

**Nautilus Marine Services PLC**  
**Annual Report and Accounts 2018**

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### **AIM**

As of 9 February 2017, the Company's shares were re-admitted to AIM, a market operated by the London Stock Exchange, as Nautilus Marine Services PLC (LSE-AIM: "NAUT"). Previously, the Company's shares had been traded on AIM since March 2002 as Global Energy Development PLC (LSE-AIM: "GED").

# STRATEGIC REPORT

## Highlights

The Group's primary key performance indicators and key events for 2018 were:

- The Group received multiple offers for its Colombia operations in late 2018, many on terms that, if realised, would be agreeable to the Company. As announced in January 2018 (post-period end), it is therefore likely that the Company will divest of its Bolivar and Bocachico contracts or the entities holding them (the "Disposal Group") during 2019. Accordingly, the Disposal Group has been classified as held for sale at year end. In accordance with International Financial Reporting Standards ("IFRS"), the Group has reported these assets and their associated liabilities as a "disposal group" within its Consolidated Statement of Financial Position as at 31 December 2018, and income/ (loss) from the Disposal Group are reflected as discontinued operations within the Consolidated Statement of Comprehensive Income for all periods presented.
- \$11 million cash as at 31 December 2018.
- Losses from continuing operations of \$9.2 million, representing a \$2.0 million decrease in losses as compared to the prior year period.
- \$1.8 million (64%) decrease in operating expenses for offshore vessels and equipment as a result of cost reduction initiatives implemented during late 2017.
- \$1.1 million (20%) decrease in administrative expenses for continuing operations primarily due to staffing reductions within the corporate group implemented during 2017 and 2018.
- \$643 thousand gain on disposals, primarily due to sales of non-strategic offshore vessels and equipment during the year.
- \$666 thousand impairment charge on certain vessels within the Group's offshore fleet as a result of decreased third party fleet valuation reports at year-end.
- \$1.7 million impairment reversal (included within income from discontinued operations) as a result of the initial measurement of the Disposal Group to the estimated recoverable amount of fair value less costs to sell upon classification as held for sale.

A full review of the Group's activities during the year, recent events, and expected future developments is contained within the Chairman's Statement and the Financial Review of Operations.

## Chairman's Statement

### *2018 Strategic Initiatives*

Following the decision during the prior year to shift the Group's focus from Latin American oil and gas exploration and production to global offshore services, the Group spent substantial time during the year seeking and evaluating opportunities to acquire or otherwise invest in offshore service companies as well as related offshore service assets and technologies. The offshore industry conditions have made it increasingly difficult for the Group to locate investment opportunities at attractive pricing. As a result, the Group began to investigate expanded energy investment strategies during the second half of the year.

While the Group continued to actively monitor and assess offshore market conditions to identify opportunities to either put its offshore vessels and equipment into service or sell these at attractive pricing, it also concurrently implemented further significant reductions in its administrative and offshore operating cost structures. These reductions included additional staff reductions, the transition of the fleet closer to cold layup status, and relocation and down-sizing of its corporate office. The Group expects to keep this reduced cost structure in place while depressed market conditions persist.

The Group also worked during the year to address contractual concerns over the continuity of production at its two remaining oil and gas fields in Colombia. In response to these concerns, the Group developed and initiated a plan to resume production and/or development activities at both of its fields. These plans include testing and analysis of its current wellbores to evaluate their potential to restore production given advances in technologies. Further, the Group intends to obtain new seismic studies which will aid in the identification of potential well sites. The Group is confident that these actions will assuage any contractual concerns and that the Group will continue to enjoy full title over these assets until they are sold.

As the Group worked to develop these plans for the Colombia assets, it also began to receive increasingly attractive offers to purchase these assets. Following initial evaluations of these offers, the Board and management concluded that it is in the Group's best interests to pursue the divestiture of these properties during 2019, and as a result this operating segment is reflected at year-end as discontinued operations within the Group's reporting. Until the Group is able to identify and complete an acceptable transaction for its Colombian assets, it intends to continue to focus on controlling costs at these fields while maintaining contractual and environmental compliance and progressing its reactivation plans.

### *Outlook*

The Group took appropriate steps during 2018 to identify opportunities to sell non-strategic vessels and equipment at premiums over acquisition costs. Management intends to continue to closely monitor costs and opportunistically divest from this pool of assets until it is able to establish profitable operations.

During January and February 2019, the Company received optional conversion notifications from McLarty Capital Partners ("McLarty"), the holder of a majority of the Series A Convertible Notes (as defined and described in the Company's AIM Admission Document published on 16 January 2017), and Aeterna Capital Fund II, LLC ("Aeterna"). As a result of these conversions, the Company paid approximately \$1.49 million for the settlement of accrued interest and issued approximately 16.4 million ordinary shares using the conversion price of 50 pence per ordinary share at a fixed exchange rate of GBP1/US\$1.22. Following this conversion, McLarty and Aeterna hold approximately 23.85 per cent and 7.37 per cent, respectively, of the Company's outstanding shares. The outstanding principal balance of its Series A Convertible Notes decreased from \$10.5 million to \$500 thousand, which will save the Company approximately \$811 thousand in annual interest. The conversion of these notes into permanent capital presents a significant improvement in the Group's financial position.

The Group believes this reduced cost structure and improved financial position, combined with opportunistic divestitures, will allow the Group to not only survive the duration of this industry downturn, but to also maintain a level of liquidity to allow it to take advantage of opportunities created during this trying period.

**Mikel Faulkner**  
Non-Executive Chairman  
5 March 2019

## Financial Review of Operations

### *Overview*

The Group continued to struggle to identify opportunities to operate its offshore vessels and equipment profitably at prevailing market rates, and as a result did not generate any revenues from continuing operations during the year. Loss from continuing operations fell by \$2.0 million during the current year, however. This was primarily due to cost reduction initiatives that were implemented over the past two years. The Group also worked throughout the year to identify opportunities for its inactive assets, and as a result was able to divest of certain non-strategic vessels and equipment for proceeds of \$902 thousand. These assets had a cost basis of \$244 thousand at the time of their sale, resulting in significant gains in spite of demand for offshore vessels and equipment remaining low throughout the period.

The Group also determined it was likely to divest of its Colombian Oil and Gas segment (the "Disposal Group") during the year following interest being expressed by multiple parties during late 2018. In accordance with International Financial Reporting Standards ("IFRS"), it has reported these assets and their associated liabilities as a disposal group within its Consolidated Statement of Financial Position as at 31 December 2018, and income/(loss) from the Disposal Group are reflected as discontinued operations within the Consolidated Statement of Comprehensive Income for all periods presented.

### *Group Performance*

In order to conserve its resources while its assets remain inactive, management implemented additional reductions in its cost structure, and the operations teams at the oil fields in Colombia and the dock facility in Louisiana also identified and implemented strategies to reduce their respective costs. The Group believes that its current cost structure will be sufficient to maintain and preserve its assets until they are able to return to operations and/or be sold upon a return to favourable pricing in the energy industry.

### *Cost of Sales*

Cost of sales from continuing operations, excluding depreciation and amortisation, were \$1.0 million during 2018 and primarily consisted of operations staffing, dock and facility costs, vessel maintenance, property taxes, and insurance. These 2018 costs decreased by 64% from the prior year costs of \$2.8 million. The current year benefited from staff reductions and the transition of the vessels toward a cold-stack status, as this transition eliminated crewing and ship management costs and greatly reduced its utility costs. The prior year period also contained approximately \$566 thousand in one-time transition and assessment costs which were incurred in relation to the initial acquisition and receipt of the offshore assets.

There was not a significant change in depreciation and amortisation charges from continuing operations between the two periods, as the 2018 period includes charges of \$2.0 million, and the 2017 period includes charges of \$1.9 million. The slight increase between the two periods is due to the acquisition of vessels and equipment occurring during February of 2017, which resulted in one less month of depreciation during the prior year.

### *Administrative Costs*

Administrative costs from continuing operations decreased by \$1.1 million, or 20%, primarily due to personnel reductions which were implemented during 2017 and 2018. The Group employed eleven administrative employees following its acquisition of the offshore vessels and equipment during February 2017, and it currently employs six. It is expected that there will be further reductions in administrative costs during 2019 as a result of the staffing reductions implemented during late 2018.

### *Finance Income and Gain on Sales*

Interest income from continuing operations remained consistent during the 2017 and 2018 periods due to the Everest Note Receivable of \$4 million remaining outstanding during both periods. Interest income was \$320 thousand during the 2018 period and \$320 thousand during the 2017 period.

Gains from asset sales from continuing operations increased significantly during the current period, up from \$100 thousand during the prior year to \$643 thousand during the current year. The current year gain primarily resulted from the sale of the DC Polo, DC Star, and DC Fred vessels along with certain offshore equipment, while the prior year gain resulted from the scrapping of the DC Victory, DC Sterling and DC Triumph vessels. Proceeds from the current year sales were \$904 thousand.

### *Finance Costs*

Finance costs from continuing operations increased from \$1.8 million up to \$2.0 million during the year due to interest and accretion on the Group's convertible notes which were issued during February, March, and April of 2017. These notes were issued in conjunction with the February 2017 transaction pursuant to which the Group received \$10.5 million in cash along with offshore vessels and equipment. There was \$10.5 million in principal outstanding on the Series A Convertible Notes at 31 December 2018 which bear

interest of 8 per cent per annum, and a combined total of \$21.1 million in principal outstanding on the Series B and C Convertible Notes which bear interest of 6 per cent per annum.

#### *Impairment Loss*

The Group utilises a third-party offshore shipbroker to provide valuation certificates for its vessels to assist with its impairment evaluations at each year-end. As a result of the 2018 valuations, the Group recognised an impairment charge from continuing operations of \$666 thousand due to the assessed fair value of three of its offshore vessels being less than their net book values at 31 December 2018. The decrease in values is primarily due to lower pricing levels being observed for divestitures of similar vessels during 2018.

#### *Income from Discontinued Operations*

The Disposal Group generated net income of \$77 thousand and \$2.2 million for the 2018 and 2017 periods, respectively. Although the Disposal Group achieved an overall reduction in administrative and operating costs in the current year, the \$4.0 million impairment reversal in the prior year, as compared to \$1.7 million in the current year, resulted in decreased net income during the current year.

At 31 December 2017, management estimated the value of the contingent reserves at Bolivar to be \$3.9 million as a result of the higher oil price, while the Bocachico reserves remained uneconomic. As a result of this increase in value, the Group recorded a \$4.0 million impairment reversal on its Bolivar contract during the 2017 period. At 31 December 2018, prior to classifying the Disposal Group as held for sale, management determined that the amount expected to be recovered through a disposal transaction (fair value less costs to sell) was greater than the carrying value and as a result, a further impairment reversal of \$1.7 million was recognised relating to the Bocachico and Bolivar areas.

#### *Cash Flow and Liquidity*

The Group had \$11.0 million in cash and \$14.8 million in working capital from its continuing operations at 31 December 2018. The Group expects that its current cash resources, along with the collection of its Note Receivable from Everest Hill Group, Inc. and opportunistic divestitures, will provide sufficient support for the organisation and its initiatives until its assets are able to generate cash from operations.

**Sarah Gasch**  
Managing Director and Finance Director  
5 March 2019

## **Our Business Model and Strategy**

Nautilus Marine Services PLC and its management team have more than thirty years of experience in the global energy industry. The business model of the Company and its subsidiaries ("the Group") is to buy, build and preserve undervalued assets until their values recover sufficiently to allow them to be operated or divested at a gain and thereby creating value for stakeholders.

### **Business Model**

The Group intends to create value for its stakeholders through strategic investments in offshore service providers along with related technologies and assets which may be combined to offer integrated and innovative solutions for services or may be sold at a premium when the offshore market conditions recover.

### **Strategy**

Although our strategy is currently focused on building a platform for growth in the offshore service industry, the Group continues to be presented with opportunities to invest in related industries and has begun to consider these as an alternative strategy should it be unable to identify and complete acceptable investments in the offshore service industry. The principal activities of the Group are identifying and assessing opportunities to purchase assets and technologies in this industry while preserving its existing asset base until they can be sold at a profit or return to operations. The Group continually evaluates and monitors the achievement of corporate objectives and the development of the Group's portfolio in core areas. In addition, management communicates frequently with the Board of Directors to provide consistent information and data to evaluate and measure the achievement of objectives.

As announced in January 2019, the Company has begun to receive increasingly attractive offers to purchase its oil and gas assets located in Colombia. Following initial evaluations of these offers, the Board and management concluded that it is in the Group's best interests to pursue the divestiture of these properties during 2019.

### **Buy**

During 2017, the Group completed its fundamental change of business and entry into the offshore sector upon the closing of two separate transactions to acquire 11 dive support vessels, a construction barge, and related dive equipment in the US Gulf of Mexico as discussed in note 2 to the Group financial statements.

The Group intends to continue to purchase distressed assets which may be paired with technology and established service providers to build an innovative offshore service company. The Group has a strong due diligence team to evaluate acquisitions and a strong management team to efficiently integrate acquisitions.

### **Build**

The Group continues to source and evaluate opportunities to deploy its cash and/or existing assets into new investments that will offer potential for near term gains and may benefit from synergies within the Group.

### **Preserve**

The Group is committed to safeguarding and preserving the value of its existing assets.

The Group holds two Association contracts in Colombia which are currently inactive. During the prolonged period of depressed oil pricing, the Group shut in both of these fields, as they could not be operated economically during the downturn. As a result of the sustained recent recovery in oil pricing, the Group has initiated reactivation plans for both fields, and management is also evaluating multiple third-party expressions of interest to purchase these contracts.

The Group purchased its offshore service assets at distressed prices during 2017 and intends to maintain them in a laid-up status at the Group's facility on the US Gulf Coast until the industry recovers sufficiently to allow for profitable service contracts or charter opportunities. As market conditions improve, the Group may also consider select, profitable sales of assets.

### **Divest**

During 2018, the Group sold three of its vessels and certain offshore service equipment at significant premiums to their purchase price and will continue to consider opportunities to divest its remaining offshore service assets.

The Group began evaluating divestment and strategic partnering opportunities for the Group's oil and gas properties in Colombia during 2017. Following these initial evaluations, the Board and Group's management team believe the sale of the Group's assets in the Middle Magdalena Basin presents a significant opportunity to realise cash value from these non-strategic assets while eliminating the associated annual operating costs and future abandonment obligations. While several attractive expressions of interest have been made, as at the date of this report and 31 December 2018, a purchase and sale agreement had not been executed. However, the Group expects a sale to be complete within 12 months and progress has been made subsequent to 31 December 2018 towards those efforts.

### **Vessels and Offshore Equipment in the Gulf of Mexico**

The Group owns dynamic-positioning (DP), 4-point dive support, and utility vessels and offshore service equipment, which are located at its facility located near the Gulf of Mexico. These assets are capable of providing diving and inspection services in shallow waters up to 300 feet of seawater (fsw).

**Oil and Gas Property in Colombia (Disposal Group)**

The Group continues to hold two contract areas in the Middle Magdalena region of Colombia, the Bolivar Association Contract and the Bocachico Association Contract.

**Contract 1: Bolivar Contract**

**Signed:** 1996 with Empresa Colombiana de Petroleos ("Ecopetrol")

**Expiry Date:** 2024

**Acreage:** Approximately 21,000

**Initial Royalty:** 20%

**Contract 2: Bocachico Contract**

**Signed:** 1994 with Ecopetrol

**Expiry Date:** 2022

**Acreage:** Approximately 54,700

**Initial Royalty:** 20%

The Group continues to receive and evaluate divestiture opportunities for these assets and as a result this former operating segment is reflected as discontinued operations within the Group's reporting. Until the Group is able to complete an acceptable transaction for its Colombian assets, the Group is preserving its contract acreage in Colombia by maintaining its ongoing environmental, social, safety and reporting requirements while delaying capital expenditures related to the development of its oil reserves in the country.



## Principal Risks and Uncertainties

### Risk Management

The Group's strategy exposes it to various risks and uncertainties. The Board is ultimately responsible for determining the type and extent of risks the Group is willing to take in achieving its strategy. The Board has an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. This process is driven and monitored by the Group's senior executives and is reviewed by the Board on a regular basis. The Group has established clear policies and responsibilities to mitigate their possible negative impact on the business as outlined below.

### Internal Controls

The Group maintains systems of internal control designed to meet the particular needs of the Group and the risks to which it is exposed, and by its nature can provide reasonable but not absolute assurance against material misstatement or loss. In 2018, the Company completed ongoing updates of the internal policies and procedures. In view of the size of the Company, the Board does not consider that an internal audit function is required at present however, the Board intends to keep this under review. The key procedures, which the Directors have established with a view to providing effective internal control, are as follows:

#### *Management structure*

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each senior executive has been given responsibility for specific aspects of the Group's affairs.

#### *Corporate accounting and procedures manual*

Responsibility levels are communicated throughout the Group as part of the corporate accounting and procedures manual which sets out, inter-alia, the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and control procedures together with accounting policies and procedures.

#### *Quality and integrity of personnel*

The integrity of personnel is ensured through supervision and training. High-quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.

#### *Identification of business risks*

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

#### *Budgetary process*

The Board regularly reviews the annual budget. Key risk areas are identified. Performance is monitored and relevant actions taken throughout the year through the periodic reporting to the Board of variances from the budget and updated forecasts for the year together with information on the key risk areas.

#### *Investment appraisal*

The budgetary process and authorisation levels regulate capital expenditures. For expenditures beyond specified levels, detailed written proposals must be submitted to senior executives for review and approval prior to initiating any activities. Subsequent to approval, reviews are carried out during the investment period to monitor expenditure and report the causes for any anticipated significant overruns.

### Our Principal Risks and Uncertainties

The Group's principal risks and uncertainties have been grouped into four categories: strategic, financial, external and operational. These do not comprise all the risks associated with the Group and are not in any order of priority. Additional risks not known or those currently deemed to be less material may also have an adverse effect on the Group's future performance and could cause future results to differ materially from expected and historical results.

### Strategic Risks

#### ***Ability to Make Further Acquisitions***

The transactions that closed in February 2017 were intended to be a first step by the Group into the global offshore services sector. The Group therefore intends to make further, strategically appropriate investments in other assets or companies that can enhance the Group's service offering.

While the Directors believe that the recent downturn in the industry provides a counter-cyclical investment opportunity in this sector, there can be no guarantee that the Group will be able to identify suitable further acquisition or investment opportunities or, even if it does, that it will be able to make such acquisition or investment on suitable terms.

The Group mitigates this by managing controllable costs to ensure cash is available for acquisitions as well as evaluating alternate investment strategies.

## **Financial Risks**

### ***Oil Price***

The Group is exposed to the influence and effects of oil and gas prices. Oil and gas exploration and production companies may reduce or curtail operations if prices become, or are expected to become, uneconomical and therefore continuation of these prices above these levels is of key significance to the industry and the success of the Group's business plan.

The Group holds assets which either produce oil or provide services to the offshore oil and gas industry.

Oil and gas produced offshore and in Colombia are a relatively expensive source of hydrocarbons. Consequently, these operations are more sensitive to a decline in commodity prices compared with conventional energy projects such as the United States onshore oil and gas exploration and production.

Indeed, offshore oil and gas production and development activities in the United States Gulf of Mexico continue to be significantly curtailed since the oil price fell in 2010.

As a counter-cyclical investment, the success of the Group's business plan is predicated on a recovery in the oil and gas activities in the areas in which it operates. If such recovery does not take place or if there is further curtailment of such activities this could have an adverse impact on the Group's financial performance and future prospects.

The Group mitigates this by its ability to move the offshore service fleet and equipment to cold-stack and to shut in its oil and gas properties to reduce the related staffing, operating and technical management costs while projects are uneconomic.

### ***Foreign Exchange Risk***

Foreign exchange risk arises because the Group has operations located in various parts of the world, such as Colombia and the United Kingdom, whose local operational currency is not the same as the presentational currency of the Group.

Although its wider market penetration reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on translation into US Dollars.

Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

It is the Group's policy to ensure that individual Group entities enter into local transactions in their operational currency and that surplus funds over and above working capital requirements are transferred to the parent company treasury. The Group considers this policy to minimise any unnecessary foreign exchange exposure.

### ***Liquidity Risk***

Liquidity risk arises from the Group's management of working capital and investment activities. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

As at 31 December 2018, the Group has no near-term debt and its interest payment obligations of its long-term debt are not due until the maturity or conversion, with interest due on its Series B and Series C convertible loan notes being payable in shares at the Company's option. After the reporting period, the Group received voluntary conversion notices from two noteholders for Series A convertible loan notes with a combined nominal value of \$10 million. This resulted in the cash settlement of accrued interest obligations of \$1.49 million, which was previously classified as long-term.

In addition, the Group does not have any mandatory obligations or long-term commitments related to its Colombian oil and gas assets or its offshore service assets.

The Group reduces liquidity risk through strong cost controls, divestitures of non-strategic assets, and monthly updates of its forecast results and cash flows in order to provide the Group with solid tools to monitor, define and approve all cash uses with the purpose of ensuring the funds required to develop the expected operational or investing activities will be readily available.

### ***Conversion Risk***

Following the issue of the convertible loan notes by the Group in 2017, substantial interest payment obligations accrue and will in due course have to be settled in cash or through the issue of ordinary shares.

If the convertible loan notes are not converted, repayment of principal and payment of accrued interest will need to be settled in cash, or as permitted and if the Group so determines for its Series B and Series C convertible notes, by the issue of new ordinary

shares. Any exercise of conversion rights pursuant to the convertible loan notes will result in the issue of new ordinary shares which will reduce the proportionate ownership and voting interests in the Group of the then existing shareholders and could be dilutive of their value.

## **External Risks**

### ***Competition***

There are a number of offshore service vessels operating in the Gulf of Mexico and globally. Competitors have submitted to customer pressure and reduced prices, often substantially, to the extent that many competitors are operating unprofitably.

The Group does not intend to operate its assets under unprofitable terms and has a sufficiently robust working capital position to enable it to choose the work it accepts for the foreseeable future.

However, any failure of the pricing levels within the offshore services industry in the Gulf of Mexico to improve in the medium term to a level that justifies the costs incurred in returning the vessels to service will have an adverse impact on the Group's financial performance and prospects as well as its competitors. Those competitors who the Board believes are operating uneconomically may have the resources to be able to continue to do so longer than the Board anticipates, thereby keeping pricing levels lower than the Board considers would justify the costs incurred in returning vessels to service.

### ***Brexit***

The Group is aware of the potential risks and uncertainties created as a result of the UK's vote to withdraw from the European Union. This may present risks for companies, including uncertainty about the process, timings and consequences of the final withdrawal. The Group does not currently conduct any business in Europe. In addition, most of the Group's transactions are settled in US Dollars. Therefore, the risk relating to Brexit is low for the Group and not considered one of its principal external risks.

## **Operational Risks**

### ***Technological Advances***

The offshore services industry relies on various technologies, many of which have been established for a number of decades. However, technological advancements in the oil and gas industry at large continue at pace. Failure to keep up with any such changes may result in the Group losing market share.

The Group intends to make strategic acquisitions in such areas that will enable it to provide a strong service or product offering and the Group will be required to invest in technological research and development in order for these technologies to remain competitive.

However, it is currently uncertain how much such research and development will cost or whether such cost can be justified. A failure to conduct such research and development or to keep up with technological advances could adversely affect the Group.

### ***Health, Safety and Environmental***

The Group operates in an industry and countries that are subject to numerous health, safety and environmental laws and regulations as well as community expectations. Evolving regulatory standards and expectations can result in increased costs which can have a material and adverse effect on earnings and cash flows.

The Group complies with all applicable environmental laws and regulations and seeks to apply cost-effective management practices to ensure the protection of the environment as well as worker and community health. The Group strives to make environmental management a high corporate priority.

In addition, the Group's social and community policies include a framework that addresses local community needs and expectations within the context of the Group and its prudent business operations.

These policies have been followed during the year 2018, and additional details are located in the Corporate Social Responsibility statement on pages 10 and 11.

## Corporate Social Responsibility

Corporate social responsibility ("CSR") is a fundamental part of implementing the Group's corporate strategy and an essential part of good management. We integrate CSR initiatives into our business, not only to enrich the lives of the communities in which we work and live but also to create tangible value for our employees, customers and shareholders. The Group intends to continue its commitments to be a responsible corporate citizen through continual review of its policies and procedures and education of employees.

### Strategy

The Group carefully evaluates all future projects and areas of operation, assessing their economic viability, future value for the Group as well as the effect on the local communities and surrounding areas.

### Community

The Group acknowledges its responsibility as a participant in the communities in which it operates. To that end, the Group's CSR policies include a framework that addresses local community needs and expectations within the context of the contractual commitments of the Company and prudent business operations. The Group's commitments to the local communities are manifested, by way of example, in the following activities:

- Employment of local personnel at market rates that provides for sustainable living standards.
- Active participation in the construction and maintenance of access roads that provide multiple beneficial uses.
- Periodic seminars that provide training and education on various topics including technical labour, environmental and social issues.
- Support for local communities through the furnishing of supplies and farming equipment.
- Participation and sponsoring of reforestation initiatives in areas affected by our operations.

The Group has ongoing communication and relationship development processes with local authorities in the communities in which we operate in Colombia. The community leaders have the opportunity to provide feedback directly to our local employees and Group representatives on their level of satisfaction with our corporate presence.

### Environment

Both of the oil and gas contracts that the Group holds in Colombia are covered by strict environmental permits and the Group's adherence to these should continue to reduce any adverse impact on the areas or communities surrounding the contracts held. The Group has taken a commitment to comprehensively and proactively review its compliance with all environmental requirements in its environmental licenses, environmental management plans and in the environmental regulations and norms applicable to our operations.

We undertake regular environmental monitoring at both oil and gas contracts to identify significant impacts including health and safety, air, noise and underground water quality, soils monitoring and disposal of solid and liquid waste.

### Corporate Values

The Group has adopted a Policy on Professional Ethics and Standards to be followed by the Group's Directors, officers, employees and principal consultants. The Policy is also to be followed, where appropriate, by the Group's agents and representatives, including consultants where specifically required. The purpose of the Policy is to, among other things, promote honest and ethical conduct, avoid conflict of interest, protect confidential information and comply with the applicable government laws and securities rules and regulations. The Group promotes the open communication of instances of unethical behaviour within the organisation. An employee that breaches the Policy may face disciplinary action. If an employee suspects that a breach of the Policy has occurred or will occur, he or she must report that breach to the Managing Director or Company Secretary, via the Group's confidential "Whistle Blowing" process. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be investigated, acted upon and kept confidential. The Group's anti-bribery and anti-corruption policy is set out in the Policy and has been aligned to meet both UK and US laws governing anti-bribery and anti-corruption. The Group takes a zero tolerance approach to acts of bribery and corruption by any Directors, officers, employees and contractors. The Group will not offer, give or receive bribes, or accept improper payments to obtain new business, retain existing business or secure any advantage and will not permit others to do so on its behalf.

### Employees

The Group's employment policies are based on a commitment to equal opportunities, from selection and recruitment processes through training, development, appraisal and promotion. We encourage a work environment which values and respects all employees. Should an employee become disabled during their employment, where possible, the Group will actively retrain and adjust the environment to allow the employee's potential to be maximised. Please see the Directors' Report on pages 21 and 22 for further information regarding how the Group is meeting and monitoring the needs of its employees.

### Donations

The Group made no political donations during the year (2017: nil).

Donations by the Group for charitable purposes are made to local communities and charities within the Group's operating environment

in Colombia. Donations by the Group for charitable purposes amounted to \$5 thousand (2017: \$10 thousand) and were made to local communities within the Group's operating environment.

This strategic report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil exploration and production business. While the Directors believe the expectation reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control but, for example, owing to a change of plan or strategy. Accordingly, no reliance may be placed on the forward-looking statements.

By order of the Board.

**Mikel Faulkner**  
Non-Executive Chairman  
5 March 2019



**Nautilus Marine Services PLC**  
3 More London Riverside  
London SE1 2AQ, UK

## GOVERNANCE

### Directors' Biographies

#### **Mikel Faulkner, Non-executive Chairman**

**Appointment:**

Mr. Faulkner was appointed as Executive Chairman in January 2002. Effective 1 January 2019, Mr. Faulkner became a Non-executive Director in the role of Chairman.

**Background and Experience:**

Mr. Faulkner's employment experience includes service as an officer in the United States Naval Nuclear Power Programme, a member of the audit staff at Arthur Andersen & Co., a financial officer for American Quasar Petroleum, and at HKN, Inc., where he served as chairman from 1991 to 2003 and was the chief executive officer from 1982 to 2017.

Mr. Faulkner holds a Bachelors degree in Mathematics and Physics and a Masters degree in Business Administration. Mr. Faulkner obtains yearly Continuing Professional Education required to maintain his Certified Public Accountant status. In addition, he attends multiple industry conferences and trade shows.

**Current External Appointments:**

Non-executive director of First Cash Financial Services, Inc.

**Committees:**

None

#### **Alan Henderson, Non-executive Director**

**Appointment:**

Mr. Henderson was appointed as a Non-executive Director in January 2002.

**Background and Experience:**

Mr. Henderson was previously chairman of Smart Matrix Limited, Forum Energy PLC, Aberdeen New Thai Investment Trust PLC, Aberdeen New Dawn Investment Trust PLC and Ranger Oil (UK) Ltd and a director of ADT Ltd and Ranger Oil Ltd.

**Current External Appointments:**

Non-executive director of North One Garden Centre Limited and West Six Garden Centre Limited.

**Committees:**

Mr. Henderson served as Chairman of the Remuneration Committee from March 2002 to July 2018. In July 2018, he was appointed Chairman of the Audit Committee and is a member of the Remuneration Committee and Nominations Committee.

#### **David Quint, Non-executive Director**

**Appointment:**

Mr. Quint was appointed as a Non-executive Director in January 2002.

**Background and Experience:**

From 1975 until 1982, Mr. Quint was an attorney with Arter & Hadden in Cleveland, Ohio and Washington D.C. From 1983 until 1992, he served as the managing director of the London-based international financing arm of a US oil and gas company. In 1992, David founded RP&C International, Inc., an investment-banking firm with offices in London and New York. In 2016, RP&C International was acquired by Arundel AG, a Swiss company listed on the SIX Stock Exchange in Zurich which invests in assets and provides financial services on a global basis.

Mr. Quint is a graduate of the University of Notre Dame from which he received a Bachelors degree in Modern Languages in 1972 and a Juris Doctorate in 1975. Mr. Quint is a member of the Ohio State Bar Association and has attended seminars in the fields of securities law, international taxation, money laundering and other compliance subjects.

**Current External Appointments:**

Director of Arundel AG and the chief executive officer of Arundel Group Limited.

**Committees:**

Mr. Quint served as Chairman of the Audit Committee from March 2002 to July 2018. In September 2018, he was appointed Chairman of the Nominations Committee and is a member of the Remuneration Committee and Audit Committee.

## **Zac Phillips, Non-executive Director**

### **Appointment:**

Mr. Phillips was appointed as a Non-executive Director in February 2014.

### **Background and Experience:**

From 2006 to 2010, Mr. Phillips served as chief financial officer and founding director of Dubai World's Oil & Gas Business, DB Petroleum (formerly BSG Energy). He currently acts as an independent energy consultant to companies during periods of development and expansion, assisting with areas such as investment banking, assets valuation and capital market activity through Phillips Energy Consultants, a financial management firm he founded.

Mr. Phillips holds a chemical engineering degree and a doctorate of chemical engineering from BP and the University of Bath. He is also a member of the SPE and the Institute of Chemical Engineers.

### **Current External Appointments:**

Non-executive director of Kairos Petroleum.

### **Committees:**

Mr. Phillips was appointed Chairman of the Remuneration Committee in July 2018 and is a member of the Nominations Committee and Audit Committee.

## Chairman's Introduction

As Chairman, I am pleased to introduce the Governance section of the Annual Report for the year ended 31 December 2018. The Board of Directors acknowledges that adhering to the rules of good corporate governance is in the best interests of the Company and its shareholders.

As an AIM quoted company, the Company has chosen to follow the Quoted Companies Alliance's ("QCA") Corporate Governance Code 2018 (the "Code"). The Board believes that this provides an appropriate and suitable framework for a group of our size and complexity. Alongside this, we monitor developments in the Financial Reporting Council's UK Corporate Governance Code, applicable to listed companies traded on the London Stock Exchange's main market, to keep abreast of best practices but we are not required to apply it.

During the year, the Board recommended and approved the formation of a Nominations Committee in order to review the composition and performance of the Board along with the skills, experience and independence of each Director to ensure that they best fit the evolution of the Group's business.

This Governance section of the Annual Report provides an update on our Corporate Governance policy, and includes the Audit Committee Report, Remuneration Committee Report and the Directors' Report. In these reports we set out our governance structures and explain how we have applied the Code during the year.

**Mikel Faulkner**  
**Non-Executive Chairman**



## Corporate Governance Statement

### Board Responsibilities

The Board is responsible to the Company's shareholders for the leadership and control of the Group and provides direction for management. It is responsible for the long-term success of the Group and for ensuring the appropriate management and operation of the Group in pursuit of its objectives.

The Board's responsibilities include:

- Setting the Group's strategy, values and standards
- Approving the Group's long-term objectives
- Approving annual budget and monitoring performance against such financial and non-financial indicators
- Establishing and maintaining the Group's system of internal control and reviewing their effectiveness on an annual basis
- Identifying the major business risks faced by the Group and determining the appropriate course of action to manage those risks
- Approving major capital projects, financing and investments
- Extending or dissolving the Group's business activities or major assets

While there is a formal schedule of matters specifically reserved for decision by the Board, each senior executive has been given responsibility for specific functional aspects of the Group's affairs.

### Composition of the Board

The Board comprises one Non-executive Chairman and three Non-executive Directors. Details of the Directors' skills and experience are included in the Directors' Biographies on pages 12 and 13.

### Non-executive Chairman

The responsibilities of Chairman and Chief Executive were separated upon Mr. Faulkner's departure as an executive at the end of 2018. As Chairman, Mr. Faulkner is responsible for the leadership and effective running of the Board and for ensuring that the corporate governance of the Group is maintained in line with appropriate practice and policies agreed by the Board. The Managing Director and Finance Director assumed the duties of Chief Executive upon his transition to Non-executive Chairman and is responsible for the running of the Group's business and implementation of strategy and policy as adopted by the Board.

### Non-executive Directors

The Non-executive Directors have a responsibility to challenge independently and constructively the performance of management and to help develop proposals on strategy. Each of the Non-executive Directors sits on the Nominations and Remuneration Committees, enabling them to have a role in determining the pay and benefits of the senior management and to play a key role in planning Board succession including the appointment of, and if necessary, removal of Directors. In addition, each of the Non-executive Directors sits on the Audit Committee which enables them to review internal control and financial reporting matters, and to have a direct relationship with the external auditors.

### Independence and Commitments

Notwithstanding the fact that two of the Non-executive Directors were appointed in March 2002 and have served on the Board for more than 16 years, the Board considers that each of the Non-executive Directors is independent of management. The Board considers that these Directors are independent of management because the current executive officers, such as Managing Director and Finance Director, and Company Secretary, were appointed in 2016, and the Non-executive Directors have had no previous professional interaction. The Board believes that the tenured Directors continue to demonstrate an independence of character and judgement in the performance of their roles as Non-executive Directors. Furthermore, none of the Directors are executive officers or employees of the Group and none have a relationship with the Group that will interfere with the exercise of independent judgement in carrying out the responsibilities of such Directors. Although share option awards and/or long-term incentive grants had been made to the Non-executive Directors these are not considered to impact their independence. All option and long-term incentive plans were terminated as at 31 December 2018.

The Directors are expected to attend Board meetings, meetings of Board Committees of which they are members, annual general meetings, and any other shareholder meetings convened from time to time.

All Directors have disclosed any significant commitments outside their respective duties as Directors and confirmed that they have sufficient time to discharge their duties.

## **Appointments**

The Board formed the Nominations Committee in 2018 in order to review the composition and performance of the Board as well as the skills, experience and independence of each Director to ensure that they best fit the evolution of the Group's business. The Committee is responsible for making recommendations to the Board with regard to any required changes. The Board believes there is an appropriate balance of skills and knowledge on the Board, which provides a wide range of expertise on issues relating to the Group's mission, operations, strategies and, most importantly, its standards of conduct. In addition, the Board has considered and concluded that the appointment of a Senior Independent Director was not necessary at this time but will keep this issue under review.

## **Board Support and External Advice**

Senior management is available to the Board to ensure all Board and Committee meetings are conducted properly and procedures are in place for distributing meeting agendas and reports so that the Directors receive the appropriate information to be discussed in a timely manner. The Directors each receive reports which include monthly finance and management results and operational updates from the Managing Director and Finance Director. Further, at the direction of the Managing Director and Finance Director, the Company Secretary assists the Board by providing regulatory updates, drafting Board resolutions, maintaining statutory registers and filings and organising general meetings of shareholders.

Where it considers it necessary to do so, the Board may utilise external professional advisors to provide advice and guidance on any matter where it considers it prudent to seek such advice, at the Group's expense. No such external advice was sought during the year.

## **Board Performance Evaluation**

Beginning in November 2018, the Company implemented a policy that a Board effectiveness review is undertaken biennially through the completion of an internal questionnaire circulated to all Directors. The structured questionnaire asks them to rate the Board's performance in a number of strategically important areas and provide rationale for their view. The results are analysed by the Chairman and executive management team and any key themes are discussed with the Board. Any recommendations arising from such review are designed to specifically address any areas for improvement identified (which form the basis for training and development made available to the Directors) and are implemented by the Board.

As such, the Board undertook this initial evaluation of its performance in the fourth quarter 2018, the results of which were reviewed by the Board in February 2019. The review identified that the main areas for action in 2019 were to have an increased focus on succession planning, consideration of restructuring of the Board to promote diversity and independence as well as provision of training for the Board, as needed, to meet development needs.

## **Board Meetings**

The Board meets formally a minimum of four times a year, excluding Board Committee meetings. The table below sets out the total number of meetings held by the Board and its Committees and records of attendance by each member eligible to attend during the year ended 31 December 2018:

	Board Meetings	Audit Committee <sup>1</sup>	Remuneration Committee <sup>1</sup>	Nominations Committee <sup>1</sup>	Total
Mikel Faulkner	6	-	-	-	6
Alan Henderson	6	2	2	-	10
David Quint	6	2	2	-	10
Zac Phillips	6	2	2	-	10

<sup>1</sup>Only Non-executive Directors are entitled to vote in the meetings of the Board Committees.

Other senior members of the management team and external advisors will attend, at the invitation of the Board, and as appropriate to the matters under discussion.

## **Board Committees**

The Board has delegated certain aspects of its responsibilities to the following three committees to assist in meeting its business objectives while ensuring a sound system of internal control and risk management. Each committee has written terms of reference, which are available on the Company's website. The committees meet independently of Board meetings.

### **Audit Committee**

The Audit Committee is comprised of the three Non-executive Directors and meets at least twice a year, with additional meetings and correspondence as required. The Audit Committee was chaired by David Quint until July 2018, at which time Alan Henderson was

appointed Chairman of the Audit Committee. The Audit Committee provides a forum for reporting by the Group's external auditors.

The responsibilities of the Audit Committee comprise recommending to the Board the appointment and remuneration of the auditors, coordinating with the auditors on any problems or reservations they may have and reviewing with them the management reports prepared as a result of audits carried out, review of the Company's policy on internal controls and review of interim and annual financial statements before submission to the Board. A separate report of the Audit Committee activities is outlined on page 18.

#### **Remuneration Committee**

The Remuneration Committee is comprised of the three Non-executive Directors and meets at least annually. The Remuneration Committee was chaired by Alan Henderson until July 2018, at which time Zac Phillips was appointed Chairman of the Remuneration Committee.

The responsibilities of the Remuneration Committee include recommending to the Board the remuneration of the Directors and the ongoing review of the remuneration and other benefits of any executive director and senior executives, and recommending from time to time the introduction, variation or discontinuance of any benefits, including bonuses and share options. A separate report of the Remuneration Committee activities is outlined on pages 19 and 20.

#### **Nominations Committee**

The Nominations Committee was formed in September 2018 and is comprised of the three Non-executive Directors. David Quint was appointed Chairman of the Nominations Committee upon its formation.

The Nominations Committee considers succession planning, reviews the structure, size and composition of the Board and nominates candidates to fill Board vacancies.

#### **Non-compliance with the QCA Code**

The Company did not comply with the Code in the following matters during the year ended 31 December 2018:

Principle	Subject Matter	Discussion
5	Non-executive Directors meeting independence requirements	Mr. David Quint and Mr. Alan Henderson have served on the Board for 16 years. Notwithstanding the Board considers these Directors to be independent of management as the current executive officers, such as Managing Director and Finance Director, and Company Secretary, were appointed in 2016, in which the Board has had no previous professional interaction. These Directors provide relevant skills, experience and insights towards the Group's stated strategic objectives.

The Board believes all the Non-executive Directors provide valuable advice and counsel in furthering the business objectives of the Group. Given the Group's size, complexity and resource base, the Board deems the Group's corporate governance policies and practices to be appropriate.

## **Audit Committee Report**

### **Overview**

The Committee met twice during the year. The external auditor also attended the meetings at the invitation of the Committee Chairman.

During the year, in addition to its core responsibilities, the Board appointed a new Committee Chairman, Alan Henderson, in July 2018. David Quint chaired the Committee prior to Mr. Henderson's appointment.

### **Financial Reporting**

The Committee monitored the integrity of the interim and annual financial statements and reviewed the significant financial reporting issues and accounting policies and disclosures in the financial reports. The external auditor attended the Committee meetings as part of the full year and interim accounts approval process. The process included the consideration of reports from the external auditor identifying the primary areas of accounting judgements and key audit risks identified as being significant to the 2018 accounts.

### **Audit Committee Effectiveness**

In the fourth quarter 2018, the Board undertook an internal review of its effectiveness, which included the assessment of the Audit Committee. The review was in the form of a structured questionnaire which was circulated to members of the Committee coordinated by the Company Secretary at the direction of the Chairman. As a result, the Audit Committee was determined to be operating effectively.

### **External Audit**

The Committee is responsible for managing the relationship with the Company's external auditor, BDO LLP. The Company put its last external audit contract out to tender in 2017, following which BDO LLP was appointed as the Company's auditor.

The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Group and reviewing the non-audit fees payable to the auditor. Non-audit services are not performed by the auditor if this would have a material effect on, or relevance to, the production of the Group's financial statements and/or involve taking decisions or making significant subjective judgements that should be the responsibility of management. During the year, audit related fees were paid to BDO LLP of \$112 thousand (2017: \$120 thousand) and \$188 thousand (2017: \$129 thousand) for non-audit services. These non-audit services were performed by a team separate from the audit team, did not involve any subjective judgements and a member of the Group's management were identified as those taking responsibility for the services provided.

### **Internal Audit**

The Committee considered the requirement for an internal audit function. The Audit Committee considered the size of the Group, its current activities and the close involvement of senior management. Following the Committee's review, it did not deem it necessary to operate an internal audit function during the year.

### **Alan Henderson**

Chairman, Audit Committee

## Remuneration Committee Report

The Company has a Remuneration Committee which is responsible, on behalf of the Board, for developing remuneration policy. As the Company is an AIM listed company rather than a fully listed company, it is not required to disclose all the information in the Remuneration Committee Report but the Board has chosen to provide the following details as a voluntary disclosure. As such, the auditors are not required to and have not, except where indicated, audited the information included in the Remuneration Committee Report.

### Overview

The Committee met twice during the year.

During the year, in addition to its core responsibilities the Board appointed a new Committee Chairman, Zac Phillips, in July 2018. Alan Henderson chaired the Committee prior to Mr. Phillips' appointment.

### Remuneration Policy

The Remuneration Committee recognises the need to be competitive in an international market. The Committee's policy is to set remuneration levels which ensure that the Group's executives, senior management and employees are provided with the appropriate incentives to encourage enhanced performance and are in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

### Remuneration in Practice

The remuneration that the Group offers consists of the following components:

**Base Salary and Benefits in Kind-** Salaries are set at an appropriate level for the role and individual and are reviewed at least annually. Benefits in kind include life insurance, health insurance and medical allowances.

**Performance Bonus-** The delivery of short term corporate goals is incentivised by cash bonuses, to be recommended at the discretion of the Remuneration Committee and as approved by the Board, and are based on the achievement of the Group and personal performance.

**Defined Contribution Plan-** The Group contributed to a defined contribution scheme for its former Executive Director and permanent employees, as recommended at the discretion of the Remuneration Committee and as approved by the Board. This allows the Group to provide a competitive retirement benefit.

The remuneration received by each of the Directors, together with the details of benefits and share interests are set out below:

### Directors' Remuneration (audited)

The remuneration of the Non-executive Directors is determined by the Board, at the recommendation of the Remuneration Committee. The Non-executive Directors do not receive any post-retirement benefits.

	Salary	Termination Benefits	Other Benefits <sup>2</sup>	Bonus <sup>3</sup>	Fees	Total 2018	Total 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Executives</b>							
Mikel Faulkner	320	117	57	122	-	616	651 <sup>4</sup>
<b>Non-executives<sup>1</sup></b>							
Alan Henderson	-	-	-	6	88	94	80
David Quint	-	-	-	6	88	94	80
Zac Phillips	-	-	-	2	88	90	80
<b>Total</b>	<b>320</b>	<b>117</b>	<b>57</b>	<b>136</b>	<b>264</b>	<b>894</b>	<b>891</b>

<sup>1</sup> The non-executive fees were paid in Pounds Sterling in the amount £60 thousand each (2017: £60 thousand).

<sup>2</sup> Included in benefits is \$29 thousand related to the fair value of the company vehicle gifted to Mr. Faulkner upon his retirement as an executive.

<sup>3</sup> The 2018 bonuses consisted of the share option plan termination payment in exchange for the cancellation of the outstanding options.

<sup>4</sup> This included 2016 salary of \$75 thousand contingent on the completion of the transaction in 2017 to acquire offshore service assets.

During the year, the Company entered into an agreement with Oil and Advisors LTD, in which Zac Phillips, a Non-executive Director, performed independent consulting services which resulted in service payments of \$15 thousand during 2018 (2017: \$17 thousand).

In December 2018, the Group entered into an agreement with Mikel Faulkner, a Non-executive Director, to perform advisory services effective 1 January 2019 through 30 June 2019. This agreement may be terminated by either party with 30 days' notice. The total

fees to be paid over the term of this agreement, if not terminated early, amount to \$60 thousand. No payments were paid or payable under this agreement as at 31 December 2018.

There were no contracts existing during, or at the end of the year, in which a Director was or is materially interested.

#### **Directors' Interests**

Details of the Directors' interests in the ordinary shares of the Company and options over ordinary shares are set out below:

	As at 31 December 2018		As at 1 January 2018	
	Ordinary Shares	Options	Ordinary Shares	Options
Mikel Faulkner	370,000	-	370,000	2,140,000
Alan Henderson	14,527	-	14,527	150,000
David Quint	135,000	-	135,000	150,000
Zac Phillips	15,241	-	15,241	50,000
<b>Total</b>	<b>534,768</b>	<b>-</b>	<b>534,768</b>	<b>2,490,000</b>

All the holdings are beneficially held.

In December 2018, the Group terminated the Group's equity-settled option scheme. As a result, grantees with valid outstanding options received a cash payment in exchange for the cancellation of the options. As at 31 December 2018, the Group had no options outstanding.

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law.

#### **Directors' Service Contracts**

The Directors are employed under letters of appointment and may be terminated by the Non-executive Director or the Group provided one month's notice has been given, or in the event that the Director is not re-elected by the shareholders at an Annual General Meeting.

#### **Zac Phillips**

Chairman, Remuneration Committee

## Directors' Report

The Directors of Nautilus Marine Services PLC (the "Company"), incorporated in England and Wales, present their Annual Report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2018. The Directors' biographies on pages 12 and 13, the Corporate Governance Statement, Audit Committee and Remuneration Committee Reports on pages 15 to 20 are hereby incorporated by reference to form part of this Directors' Report.

As permitted under the Companies Act 2006 certain matters which would otherwise need to be included in this Directors' Report have been included in the Strategic Report. These include the discussion of the activities of the Group, a discussion of likely developments in the business of the Group and the review of principal risks and uncertainties facing the Group.

### Principal activities

The principal activities of the Group are identifying and assessing opportunities to purchase assets in the offshore services industry and managing and preserving its current asset base. During 2018, the Group evaluated several investment opportunities in the offshore service sector, however, none of these opportunities were considered viable investments given current industry conditions. The Group also continued to monitor its costs during the year as well as to identify opportunities to operate or divest of its current offshore vessels and equipment or oil and gas properties. Plans for future activities are explained in the Chairman's Statement on page 2 and are deemed to form part of this report.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report, as well as the Managing Director and Finance Director's Financial Review of Operations on pages 3 and 4. In addition, note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

As at 31 December 2018, the Group holds sufficient cash reserves and positive working capital of \$18 million. The Group meets its day-to-day working capital requirements through its cash on hand. Details of its long-term convertible notes, including conversion terms, maturity, and interest rates, are set out in note 22 to the financial statements.

The Group's forecast and projections, taking into account cost-cutting measures which were undertaken during the second half of 2018, indicate the Group should be able to operate within the level of its current cash balance and internally generated cash flows. The Group has no mandatory capital expenditures during 2019 and in the foreseeable period beyond the date of approval of the financial statements, and all discretionary capital expenditure plans can be modified at any time, if the need arises.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of not less than 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Results and dividends

The Group's net loss after taxation for the year amounted to \$9.1 million (2017: \$9.0 million). The Directors do not propose to recommend any distribution by way of a dividend for the year ended 31 December 2018 (2017: \$nil). Further, the terms of its convertible loan notes issued during 2017 preclude the Group from declaring or paying any dividends until 2020.

### Subsequent events

During January and February 2019, the Company received optional conversion notifications from McLarty Capital Partners ("McLarty"), the holder of a majority of the Series A Convertible Notes, and Aeterna Capital Fund II, LLC ("Aeterna"). As a result of these conversions, the Company paid approximately \$1.49 million for the settlement of accrued interest and issued approximately 16.4 million ordinary shares. The conversion of these notes into permanent capital presents a significant improvement in the Group's financial position. The outstanding principal balance of its Series A Convertible Notes decreased from \$10.5 million to \$500 thousand, which will save the Company approximately \$811 thousand in annual interest. See note 32 to the financial statements for further details.

### Directors

The Directors of the Company who served during the year up to and including the year-end were as follows:

Mikel Faulkner	–	Executive Chairman
David Quint	–	Non-executive Director
Zac Phillips	–	Non-executive Director
Alan Henderson	–	Non-executive Director

Effective 1 January 2019, Mr. Faulkner became a Non-executive Director in the role of Chairman. Biographical details of the Directors are shown on pages 12 and 13 of this report.

### Employees

The Group recognises the importance of employee involvement in the development and execution of its business strategy. The Group

places great importance on attracting and retaining high quality employees who are committed and motivated by the success of the Company.

The Group takes seriously its responsibilities to employees and, as a policy, provides employees with information on matters of concern to them. It is also the policy of the Group to consult throughout the year with employees so that their views may be taken into account in making decisions likely to affect their interests. All employees are encouraged to voice their feedback through their supervisors or directly to the Managing Director and Finance Director, Company Secretary, or Chairman.

The table below provides a breakdown of the gender of the directors and employees as at 31 December 2018:

	Men	Women
Directors <sup>1</sup>	4	-
Key management personnel <sup>2</sup>	-	3
All other employees <sup>3</sup>	2	7

<sup>1</sup> Consists of the Company's Board as detailed on pages 12 and 13.

<sup>2</sup> Consists of senior management, such as the Managing Director and Finance Director, Company Secretary and Treasurer.

<sup>3</sup> Consists of all other full-time employees and does not include contract and casual labour.

#### Relations with shareholders

The Board recognises the importance of maintaining good communications with the Company's shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance.

During the year shareholders are kept informed through regular updates to the Group's website, [www.nautilusmarineplc.com](http://www.nautilusmarineplc.com), which houses a wide range of information about the Group including the Annual and Interim Reports and Accounts, press releases and share price data. The website provides investors and shareholders with points of contact for such matters, and inquiries from the website are reviewed daily and routed to the appropriate member of the management team on a timely basis.

In addition, senior management regularly meet with concert party shareholders, which constitute a majority of the shareholdings, and provide feedback to the Board following these meetings.

Shareholders can receive documentation such as the Annual Report and Accounts and Meeting Notices electronically and are also able to cast their votes by proxy. The Company also has an electronic proxy appointment service for CREST members.

#### Disclosure to auditors

Each of the Directors has taken all the steps that he ought to have taken to make himself aware of any relevant audit information needed by the Group's auditor for the purpose of their audit and to establish that the auditor is aware of that information. Each Director is not aware of any relevant audit information of which the auditor is not aware.

#### Corporate social responsibility

The Group is fully committed to high standards of environmental, health and safety management. The Group regularly reviews its internal policies and procedures in all areas paying special attention to Community Relations, Integrity and Business Conduct, Health and Safety, Environmental Issues, and Performance and Operational Excellence. The Group acknowledges its responsibility as a participant of the communities in which it operates, including its branches located in Colombia. To that end, the Group's social policies include a framework that addresses local community needs and expectations within the context of the contractual commitments of the Group and prudent business operations. The Company intends to continue its commitments to be a responsible corporate citizen and through continual review of its policies and procedures and education of employees. Further details are set out in the Corporate Social Responsibility statement on pages 10 and 11.

This report was approved by the Board of Directors and signed on its behalf by:

**Mikel Faulkner**  
Non-Executive Chairman  
5 March 2019



**Nautilus Marine Services PLC**  
3 More London Riverside  
London SE1 2AQ, UK  
Company Number 04330608



## Statement of Directors' Responsibilities

### Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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 the requirements of the Companies Act 2006. 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.

### Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# Financial Statements

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# Independent auditor's report to the members of Nautilus Marine Services Plc

## Opinion

We have audited the financial statements of Nautilus Marine Services Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Carrying value of the oil and gas assets

At each reporting period end, an entity must assess whether there is any indication that an asset may be impaired or if an historic impairment may be reversed. Management and the Board therefore undertook an assessment of whether there was any indication that a trigger for impairment existed or reversal of historic impairment of the Group's oil and gas assets was required as at 31 December 2018. An impairment reversal was identified and Management and the Board performed a detailed impairment reversal assessment and calculation on the Group's oil and gas assets.

In concluding on the impairment reversal Management and the Board were required to conclude upon a number of judgements and make a number of assumptions and estimates.

Following the conclusion of their assessment Management and the Board considered it appropriate to reverse part of the Group's historic impairment charge which increased the carrying value of the Group's oil and gas assets. Please refer to note 16 and note 3 of the annual report for more details.

Given the subjectivity and judgements involved in the assessment of carrying value we considered there to be a significant risk of material misstatement.

#### **Response**

Our specific testing on this key audit matter included:

- Undertaking an assessment against the accounting standard requirements of Management's and the Board's conclusion that the Group continued to have two CGUs
- For each CGU we considered whether there were any indicators of potential impairment or potential impairment reversal of the Group's CGUs in accordance with accounting standards, and
- We also performed an independent assessment of financial and non-financial data for potential impairment indicators / impairment reversal indicators.

As Management and the Board had identified an impairment trigger reversal was present we;

- Critically evaluated Management's judgements and estimates of both the value-in-use and fair value less costs to sell based on available third party information and concluded on whether Management and Board had correctly applied the appropriate model in the impairment reversal assessment
- Obtained and read the available third party evidence which was used by Management in the determination of the fair value less costs to sell assessment
- Re-performed Management's calculation of the fair value less costs to sell valuation
- Re-performed Management's calculation of the impact on depreciation of the impairment reversal
- Checked the impairment reversal was recognised in line with the Group's accounting policy and IFRS accounting guidance, and Assessed the disclosures included in the financial statements relating to the impairment reversal against the requirements of IFRS accounting guidance.

#### **Held for Sale Classification**

The Group have made a strategic decision to actively seek to divest the Group's oil and gas assets as per Note 3 of the financial statements. As a result the Group are required to determine whether the potential divestment meets the provisions of the accounting standard which requires the disclosure of the associated assets and liabilities as a disposal group held for sale.

The assets and liabilities of a disposal group are to be classified as held for sale if the carrying amounts of the assets and liabilities will be recovered principally through a sale transaction rather than through continuing use.

Given the subjectivity of this area, we considered this to be a significant risk of material misstatement.

#### **Response**

Our specific testing on this area included:

- Considering Management's assessment of the classification as a disposal group held for sale against the requirements of the accounting standards
- Reviewed Management's assessment of the current market for assets of a similar nature in order to assess the likelihood of a potential sale being completed within a twelve month period
- Reviewed Board minutes and other supporting documentation in order to assess the level of Board commitment to the divestment
- Reviewed evidence of Management's discussions and negotiations with potential third party acquirers in order to assess the potential nature of the sale transaction and indicative values attributed by third parties to the assets
- As described above reviewed Management's assessment of the carrying value of the assets considered to be part of the disposal group held for sale in order to assess whether the carrying value of the assets was accounted for in line with the relevant accounting standards
- Reviewed Management's assessment of the assets and liabilities categorised within the disposal group held for sale in order to ensure that the assets and liabilities were appropriately accounted for in accordance with the relevant accounting standards at the point of reclassification
- Agreed the assets and liabilities for the disposal group held for sale back to underlying accounting records and checked that the balances were appropriately re-classified, and
- Reviewed the disclosures made in respect of the amounts classified as a disposal group held for sale.

## Our application of materiality

Group materiality as at 31 December 2018	Basis for materiality
US\$320,000	1.3% of total assets

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the financial statements as a whole was set at \$320,000, being 1.3% of total assets prior to the impairment reversal (2017: \$550,000, being 1.5% of total assets). We consider total assets to be the most relevant consideration of the Group's financial performance as the Group continues to focus on building its support services asset base. The materiality for the Parent Company was set at \$150,000 (2017: \$495,000).

In performing the audit, we applied a lower level of performance materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. Performance materiality for the Group financial statements was set at \$240,000, being 75% of financial statement materiality.

Each significant component of the Group including the parent company was audited using a lower level of performance materiality ranging from \$38,000 to \$110,000.

The reporting threshold for the financial statements as a whole was set at \$6,000, being 2% of the Group materiality (2017: \$28,000).

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

## An overview of the scope of our audit

Our Group approach was designed to ensure we obtained the required level of assurance across the components of the Group. We performed a full scope audit on the financial statements of the Parent Company.

In addition, we performed a full scope audit of subsidiaries of the Group which we determined to be significant components in order to ensure we had obtained sufficient audit evidence for the purposes of the Group audit opinion. Three significant components were identified.

The remaining components of the Group were considered non-significant and such components were subject to analytical review procedures together with detailed substantive testing on areas which had been identified as Group audit risks, as applicable to the particular component.

All audit work was undertaken by BDO LLP with the majority of the detailed audit work being conducted on site in the United States at the Group's corporate office.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Anne Sayers (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

5 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Statement of Comprehensive Income

For the 12 months ended 31 December 2018

	Note	2018 \$'000	2017* \$'000
<b>Continuing Operations</b>			
Revenue		-	-
Cost of sales	10	(3,023)	(4,699)
<b>Gross loss</b>		<b>(3,023)</b>	<b>(4,699)</b>
Gain on disposal of assets		643	100
Administrative expenses		(4,539)	(5,582)
Impairment charge	16	(666)	(53)
<b>Operating loss from continuing operations</b>	<b>8</b>	<b>(7,585)</b>	<b>(10,234)</b>
Finance income and other	11	526	863
Finance expense and other	12	(2,003)	(1,827)
<b>Loss before taxation from continuing operations</b>		<b>(9,062)</b>	<b>(11,198)</b>
Tax expense	13	(94)	-
<b>Loss from continuing operations, net of tax</b>		<b>(9,156)</b>	<b>(11,198)</b>
<b>Income from discontinued operations, net of tax</b>	<b>4</b>	<b>77</b>	<b>2,239</b>
<b>Total loss for the year attributable to the equity owners of the parent</b>		<b>(9,079)</b>	<b>(8,959)</b>
Other comprehensive income/(loss)		-	-
<b>Total comprehensive loss for the year attributable to the equity owners of the parent</b>		<b>(9,079)</b>	<b>(8,959)</b>
<b>Loss per share for continuing operations</b>			
- Basic and diluted	7	\$ (0.25)	\$ (0.31)
<b>Income per share for discontinued operations</b>			
- Basic and diluted	7	\$ 0.00	\$ 0.06
<b>Total loss per share</b>			
- Basic and diluted	7	\$ (0.25)	\$ (0.25)

\*The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

The notes on pages 34 to 65 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the 12 months ended 31 December 2018

	Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Other reserves \$'000	Accumulated losses \$'000	Total equity \$'000
At 1 January 2017		608	27,139	51,855	-	(53,966)	25,636
Comprehensive loss for the year:							
Total loss for the year		-	-	-	-	(8,959)	(8,959)
Other comprehensive income/(loss)		-	-	-	-	-	-
Total comprehensive loss for the year attributable to equity owners of the parent		-	-	-	-	(8,959)	(8,959)
Transaction with owners:							
Share-based payment - options equity settled		-	-	-	-	14	14
Capital reserve transfer	28	-	-	(21,420)	-	21,420	-
Equity proportion of convertible loan note	22	-	-	-	1,307	-	1,307
Other movements within equity		-	-	(21,420)	1,307	21,434	1,321
At 1 January 2018		608	27,139	30,435	1,307	(41,491)	17,998
Comprehensive loss for the year:							
Total loss for the year		-	-	-	-	(9,079)	(9,079)
Other comprehensive income/(loss)		-	-	-	-	-	-
Total comprehensive loss for the year attributable to equity owners of the parent		-	-	-	-	(9,079)	(9,079)
Transaction with owners:							
Share-based payment - options equity settled		-	-	-	-	28	28
Cash settlement of share-based payment options		-	-	-	-	(10)	(10)
Other movements within equity		-	-	-	-	18	18
At 31 December 2018		608	27,139	30,435	1,307	(50,552)	8,937

The notes on pages 34 to 65 form an integral part of these financial statements.



# Consolidated Statement of Financial Position

As At 31 December 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	15	15	130
Other non-current assets	20	16	946
Property, plant and equipment	16	8,672	15,427
<b>Total non-current assets</b>		<b>8,703</b>	<b>16,503</b>
<b>Current assets</b>			
Inventories	18	111	146
Note receivable and accrued interest	19	4,013	4,013
Trade and other receivables		74	7
Prepayments and other assets	20	97	303
Cash and cash equivalents		10,964	16,758
		<b>15,259</b>	<b>21,227</b>
Assets in disposal group classified as held for sale	3	7,117	-
<b>Total current assets</b>		<b>22,376</b>	<b>21,227</b>
<b>Total assets</b>		<b>31,079</b>	<b>37,730</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible loan notes and accrued interest	22	(17,814)	(15,809)
Long-term provisions	23	-	(2,712)
<b>Total non-current liabilities</b>		<b>(17,814)</b>	<b>(18,521)</b>
<b>Current liabilities</b>			
Trade and other payables	24	(380)	(533)
Short-term provisions	23	-	(361)
Corporate and equity tax liabilities	25	(48)	(55)
Derivative financial liabilities	26	(39)	(262)
		<b>(467)</b>	<b>(1,211)</b>
Liabilities directly associated with assets in disposal group classified as held for sale	3	(3,861)	-
<b>Total current liabilities</b>		<b>(4,328)</b>	<b>(1,211)</b>
<b>Total liabilities</b>		<b>(22,142)</b>	<b>(19,732)</b>
<b>Net assets</b>		<b>8,937</b>	<b>17,998</b>
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	28	608	608
Share premium		27,139	27,139
Capital reserve		30,435	30,435
Other reserves	22	1,307	1,307
Accumulated losses		(50,552)	(41,491)
<b>Total equity</b>		<b>8,937</b>	<b>17,998</b>

These financial statements were approved by the Board of Directors and authorised for issue on 5 March 2019 and were signed on its behalf by:

Mikel Faulkner  
Non-Executive Chairman  
5 March 2019



**Nautilus Marine Services PLC**  
(formerly Global Energy Development PLC)  
3 More London Riverside  
London SE1 2AQ  
UK

The notes on pages 34 to 65 form an integral part of these financial statements.

## Consolidated Statement of Cash Flows

For the 12 months ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Cash used by operations	6	(6,584)	(10,343)
Tax paid (continuing and discontinued operations)		(203)	(203)
<b>Net cash used in operating activities</b>		<b>(6,787)</b>	<b>(10,546)</b>
<b>Cash flows from investing activities</b>			
Interest on note receivable		320	366
Proceeds from disposal of assets		904	116
Purchase of intangible assets and property, plant and equipment	15,16	(6)	(124)
<b>Cash provided by investing activities - continuing operations</b>		<b>1,218</b>	<b>358</b>
Cash used in investing activities - discontinued operations		(46)	-
<b>Net cash provided by investing activities</b>		<b>1,172</b>	<b>358</b>
<b>Cash flows from financing activities</b>			
Issuance of convertible loan notes pursuant to Transaction B	22	-	10,500
Cash settlement of share-based payment options	29	(168)	-
<b>Cash (used in)/provided by financing activities - continuing operations</b>		<b>(168)</b>	<b>10,500</b>
Cash used in financing activities - discontinued operations		-	-
<b>Net cash (used in)/provided by financing activities</b>		<b>(168)</b>	<b>10,500</b>
<b>(Decrease)/increase in cash and cash equivalents for the year</b>		<b>(5,783)</b>	<b>312</b>
Cash and cash equivalents at beginning of year		16,758	16,446
<b>Cash and cash equivalents at the end of year <sup>1</sup></b>		<b>10,975</b>	<b>16,758</b>

<sup>1</sup> Includes cash of \$12 thousand from discontinued operations which is included in Assets in Disposal Group as at 31 December 2018.

The notes on pages 34 to 65 form an integral part of these financial statements.

# Notes to the Primary Financial Statements

For the 12 months ended 31 December 2018

## 1. Accounting policies

### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. Based upon these, the Board remains confident that the Group's current cash on hand and internally generated cash flows will enable the Group to fully finance its future working capital and discretionary expenditures beyond the period of 12 months of the date of this report.

The financial statements of the Group for the 12 months ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU").

Certain prior year amounts in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income have been reclassified to conform with current year presentation for the purposes of comparability. These reclassifications include the presentation of discontinued operations in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2017 to conform to the Oil and Gas segment's classification as held for sale at December 2018.

### New and amended standards and interpretations

(a) New standards, amendments to published standards and interpretations to existing standards effective in 2018 and adopted by the Group:

Standard description	Date of adoption	Impact on initial application
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	Amendments to provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
IFRS 9 Financial Instruments	1 January 2018	Replacement to IAS 39 and is built on a logical, single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. Also addresses the so-called 'own credit' issue and includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. Management's assessment of the impact of IFRS 9 has focused on the changes in IFRS 9 around expected credit losses on trading and intercompany balances. See note 19 for further discussion on management's assessment of expected credit losses related to the outstanding note receivable at 31 December 2018.
IFRS 15 Revenue from Contracts with Customers	1 January 2018	Introduces requirements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue and provides or improves guidance for transactions that were not previously addressed comprehensively and for multiple-element arrangements. As the Group had no revenues for the year ended 31 December 2018, this standard currently does not impact the Group's financial statements.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	Provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

The Group has adopted these standards, however given the Group's current operations and corporate structure, these did not have a material impact on the Group's consolidated financial statements for the year ended 31 December 2018.

(b) Standards, amendments and interpretations that could have an impact on the consolidated financial statements of the Group, which are effective for reporting periods beginning after the date of these financial statements and which have not been adopted early:

Standard description	Date of adoption	Impact on initial application
IFRS 16 Leases	1 January 2019	The new standard recognises a lease asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease. The Group has identified its lease arrangements as at 31 December 2018 and there is no impact of this new Standard as a result of the short-term nature of its current leases. Management will continue to assess the impact of this Standard if new leases are executed during 2019.
Annual Improvements to IFRSs 2015–2017 Cycle*	1 January 2019	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

\*not yet endorsed in the EU

Management is still evaluating these standards to assess the impact of these accounting changes on the Group. To the extent that they may be applicable currently, management does not expect the implementation of these standards to have a material impact on the consolidated financial statements.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Nautilus Marine Services PLC and entities controlled by the Company, which are classified as subsidiaries, up to 31 December each year. Control is achieved where the Company has all three of the following elements: power over the entity, exposure to variable returns from the entity, and the ability to use its power over the entity to affect those variable returns.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Any excess of the cost of acquisition over the fair values of identifiable net assets is recognised as goodwill. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All significant inter-Company transactions and balances between Group entities are eliminated on consolidation.

The Group's investments in its subsidiaries are carried at cost, less any impairment recognised.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the management team including the Chairman and Managing Director and Finance Director.

Prior to December 2018, the Group structured its three operating segments as Offshore, Oil and Gas, and Corporate in order to align with the Group's principal focus of the acquisition of investments in offshore service assets and technologies as a result of the February 2017 acquisitions (see note 2). As a result of the Group's classification of its Oil and Gas segment as held for sale in December 2018 (see note 3), the Group restructured its operating segments, which are now comprised of the two operating segments as defined below:

- Offshore -comprised of offshore service vessels and equipment, currently located in the Gulf of Mexico
- Corporate -comprised of the Group's corporate overhead and investing activities which were not allocated to the Offshore or Oil and Gas segments

Corporate overhead expenses are allocated to the segments based on the estimated split of personnel services delivered to each segment. Group financing (including finance costs and finance income) is allocated among the segments based upon the segment receiving the benefit of the financing activities. However, the related financing assets and liabilities are held within the Corporate segment and not allocated to the operation segments as these facilities are managed on a Group basis.

### **Property, plant and equipment- Offshore Service Vessels and Equipment**

Offshore service vessels, operating equipment and critical spare parts acquired and held for future use, are measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises of purchase price and any directly attributable costs of bringing the asset to operating condition. Periodic maintenance or dry-dock expenditures are related to major inspection and overhaul costs which occur at regular intervals over the life of a vessel in order to maintain a vessel's classification. These expenditures are capitalised and depreciated on a straight-line basis until the vessel enters the next dry-docking. No dry-dock expenditures were incurred during the current period. All other repair and maintenance costs are recognised in the Consolidated Statement of Comprehensive Income.

Vessels are depreciated to their estimated residual value. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Vessels	3 to 10 years
Operating equipment	3 to 7 years
Facility site improvements	3 years

Residual values, useful economic lives and methods of depreciation are reviewed at least annually and adjusted as appropriate.

Gains or losses arising on disposal of property, plant and equipment are determined as the difference between any disposal proceeds and the carrying amount of the asset at the date of the transaction. Gains and losses on disposal are recognised in the Consolidated Statement of Comprehensive Income.

At each reporting date, the Group assesses whether there is any indication that the offshore service assets may be impaired. For the purposes of assessing impairment of the vessels, assets are grouped at the lowest levels for which there are separately identifiable cash flows or CGU. Each CGU contains only 1 vessel along with other assets. A CGU's recoverable amount is the higher of the asset's fair value less costs of disposal and its value-in-use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment charges are recognised in the Consolidated Statement of Comprehensive Income in the period incurred. At 31 December 2018 and 2017, the Group's assessment resulted in impairment charges of \$666 thousand and \$53 thousand, respectively, related to the offshore service vessels. The Group did not identify any factors that would indicate the value of its offshore service equipment may be impaired since the acquisition date measurement in February 2017.

### **Oil assets**

The following policy definitions provide the guidelines for the accounting treatment of oil assets including properties, wells, facilities, pipelines and the other related oil producing assets during all stages of exploration, development and production activities. As a result of the Oil and Gas segment being classified as held for sale in 2018, these oil assets were reclassified as assets in disposal group classified as held for sale within the Consolidated Statement of Financial Position as at 31 December 2018.

### **Intangible assets – evaluation and exploration assets**

The Group accounts for Evaluation and Exploration ("E&E") activity in accordance with the provisions of IFRS 6.

#### **Capitalisation of E&E Assets**

All costs (other than payments to acquire the legal right to explore, evaluate or appraise an area) incurred during the Pre-licensing Phase are charged directly to the Consolidated Statement of Comprehensive Income. All costs incurred during the Evaluation and Exploration Phases, such as Geological & Geophysical ("G&G") costs, other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability analyses) and appraisal are accumulated and capitalised as intangible E&E assets in accordance with the principles of full cost accounting.

At the completion of the Exploration Phase, if technical feasibility is demonstrated and commercial reserves are discovered, then, following the decision to continue into the development phase, the carrying value of the relevant E&E asset will be reclassified as a Development and Production ("D&P") asset, but only after the carrying value of the asset has been assessed for impairment in accordance with the Impairment of E&E Assets policy. E&E costs are not amortised prior to reclassification to the D&P Phase.

#### **Impairment of E&E Assets**

Upon reclassification of a project from the E&E phase to D&P phase, an impairment review of the affected E&E assets is performed. The E&E impairment test is performed by comparing the carrying value of the costs against the estimated recoverable value of the reserves (proved plus probable) related to these assets. Any resulting impairment charge is charged to the Consolidated Statement of Comprehensive Income. The recoverable value is determined as the higher of a) its fair market value less costs to sell or b) the sum of related cash flows, on a net present value basis.

Further, if at any time when indicators or circumstances exist which suggest the E&E assets may be impaired such as:

- the licence to explore a particular area has expired or will expire soon and will not be renewed; or
- further exploration or evaluation work in a particular area is not budgeted or planned; or
- E&E work has concluded that commercially viable amounts of oil are not available in a particular area and the Group has decided to discontinue E&E in that area; or
- data shows that, although development of an area will continue, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development, indicating the possibility that the carrying value of an E&E asset may exceed its recoverable amount;

an impairment review of the affected E&E assets is performed. The E&E impairment test is carried out by adding the value of the E&E assets being evaluated to the D&P assets by contract area to determine the relevant Cash Generating Unit ("CGU").

The combined carrying value of the E&E and D&P assets in the CGU is compared against the estimated recoverable value, and any resulting impairment is charged to the Consolidated Statement of Comprehensive Income.

#### **Property, plant and equipment – D&P assets**

The Group accounts for D&P assets in accordance with the provisions of IAS 16 following the full cost accounting principles.

##### **Capitalisation**

Development and production assets are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. From time to time different scenarios occur that call for specific policy guidance. The following specific policies are applied by the Group:

- **CGUs** – The Group has defined its CGUs as assets or groups of assets representing the smallest identifiable segments generating cash flows that are largely independent of cash flows from other assets or groups of assets. As defined, each CGU includes the relevant properties, wells, facilities, pipelines and other key components of the included operations. Currently, the Group has two CGUs, the Bolivar contract area and the Bocachico contract area.
- **Dry Hole Costs** – Dry hole costs are included in the capitalised costs of the field and would therefore be included in any impairment tests conducted, as described below.
- **Water Injection/Disposal Wells** – The Group may convert an existing well into a water injection or disposal well. At the time of conversion, all costs associated with the asset are transferred to facility costs. Any capitalisable costs incurred thereafter will be included as facility costs.
- **Allocated Costs** – Costs such as G&G, seismic, capitalised general and administrative costs, financing costs, etc. which may cover multiple countries, business segments, CGUs or other assets will be allocated to the appropriate CGUs during the period in which the costs were incurred.

##### **Depreciation, Depletion and Amortisation (DDA)**

Asset costs relating to each CGU as defined above, which include the components of properties, wells, facilities, pipelines and other, are depreciated, depleted and amortised ("DDA") on a unit of production method based on the commercial proven and probable reserves for that CGU. D&P assets are depreciated over the relevant net production within the corresponding CGU. The DDA calculation takes into account the estimated future costs of development for recognised proven and probable reserves for each field based on current price levels and escalated annually based on projected cost inflation rates. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

##### **Impairment of D&P Assets**

A review is performed for any indication that the value of the Group's D&P assets may be impaired such as:

- significant changes with an adverse effect in the market or economic conditions which will impact the assets;
- obsolescence or physical damage of an asset;
- an asset becoming idle or plans to dispose of the asset before the previously expected date;
- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

For D&P assets when there are such indications, an impairment test is carried out on the CGU. CGUs are identified in accordance with IAS 36 'Impairment of Assets', where cash flows are largely independent of other significant asset groups and are normally, but not always, single development or production areas. When an impairment is identified, the depletion is charged through the Consolidated Statement of Comprehensive Income if the net book value of capitalised costs relating to the CGU exceeds the associated estimated future discounted cash flows of the related commercial oil reserves.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment charges may no longer exist or may have decreased. If such an indication exists, the Group estimates the recoverable amount, which is the higher of value-in-use and fair value less costs to sell. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge was recognised. If this

is the case, the carrying amount of the asset is increased to its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment charges been recognised for the asset in prior years.

As at 31 December 2016, the Group's Bolivar and Bocachico area oil assets were fully impaired due to the oil reserves within the Bocachico and Bolivar areas being uneconomic at 31 December 2016 pricing. During 2017, the Bolivar area recognised a partial recovery due to higher oil pricing at 31 December 2017, while the Bocachico area remained fully impaired. Prior to 2018, these assessments were based on a recoverable amount which was determined based on value-in-use calculations derived from third-party reserve reports, as there was no reliable market to estimate fair value less costs to sell. However, immediately prior to the classification of these assets as held for sale as at 31 December 2018, the Group estimated the fair value less costs to sell based on offers received from potential counter parties interested in purchasing the assets. Management determined that the amount expected to be recovered through a disposal transaction (fair value less costs to sell) is higher than the value-in-use, as determined by a third-party reserve valuation as at 31 December 2018. This recoverable amount, based on fair value less costs to sell, was greater than the carrying value and as a result, a partial recovery of impairment charges of \$1.7 million was recognised related to the Bocachico and Bolivar areas.

#### **Decommissioning and environmental provisions**

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The decommissioning provision represents the present value of decommissioning costs for existing assets in the Group's oil operations, which are expected to be incurred between 2019 and 2024. These provisions have been generated based on the Group's internal estimates, and where available, studies and analyses from external sources. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed periodically to take into account any material changes to those assumptions. As at 31 December 2017, these estimates are included within short-term and long-term provisions within the Consolidated Statement of Financial Position. As a result of the Oil and Gas segment being classified as held for sale in 2018, these estimates were reclassified as liabilities directly associated with assets in disposal group classified as held for sale within the Consolidated Statement of Financial Position as at 31 December 2018.

The unwinding discount arising on the recognition of the provision is released to the Consolidated Statement of Comprehensive Income and included within income/(loss) from discontinued operations as a result of the Oil and Gas segment being reclassified as held for sale as at 31 December 2018.

An amount equivalent to the provision is also recognised with the cost of the respective tangible asset and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

During 2017, the Group reassessed the scope of the discretionary projects designated as current at the Bolivar area and decided to defer a portion to be performed upon the expiration of the contracts in order to preserve cash on hand. As such, these costs were discounted and reclassified to non-current provisions and resulted in a decrease in short-term provisions of \$578 thousand. No reclassifications were made between short-term and long-term provisions during 2018.

#### **Property, plant and equipment- other**

Property, plant and equipment other than oil assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged on such assets, with the exception of freehold land, so as to write off the cost, less estimated residual value, on a straight-line basis over their useful lives of between two and five years.

#### **Intangible assets other than evaluation and exploration assets**

Other intangible assets also include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment charges, if any.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is being recognised within cost of sales in the Consolidated Statement of Comprehensive Income. At each reporting date, the Group reviews the carrying amount of its acquired intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Any impairment loss arising from the review is charged to the Consolidated Statement of Comprehensive Income whenever the carrying amount of the asset exceeds its recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment charge was recognised. If this is the case the carrying amount of the asset is increased to its recoverable amount, not to exceed the carrying



amount that would have been determined, net of depreciation, had no impairment charges been recognised for the asset in prior years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. An inventory valuation adjustment is made if the net realisable value is lower than the book value. Net realisable value is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Held for Sale and Discontinued Operations**

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is probable, the asset (or disposal group) is available for immediate sale in its present condition and the Board and management is committed to the sale which is expected to be within one year from the date of classification.

Immediately prior to classifying disposal groups as held for sale, the carrying amounts of the non-current assets in the disposal group are measured in accordance with applicable standards and are reviewed for possible impairment or impairment reversal. As such, the carrying amounts of those assets are written up or down to their recoverable amount. The recoverable amount is deemed to be the higher of the value in use and fair value less costs to sell. Upon classification as held for sale, the disposal group is measured at the lower of the carrying value and the fair value less costs to sell. Following their classification as held for sale, non-current assets and liabilities (including those in a disposal group) are no longer depreciated or accreted. All assets outside the scope of IFRS 5 continue to be accounted for in line with their respective accounting standards. Assets classified as held for sale and the corresponding liabilities are classified within separate lines in the Consolidated Statement of Financial Position.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the Consolidated Statement of Comprehensive Income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. Current tax, including UK Corporation and any overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. Taxable profit differs from profit before tax as reported in the Consolidated Statement of Comprehensive Income as it excludes items of income or expense that are taxable or deductible in other years or are never taxable or deductible.

### **Deferred Tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the primary financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets relate to the same taxable entity or taxable group and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered. As at 31 December 2018 and 2017, no deferred tax assets and liabilities have been recognised.

## **Financial instruments**

Financial instruments are classified on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

### **Financial assets**

The Group classifies its financial assets into receivables and cash and cash equivalents, which comprise the categories discussed below, depending on the purpose for which the asset was required. IFRS 9 provides a new classification and measurement approach which contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard eliminates the existing classifications of held to maturity and available for sale. The Group has not classified any of its financial assets at fair value through profit and loss or fair value through comprehensive income. The Group's financial assets measured at amortised cost comprise of trade and other receivables, a note receivable and cash and cash equivalents.

#### **Receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (i.e. trade receivables) and also a note receivable, where the objective is to hold the asset in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. These receivables are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost (which is considered to approximate carrying cost) less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9, which measures credit losses using a lifetime expected loss provision. Due to the low number of trade and other receivables, the Group assesses the expected credit losses on an individual account basis. During this process, the probability of the non-payment of the trade receivable is evaluated based on credit worthiness of the associate and aging of the receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the expense being recognised within cost of sales in the Consolidated Statement of Comprehensive Income. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. As at 31 December 2018, no allowance for expected credit losses related to trade and other receivables was recognised.

Impairment provisions for note receivables, currently held by a related party, are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The measurement of expected credit losses is based on the present value of cash shortfalls and considers both the amount and timing of contractual payments. For financial assets, a cash shortfall is the difference between (a) the present value of the principal and interest cash flows due to an entity under the contract, and (b) the present value of the cash flows that the entity expects to receive. An expected loss estimate should reflect the time value of money and an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, which at a minimum include (i) the probability that a credit loss occurs, and (ii) the probability that no credit loss occurs. As at 31 December 2018, no allowance for expected credit losses related to the note receivable was recognised (see note 19 for further information).

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into known amounts of cash and overdrafts repayable on demand. Bank overdrafts are shown within borrowings in current liabilities on the Consolidated Statement of Financial Position.

### **Financial Liabilities**

The Group classifies its financial liabilities depending on the purpose for which the liability was acquired. Financial liabilities are classified as either held at fair value through profit or loss or other financial liabilities measured at amortised cost using the effective interest method.

#### **Convertible Loan Notes**

The components of the convertible loan notes that exhibit characteristics of a liability are recognised as a liability, net of transaction costs. The conversion features were analysed to determine the appropriate classification between embedded derivative liabilities and equity.

Conversion features that meet the 'fixed for fixed' classification under IAS 32 are accounted for as equity. Accordingly, the proceeds received on issue of the convertible loan notes are allocated into their host debt liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar

debt instrument that does not include an option to convert. The remainder of the proceeds are allocated to the other reserves within equity, net of income tax effects, and are not subsequently remeasured.

Conversion features that fail equity classification or the 'fixed for fixed' classification under IFRS 9 are accounted for as derivative financial liabilities. Accordingly, the proceeds received on issue of convertible loan notes are allocated into their host debt liability and derivative financial liability components. The debt instrument is initially measured as its fair value plus transaction costs that are directly attributable to the acquisition. The embedded derivative component is measured at fair value with changes in value being recorded through profit or loss.

Subsequent to issue, the debt components of the convertible loan notes are accounted for as financial liabilities and measured at amortised cost using the effective interest rate method until it is extinguished on conversion, repurchase or redemption. Accreted interest is charged to finance expense within the Consolidated Statement of Comprehensive Income over the life of the notes.

#### *Derivative Financial Liabilities*

Derivative financial liabilities, which are not designated as hedging instruments, consist of embedded conversion options in convertible loan notes. These liabilities are initially measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates. Changes in the fair value are recognised in the Consolidated Statement of Comprehensive Income and are included within derivative financial liabilities in the Consolidated Statement of Financial Position.

#### *Contingent Consideration*

Contingent consideration arising as a result of asset acquisitions are initially recognised at fair value using a probability adjusted cash projection model. The fair value of the contingent consideration will be remeasured to fair value at subsequent reporting dates for the duration of the contingency measurement period. Adjustments to contingent consideration are recognised in the Consolidated Statement of Comprehensive Income. The Group's cash projection model related to contingent consideration issued pursuant to the offshore asset acquisitions resulted in no value being assigned to the contingent consideration derivative liability as at 31 December 2017. The duration of the 18-month contingency measurement period expired during August 2018 and there was no contingent consideration due or paid to Everest. As at 31 December 2018, the Group had no contingent consideration liabilities.

#### **Fair Value Measurements**

Financial instruments evaluated at fair value can be classified according to the following valuation hierarchy, which reflects the extent to which the inputs used in the valuation technique utilised are observable:

- Level 1: Quoted prices in active markets (not adjusted) for identical items.
- Level 2: Observable direct or indirect inputs other than Level 1 inputs.
- Level 3: Unobservable inputs (not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period in which they occur.

#### **Share capital**

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classed as equity instruments.

#### **Provisions**

From time to time it is necessary for the Group to defend itself against legal claims that may or may not result in the Group having to make a financial settlement. Provisions for anticipated settlement costs and associated expenses arising from any legal and other disputes are made where a reliable estimate can be made of the probable outcome of the dispute. Where it is not possible to make such an estimate, no provision is made.

Under Colombian law relating to certain exploration and producing contracts, the Group is required to perform additional reinvestment in the amount of 1 per cent of specific investment activity to provide for the recovery, conservation, preservation, and monitoring of the hydrographic basin of the exploration areas. In such cases, a provision is provided and an amount equal to the provision is recognised within the cost of the respective asset and amortised on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provisions and the associated fixed asset.

As at 31 December 2018 and 2017, the Company's provisions comprised of estimated decommissioning, required reinvestment activities and social and environmental obligations. As a result of the Oil and Gas segment being classified as held for sale in 2018, these estimates were reclassified as liabilities directly associated with assets in disposal group classified as held for sale within the Consolidated Statement of Financial Position as at 31 December 2018.

#### **Share-based payments**

In accordance with IFRS 2 'Share-based payments', the Group reflects the economic cost of awarding share options to employees and Directors by recording an expense in the Consolidated Statement of Comprehensive Income equal to the fair value of the benefit awarded. The expense is recognised in the Consolidated Statement of Comprehensive Income over the vesting period of the award. Fair value is measured by use of a Black-Scholes model which takes into account conditions attached to the vesting and exercise of

the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

In December 2018, the Group terminated its equity-settled option scheme. As a result, the remaining share-based payment expense was accelerated and the grantees with valid outstanding options received a cash payment in exchange for the cancellation of the options. The expense arising from equity-settled share options made to employees was \$185 thousand for the period, of which \$173 thousand was related to the cancellation payment for the plan termination, of which \$16 thousand is related to the accelerated vesting of the shares granted in 2017. As of 31 December 2018, the Group had no options outstanding.

#### **Post retirement benefits**

The Group contributes to a defined contribution scheme at the discretion of the Board of Directors. Contributions are charged to the Consolidated Statement of Comprehensive Income as they become payable.

#### **Functional and presentational currency**

The functional currency of the Company and its subsidiaries has been determined to be the US Dollar and accordingly the financial statements have been presented in US Dollars.

#### **Foreign currencies**

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Statement of Comprehensive Income.

On consolidation, the results of overseas operations are translated into US Dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date.

Exchange differences recognised in the Consolidated Statement of Comprehensive Income of the Group entities' separate financial statements upon the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are recognised in the foreign exchange reserve on consolidation.

#### **Critical accounting judgements and key sources of estimation uncertainty**

Details of the Group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

- Accounting for the acquisition of offshore service vessel-owning companies (note 2);
- Impairment of property, plant and equipment (note 16);
- Assets and liabilities classified as held for sale (note 3);
- Commercial reserves estimates (note 16);
- Decommissioning provision (note 23);
- Fair value of financial instruments associated with the convertible loan notes (note 26).

## **2. Acquisition of Offshore Service Vessel-owning Companies**

Shareholders approved the acquisition of offshore service vessel-owning companies through two separate transactions on 8 February 2017, and the Company's shares were re-admitted to the AIM, a market operated by the London Stock Exchange, as Nautilus Marine Services PLC (LSE-AIM: "NAUT"). These two acquisitions are described below:

Transaction A: The Group acquired three offshore service vessels through the acquisition of vessel-owning companies from Everest Hill Group, Inc. ("Everest"), a related party, in exchange for: (i) forgiveness of \$8 million of the outstanding principal amount of the Note Receivable; (ii) the amendment of the terms of the Note Receivable to reduce the interest rate from 12 per cent to 8 per cent per annum and to extend the maturity date from 15 January 2017 to 15 September 2018; and (iii) contingent additional consideration equal to the lower of \$5 million or 75 per cent of the net cash inflows attributable to the three vessels for the period of eighteen months following completion of their acquisition by the Group. Part of the existing collateral under the Note Receivable, comprising Everest's and its affiliates' shareholdings in HKN, which is a substantial shareholder in the Company, will remain in place. Please see note 19 for further information on the Note Receivable.

For accounting purposes, this acquisition has been treated as an asset acquisition with the acquisition date fair value of \$8 million in consideration issued allocated between the three offshore service vessels acquired based on independent, third-party valuations. The fair value of the consideration was determined to be the value of the forgiveness of the outstanding Note Receivable. No gain or loss was recorded on the extinguishment of the debt as a result of the proximity of the maturity date of the original loan and the extinguishment date upon acquisition and the amended note terms being at arms-length terms. In addition, the fair value of the contingent consideration related to the future net cash inflows of the three vessels was determined to be \$nil as of the acquisition date and as at 31 December 2017. This Level 3 fair value was based on internal probability weighted cash projections and operating assumptions related to the three vessels (see note 26 for further information). The duration of the 18-month contingency measurement

period expired during August 2018 and there was no contingent consideration due or paid to Everest. As at 31 December 2018, the Group had no contingent consideration liabilities.

Transaction B: The Group acquired (i) a barge vessel through the acquisition of Everest Vessel Holdings, LLC from a related-party, Alan Quasha, HKN's Chairman of the Board, and (ii) eight offshore service vessels along with related offshore dive equipment through the acquisition of a vessel-owning company, Maritime Finance, LLC, owned by McLarty Capital Partners ("MCP") and Caleura Limited. As consideration, the Group issued three series of convertible loan notes: Series A Convertible Loan Notes ("Series A Loan Notes"), Series B Convertible Loan Notes ("Series B Loan Notes") and Series C Convertible Loan Notes ("Series C Loan Notes"). In addition to the acquired vessels and equipment, the Group received \$10.5 million in cash. Please see note 22 for further information on the convertible loan notes.

For accounting purposes, this acquisition has been treated as an asset acquisition. The acquisition date fair value of \$16.1 million in consideration issued consisted of \$10.5 million received in cash, with the remaining \$4 million allocated to the offshore service vessels and \$1.6 million allocated to offshore equipment and inventory based on independent, third-party valuations. The fair value of the convertible loan notes issued as consideration was based on an independent, third-party valuation using a binomial lattice model. This Level 3 fair value was calculated with inputs such as volatility, risk-free interest rate and credit spread (see note 26 for further information).

### 3. Assets and Liabilities in Disposal Group Classified as Held for Sale

In December 2018, the Group, with the support of the Board, committed to divest of its Oil and Gas segment, which is comprised of its three wholly-owned subsidiaries, Global Energy Management Resources-Colombia, Inc., Lagosur Petroleum Colombia, Inc. and Cinco Ranch Petroleum Colombia, Inc. (the "Disposal Group"). The Disposal Group holds the Bolivar and Bocachico Contracts in the Magdalena Valley of Colombia. The Group began evaluating divestment and strategic partnering opportunities for the Disposal Group during 2017. Following these initial evaluations, the Board and Group's management team believe the sale of the Group's assets in the Middle Magdalena Basin presents a significant opportunity to realise cash value from these non-strategic assets while eliminating the associated annual operating costs and future abandonment obligations. While several expressions of interest have been made, as at 31 December 2018 a purchase and sale agreement had not been executed. However, the Group expects a sale to be complete within 12 months.

Prior to classifying the Oil and Gas segment as held for sale, the carrying amounts of the non-current assets and liabilities were measured and reviewed for possible impairment or impairment reversal as required by IFRS 5. This review resulted in an impairment reversal of \$1.7 million at 31 December 2018 (see notes 15, 16 and 23). Upon classification as held for sale as at 31 December 2018, the Disposal Group was measured at the lower of the carrying amount and the fair value less costs to sell, which is categorised as a Level 3 non-recurring fair value measurement. Depending on the terms of a final purchase and sale agreement, a subsequent recognition of a gain or loss on the sale of the Disposal Group may result.

The following major classes of assets and liabilities related to this Disposal Group that have been classified as held for sale in the Consolidated Statement of Financial Position as at 31 December 2018:

	<b>2018</b>
	<b>\$'000</b>
Intangible assets	157
Property, plant and equipment	6,189
Other non-current assets <sup>1</sup>	678
Inventories	20
Trade and other receivables	6
Prepayments and other assets	55
Cash and cash equivalents	12
<b>Assets in disposal group classified as held for sale</b>	<b>7,117</b>
Decommissioning and environmental provisions <sup>2</sup>	3,215
Trade and other payables	603
Corporate and equity tax liabilities	43
<b>Liabilities directly associated with assets in disposal group classified as held for sale</b>	<b>3,861</b>

<sup>1</sup> Other non-current assets represent VAT deposits that do not expire and are not expected to be offset against taxes payable during the next year.

<sup>2</sup> See note 1 for discussion regarding these provisions and note 23 for a roll-forward of these provisions for the current and prior year periods.

### 4. Discontinued Operations of Oil and Gas Segment

In December 2018, the Group classified its Oil and Gas segment as held for sale. As a result, the operations of the Disposal Group have been treated as discontinued operations for the year ended 31 December 2018, with comparable presentation for the prior year period ended 31 December 2017. The table below provides further details of the amounts shown in the Consolidated Statement of

Comprehensive Income for the discontinued operations of the Oil and Gas segment for the 12 months ended 31 December 2018 and 2017:

	2018 \$'000	2017 \$'000
Revenue	-	250
Cost of sales	(476)	(853)
<b>Gross loss</b>	<b>(476)</b>	<b>(603)</b>
Administrative expenses	(696)	(767)
Impairment reversal	1,711	4,021
Finance income and other	6	14
Finance expense and other	(364)	(247)
<b>Income before taxation</b>	<b>181</b>	<b>2,418</b>
Tax expense	(104)	(179)
<b>Income from discontinued operations, net of tax</b>	<b>77</b>	<b>2,239</b>

The Group's business units did not generate any revenues during the year ended 31 December 2018. During 2017, all revenues from the Group's business units were generated from oil liftings from the Group's Bocachico field located in Colombia. This activity resulted in sales of crude oil to one Colombia-based customer which amounted to \$250 thousand for the year ended 31 December 2017. The Bocachico field was shut-in during late 2017 in order to decrease operating costs and environmental risk while the contract area remains uneconomic, and the field continued to be shut-in during the 2018 period.

For the year ended 31 December 2018, the Group's recognised an impairment reversal of \$1.7 million related to the Bocachico and Bolivar areas. These impairment reversals were the result of management's estimated recoverable amounts being higher than the current carrying amount of the net assets immediately prior to classification as held for sale. Based on discussions with potential counter parties, management determined that the amount expected to be recovered through a disposal transaction (fair value less costs to sell) is higher than the value-in-use, as determined by a third-party reserve valuation as at 31 December 2018.

For the year ended 31 December 2017, the Disposal Group recognised a net impairment reversal of \$4 million. This was comprised of an impairment reversal of \$4.1 million related to the Bolivar area as a result of a view of stabilisation of increased oil pricing at 31 December 2017 of \$66.87 per barrel and a decrease in the decommissioning provision, partially offset by an impairment charge of \$57 thousand for the Bocachico area due to increases in the decommissioning and environmental provisions, as this area remained uneconomic at the 31 December 2017 pricing.

## 5. Segmental analysis

For management purposes, the Group is comprised of two operating segments as defined below:

- Offshore -comprised of offshore services equipment, currently located in the Gulf of Mexico
- Corporate -comprised of the Group's corporate overhead and investing activities which were not allocated to the Offshore or Oil and Gas segments

Corporate overhead expenses are allocated to the segments based on the estimated split of personnel services delivered to each segment. Group financing (including finance costs and finance income) is allocated among the segments based upon the segment receiving the benefit of the financing activities. However, the related financing assets and liabilities are held within the Corporate segment and not allocated to the operation segments as these facilities are managed on a Group basis.

Summarised selected financial information concerning each operating segment is as follows:

### For the year ended 31 December 2018

(in \$'000)	Offshore	Corporate	Total
Revenue	-	-	-
Operating expenses	(1,028)	-	(1,028)
Depreciation and amortisation	(1,950)	(45)	(1,995)
Impairment charge	(666)	-	(666)
Finance expense and other	(2,005)	2	(2,003)
Loss from continuing operations before tax	(5,704)	(3,358)	(9,062)

**For the year ended 31 December 2017 <sup>1</sup>**

(in \$'000)	Offshore	Corporate	Total
Revenue	-	-	-
Operating expenses	(2,843)	-	(2,843)
Depreciation and amortisation	(1,812)	(44)	(1,856)
Impairment charge	(53)	-	(53)
Finance expense and other	(1,756)	(71)	(1,827)
Loss from continuing operations before tax	(6,536)	(4,662)	(11,198)

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

**For the year ended 31 December 2018**

(in \$'000)	Offshore	Corporate	Total
Total non-current assets	8,658	45	8,703
Total non-current liabilities	-	(17,814)	(17,814)

**For the year ended 31 December 2017**

(in \$'000)	Offshore	Oil and Gas <sup>2</sup>	Corporate	Total
Total non-current assets	11,505	4,908	90	16,503
Total non-current liabilities	-	(2,712)	(15,809)	(18,521)

<sup>2</sup> The Oil and Gas segment has been included as held for sale in the current year (see note 3).

Operating expenses for the Offshore segment during the year ended 31 December 2018 consisted of \$340 thousand in dock and facility costs, \$267 thousand in vessel costs, and \$421 thousand in allocated labour and management costs. Operating expenses for the Offshore segment during the year ended 31 December 2017 were comprised of non-recurring costs to transition the offshore service vessel ownership and technical management and to complete an initial assessment of the vessels and equipment of approximately \$566 thousand, with the remaining costs consisting of \$660 thousand in dock and facility costs, \$411 thousand in vessel costs, \$352 thousand in vessel crewing and technical management fees, and \$854 thousand in allocated labour and management costs.

For the years ended 31 December 2018 and 2017, the Offshore segment recognised impairment charges of \$666 thousand and \$53 thousand, respectively, related to the offshore service vessels as a result of decreased market valuations.

## 6. Notes to the Consolidated Statement of Cash Flows

### (a) Reconciliation of loss before taxation to net cash flow used by operations

	Note	2018 \$'000	2017 \$'000
<b>Continuing operations</b>			
Loss before tax		(9,062)	(8,767)
Adjustments for:			
Depreciation of property, plant & equipment	16	1,980	1,843
Amortisation of intangible assets	15	15	15
Gain on derivative financial instruments	11	(199)	(543)
Gain on sale of assets		(643)	(100)
Impairment charge/(reversal)	16	666	(3,968)
Inventory obsolescence provision and write downs	18	1	380
Share based expense	29	185	14
Interest income	11	(320)	(366)
Interest and accretion expense on convertible loan notes	12	2,005	1,756
Unwinding of discount on decommissioning provision		-	219
<b>Operating cash flow before movements in working capital</b>		<b>(5,372)</b>	<b>(9,517)</b>
Decrease in inventories		-	36
Decrease in trade and other receivables		63	28
Increase/(decrease) in trade and other payables		89	(876)
<b>Cash used in continuing operations</b>		<b>(5,220)</b>	<b>(10,329)</b>
<b>Discontinued operations</b>			
Loss before tax		181	(13)
Adjustments for:			
Depreciation of property, plant & equipment		2	-
Loss on sale of assets		1	-
Impairment reversal	4	(1,711)	-
Provision for uncollectible accounts		-	1
Unwinding of discount on decommissioning provision		273	-
<b>Operating cash flow before movements in working capital</b>		<b>(1,254)</b>	<b>(12)</b>
Decrease in inventories		5	-
Decrease in trade and other receivables		268	-
Decrease in trade and other payables		(383)	(2)
<b>Cash used in discontinued operations</b>		<b>(1,364)</b>	<b>(14)</b>
<b>Cash used by operations</b>		<b>(6,584)</b>	<b>(10,343)</b>

### (b) Significant non-cash transactions

During the year ended 31 December 2017, the Group acquired property, plant and equipment comprised of offshore service vessels and dive and operating equipment valued at \$13.3 million and inventory valued at \$303 thousand through the forgiveness of \$8 million of the outstanding principal amount of the Note Receivable and issuance of convertible loan notes (see note 2 for additional information).

During the year ended 31 December 2018, the Group had no significant non-cash transactions.

### (c) Reconciliation of liabilities arising from financing activities

	2017	Non-cash changes						2018
		Cash flows \$'000	Acquisition \$'000	Foreign exchange movement \$'000	Fair value changes \$'000	Interest Payable \$'000	Accretion \$'000	
Convertible loan notes	15,809	-	-	-	-	2,135	(130)	17,814
Derivative liabilities	262	-	-	(24)	(199)	-	-	39
<b>Total liabilities from financing activities</b>	<b>16,071</b>	<b>-</b>	<b>-</b>	<b>(24)</b>	<b>(199)</b>	<b>2,135</b>	<b>(130)</b>	<b>17,853</b>



	2016	Non-cash changes					2017
		Cash flows	Acquisition	Foreign exchange movement	Fair value changes	Interest Payable	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Convertible loan notes	-	10,500	3,553	-	-	1,663	93
Derivative liabilities	-	-	780	25	(543)	-	-
Total liabilities from financing activities	-	10,500	4,333	25	(543)	1,663	93

## 7. Loss per Share

Basic loss per share amounts are calculated by dividing loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding for the year.

Diluted loss per share amounts are calculated by adjusting the loss attributable to ordinary equity holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, comprised of those related to convertible loan notes and share options. The convertible loan notes are assumed to have been converted into ordinary shares and the net loss is adjusted to eliminate the related finance costs, including interest and accretion, and any gain or loss recognised on the derivative financial liability related to the convertible loan notes. The calculation of the dilutive potential ordinary shares related to employee and Director share option plans includes only those options with exercise prices below the average share trading price for each year.

The following table reflects the loss and share data used in the basic and diluted loss per share calculations:

(Figures in thousands except for share and per share information which is disclosed in \$)

	2018	2017
	\$'000	\$'000
Loss from continuing operations after taxation	(9,156)	(11,198)
Income from discontinued operations after taxation	77	2,239
<b>Net loss attributable to equity holders</b>	<b>(9,079)</b>	<b>(8,959)</b>
<b>Loss per share for continuing operations</b>		
– Basic and diluted	\$ (0.25)	\$ (0.31)
<b>Income per share for discontinued operations</b>		
– Basic and diluted	\$ 0.00	\$ 0.06
<b>Total loss per share</b>		
– Basic and diluted	\$ (0.25)	\$ (0.25)
<b>Basic weighted average number of shares</b>	<b>36,112,187</b>	<b>36,112,187</b>
Dilutive potential ordinary shares:		
Employee and Director share option plans	-	-
Shares on conversion of loan notes	-	-
<b>Diluted weighted average number of shares</b>	<b>36,112,187</b>	<b>36,112,187</b>

Basic and diluted loss per share are the same because the following potentially dilutive shares were considered to be anti-dilutive due to the loss arising in the period:

	2018	2017
Employee and Director share option plans	-	2,350,000
Shares on conversion of loan notes <sup>1</sup>	26,728,060	26,205,533

<sup>1</sup> Of these shares, 925,464 shares are related to shares to be issued for accrued interest payable upon the conversion of loan notes which can be settled in cash or shares at the Company's option (2017: 402,937 shares).

## 8. Operating loss from continuing operations

Loss from continuing operations is stated after charging:

	2018 \$'000	2017 <sup>1</sup> \$'000
Depreciation and amortisation (included in cost of sales):		
Property plant and equipment	1,980	1,841
Intangible assets	15	15
Gain on disposal of assets	(643)	(100)
Operating expenses	1,028	2,843
Employee costs	3,023	4,165
Auditor's remuneration	300	348
Other administrative costs	1,216	1,069
Impairment charge	666	53
<b>Total cost of sales, administrative and other operating costs</b>	<b>7,585</b>	<b>10,234</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

During the year, the Group obtained the following services from the Group's auditors at costs as detailed below:

### Analysis of auditors' remuneration

	2018 \$'000	2017 <sup>1</sup> \$'000
<b>Group Auditors</b>		
<b>Audit Services</b>		
Statutory audit	99	98
Review of interim report	13	22
<b>Non-audit Services</b>		
Due diligence related services	65	7
Other services (tax and consulting)	123	122
<b>Other Auditors</b>		
Prior year statutory audit	-	7
Transaction-related due diligence services <sup>2</sup>	-	52
Other services (tax and consulting)	-	40
<b>Total auditors' remuneration</b>	<b>300</b>	<b>348</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

<sup>2</sup> See note 2 for additional information regarding the transaction.

## 9. Employee costs

Group employee costs (including Executive Directors) during the year amounted to:

	2018 \$'000	2017 <sup>1</sup> \$'000
Wages and salaries	2,292	3,533
Social security costs and other payroll taxes	130	195
Insurance and other benefits	268	268
Company contributions to defined contribution plan	148	155
Share-based payments - options - equity settled	185	14
<b>Total employee costs</b>	<b>3,023</b>	<b>4,165</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

The average number of Group employees (including Executive Directors) was:

	2018 <sup>1</sup>	2017
Technical and operations	3	7
Management and administrative	11	15
<b>Total Group employees</b>	<b>14</b>	<b>22</b>

<sup>1</sup> The current year includes 1 technical and operations employee and 3 management and administrative employees of the Oil and Gas segment, which was classified as discontinued operations in 2018 (see note 4).

The employee costs and number of employees above do not include contract and casual labour in field operations which are charged directly to operating expense as incurred. These employees are not on the Group's payroll and are contracted through third parties.

Key management personnel in the prior year comprised of the Executive Chairman, Managing Director, Finance Director, and Director of Business Development. As a result of personnel reductions, key management personnel in the current year comprised of the Executive Chairman, Managing Director, Finance Director, Company Secretary and Treasurer. Compensation paid to the Non-executive Directors and key management personnel:

	2018	2017
	\$'000	\$'000
Non-executive Director fees <sup>1</sup>	264	240
Compensation and benefits paid to key management personnel:		
Compensation paid	1,253	1,363
Termination benefits	146	-
Performance bonuses	7	270
Social security costs and other payroll taxes	62	61
Health and life insurances	94	72
Other benefits	63	47
Company contributions to defined contribution plan	57	66
Share-based payments - options - equity-settled <sup>2</sup>	174	12
<b>Total</b>	<b>2,120</b>	<b>2,131</b>

<sup>1</sup> Includes social security contributions by the Group of \$20 thousand in 2018 (2017: \$24 thousand).

<sup>2</sup> The increase in 2018 is primarily due to the termination of the share-based payment option plan in December 2018 (see note 29).

As at 31 December 2018, there were no amounts due to or from key management personnel (2017: nil). Directors' remuneration for the current and prior year, as well as shareholdings and share options interests are shown in the tables within the Remuneration Committee Report on pages 19 and 20.

## 10. Cost of sales

A reconciliation of cost of sales by nature is as follows:

	2018	2017 <sup>1</sup>
	\$'000	\$'000
Operating expenses	1,028	2,843
Depreciation and amortisation	1,995	1,856
<b>Total cost of sales</b>	<b>3,023</b>	<b>4,699</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

## 11. Finance income and other

	2018	2017 <sup>1</sup>
	\$'000	\$'000
Income on note receivable and other	327	320
Unrealized gain on derivative financial liabilities <sup>2</sup>	199	543
<b>Total finance income and other</b>	<b>526</b>	<b>863</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

<sup>2</sup> The derivative financial liabilities are a result of the convertible loan notes issued in connection with the transaction (see note 2). The gains are primarily due to the decrease in the Company's share price.

## 12. Finance expense and other

	2018 \$'000	2017 <sup>1</sup> \$'000
Accretion expense on convertible loan notes	(130)	93
Interest expense on convertible loan notes	2,135	1,663
Foreign currency exchange (gain)/loss	(2)	71
<b>Total finance expense and other</b>	<b>2,003</b>	<b>1,827</b>

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

## 13. Tax

The Group is subject to UK and United States ("US") taxation on its continuing operations. The Group is subject to Colombian taxation on its discontinued operations.

### UK taxation

The Group does not expect to be liable for UK corporation tax in the foreseeable future because, as of the date of the last UK tax return, the Group had trading losses carried forward of approximately \$35 million as at 31 December 2018, of which \$4.6 million are subject to certain restrictions, and \$29 million as at 31 December 2017.

### United States taxation

The Group is subject to taxes in the US through its wholly owned subsidiaries in the Corporate and Offshore segments. The Group does not expect to be liable for US federal corporation tax in the foreseeable future because of the lack of forecasted taxable income and, as of the date of the last US tax return, the Group had trading losses carried forward of approximately \$7.4 million as at 31 December 2018 and \$1.7 million as at 31 December 2017. Of the \$7.4 million trading losses carried forward, \$229 thousand, \$1.3 million and \$5.9 million will expire in 2025, 2026, and 2037 respectively, and are subject to certain restrictions. The Group is liable for state taxes, which have been provided for based upon the tax laws and rates in the states in which operations are conducted and income is earned.

### Colombian taxation

The Group pays taxes in Colombia through the branch offices of its wholly owned subsidiaries in the Oil and Gas segment, which was classified as held for sale in December 2018. For 2018, the Colombian corporation tax is calculated as the higher of net income tax or presumptive income tax as follows:

- Presumptive income tax. An alternative minimum tax calculated on the prior year gross equity less liabilities at a rate of 3.5 per cent to determine the presumptive income effective for fiscal year 2018. On 28 December 2018, the Colombia tax authority approved tax law 1943 that reduces the tax rate of the presumptive income to 1.5 per cent for 2019 and 2020 and nil in 2021. A rate of 33 per cent is applied to the presumptive income to arrive at the tax obligation; or
- Net income tax. Calculated at a base rate of 33 per cent taking into account revenues minus costs, standard and special deductions. On 29 December 2016, the Colombia tax authority approved a tax bill in which the base income tax rates were adjusted to 33 per cent for 2018. The new tax reform of 2018 modified the tax rates for the following years, 33 per cent for 2019, 32 per cent for 2020, 31 per cent for 2021 and 30 per cent for 2022 forward.
- Equity Tax. According to tax law 1943 approved on 28 December 2018, the taxpayers must pay an equity tax. The triggering event for this tax is the holding of net equity in Colombia as of 1 January 2019 in excess of \$5 billion Colombian Pesos. The taxable base is the gross equity minus liabilities as at 1 January 2019, 1 January 2020 and 1 January 2021 per year at a rate of 1%.

The major components of tax expense for the periods ended 31 December 2018 and 2017 are:

	2018 \$'000	2017 \$'000
Current taxes:		
Current tax charge (continued operations) <sup>1</sup>	94	-
<b>Total tax expense for continued operations</b>	<b>94</b>	<b>-</b>
Current tax charge (discontinued operations) <sup>2</sup>	104	142
Equity tax and other withholding tax (discontinued operations) <sup>3</sup>	-	37
<b>Total tax expense for discontinued operations</b>	<b>104</b>	<b>179</b>
<b>Total tax expense reported in the income statement</b>	<b>198</b>	<b>179</b>

<sup>1</sup> Current tax for 2018 consists of the US state income and franchise tax, of which \$46 thousand pertained to fiscal year 2017.

<sup>2</sup> Current tax for 2018 and 2017 consists of the Colombian corporation tax, which was calculated under the presumptive income tax basis due to taxable losses generated in Colombia during the period.

<sup>3</sup> The equity tax for 2017 was calculated at 0.4 per cent of the Group's net equity of its Colombian branches as of 1 January 2017. The equity tax expired for fiscal year 2018.

#### Taxation reconciliation

The charge for the year can be reconciled to the loss per the Consolidated Statement of Comprehensive Income which includes amounts related to discontinued operations:

	2018	2017
	\$'000	\$'000
Loss before tax in the Consolidated Statement of Comprehensive Income	(8,881)	(8,767)
Tax benefit on Group loss at UK Corporation tax rate of 19% (2017: 19.25%)	(1,687)	(1,688)
Effects of:		
US state tax	94	-
Presumptive income tax on alternative basis and other withholdings	104	179
Tax on losses carried forward for which no deferred tax recognised	1,833	1,220
Effect of higher tax rates than in the UK <sup>1</sup>	(285)	(280)
Permanent differences on deferred taxes primarily arising from foreign exchange	139	748
<b>Total tax expense from comprehensive income reported in the Consolidated Statement of Comprehensive Income</b>	<b>198</b>	<b>179</b>

<sup>1</sup> Current income tax rates in Colombia for 2018 and 2017 were 33 per cent and 34 per cent, respectively. Current income tax rates in the US for 2018 and 2017 were 21 per cent and 34 per cent, respectively.

#### 14. Deferred tax

The Group offsets deferred tax assets and liabilities if, and only if, it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities are related to corporation taxes levied by the same tax authority. Deferred tax assets and liabilities are related to corporation taxes levied by the Colombian tax authority with jurisdiction over the Group's Colombian branches and US Deferred taxes primarily have been provided at a 21 per cent rate for 2018 and 2017.

The Group did not recognise any deferred income tax assets as at 31 December 2018 and 2017 and had no movement in recognised deferred income tax assets during the years 2018 and 2017.

The Group has not recognised deferred income tax assets for tax losses carried forward for entities in which it is not considered probable that there will be sufficient future taxable profits available for offset. Unrecognised deferred income tax assets and liabilities related to temporary differences and unused tax losses are attributable to the following:

	2018	2017
	\$'000	\$'000
Tax losses (revenue in nature)	8,423	6,452
Tax losses (capital in nature)	133	104
Deductible temporary differences	2,329	2,176
Non-deductible temporary differences	(1,148)	(1,488)

#### 15. Intangible assets

The balance in intangible assets comprised of costs associated with the Group's accounting software. Additions for 2018 consisted of computer software for the Oil and Gas segment which was reclassified from property, plant and equipment to assets held for sale during the period.

	2018 \$'000	2017 \$'000
<b>Costs</b>		
At 1 January	150	149
Additions	57	1
Reclassified to assets held for sale	(162)	-
<b>Total costs</b>	<b>45</b>	<b>150</b>
<b>Accumulated amortisation</b>		
At 1 January	(20)	(5)
Provided during the year	(15)	(15)
Reclassified to assets held for sale	5	-
<b>Accumulated amortisation at 31 December</b>	<b>(30)</b>	<b>(20)</b>
<b>Total intangible assets at 31 December</b>	<b>15</b>	<b>130</b>

## 16. Property, plant and equipment

	Offshore equipment and site		Facilities and pipelines		Office equipment and other	Total
	Vessels \$'000	improvements \$'000	Oil properties \$'000	\$'000	\$'000	\$'000
<b>Cost</b>						
At 1 January 2017	-	-	45,264	2,956	867	49,087
Additions	12,025	1,359	-	-	78	13,462
Disposals	-	(18)	-	-	(400)	(418)
Change in decommissioning and environmental provision	-	-	(163)	-	-	(163)
<b>At 31 December 2017</b>	<b>12,025</b>	<b>1,341</b>	<b>45,101</b>	<b>2,956</b>	<b>545</b>	<b>61,968</b>
Additions	-	-	501	-	5	506
Disposals	(208)	(100)	(65)	-	(80)	(453)
Change in decommissioning and environmental provision	-	-	171	-	-	171
Reclassified to assets held for sale	-	-	(45,708)	(2,956)	(436)	(49,100)
<b>At 31 December 2018</b>	<b>11,817</b>	<b>1,241</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>13,092</b>
<b>Depreciation:</b>						
At 1 January 2017	-	-	(45,264)	(2,956)	(846)	(49,066)
Provided during the year	(1,512)	(300)	-	-	(31)	(1,843)
Disposals	-	4	-	-	396	400
Impairment (charge)/reversal	(53)	-	4,021	-	-	3,968
<b>At 31 December 2017</b>	<b>(1,565)</b>	<b>(296)</b>	<b>(41,243)</b>	<b>(2,956)</b>	<b>(481)</b>	<b>(46,541)</b>
Provided during the year	(1,634)	(316)	-	-	(32)	(1,982)
Disposals	35	42	8	-	62	147
Impairment (charge)/reversal	(666)	-	1,711	-	-	1,045
Reclassified to assets held for sale	-	-	39,524	2,956	431	42,911
<b>At 31 December 2018</b>	<b>(3,830)</b>	<b>(570)</b>	<b>-</b>	<b>-</b>	<b>(20)</b>	<b>(4,420)</b>
<b>Net book value at 31 December 2018</b>	<b>7,987</b>	<b>671</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>8,672</b>
Net book value at 31 December 2017	10,460	1,045	3,858	-	64	15,427
Net book value at 1 January 2017	-	-	-	-	21	21

As a result of the February 2017 asset acquisitions, the Group acquired 11 offshore service vessels, one barge vessel, and related offshore equipment. Three of the acquired offshore service vessels were sold as scrap prior to delivery to the Group's dock facility and certain offshore equipment was sold during the prior year period. These disposals resulted in a gain on disposal of assets of \$100 thousand for the year ended 31 December 2017. During 2018, the Group closed on the sale of three of its offshore service vessels and certain offshore equipment for proceeds of \$894 thousand. These disposals resulted in a gain on disposal of assets of \$659 thousand for the year ended 31 December 2018.

The Group performed its annual impairment assessment as at 31 December 2018. For the purposes of assessing impairment for the vessels, the Group obtained an independent, third-party valuation to determine the fair value of each vessel at 31 December 2018. As a result, the Group recognised an impairment charge of \$666 thousand related to the offshore service vessels as a result of decreased current market valuations (2017: \$53 thousand). The Group did not identify any factors that would indicate the value of its offshore service equipment may be impaired since the acquisition date measurement in February 2017 (see note 2 for additional information).

Property, plant and equipment in the Group's Oil and Gas segment was assessed for impairment as at 31 December 2018 immediately prior to being reclassified as held for sale. As such, the Group considered the recoverable amounts of the two CGUs, the Bolivar area and the Bocachico area, by measuring the value-in-use and fair value less costs to sell.

The value-in-use calculations using risk-adjusted cash flow projections include estimates about the future financial performance of each CGU. All estimates and assumptions included in the value-in-use calculations are derived from the reserve report developed by Ralph E. Davis Associates, Inc., an independent petroleum engineering firm, and are based on the PRMS joint reserve and resource definitions of the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers consistent with UK reporting practices. The projected risk-adjusted discounted cash flows are calculated using the Brent oil pricing as at 31 December 2018 of \$53.80 per bbl with an escalation of 3 per cent each following year (2017: \$66.87 per bbl), with historical pricing discounts and historical operating costs. The pre-tax discount rate applied to the cash flow projections is 10 per cent (2017: 10 per cent). As a result of the decreased oil pricing and oil price projections as of the current year end, both of the Group's oil properties were determined to be uneconomic with no estimated value-in-use as at 31 December 2018.

The Group estimated fair value less costs to sell based on an average of the cash consideration discussed with potential counter parties. Non-cash consideration included in these offers, such as royalties, were not assigned any value. This is due to the significant amount of judgements and uncertainty regarding inputs to this valuation, including the timing and scope of a purchaser's development plans that are not in the Group's control. Based on these estimates, which are categorised as a non-recurring level 3 fair value measurement, management determined that the amount expected to be recovered through a disposal transaction (fair value less costs to sell) is higher than the value-in-use. This recoverable amount was greater than the carrying value and as a result, an impairment reversal of \$1.7 million was recognised related to the Bocachico and Bolivar areas.

Prior to 2018, these assessments were based on a recoverable amount which was determined based on value-in-use calculations derived from third-party reserve reports, as there was no reliable market to estimate fair value less costs to sell. As a result, the Group recognised a net impairment reversal of \$4 million primarily due to the increase in oil pricing and a view of stabilisation of the increased oil pricing as at 31 December 2017. This comprised of an impairment reversal of \$4.1 million related to the Bolivar area based upon the reserve report valuation of the discounted cash flows for the contingent reserves within this contract. However, the Bocachico area remained uneconomic at the increased 31 December 2017 pricing. As a result, an impairment charge of \$57 thousand was recognised due to increases in the decommissioning and environmental provisions during 2017.

## 17. Investments in subsidiaries

During 2017, the Company exchanged its shares in Nautilus Management Resources, Inc. (formerly Global Energy Management Resources, Inc.) and Nautilus Marine Management, Inc. for shares in Nautilus Marine Services US, Inc., formed in 2017 as a US holding company. The subsidiary undertakings in which the Group's interest at year end is equal to or more than 50 per cent are as follows (these undertakings are included in consolidation):

Held Directly	Country of incorporation	Operating segment	Class of share capital held	Proportion held by the Company
Nautilus Marine Services US, Inc.	United States	Holding company	Ordinary	100%
Global Energy Management Resources - Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%
Lagosur Petroluem Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%
Cinco Ranch Petroluem Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%

The following branches and subsidiaries are held by the directly held subsidiaries listed above:

Nautilus Management Resources, Inc.	United States	Corporate	Indirect holding	100%
Nautilus Marine Management Inc.	United States	Offshore	Indirect holding	100%
NMS Star, Inc.	Marshall Islands	Offshore	Indirect holding	100%
NMS Viking, Inc.	Marshall Islands	Offshore	Indirect holding	100%
NMS CD1, LLC	United States	Offshore	Indirect holding	100%
NMS Gulf Holdings, LLC	United States	Offshore	Indirect holding	100%
NMS Rider, LLC	United States	Offshore	Indirect holding	100%
Global Energy Management Resources- Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%
Lagosur Petroluem Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%
Cinco Ranch Petroluem Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%

The list of registered offices is as follows:

Company	Registered Office Address
Nautilus Marine Services PLC	3 More Riverside, London, United Kingdom, SE1 2AQ
Nautilus Marine Services US, Inc.	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
Global Energy Management Resources- Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Lagosur Petroluem Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Cinco Ranch Petroluem Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Nautilus Management Resources, Inc.	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
Nautilus Marine Management Inc.	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
NMS Star, Inc.	Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960
NMS Viking, Inc.	Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960
NMS CD1, LLC	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
NMS Gulf Holdings, LLC	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
NMS Rider, LLC	1675 South State Street, Suite B, Dover, Delaware, United States, 19901
Global Energy Management Resources- Colombia, Inc. Sucursal Colombia	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Lagosur Petroluem Colombia, Inc. Sucursal Colombia	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Cinco Ranch Petroluem Colombia, Inc. Sucursal Colombia	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia



## 18. Inventories

	2018	2017
	\$'000	\$'000
Materials and supplies	111	146
<b>Total inventories</b>	<b>111</b>	<b>146</b>

Materials and supplies inventories are carried at cost.

	2018	2017 <sup>1</sup>
	\$'000	\$'000
For the year ended		
Write-down of inventories charged to the Consolidated Statement of Comprehensive Income	1	-
Provision for obsolescence charged to the Consolidated Statement of Comprehensive Income	-	175

<sup>1</sup> The prior year has been adjusted to reflect the presentation of the Oil and Gas segment as discontinued operations in 2018 (see note 4).

Inventories included a provision for obsolescence as at 31 December 2018 of \$135 thousand related to marine diesel fuel (2017: \$175 thousand).

## 19. Note receivable

	2018	2017
	\$'000	\$'000
Note receivable	4,000	4,000
Accrued interest receivable	13	13
<b>Total note receivable and accrued interest as at 31 December</b>	<b>4,013</b>	<b>4,013</b>
Cash received for interest income	320	366

On 15 September 2015, the Group and HKN, Inc. ("HKN") (collectively as "Co-Lenders") entered into a secured, short-term financing note agreement ("Note Receivable") with Everest Hill Energy Group Ltd. ("Everest") for the principal amount of \$10 million. Everest is an affiliated company of the Quasha family trusts which also have an interest in Lyford Investments, Inc., an existing shareholder of the Group. HKN Inc, the Group's principal shareholder, Lyford Investments, Inc. and its parties acting in concert with it are interested in 22,567,016 shares of the Group, representing 62.49 per cent of the issued share capital of the Company. By virtue of these holdings, entry into this Note Receivable constituted a related party transaction.

Under the Note Receivable, the Group participated as a Co-Lender by loaning \$8.0 million and HKN participated by loaning \$2.0 million of the principal amount to Everest. The Note Receivable is secured by all of Everest's and its subsidiaries' holdings of the Group and HKN. The Group serves as the collateral agent for the Co-Lenders. The Note Receivable was subject to an interest charge of 12 per cent per annum, payable monthly in arrears, with the principal amount being repayable in full on 15 March 2016. Everest paid to the Group a 2 per cent transaction fee of \$160 thousand in September 2015 upon the closing of the Note Receivable.

On 29 February 2016, the Co-Lenders amended the Note Receivable with Everest. Under this amendment, the Group loaned an additional \$2.0 million principal amount to Everest and extended the maturity date six months to 15 September 2016. In addition, the Group was granted right of first refusal to purchase certain offshore oil service vessels owned by Everest and its affiliates. Everest paid to the Group a 2 per cent transaction fee of \$40 thousand upon the execution of the amendment.

On 9 September 2016, the Co-Lenders extended the maturity date of the amended Note Receivable by thirty days to 15 October 2016. On 14 October 2016, the Co-Lenders extended the maturity date thirty days from 15 October 2016 to 15 November 2016. On 28 October 2016, the Group acquired HKN's rights of their outstanding principal amount of \$2.0 million in respect of the Note Receivable and as a result the Group is now the sole lender of the Note Receivable with collateral remaining in place and securing the obligation. On 14 November 2016, the Group extended the maturity date to 15 January 2017. The Note Receivable continued to be subject to an interest charge of 12 per cent per annum, payable monthly in arrears.

On 8 February 2017, the Note Receivable was amended as a result of the completion of Transaction A (as disclosed in note 2). As a result, the principal balance of the note decreased from \$12 million to \$4 million and the maturity date was extended from 15 January 2017 to 15 September 2018. In addition, interest was amended from payable monthly in arrears at 12 per cent per annum to payable quarterly in arrears at 8 per cent per annum.

On 2 August 2018, the Group (the "Lender") amended the Note Receivable with Everest. Under the amendment, the Group extended the maturity date from 15 September 2018 to 30 April 2019. In addition, the amendment provides for a Lender's Call Option which requires Everest to pay \$2 million of the outstanding principal amount no later than thirty days after the Group provides written notice

of the exercise of the Lender's Call Option to Everest. The Note Receivable continues to be subject to an interest charge of 8 per cent per annum, payable quarterly in arrears, and the existing collateral, comprised of Everest's and its affiliates' shareholdings in HKN, which is a substantial shareholder in the Company, remains in place. The change in maturity date did not impact the classification of the Note Receivable on the Consolidated Statement of Financial Position as it continues to be a current asset.

In accordance with the application of IFRS 9 at 1 January 2018, the Group assessed the credit risk of the Note Receivable. The credit risk at the time of initial recognition was considered low and using the credit risk indicators outlined in note 27, management assessed whether the credit risk had increased significantly. Although, the Group modified the terms of the Note Receivable, these modifications were not a result of a deterioration of credit quality. Further, as no other indicators were identified as being present, the Group determined there had not been a significant increase in credit risk as of the reporting date. As such, a loss allowance equal to the twelve month expected credit losses was measured using a probability weighted cash flow approach for a range of possible outcomes. This included estimations by management using significant unobservable inputs, such as the assumption regarding credit worthiness of the borrower, in addition to the payment history of interest obligations. Due to the estimated current value of the collateral exceeding the expected credit losses, no cash shortfall is estimated. As such, no allowance for expected credit losses related to the Note Receivable was recognised within opening equity at 1 January 2018 or as at 31 December 2018 as part of the application of IFRS 9.

## 20. Prepayments and other assets

	2018 \$'000	2017 \$'000
Prepayments	84	286
Prepaid taxes <sup>1</sup>	13	17
<b>Total prepayments and other assets, current</b>	<b>97</b>	<b>303</b>
Prepaid taxes <sup>2</sup>	-	941
Deposits	16	5
<b>Total other assets, non-current</b>	<b>16</b>	<b>946</b>

<sup>1</sup> Prepaid taxes represent tax deposits that could be refunded or offset against taxes payable in 2018.

<sup>2</sup> Prepaid taxes represent VAT deposits that do not expire and are not expected to be offset against taxes payable during the next year. These have been included within assets in disposal group classified as held for sale for the current year.

## 21. Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash and cash equivalents	10,964	16,758

All cash balances constitute demand deposits or short-term investments available at call and held in US Dollars. Details of balances, interest rates on deposits and currency exposures are summarised in note 27.

## 22. Convertible Loan Notes and Interest Payable

As a result of the completion of Transaction B on 8 February 2017 (as disclosed in note 2), the Group issued three series of convertible loan notes in exchange for \$10.5 million in cash and vessels, equipment and inventory with a fair market value of \$5.6 million.

After the reporting period, the Group received voluntary conversion notices from noteholders for the conversion of Series A Loan Notes with a combined nominal value of \$10 million (see note 32 for further details).

A summary of the terms of the convertible loan notes are as follows:

Term:	Convertible Loan Note		
	Series A	Series B	Series C
Principal Amount:	\$10.5 million	\$6.1 million	\$15.0 million
Maturity Date:	1 January 2027 (unless converted to Ordinary Shares before then). Payments on maturity are to be settled in cash.	1 January 2029 (unless converted to Ordinary Shares before then). Payments on maturity are to be settled in cash or satisfied in whole or in part by the issue of Ordinary Shares at the option of the Company.	1 January 2032 (unless converted to Ordinary Shares before then). Payments on maturity are to be settled in cash or satisfied in whole or in part by the issue of Ordinary Shares at the option of the Company.
Interest:	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 8 per cent.	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 6 per cent, payable in cash or satisfied by the issue of Ordinary Shares at the option of the Company.	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 6 per cent, payable in cash or satisfied by the issue of Ordinary Shares at the option of the Company.
Conversion Price:	The outstanding principal amount will be convertible into Ordinary Shares at 50 pence per share, subject to adjustment in certain circumstances.	The outstanding principal amount will be convertible into Ordinary Shares at 160 pence per share, subject to adjustment in certain circumstances.	The outstanding principal amount will be convertible into Ordinary Shares at 225 pence per share, subject to adjustment in certain circumstances.

A holder of convertible loan notes may convert any portion of the outstanding principal amount and (in the case of the Series B Loan Notes and Series C Loan Notes only) any unpaid and accrued interest of the convertible loan notes into Ordinary Shares at the applicable conversion price at any time following thirty days from the issue of the relevant convertible loan notes with a 20-day notice to the Company. All three series of convertible loan notes contain both a fixed exchange rate of \$1.22:£1 and the right for the Company to force conversion if the Company's average share price equals or exceeds 110 per cent of the conversion price for a period of ten consecutive business days. Furthermore, the Company may redeem each issue of convertible loan notes any time after issuance at their nominal value with a 10-day notice to the note holder. For the Series B Loan Notes and Series C Loan Notes only, any amounts not previously converted into shares at maturity will be repaid in cash or by the issuance of shares at a price equal to the higher of (i) the conversion price and (ii) 110 per cent of the average closing price of the Company's shares for ten consecutive business days, at the option of the Company. As a result, the Series B Loan Notes and Series C Loan Notes failed the 'fixed for fixed' classification under IAS 32.

The Group determined the convertible loan notes issued to be compound financial liabilities. The Group classified the conversion features of the Series A Loan Notes as equity due to the fixed settlement terms. Accordingly, the proceeds received on issuance were allocated into their liability and equity components. The Group classified the conversion features of the Series B Loan Notes and Series C Loan Notes as derivative financial liabilities. Accordingly, the proceeds received on issuance were allocated into their host debt liability and embedded derivative components. The following table details the movements of the convertible loan note issuances during the periods ended 31 December 2018 and 2017:

	2018 \$'000	2017 \$'000
Balance at 1 January	15,809	-
Issuance of convertible loan notes	-	16,140
Proportion classified as equity	-	(1,307)
Proportion classified as derivative financial liabilities	-	(780)
Interest payable <sup>1</sup>	2,135	1,663
Accretion expense	(130)	93
<b>Convertible loan notes and accrued interest</b>	<b>17,814</b>	<b>15,809</b>

<sup>1</sup> Of the interest payable, \$1.5 million and \$673 thousand was related to the Series A loan note, which is payable by the Group in cash upon conversion as at 31 December 2018 and 2017, respectively.

## 23. Decommissioning and environmental provisions

	2018 \$'000	2017 \$'000
<b>Long-term provisions</b>		
Decommissioning liability at start of year, non-current <sup>1</sup>	2,712	2,161
Unwinding of discount	273	219
Reclassification from short-term provisions <sup>2</sup>	-	578
Decrease in provision <sup>3</sup>	(240)	(246)
Reclassified to liabilities held for sale <sup>5</sup>	(2,745)	-
Decommissioning liability at end of year, non-current	-	2,712
Total long-term provision	-	2,712
<b>Short-term provisions</b>		
Decommissioning liability at start of year, current <sup>1</sup>	314	810
Reclassification to long-term provisions <sup>2</sup>	-	(578)
Increase in provision <sup>3</sup>	145	82
Reclassified to liabilities held for sale <sup>5</sup>	(459)	-
Decommissioning liability at end of year, current	-	314
Environmental provision - current, at start of year <sup>4</sup>	47	138
Decrease in provision	(36)	(91)
Reclassified to liabilities held for sale <sup>5</sup>	(11)	-
Environmental provision - current, at end of year	-	47
Total short-term provision	-	361

<sup>1</sup> The decommissioning provision represents the present value of decommissioning costs for existing assets in the Group's oil operations, which are expected to be incurred between 2019 and 2024. These provisions have been generated based on the Group's internal estimates, and where available, studies and analyses from external sources. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. As at 31 December 2017, these estimates are included within short-term and long-term provisions within the Consolidated Statement of Financial Position. As a result of the Oil and Gas segment being classified as held for sale in 2018, these estimates were reclassified as liabilities directly associated with assets in disposal group classified as held for sale within the Consolidated Statement of Financial Position as at 31 December 2018. These estimates are reviewed periodically to take into account any material changes to those assumptions.

<sup>2</sup> During 2017, the Group reassessed the scope of the discretionary projects designated as current at the Bolivar area and decided to defer a portion to be performed upon the expiration of the contracts in order to preserve cash on hand. This resulted in the reclassification from short-term to long-term provisions of \$578 thousand during 2017.

<sup>3</sup> Decommissioning cost estimates increase or decrease as a result of management's current estimates and identification of any additional requirements for the final decommissioning for both Contract Areas. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work required at the time assets are decommissioned and abandoned. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates, which in turn is dependent upon future oil and gas prices that are inherently uncertain.

<sup>4</sup> The environmental provision represents the creation of an environmental investment reserve to reflect a liability under Colombian law for certain exploration and producing contracts requiring the Group to perform additional reinvestment in the amount of 1 per cent of specified investment activity to provide for the recovery, conservation, preservation, and monitoring of the hydrographic basin of the exploration areas and obligations to perform social contract requirements. For the 1 per cent reinvestment obligation, a provision is provided and an amount equal to the provision is recognised within the cost of the respective asset and amortised on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provisions and the associated fixed asset. Changes in estimate of other environmental and social obligations are recognised in cost of sales.

<sup>5</sup> As at 31 December 2018 all the decommissioning and environmental liabilities were associated with the Group's Colombian oil operations, which were classified as held for sale at 31 December 2018. As a result, these liabilities are included within liabilities held for sale at 31 December 2018 (see note 3).

## 24. Trade and other payables

	2018 \$'000	2017 \$'000
Trade payables <sup>1</sup>	63	177
Accrued liabilities	317	356
<b>Total trade and other payables</b>	<b>380</b>	<b>533</b>

<sup>1</sup> The decrease in the current year is primarily due to the classification of trade payables related to the Oil and Gas segment as liabilities held for sale in the current year (note 3).

## 25. Corporate and equity tax liability

	2018 <sup>2</sup>	2017 <sup>1</sup>
	\$'000	\$'000
<b>Current tax</b>		
Withholding tax	-	3
VAT receivables	-	(22)
Income tax	48	74
<b>Total corporate and equity tax liabilities</b>	<b>48</b>	<b>55</b>

<sup>1</sup> Corresponds to taxes payable in Colombia, which have been presented as liabilities classified as held for sale in the current year.

<sup>2</sup> Corresponds to taxes payable in the United States for state income and franchise taxes.

## 26. Financial Instruments- Fair Value Measurement

During 2018, the Group issued financial instruments measured at fair value. The Group has assessed the different levels in the fair value hierarchy, for its financial instruments, based on the inputs used in the valuation techniques. The following tables show the valuation techniques used in measuring level 3 fair values, as well as the significant unobservable inputs used.

Type	Level	Measurement	Valuation technique	Significant unobservable inputs
Derivative financial liabilities (derivative component of convertible loan notes)	3	Recurring	Binomial lattice model	Share price volatility
Contingent consideration	3	Recurring	Probability weighted cash forecasts	Operating and cash flow projections

The following table details the movements of the derivative financial liabilities during the periods ended 31 December 2018 and 2017:

	2018	2017
	\$'000	\$'000
Balance at 1 January	262	-
Proportion of convertible loan notes classified as derivative financial liabilities	-	780
Unrealized gain on derivative financial liabilities	(199)	(543)
Foreign exchange movement	(24)	25
<b>Derivative financial liabilities</b>	<b>39</b>	<b>262</b>

During the years ended 31 December 2018 and 2017, gains of \$199 thousand and \$543 thousand, respectively, were recognised on the revaluation of the derivative financial liabilities within finance income and other in the Consolidated Statement of Comprehensive Income.

The contingent consideration relates to the acquisition of offshore service vessel-owning companies which own three vessels as a result of the completion of Transaction B (as disclosed in note 2). The fair value of the contingent consideration related to the future net cash inflows through August 2018 of the three vessels was determined to be \$nil at acquisition and as at 31 December 2017. The duration of the 18-month contingency measurement period expired during August 2018 and there was no contingent consideration due or paid to Everest.

## 27. Financial Instruments- Risk Management

### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Note receivable
- Cash and cash equivalents
- Trade and other payables
- Convertible loan notes
- Derivative financial liabilities

The Group is exposed through its continuing operations to the following risks through holding and issuing financial instruments:

- Market risk
- Credit risk
- Foreign exchange risk

- Liquidity risk

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Group's Managing Director and Finance Director through which it reviews the effectiveness of the processes in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further quantitative information in respect of these risks is presented throughout these financial statements and details regarding these policies are set out below.

	2018	2017
Financial assets and liabilities as per Consolidated Statement of Financial Position:	\$'000	\$'000
<b>Financial assets (all at amortised cost):</b>		
Trade and other receivables, continuing operations	74	7
Trade and other receivables, discontinued operations	6	-
Note receivable	4,013	4,013
Cash and cash equivalents	10,964	16,758
<b>Total financial assets</b>	<b>15,057</b>	<b>20,778</b>
<b>Financial liabilities:</b>		
<b>At amortised cost</b>		
Trade and other payables, continuing operations	380	533
Trade and other payables, discontinued operations	603	-
Convertible loan notes	17,814	15,809
<b>At fair value</b>		
Derivative financial liabilities	39	262
<b>Total financial liabilities</b>	<b>18,836</b>	<b>16,604</b>

#### Market risk

The Group does not consider itself exposed to significant cash flow interest rate risk from its deposits of cash and cash equivalents with banks. The cash balances maintained by the Group are proactively managed in order to ensure that the maximum level of benefit is received for the available funds without affecting the working capital flexibility the Group requires.

The Group does not consider itself exposed to cash flow interest rate risk related to debt instruments in the form of convertible loan notes, which carry fixed interest rates within the terms of the agreements. Through fixing the interest rates within the agreements, the Company considers it has minimised the exposure of the Group to cash flow interest rate risk. No subsidiary company of the Group is permitted to enter into any borrowing facility without the prior consent of the Board. The Group has no floating rate debt. During 2017, the Group issued long-term convertible loan notes, which comprised its fixed rate debt, ranging from fixed interest rates of 6 per cent to 8 per cent.

The interest rate profile of the Group's financial assets and liabilities at 31 December 2018 was as follows:

	US Dollar
US Dollar equivalent of:	\$'000
Cash at bank on which no interest is received	10,964
Fixed rate debt <sup>1</sup>	(17,814)
<b>Net cash</b>	<b>(6,850)</b>

<sup>1</sup> Of this fixed rate debt, \$16.96 million can be settled by the issue of ordinary shares of the Company under the terms of the convertible loan notes (see note 22). See note 32 for post reporting date transactions involving this fixed rate debt.

The profile at 31 December 2017 for comparison purposes was as follows:

	US Dollar
US Dollar equivalent of:	\$'000
Cash at bank on which no interest is received	16,743
Fixed rate debt <sup>1</sup>	(15,809)
<b>Net cash</b>	<b>934</b>

<sup>1</sup> Of this fixed rate debt, \$15.14 million can be settled by the issue of ordinary shares of the Company under the terms of the convertible loan notes (see note 22).

At 31 December 2018, the Group held cash of \$12 thousand (2017: \$15 thousand) in demand deposits and money market investments denominated in Colombian Pesos within its assets classified as held for sale which were subject to floating rates which averaged 0.1 per cent during the year (2017: averaged 0.1 per cent return on investment). Changes in the interest rates would not have a significant impact on the Group's finance income for the interest income generated.

#### *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. Due to the current low number of trade and other receivables, the Group assessed the expected credit losses on an individual account basis. During this process, the probability of the non-payment of the trade receivable is evaluated based on credit quality of the associate and aging of the receivable. As at 31 December 2018, all trade receivables were current and no accounts were identified as having a probability of non-payment due to the nature of the associate. As such, as at 31 December 2018, no allowance for expected credit losses related to trade and other receivables was recognised.

The Group assesses credit risk on its Note Receivable using a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. Management considers the following indicators to assess whether there has been a significant increase in credit risk on the note receivable:

- Past due contractual payments (more than 30 days past due),
- Changes to existing terms of the note because of changes in the credit risk of the financial instrument,
- Deterioration of the value of the collateral,
- Changes in the behavior of the borrower,
- Significant changes to the financial position of the borrower, and
- Expected or increased potential for breaches of covenants and/or events of default.

The credit risk at the time of initial recognition was considered low, the loan was considered fully collateralized and the credit risk for the Note Receivable was not considered to have increased significantly since the initial recognition as of the reporting date. As such, no allowance for expected credit losses related to the note receivable was recognised within opening equity or as at 31 December 2018 as part of the application of IFRS 9 (see note 19 for further discussion).

Credit risk arises from cash and cash equivalents and from exposure via deposits with banks. For cash and cash equivalents, the Group only uses recognised banks with high credit ratings. The Group's cash deposits are mainly held in two banks, which are both independently rated with a minimum grading of "A".

#### *Foreign exchange risk*

Foreign exchange risk arises because the Group has operations located in various parts of the world whose local operational currency is not the same as the presentation currency of the Group. Although its wider market penetration reduces the Group's operational risk, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains and losses on translation into US Dollars. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques. It is the Group's policy to ensure that individual Group entities enter into local transactions in their operational currency and that surplus funds over and above working capital requirements should be transferred to the parent company treasury. The Group considers this policy minimises any unnecessary foreign exchange exposure.

In order to monitor the continuing effectiveness of this policy, the Board, through their approval of capital expenditure budgets and review of management accounts, considers the effectiveness of the policy on an ongoing basis. The following table discloses the exchange rates of those currencies utilised by the Group:

	Pound Sterling	Discontinued Operations
		Colombian Peso
Foreign currency units to \$1.00 US Dollar		
<b>At 31 December 2018</b>	<b>0.787</b>	<b>3,250</b>
At 31 December 2017	0.741	2,984

#### **Currency exposures**

The monetary assets and liabilities of the Group that are not denominated in US Dollars and are therefore exposed to currency fluctuations are shown below. The amounts shown represent the US Dollar equivalent of local currency balances.

	Pound Sterling
US Dollar equivalent of exposed net monetary liabilities from operations	\$'000
<b>At 31 December 2018</b>	<b>(122)</b>
At 31 December 2017	(139)

	Colombian Peso
US Dollar equivalent of exposed net monetary liabilities held for sale	\$'000
<b>At 31 December 2018</b>	<b>(3,572)</b>
At 31 December 2017	(3,696)

#### Foreign currency sensitivity analysis

As at 31 December 2018, the Group holds net monetary liabilities in foreign currencies, mainly in the form of trade payable and accrued liabilities payable in Pound Sterling. Further, the Group's liabilities classified as held for sale is comprised of decommissioning and environmental provisions denominated in the Colombian Peso. As such, the Group is exposed to fluctuations in exchange rates.

A sensitivity analysis based on a 10 per cent volatility assumption is used to estimate the potential impact of variations in foreign exchange rates from the US Dollar against the relevant foreign currencies. A positive number below indicates a decrease in the net loss from operations where the US Dollar strengthens against the relevant currency. For a 10 per cent weakening of the US Dollar against the relevant currency, there would be a comparable impact increasing the loss from operations, and the balances below would be negative.

	Pound Sterling
Currency Impact on Loss from Operations	\$'000
<b>At 31 December 2018</b>	<b>12</b>
At 31 December 2017	14

	Colombian Peso
Currency Impact on Loss from Discontinued Operations	\$'000
<b>At 31 December 2018</b>	<b>357</b>
At 31 December 2017	370

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the investment activities. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. As at 31 December 2018, the Group has no near-term debt and its interest payment obligations are not due until the maturity of its long-term debt. In addition, the Group does not have any mandatory drilling obligations related to its Oil and Gas segment or long-term commitments related to its Offshore segment. The Group will seek to reduce future liquidity risk through strong cost controls, divestitures of non-strategic assets, and monthly updates of its forecast results and cash flows, in order to provide the Group with solid tools to monitor, define and approve all cash uses with the purpose of ensuring the funds required to develop the expected operational activities.

The Group maintains an integrated business performance and cash flow forecasting model, incorporating the most recent Consolidated Statement of Financial Position information (updated monthly) with the business plan and current year budget and management expectations. The Group's performance against budget and associated cash flow forecast is evaluated on a monthly basis. The Group's management reviews rolling 12-month cash flow projections on a periodic basis, as well as information regarding cash balances and the Group's performance against budget. At the reporting date, these projections indicate that the Group expected to have sufficient liquidity to meet its obligations under all reasonably expected circumstances.



The following tables illustrate the contractual maturity analysis of the Group's financial liabilities:

	2018	2017
Analysis of current financial liabilities include:	\$'000	\$'000
Up to 3 months <sup>1</sup>	963	402
3 to 6 months	-	131
Over 6 months <sup>2</sup>	20	-
<b>Total current financial liabilities</b>	<b>983</b>	<b>533</b>

<sup>1</sup> Includes \$583 thousand in trade payables and accrued liabilities included within liabilities held for sale in the current year (note 3).

<sup>2</sup> Includes \$20 thousand in trade payables and accrued liabilities included within liabilities held for sale in the current year (note 3).

	2018	2017
Analysis of debt include:	\$'000	\$'000
Between five and ten years	8,346	-
In ten years or more	9,468	15,809
<b>Total</b>	<b>17,814</b>	<b>15,809</b>

### Capital management policies

The Board has established guidelines and policies which are for the management of the Group's capital resources, including shareholder equity and debt, based on a long-term strategy against which the Board continually evaluates and monitors the achievement of corporate objectives and the development of the Group's portfolio in core areas. Specific capital management policies set forth include the following:

- the reinvestment of all profits into new and existing assets that fit the corporate objectives;
- consolidation of positions in developing regions and disposition of assets of low materiality or where meaningful operational influence cannot be achieved;
- identification of the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows;
- the hiring and maintenance of highly qualified employees through effective manpower management processes, including compensation and benefit programmes in concert with ongoing training and motivational programmes; and
- the retention of maximum flexibility to allocate capital resources between projects based on available funds and quality of opportunities.

On a monthly basis, management receives financial and operational performance reports that enable continuous management of assets, liabilities and liquidity. In addition, management communicates frequently with the Board of Directors to provide consistent information and data to evaluate and measure the achievement of objectives. The above policies and practices are consistent with strategies and objectives employed in prior years and are expected to remain consistent in the extension of future resource allocation objectives.

### 28. Share capital

	2018 Number of shares	2018 \$'000	2017 Number of shares	2017 \$'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	36,112,187	608	36,112,187	608

After the reporting period, the Group allotted an additional 16,393,442 fully paid ordinary shares at 1p each as a result of the voluntary conversion from two noteholders for the conversions of Series A Loan Notes with a combined nominal value of \$10 million (see note 32 for further details).

The ordinary shares confer the right to vote at general meetings of the Company, to a repayment of capital in the event of liquidation or winding up and certain other rights as set out in the Company's articles of association. The ordinary shares also confer the right to receive dividends if declared by the Directors and approved by the Company. Pursuant to the terms of the convertible loan notes issued during 2017, the Company is precluded from declaring or paying any dividends for three years following the issuance date.

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share capital	Represents the nominal value of shares issued.
Share premium	Amount subscribed for share capital in excess of nominal value.
Capital reserve	Reserve created on issue of shares for acquisitions of subsidiaries in prior years.
Other reserves	Equity element of convertible loan notes accounted for in accordance with IAS 32 and IAS 39.
Accumulated losses	Cumulative net losses recognised in the Consolidated Statement of Comprehensive Income.

The transfer from the capital reserve to accumulated losses during 2017 of \$21.4 million is a result of a presentation adjustment to reflect the capital reserve net of a previously recorded capital reserve allowance of \$21.4 million presented within accumulated losses. The net effect of the transfer within owners' equity is \$nil.

## 29. Share-based payments

### Equity-settled – Discretionary share option incentive plan

Prior to December 2018, the Group periodically granted share options to employees and Directors, as approved by the Board under the Company's share option scheme. The vesting period and expiration date of the granted options is determined for each grant. For grants prior to 2017, vested options can be exercised up to expiration, or 24 months after the resignation or termination of the Director or employee, whichever is the earlier.

In December 2018, the Group terminated the Company's equity-settled option scheme. As a result, the remaining share-based payment expense was accelerated and the grantees with valid outstanding options received a cash payment in exchange for the cancellation of the options. As at 31 December 2018 and 2017 the following share options were outstanding in respect of the ordinary shares:

#### Year ended 31 December 2018

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Cancelled upon plan termination	Number of shares	Number exercisable at year end	Start date	End date	Price per share
2002	1,400,000	-	-	(1,400,000)	-	-	31.01.2002	31.01.2019	50.0p
2004	240,000	-	-	(240,000)	-	-	03.12.2004	03.12.2019	151.1p
2005	40,000	-	-	(40,000)	-	-	08.12.2005	08.12.2018	265.1p
2008	250,000	-	-	(250,000)	-	-	11.02.2008	11.02.2018	100.0p
2008	260,000	-	-	(260,000)	-	-	11.12.2008	11.12.2018	70.0p
2011	-	-	-	-	-	-	06.10.2011	06.10.2021	83.0p
2012	50,000	-	(50,000)	-	-	-	13.07.2012	13.07.2022	100.0p
2013	60,000	-	-	(60,000)	-	-	01.10.2013	01.10.2023	100.0p
2014	50,000	-	-	(50,000)	-	-	01.04.2014	01.04.2024	100.0p
2017	1,110,000	-	(250,000)	(860,000)	-	-	31.03.2017	31.03.2027	50.0p
2017	25,000	-	(25,000)	-	-	-	26.10.2017	26.10.2027	50.0p
<b>Total</b>	<b>3,485,000</b>	<b>-</b>	<b>(325,000)</b>	<b>(3,160,000)</b>	<b>-</b>	<b>-</b>			

#### Year ended 31 December 2017

Year of grant	Number of shares	Issued in year	Forfeited/ lapsed	Number of shares	Number exercisable at year end	Start date	End date	Price per share
2002	2,415,196	-	(1,015,196)	1,400,000	1,400,000	31.01.2002	31.01.2019	50.0p
2004	450,000	-	(210,000)	240,000	240,000	03.12.2004	03.12.2019	151.1p
2005	40,000	-	-	40,000	40,000	08.12.2005	08.12.2018	265.1p
2008	300,000	-	(50,000)	250,000	250,000	11.02.2008	11.02.2018	100.0p
2008	500,000	-	(240,000)	260,000	260,000	11.12.2008	11.12.2018	70.0p
2011	125,000	-	(125,000)	-	-	06.10.2011	06.10.2021	83.0p
2012	50,000	-	-	50,000	50,000	13.07.2012	13.07.2022	100.0p
2013	63,334	-	(3,334)	60,000	60,000	01.10.2013	01.10.2023	100.0p
2014	50,000	-	-	50,000	50,000	01.04.2014	01.04.2024	100.0p
2017	-	1,560,000	(450,000)	1,110,000	-	31.03.2017	31.03.2027	50.0p
2017	-	25,000	-	25,000	-	26.10.2017	26.10.2027	50.0p
<b>Total</b>	<b>3,993,530</b>	<b>1,585,000</b>	<b>(2,093,530)</b>	<b>3,485,000</b>	<b>2,350,000</b>			

The initial fair values of awards granted under the Group's equity option plan have been calculated using the Black-Scholes option pricing model that takes into account factors specific to share incentive plans such as the vesting periods, estimated share price volatility, the expected dividend yield on the Company's shares and expected exercise of share options. The following principal assumptions were used in the valuation:

Grant date	Share price at date of grant	Exercise price	Volatility	Option life	Dividend yield	Risk-free investment rate	Employee turnover	Fair value of options
3 Dec 2004	151.1p	151.1p	36.73%	5 Dec 2019	0%	4.65%	3.7 years	51p
8 Dec 2005	265.1p	265.1p	33.02%	8 Dec 2018	0%	4.23%	3.3 years	76p
11 Feb 2008	82.4p	100.0p	53.14%	11 Feb 2018	0%	4.49%	4.2 years	47p
11 Dec 2008	67.5p	70.0p	55.63%	11 Dec 2018	0%	4.49%	3.8 years	32p
6 Oct 2011	87.0p	83.0p	49.57%	6 Oct 2021	0%	1.58%	5.0 years	23p
13 Jul 2012	76.0p	100.0p	49.57%	13 Jul 2022	0%	0.75%	3.0 years	19p
1 Oct 2013	98.5p	100.0p	49.57%	1 Oct 2023	0%	1.53%	3.0 years	34p
1 Apr 2014	72.5p	100.0p	49.57%	1 Apr 2024	0%	1.99%	3.0 years	18p
31 Mar 2017	14.0p	0.50p	55.00%	31 Mar 2027	0%	1.16%	7.4 years	4p
26 Oct 2017	9.8p	0.50p	55.00%	26 Oct 2027	0%	1.38%	7.4 years	2p

### Expense arising from share-based payments

The expense arising from equity-settled share options made to employees was \$185 thousand for the period, of which \$173 thousand was related to the cancellation payment for the plan termination, of which \$16 thousand is related to the accelerated vesting of the shares granted in 2017. In addition, expense arising from equity settled share options based on the initial fair values of the awards granted and expected employee turnover was \$12 thousand (2017: \$14 thousand)

### 30. Operating lease commitments

The Group's operating leases as at 31 December 2018 consist of a dock lease for the offshore service vessels. The Group's operating leases as at 31 December 2017 consisted of a corporate office lease, an office equipment lease and a dock lease for the offshore service vessels acquired in February 2017. The Group had the option to renew the dock lease for two consecutive one year terms, which it executed. During the year ended 31 December 2018 and 2017, the Group recognised \$407 thousand and \$385 thousand in operating lease payments, respectively. The Group made no payments related to contingent rents or sublease payments during 2018 and 2017.

The following table details the non-cancellable operating lease commitments:

	2018	2017
	\$'000	\$'000
Not later than 1 year	132	387
<b>Total</b>	<b>132</b>	<b>387</b>

### 31. Related party disclosures

HKN, Everest, and its parties in concert are major shareholders of the Company. During 2017, the Group completed the acquisition of offshore service vessel-owning companies through two separate transactions from Everest and other related parties (see note 2). As part of the transactions, the Group amended its outstanding Note Receivable with Everest (see note 19).

In addition, during the year ended 31 December 2017, the Group purchased an automobile for \$35 thousand and \$8 thousand in furniture and computer equipment from HKN. No payments were made for assets during 2018.

The Group entered into agreements with Oil and Advisors LTD, in which Zac Phillips, a non-executive director, performed independent consulting services. The Group paid \$15 thousand and \$17 thousand for contract services during the years ended 31 December 2018 and 2017, respectively.

In December 2018, the Group entered into an agreement with Mr. Faulkner, to perform advisory services effective 1 January 2019 through 30 June 2019. This agreement may be terminated by either party with 30 days' notice. The total fees to be paid over the term of this agreement, if not early terminated, amount to \$60 thousand. No payments were paid or payable under this agreement as at 31 December 2018.

### 32. Post reporting date events

After the reporting date, the Group received voluntary conversion notices from noteholders. In January 2019, McLarty Capital Partners, converted all of their Series A Loan Notes with a nominal value of \$7.64 million. As a result of the conversion, the Group made payments for the settlement of accrued interest payable of \$1.1 million and issued 12,524,590 new ordinary shares at 1p each. In February 2019, Aeterna Capital Fund II, LLC, converted all their Series A Loan Notes transferred from Caleura Limited with a nominal value of \$2.36 million. As a result of the conversion, the Group made payments for the settlement of accrued interest payable of \$366 thousand and issued 3,868,852 new ordinary shares at 1p each.

In addition, the Group closed on sales of certain offshore equipment and inventory for proceeds of \$506 thousand after the reporting date. These disposals resulted in a gain on disposal of assets of \$92 thousand.

# Company Accounts

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# Statement of Financial Position

As at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	5	15	29
Property, plant and equipment		-	-
Other non-current assets		5	5
Investment in subsidiaries	6	10,441	16,299
<b>Total non-current assets</b>		<b>10,461</b>	<b>16,333</b>
<b>Current assets</b>			
Note receivable and accrued interest	7	4,013	4,013
Trade and other receivables		-	2
Prepayments and other assets	8	41	137
Cash and cash equivalents	9	10,025	16,595
		14,079	20,747
Assets in the disposal group classified as held for sale	2	3,740	-
<b>Total current assets</b>		<b>17,819</b>	<b>20,747</b>
<b>Total assets</b>		<b>28,280</b>	<b>37,080</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible loan notes and accrued interest	10	(17,814)	(15,809)
<b>Total non-current liabilities</b>		<b>(17,814)</b>	<b>(15,809)</b>
<b>Current liabilities</b>			
Trade and other payables	11	(192)	(176)
Derivative financial liabilities	10	(39)	(262)
<b>Total current liabilities</b>		<b>(231)</b>	<b>(438)</b>
<b>Total liabilities</b>		<b>(18,045)</b>	<b>(16,247)</b>
<b>Net assets</b>		<b>10,235</b>	<b>20,833</b>
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	12	608	608
Share premium		27,139	27,139
Capital reserve		-	-
Other reserves	10	1,307	1,307
Accumulated losses		(18,819)	(8,221)
<b>Total equity</b>		<b>10,235</b>	<b>20,833</b>

The Company loss after tax for the year was \$10,616,280 (2017: loss \$8,131,880)

These financial statements were approved by the Board of Directors and authorised for issue on 5 March 2019 and were signed on its behalf by:

**Mikel Faulkner**  
Non-Executive Chairman  
5 March 2019



**Nautilus Marine Services PLC**  
3 More London Riverside  
London SE1 2AQ  
UK

The notes on pages 70 to 77 form an integral part of these financial statements.

# Statement of Changes in Equity

For the 12 months ended 31 December 2018

	Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Other reserves \$'000	Accumulated losses \$'000	Total equity \$'000
At 1 January 2017		608	27,139	21,420	-	(21,523)	27,644
Comprehensive loss for the year:							
Total loss for the year		-	-	-	-	(8,132)	(8,132)
Other comprehensive income/(loss)		-	-	-	-	-	-
Total comprehensive loss for the year attributable to equity owners of the parent		-	-	-	-	(8,132)	(8,132)
Transaction with owners:							
Share-based payment - options equity settled		-	-	-	-	14	14
Capital reserve transfer	11	-	-	(21,420)	-	21,420	-
Equity proportion of convertible loan note	9	-	-	-	1,307	-	1,307
Other movements within equity		-	-	(21,420)	1,307	21,434	1,321
At 1 January 2018		608	27,139	-	1,307	(8,221)	20,833
Comprehensive loss for the year:							
Total loss for the year		-	-	-	-	(10,616)	(10,616)
Other comprehensive income/(loss)		-	-	-	-	-	-
Total comprehensive loss for the year attributable to equity owners of the parent		-	-	-	-	(10,616)	(10,616)
Transaction with owners:							
Share-based payment - options equity settled		-	-	-	-	28	28
Cash settlement of share-based payment options		-	-	-	-	(10)	(10)
Other movements within equity		-	-	-	-	18	18
At 31 December 2018		608	27,139	-	1,307	(18,819)	10,235

The notes on pages 70 to 77 form an integral part of these financial statements.

## Statement of Cash Flows

For the 12 months ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Cash used by operations	4	(6,722)	(10,711)
Tax paid (continuing and discontinued operations)		-	-
<b>Net cash used in operating activities</b>		<b>(6,722)</b>	<b>(10,711)</b>
<b>Cash flows from investing activities</b>			
Interest on note receivable	7	320	366
<b>Net cash provided by investing activities</b>		<b>320</b>	<b>366</b>
<b>Cash flows from financing activities</b>			
Cash settlement of share-based payment options	13	(168)	10,500
<b>Net cash (used in)/provided by investing activities</b>		<b>(168)</b>	<b>10,500</b>
<b>(Decrease)/increase in cash and cash equivalents for the year</b>		<b>(6,570)</b>	<b>155</b>
Cash and cash equivalents at beginning of year		16,595	16,440
<b>Cash and cash equivalents at the end of year</b>		<b>10,025</b>	<b>16,595</b>

The notes on pages 70 to 77 form an integral part of these financial statements.

# Notes to the Financial Information

For the 12 months ended 31 December 2018

## 1. Accounting policies

### Basis of preparation

The financial statements of the Company for the 12 months ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU").

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018 (see note 1 in the Group Financial Statements).

### Results and dividends

In accordance with the provisions of section 408 of the Companies Act 2006, the Company has elected not to present a profit and loss account. The Directors do not propose to recommend any distribution by way of a dividend for the year ended 31 December 2018 (2017: \$nil).

### Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is probable, the asset (or disposal group) is available for immediate sale in its present condition and the Board and management is committed to the sale which is expected to be within one year from the date of classification.

Immediately prior to classifying disposal groups as held for sale, the carrying amounts of the non-current assets in the disposal group are measured in accordance with applicable standards and are reviewed for possible impairment or impairment reversal. As such, the carrying amounts of those assets are written up or down to their recoverable amount. The recoverable amount is deemed to be the higher of the value-in-use and fair value less costs to sell. Upon classification as held for sale, the disposal group is measured at the lower of the carrying value and the fair value less costs to sell. Following their classification as held for sale, non-current assets and liabilities (including those in a disposal group) are no longer depreciated or accreted. Assets classified as held for sale and the corresponding liabilities are classified within separate lines in the Statement of Financial Position.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale. Included in the Company's net loss from after tax, was a \$1.7 million loss from discontinued operations during the 2018 period (2017: \$2.6 million).

### Financial instruments

#### Financial assets

The Company classifies its financial assets into trade receivables and cash and cash equivalents. Cash and cash equivalents comprise cash in hand, deposits with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into known amounts of cash and overdrafts repayable on demand.

The Company has not classified any of its financial assets at fair value through profit and loss or fair value through other comprehensive income.

#### Financial Liabilities

The Company classifies its financial liabilities depending on the purpose for which the liability was acquired. Financial liabilities are classified as either held at fair value through profit or loss or other financial liabilities measured at amortised cost using the effective interest method.

#### Convertible Loan Notes

The components of the convertible loan notes that exhibit characteristics of a liability are recognised as a liability, net of transaction costs. The conversion features were analysed to determine the appropriate classification between embedded derivative liabilities and equity.



Conversion features that meet the 'fixed for fixed' classification under IFRS 9 are accounted for as equity. Accordingly, the proceeds received on issue of the convertible loan notes are allocated into their host debt liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. The remainder of the proceeds are allocated to the other reserves within equity, net of income tax effects, and are not subsequently remeasured.

Conversion features that fail equity classification or the 'fixed for fixed' classification under IFRS 9 are accounted for as derivative financial liabilities. Accordingly, the proceeds received on issue of convertible loan notes are allocated into their host debt liability and derivative financial liability components. The debt instrument is initially measured as its fair value plus transaction costs that are directly attributable to the acquisition. The embedded derivative component is measured at fair value with changes in value being recorded through profit or loss.

Subsequent to issue, the debt components of the convertible loan notes are accounted for as financial liabilities and measured at amortised cost using the effective interest rate method until it is extinguished on conversion, repurchase or redemption. Accreted interest is charged to finance expense, within the Statement of Comprehensive Income by the entity that receives the benefit of the financing activities, over the life of the notes.

#### *Derivative Financial Liabilities*

Derivative financial liabilities, which are not designated as hedging instruments, consist of embedded conversion options in convertible loan notes. These liabilities are initially measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates. Changes in the fair value are recognised in the Statement of Comprehensive Income and are included within derivative financial liabilities in the Statement of Financial Position.

#### *Contingent Consideration*

Contingent consideration arising as a result of asset acquisitions are initially recognised at fair value using a probability adjusted cash projection model. The fair value of the contingent consideration will be remeasured to fair value at subsequent reporting dates for the duration of the contingency measurement period. Adjustments to contingent consideration are recognised in the Statement of Comprehensive Income. The Company's cash projection model related to contingent consideration issued pursuant to the offshore asset acquisitions resulted in no value being assigned to the contingent consideration derivative liability as at 31 December 2017. The duration of the 18-month contingency measurement period expired during August 2018 and there was no contingent consideration due or paid to Everest. As at 31 December 2018 the Company had no contingent consideration liabilities.

#### **Fair Value Measurements**

Financial instruments evaluated at fair value can be classified according to the following valuation hierarchy, which reflects the extent to which the inputs used in the valuation technique utilised are observable:

- Level 1: Quoted prices in active markets (not adjusted) for identical items.
- Level 2: Observable direct or indirect inputs other than Level 1 inputs.
- Level 3: Unobservable inputs (not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period in which they occur.

#### **Investments**

Investments in subsidiaries are included in the accounts at cost less provision for impairment.

#### **Property, plant and equipment**

Depreciation is charged on fixed assets so as to write off the cost, less estimated residual value, on a straight-line basis over their useful lives of between three and five years.

#### **Intangible assets**

Intangible assets include computer software with a finite life.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation calculated on a straight-line basis over their useful lives of three years. Amortisation begins at the point the asset is ready for its intended use.

#### **Impairment**

At each reporting date, the Company reviews the carrying amount of its investments, fixed assets and acquired intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Any impairment loss arising from the review is charged to the Consolidated Statement of Comprehensive Income whenever the carrying amount of the asset exceeds its recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment charge was recognised. If this is the case the carrying amount of the asset is increased to its recoverable amount, not to exceed the carrying amount that would have been

determined, net of depreciation, had no impairment charges been recognised for the asset in prior years.

## **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

### *Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the primary financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

As at 31 December 2018 and 2017, the Company has not recognised deferred tax assets for tax and capital losses carried forward as it is not considered probable that there will sufficient future taxable profits available for offset.

## **Share-based payments**

In accordance with IFRS 2 'Share-based payments', the Company reflects the economic cost of awarding shares and share options to employees and Directors by recording an expense in the Statement of Comprehensive Income equal to the fair value of the benefit awarded. The expense is recognised in the Statement of Comprehensive Income over the vesting period of the award. Fair value is measured by use of a binomial model which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where share-based payments are awarded in lieu of services, the fair value of the share-based payment is considered to be the value of services.

In December 2018, the Company terminated its equity-settled option scheme. As a result, grantees with valid outstanding options received a cash payment in exchange for the cancellation of the options. As of 31 December 2018, there were no options outstanding.

## **Post retirement benefits**

The Company contributes to a defined contribution scheme at the discretion of the Board of Directors. Contributions are charged to the Statement of Comprehensive Income as they become payable.

## **Foreign currencies**

Transactions entered into by the Company in a currency other than the currency of the primary economic environment in which it operates (its "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Statement of Comprehensive Income.

## **2. Assets in Disposal Group Classified as Held for Sale**

In December 2018, the Company, with the support of the Board, committed to divest of its Oil and Gas segment, which is comprised of its three wholly-owned subsidiaries, Global Energy Management Resources-Colombia, Inc., Lagosur Petroleum Colombia, Inc. and Cinco Ranch Petroleum Colombia, Inc. (the "Disposal Group"). The Disposal Group holds the Bolivar and Bocachico Contracts in the Magdalena Valley of Colombia. The Group began evaluating divestment and strategic partnering opportunities for the Disposal Group during 2017. Following these initial evaluations, the Board and Group's management team believe the sale of the Company's investments in the Middle Magdalena Basin presents a significant opportunity to realise cash value from these non-strategic assets while eliminating the associated annual operating costs and future abandonment obligations. While several expressions of interest have been made, as at 31 December 2018 a purchase and sale agreement had not been executed. However, the Company expects a sale to be complete within 12 months.

Prior to classifying the Oil and Gas segment as held for sale, the carrying amounts of the investments were measured and reviewed for possible impairment or impairment reversal. This review resulted in a net impairment charge of \$118 thousand at 31 December 2018 relating to the subsidiaries included in the Oil and Gas segment (see note 6). Upon classification as held for sale as at 31 December 2018, the investment was measured at the lower of the carrying amount and the fair value less costs to sell, which is categorised as a Level 3 non-recurring fair value measurement. Depending on the terms of a final purchase and sale agreement, a subsequent recognition of a gain or loss on the sale of the Disposal Group may result.

The following class of assets related to this Disposal Group that have been classified as held for sale in the Company's Statement of Financial Position as at 31 December 2018:

	2018 \$'000
Investment in subsidiaries <sup>1</sup>	3,740
<b>Assets in disposal group classified as held for sale</b>	<b>3,740</b>

<sup>1</sup> See note 6 for investment details by subsidiary.

### 3. Staff costs and audit fees

The Company retained three Non-executive Directors during both 2018 and 2017. The disclosures relating to the Non-executive Directors' remuneration for the current and prior year, as well as shareholdings and share option interests are shown in the tables within the Remuneration Committee Report on pages 19 and 20.

The Company had one employee during a portion of 2017, who was also considered a key management personnel. As at 31 December 2018 and 2017, the Company had nil employees (excluding Non-executive Directors).

The Company employee costs during the year amount to:

	2018 \$'000	2017 \$'000
Wages and salaries	-	51
Social security costs and other payroll taxes	-	7
Share-based payments - options - equity settled <sup>1</sup>	185	14
<b>Total employee costs</b>	<b>185</b>	<b>72</b>

<sup>1</sup> The increase in 2018 is primarily due to the termination of the share-based payment option plan in December 2018 (see note 29 in the Group Financial Statements). Share-based payment expense during 2018 to Non-executive Directors was \$13 thousand (2017: nil). Share-based payment expense during 2018 was \$161 thousand (2017: \$12 thousand) related to key management personnel.

See note 8 in the Group Financial Statements for disclosures relating to the audit fees incurred during the current and prior year.

### 4. Notes to the Statement of Cash Flows

(a) Reconciliation of loss before taxation to net cash used in operations

	2018 \$'000	2017 \$'000
<b>Loss before tax</b>	<b>(8,885)</b>	<b>(8,132)</b>
Adjustments for:		
Amortisation of intangible assets	5	15
Impairment charge on receivables	14	3,474
Impairment charges/(reversal) of investments, net	6	(2,658)
Share based expense	13	14
Interest income	14	(366)
Interest and accretion expense on convertible loan notes	10	1,756
Gain on derivative financial instruments	10	(543)
<b>Operating cash flow before movements in working capital</b>	<b>(3,180)</b>	<b>(6,440)</b>
Increase in trade and other receivables	(3,399)	(3,418)
Decrease in trade and other payables	(7)	(853)
<b>Cash used in discontinued operations</b>	<b>(136)</b>	<b>-</b>
<b>Cash used by operations</b>	<b>(6,722)</b>	<b>(10,711)</b>

(b) Significant non-cash transactions

During the year ended 31 December 2017, the Company acquired property, plant and equipment comprised of offshore service vessels and dive and operating equipment valued at \$13.3 million and inventory valued at \$303 thousand through the forgiveness of \$8 million of the outstanding principal amount of the Note Receivable and issuance of convertible loan notes.

During the year ended 31 December 2018, the Company had no significant non-cash transactions.

(c) Reconciliation of liabilities arising from financing activities

	2017	Non-cash changes					2018
		Cash flows	Acquisition	Foreign exchange movement	Fair value changes	Interest Payable	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Convertible loan notes	15,809	-	-	-	-	2,135	(130)
Derivative liabilities	262	-	-	(24)	(199)	-	39
<b>Total liabilities from financing activities</b>	<b>16,071</b>	<b>-</b>	<b>-</b>	<b>(24)</b>	<b>(199)</b>	<b>2,135</b>	<b>(130)</b>

	2018	Non-cash changes					2017
		Cash flows	Acquisition	Foreign exchange movement	Fair value changes	Interest Payable	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Convertible loan notes	-	10,500	3,553	-	-	1,663	93
Derivative liabilities	-	-	780	25	(543)	-	262
<b>Total liabilities from financing activities</b>	<b>-</b>	<b>10,500</b>	<b>4,333</b>	<b>25</b>	<b>(543)</b>	<b>1,663</b>	<b>93</b>

5. Intangible assets

The balance in intangible assets was associated with the costs of the Company's accounting systems. This software has a finite life and will be amortised over its useful life. Amortisation during the year ended 31 December 2018 was \$15 thousand (2017: \$15 thousand).

6. Investments in subsidiaries

Prior to classification as held for sale, the carrying amounts of the investments within the Disposal Group were reviewed and compared to the amount expected to be recovered through a disposal transaction measured at fair value less costs to sell. Management determined the estimated recoverable amount for Cinco Ranch Petroleum Colombia, Inc. is higher than the carrying amount of the investment immediately prior to classification as held for sale and as a result recognised an impairment reversal of \$178 thousand. Management determined the estimated recoverable amount for Lagosur Petroleum Colombia, Inc. to be lower than the carrying amount of the investment and as a result recognised an impairment charge of \$296 thousand. See note 16 in the Group Financial Statements for details regarding management's valuation techniques and significant inputs used in determining the fair value, which is categorised as a Level 3 non-recurring fair value measurement.

During 2017, the Company exchanged its shares in Nautilus Management Resources, Inc. (formerly Global Energy Management Resources, Inc.) and Nautilus Marine Management, Inc. for shares in Nautilus Marine Services US, Inc., formed in 2017 as a US holding company. The Company's investments in its subsidiaries are carried at cost, less any impairment recognised. The Company's investments in directly held interest comprised of the following:

As At 31 December 2018

	At 1 January 2018	Increase	Impairment Reversal/ (Charge)	At 31 December 2018
	\$000	\$000	\$000	\$000
Lagosur Petroleum Colombia, Inc. <sup>1</sup>	3,858	-	(296)	3,562
Cinco Ranch Petroleum Colombia, Inc. <sup>1</sup>	-	-	178	178
Nautilus Marine Services US, Inc. <sup>2</sup>	12,441	-	(2,000)	10,441
<b>Total</b>	<b>16,299</b>	<b>-</b>	<b>(2,118)</b>	<b>14,181</b>

<sup>1</sup> Net impairment charge of \$118 thousand related to the measurement of the disposal group to the estimated recoverable amount of fair value less costs to sell (see note 4 in the Group Financial Statements for discussion). These investments have been classified as held for sale as at 31 December 2018.

<sup>2</sup> Impairment charge of \$2 million on the investment in Nautilus Marine Services US, Inc. based on the fair value of the assets held by its wholly-owned subsidiaries.

**As At 31 December 2017**

	At 1 January 2017	Increase	Impairment Reversal/ (Charge)	At 31 December 2017
	\$000	\$000	\$000	\$000
Lagosur Petroleum Colombia, Inc. <sup>1</sup>	-	-	3,858	3,858
Nautilus Marine Services US, Inc. <sup>2</sup>	-	13,641	(1,200)	12,441
<b>Total</b>	<b>-</b>	<b>13,641</b>	<b>2,658</b>	<b>16,299</b>

<sup>1</sup> Impairment reversal of \$4 million related to the recovery of oil and gas property value in the Bolivar area (see note 4 in the Group Financial Statements for discussion). This investment has been classified as held for sale as at 31 December 2018.

<sup>2</sup> Impairment charge of \$1.2 million on the investment in Nautilus Marine Services US, Inc. based on the fair value of the assets held by its wholly-owned subsidiaries.

The subsidiary undertakings in which the Company's directly-held interest at the year-end is equal to or more than 50 per cent are as follows (these undertakings are included on consolidation):

Held Directly	Country of incorporation	Operating segment	Class of share capital held	Proportion held by the Company
Nautilus Marine Services US, Inc.	United States	Holding company	Ordinary	100%
Global Energy Management Resources- Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%
Lagosur Petroleum Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%
Cinco Ranch Petroleum Colombia, Inc.	Panama	Disposal group held for sale	Ordinary	100%

The following branches are included in the subsidiaries listed above:

Nautilus Management Resources, Inc.	United States	Corporate	Indirect holding	100%
Nautilus Marine Management Inc.	United States	Offshore	Indirect holding	100%
NMS Star, Inc.	Marshall Islands	Offshore	Indirect holding	100%
NMS Viking, Inc.	Marshall Islands	Offshore	Indirect holding	100%
NMS CD1, LLC	United States	Offshore	Indirect holding	100%
NMS Gulf Holdings, LLC	United States	Offshore	Indirect holding	100%
NMS Rider, LLC	United States	Offshore	Indirect holding	100%
Global Energy Management Resources- Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%
Lagosur Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%
Cinco Ranch Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Disposal group held for sale	Indirect holding	100%

For additional information on the subsidiary undertakings in which the Company held an indirect interest at the year-end, please see note 17 in the Group Financial Statements.

**7. Note receivable**

See note 19 in the Group Financial Statements.

**8. Prepayments and other assets**

	2018 \$'000	2017 \$'000
Prepayments	28	126
Prepaid taxes <sup>1</sup>	13	11
Prepayments and other assets	41	137

<sup>1</sup>Prepaid taxes represent tax deposits that could be refunded or offset against taxes payable in 2018.

**9. Cash and cash equivalents**

	2018 \$'000	2017 \$'000
Cash and cash equivalents	10,025	16,595

All cash balances constitute demand deposits available at call and held in US Dollars.

**10. Convertible loan notes and interest payable**

See note 22 in the Group Financial Statements.

**11. Trade and other payables**

	2018 \$'000	2017 \$'000
Trade payables	37	23
Accrued liabilities	155	153
Trade and other payables	192	176

**12. Share capital**

See note 28 in the Group Financial Statements.

**13. Share-based payments**

See note 29 in the Group Financial Statements.

**14. Related party disclosures**

Everest Hill Group Energy Ltd. ("Everest") is an affiliated company of the Quasha family trusts which also have an interest in Lyford Investments, Inc., an existing shareholder of the Company. HKN Inc. ("HKN"), the Company's principal shareholder, Lyford Investments, Inc. and its parties acting in concert with it are interested in 22,567,016 shares of the Company, representing 62.49 per cent of the issued share capital of the Company. By virtue of these holdings, the following items constitute related party transactions:

**a) Investing and financing activities**

	2018 \$'000	2017 \$'000
Issuance of convertible loan notes pursuant to Transaction B <sup>2</sup>	-	10,500
Interest income, fees and cost reimbursement <sup>1</sup>	320	366
	320	10,866

**b) Purchase of services:**

	2018 \$'000	2017 \$'000
Service fees <sup>3</sup>	15	17

**c) Purchase of property, plant and equipment:**

	2018 \$'000	2017 \$'000
Purchase of furniture and computer equipment <sup>4</sup>	-	43
Purchase of vessels <sup>5</sup>	-	12,025
Purchase of offshore equipment and inventory <sup>5</sup>	-	1,615

**d) Year-end balances arising from related party transactions:**

	2018 \$'000	2017 \$'000
Note receivable and accrued interest <sup>1</sup>	4,013	4,013
Convertible loan notes, accrued interest and accretion <sup>2</sup>	17,814	15,809
Derivative financial liabilities <sup>2</sup>	39	262

**e) Intercompany (impairments)/reversal:**

	2018 \$'000	2017 \$'000
Impairment (charge)/reversal of investment in subsidiaries, net <sup>6</sup>	(2,118)	2,658
Impairment charge on receivables from subsidiaries <sup>7</sup>	(3,497)	(3,474)

<sup>1</sup> Please see note 19 in the Group Financial Statements for discussion on placement of the note receivable with Everest.

<sup>2</sup> Please see note 22 in the Group Financial Statements for discussion on placement of the convertible loan notes.

<sup>3</sup> Please see note 31 in the Group Financial Statements for discussion on the shared service agreement with Oil and Gas Advisors LTD.

<sup>4</sup> Please see note 31 in the Group Financial Statements for discussion on the purchase and sale of property, plant and equipment with HKN.

<sup>5</sup> Please see note 2 in the Group Financial Statements for discussion of the acquisition of offshore service vessel-owning companies through two separate transactions from Everest and other related parties.

<sup>6</sup> Please see note 6 for discussion of the impairment (charge)/reversal of investments in subsidiaries.

<sup>7</sup> Loss resulting from the impairment of receivables from certain subsidiaries due to lack of future cash flows expected at the subsidiary level.

**15. Post reporting date events**

After the reporting date, the Group received voluntary conversion notices from noteholders. In January 2019, McLarty Capital Partners, converted all of their Series A Loan Notes with a nominal value of \$7.64 million. As a result of the conversion, the Group made payments for the settlement of accrued interest payable of \$1.1 million and issued 12,524,590 new ordinary shares at 1p each. In February 2019, Aeterna Capital Fund II, LLC, converted all their Series A Loan Notes transferred from Caleura Limited with a nominal value of \$2.36 million. As a result of the conversion, the Group made payments for the settlement of accrued interest payable of \$366 thousand and issued 3,868,852 new ordinary shares at 1p each.

## Forward-looking statements

This annual report may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this annual report and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, any forward-looking statements contained in this annual report. In addition, even if the development of the markets and the industries in which the Group operates are consistent with the forward-looking statements contained in this annual report, those developments may not be indicative of developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US dollar), changes in its business strategy, political and economic uncertainty. Save as required by law, the Group is under no obligation to update the information contained in this annual report.

Past performance cannot be relied on as a guide to future performance.



## Corporate Directory

### Directors

Mikel Faulkner (Non-executive Chairman)  
Alan Henderson (Non-executive Director)  
David Quint (Non-executive Director)  
Zac Phillips (Non-executive Director)

### Executive Management

Sarah Gasch (Managing Director)  
Kristina Humphries (Company Secretary)

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### Company Advisers

#### Nominated Adviser and Broker

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### Auditors

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### Registrars

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**Colombia Office**

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