortisation	**(91,500)**	(72,900)
Net book value	**8,300**	26,900

The Company recognised $18,600 and $23,700 of related amortisation expense in 2016 and 2015, respectively.

9. Commitments and contingencies

The Company entered into a five-year non-cancellable operating lease agreement for office and laboratory space in February 2009 with an initial expiration of 31 January 2014. In 2013, the Company executed a five-year extension to the lease pursuant to which monthly rent starts at $16,129 and increases each year by 3%. In addition to base rent, the Company pays a pro-rated share of common area maintenance (CAM) costs for the entire building, which is adjusted annually based on actual expenses incurred. Following is a schedule by year of the estimated future minimum payments under the operating lease:

Year ending 31 December	US$
2017	211,000
2018	217,300
2019	18,200
2020	–
2021	–
thereafter	–
	446,500

Total rent expense, including base rent and CAM for the years ended 31 December 2016 and 2015, was $321,900 and $296,500, respectively. Rent expense is recognised on a straight-line basis in the accompanying financial statements.

In recognition of reduced salaries agreed to by certain executives during the period between 2007 and 2009, the Board approved the payment of $75,900 to such executives in the first half of 2016 and an additional $75,900 to be paid on or about 30 March 2017.

10. Subsequent events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through 17 March 2017 the date the financial statements were available to be issued.

AGM Notice

MaxCyte, Inc.

22 Firstfield Road, Suite 110, Gaithersburg, MD 20878, USA

NOTICE OF ANNUAL GENERAL MEETING OF STOCKHOLDERS

An Annual General Meeting of Stockholders of MaxCyte, Inc. (the Meeting) is planned to be held on 31 October 2017 to consider and act upon: (i) the re-election of Art Mandell as a Class II Director to serve for three years, beginning on the date of the Meeting; (ii) the re-election of Stan Erck as a Class II Director to serve for three years, beginning on the date of the Meeting; (iii) the reappointment of Aronson LLC as auditors and to authorise the Audit Committee to fix their remuneration; and (iv) any other business that the Board of Directors may duly elect to present to the Shareholders for consideration.

Formal notice and resolutions, along with the Annual Meeting Proxy Card and Form of Direction, will be circulated on or about 10 September 2017 to shareholders of record on or about that date.

Ron Holtz
Company Secretary and Chief Financial Officer
MaxCyte, Inc., Gaithersburg, MD, USA
6 April 2017

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