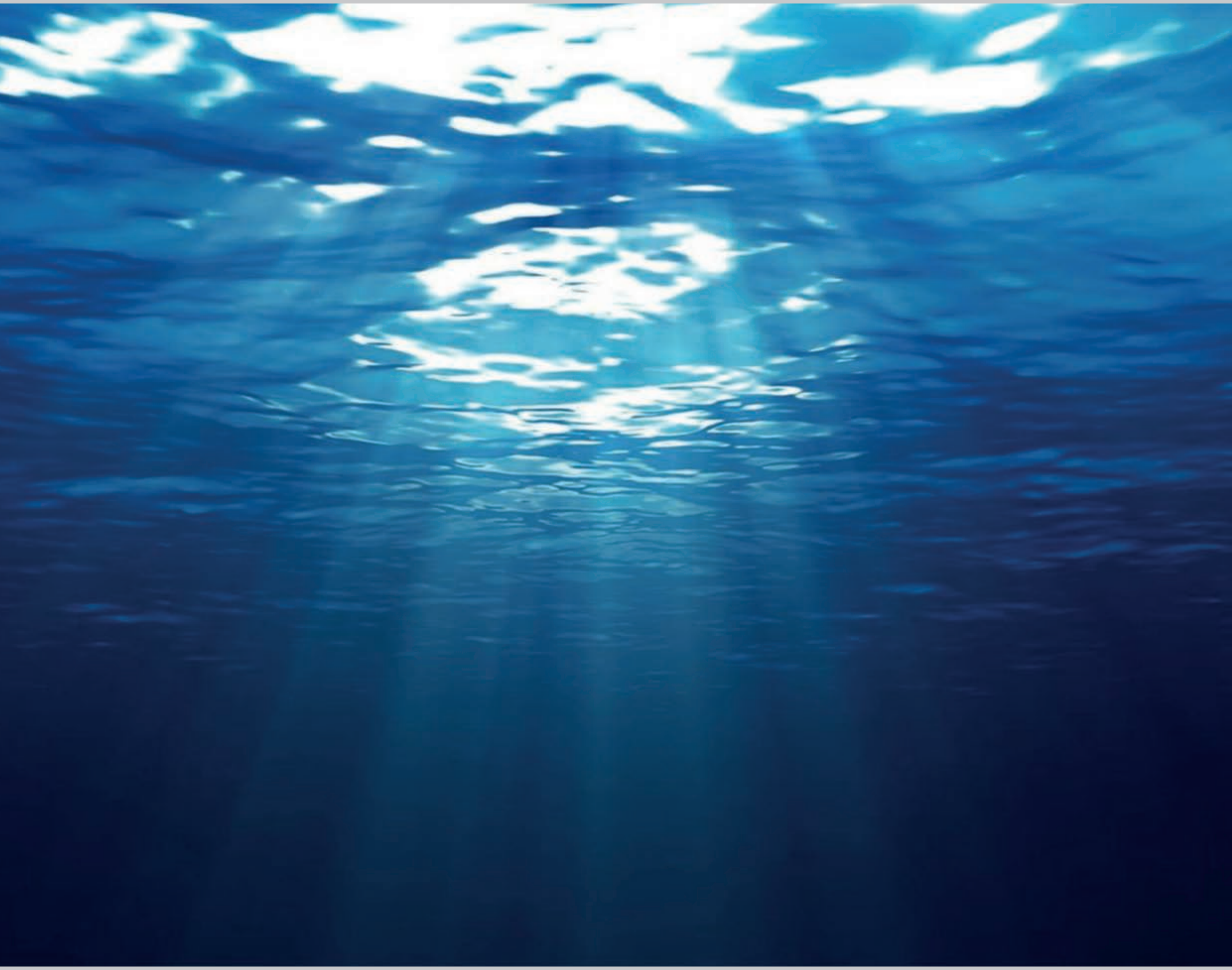
NAUTILUS
Marine Services PLC



Strategic Investments in the Offshore Services Industry

Nautilus Marine Services PLC
Annual Report and Accounts 2017

Building a platform for growth in the offshore service industry

Nautilus Marine Services PLC and its management team have more than thirty years of experience in the global energy industry. Nautilus intends to create value for its shareholders through strategic investments in service providers, technologies, and assets, which will combine to offer integrated and innovative solutions for offshore services across multiple industries.

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").

Business Review

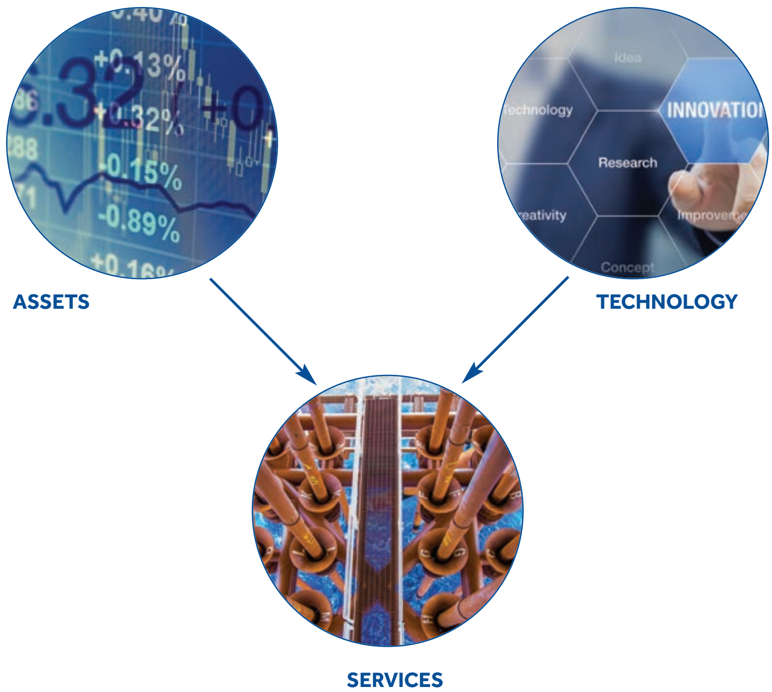
Corporate Governance

Financial Statements

NAUTILUS STRATEGY

Nautilus completed its fundamental change of business and entry into the offshore service sector in February 2017 with the acquisition of 11 dive support vessels, a construction barge, and related dive equipment in the US Gulf of Mexico. Nautilus purchased these assets at distressed prices and intends to maintain them in a laid-up status at Nautilus' facility on the US Gulf Coast until the industry recovers sufficiently to allow for profitable service contracts or charter opportunities. Nautilus may also consider divestitures of these assets in the event they can be sold at a significant premium to the original purchase price.

Nautilus intends to identify additional technology, service providers, and asset acquisition targets that will offer potential for near term gains as well as synergies within the Group.



2017 established the foundations for growth

2017 Strategic Initiatives

The Group divested of substantially all of its producing Colombian oil and gas assets in the fourth quarter of 2014 and subsequently performed an analysis of the impact of low oil pricing on the oil and gas industry and held discussions with a variety of companies. These activities culminated with the decision to purchase distressed offshore service assets. During 2016, the Group performed the requisite due diligence activities on a number of opportunities and completed its initial acquisition in February 2017 of distressed assets from two companies (the "Transaction"). This was considered to be a fundamental change of business and was approved by shareholders. The Transaction resulted in the receipt of $10.5 million in cash proceeds and twelve offshore service vessels along with related dive equipment and inventory valued at $13.6 million in exchange for the issuance of deeply-discounted convertible loan notes with a fair value of $16.1 million and debt forgiveness of $8 million.

This fundamental change of business shifted the Group's focus from Latin American oil and gas exploration and production to the global offshore service industry in order to take advantage of distressed offshore opportunities. 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. As a result of the oil and gas asset divestiture in late 2014 as well as the placement of convertible notes in early 2017, the Group has available cash resources to identify and complete its initial opportunistic acquisitions.

Following the completion of the Transaction in February, the Group has spent considerable time and resources assessing and evaluating the acquired assets, as well as their best use, given the near-term outlook for the offshore service industry. As a result of this review, and as outlined at the time of the Transaction, the Group concluded to transition the entire acquired fleet into a laid-up status until industry conditions improve in order to conserve cash and allow its management team to focus on further acquisition opportunities. The Group continues to monitor the economic environment for recovery signals which would indicate at which time, the assets may either be profitably operated or sold at a premium to their initial cost.

2017 Financial Results

Financial Position

The Group had a positive working capital position of $20 million at 31 December 2017 due to recent divestitures and issuance of the Series A, B, and C convertible loan notes pursuant to the Transaction. The convertible loan notes carry a nominal value of $31.6 million and were issued at an approximate discount of $15.5 million (49%) based on an independent, third party valuation of the note instruments. This discount on the convertible loan notes will be recognised as an accretion expense over their respective terms, which range from 10 to 15 years. Further details of the terms of the notes such as conversion pricing and interest rates are set out in note 20 to the financial statements.

As part of the Transaction, and in exchange for the receipt of vessels, the Group amended its note receivable from Everest Hill Group, Inc. by reducing the outstanding principal balance from $12 million to $4 million, extending the maturity date from 15 January 2017 to 15 September 2018, and lowering the interest rate from 12 per cent per annum to 8 per cent per annum.

Property, plant and equipment increased significantly during the year as the Group took delivery of vessels, equipment and inventory valued at $13.6 million. The Group has also recognised a reversal of a previous impairment on its Bolivar assets of $4 million due to a view of stabilisation of increased oil pricing at year end. Such reversal was determined based on a third-party valuation and Management's estimates of contingent reserves within this contract. The Bocachico assets remained uneconomic at year-end pricing and remained fully impaired.

Results of Operations

The Group's operating expenses increased substantially as compared to the prior year primarily due to the acquired assets. Operating expenses increased from $489 thousand during the prior year period to $3.7 million during the period. Vessel operating costs comprised $2.8 million of this increase, and the cost of sales for the Group's legacy oil and gas assets in Colombia comprised $377 thousand of the increase.

Vessel operating costs for the period were comprised of $566 thousand in costs related to the initial receipt, transition and assessment of the vessels and equipment, $768 thousand in dock and facility costs, $352 thousand in vessel crewing and technical management fees, $571 in allocated labor and management costs, and $586 thousand in insurance, maintenance and other expenses. The Company also recorded depreciation charges on the acquired vessels and equipment of $1.8 million. Following completion of the initial assessment and transition during the first half of 2017, vessel operating costs were significantly reduced primarily as a result of lower crewing and technical management costs as the scope of these activities were reduced following the initial assessment and evaluation of the acquired assets. In late 2017, the Group moved the entire fleet to a laid-up status and expects its vessel operating costs to remain low until the vessels are returned to service.

Oil and gas operating costs increased during the year primarily due to one-time severance and inventory obsolescence charges within the Bocachico contract area. These charges were due to the Group's decision to shut in its production while this property remains uneconomic. The Group expects cost savings while both contract areas remain shut-in; however, it will continue to incur security, environmental, and maintenance costs at both of these locations to ensure the contracts remain secure, compliant and in good standing with the local authorities and communities. Oil and gas operating costs for the year were more than offset by the $4 million in partial reversal of the prior years' impairment charges due to a view of stabilisation of increased oil pricing at 31 December 2017.

Administrative expenses increased slightly to $6.3 million compared to $6.1 million for the prior year. The increase was primarily due to increased staffing, consulting, and professional fees while the Group integrated the acquisitions and altered the organisational structure for its new operating activities. Because the Group's integration efforts for the Transaction were substantially completed during the year, staffing, consulting and professional fees will decrease significantly in the future if no further acquisitions are made.

Finance income decreased by $908 thousand during the year as a result of the reduction in the outstanding balance down to $4 million and the interest rate down to 8% on the Group's note receivable from Everest Hill Group, Inc. Interest expense and accretion of discount on the convertible loan notes issued during 2017 resulted in increased finance expense of $1.8 million. Interest and accretion charges were partially offset by a $543 gain on the embedded derivatives within the convertible notes due to a decrease in the fair value of the conversion option of the notes as determined by a third-party valuation firm.

Conclusion

The Group's activities during 2017 successfully rebranded it as an offshore service provider and established the necessary foundations for growth. Management believes that in 2018 Nautilus will take significant steps towards its ultimate objective of building an international offshore service group. Importantly, the management team remains focused on closely monitoring its costs in order to preserve its liquidity for acquisition efforts.

Nautilus will continue its efforts to identify profitable companies, innovative technologies and distressed assets. These synergistic pairings are expected to provide revenue growth as the offshore industry recovers. Simultaneously, Nautilus hopes to expand the geographic footprint of the Group, leading to further growth in value.

Mikel Faulkner
Chairman
13 March 2018

OUR LOCATIONS

Embracing Opportunity

GULF OF MEXICO

Nautilus owns dynamic-positioning (DP), 4-point dive support, and utility vessels and equipment located near the Gulf of Mexico, capable of providing diving and inspection services in shallow waters up to 300 fsw.

COLOMBIA

The Company continues to hold two contract areas in the Middle Magdalena region of Colombia, the Bolivar Association Contract and the Bocachico Association Contract. The Group continues to receive and evaluate partnering and/or divestiture opportunities for these assets as oil prices and interest in exploration projects in this area increase.

During this period of inactivity, the Group will preserve 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 country.

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 proved and probable oil reserves within the Bocachico and Bolivar Contract areas were uneconomic at the benchmark prices of $66.87 per bbl before discounts as at 31 December 2017. However, it was determined that the Bolivar Contract area has contingent reserves at this pricing, and management estimated a value of $4 million for this property as a result.

DIRECTORS' BIOGRAPHIES

Mikel Faulkner
Chairman

Mikel Faulkner holds a Bachelors degree in Mathematics and Physics and a Masters degree in Business Administration. His 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.

Alan Henderson
Non-executive Director

Alan Henderson is a director of North One Garden Centre Limited and West Six Garden Centre Limited. He 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.

David Quint
Non-executive Director

David 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. From 1975 until 1982, he 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. He currently serves as a director of Arundel AG and as the chief executive officer of Arundel Group Limited.

Zac Phillips
Non-executive Director

Zac Phillips was elected to the Board of Directors in 2014. Zac holds a chemical engineering degree and a doctorate of chemical engineering from BP and the University of Bath. 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. He currently holds the role of non-executive director for Kairos Petroleum. He is also a member of the SPE and the Institute of Chemical Engineers.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the Company ("Board") acknowledges that adhering to rules of good corporate governance is in the best interests of the Company and its shareholders. Although the Company is not required to comply with the Financial Reporting Council's ("FRC") UK Corporate Governance Code published by the FRC in April 2016, all the Directors remain committed to high standards of corporate governance and consider that the Board progressively adopts best practices. Although the Company does not apply the full requirements of the FRC's UK Corporate Governance Code, the following sections describe how the Board has applied the principles of the FRC's UK Corporate Governance Code that they consider relevant to a company of this size and stage of development.

The Workings of the Board and its Committees

The Board

The Board comprises three Non-executive Directors and one Executive Director. The Executive Director is Mikel Faulkner, who serves as the executive Chairman of the Company. The three Non-executive Directors are Alan Henderson, David Quint and Zac Phillips. The Company considers that each of the Non-executive Directors is an independent Director in that: i) none are executive officers or employees of the Company; and ii) none have a relationship with the Company 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 have been made to the Non-executive Directors these are not considered to impact their independence. Details of the Directors' skills and experience are included in the Directors' Biographies on page 5. The combined Board provides the Company with a wide range of expertise on issues relating to the Company's mission, operations, strategies and, most importantly, its standards or conduct.

The Board is responsible to the shareholders for the leadership and control of the Company. The Board and its Committees meet formally a minimum of six times a year and on an ad hoc basis as required. In compliance with the FRC's UK Corporate Governance Code, the Board considers and monitors all such matters as are specifically reserved to it under the Company's articles of association (the "Articles"). The Company's management provides appropriate and timely information to the Board to enable the Board to carry out its duties. The Company's Articles provide for formal and transparent procedures to appoint new Board members.

The Articles further provide for re-election of all Directors annually. The Board has considered the formation of a Nomination Committee but does not consider it to be appropriate for the current nature and size of the Board and Company. The Board will continue to monitor this issue.

A summary of the number of meetings called and attended by the Directors of the Company during 2017 is provided below.

	Board Meetings	Audit Committee[1]	Remuneration Committee[1]	Total
Mikel Faulkner	6	–	–	6
Alan Henderson	6	–	2	8
David Quint	6	2	2	10
Zac Phillips	5	2	2	9

1 Only Non-executive Directors are entitled to vote in the meetings of the Audit Committee and Remuneration Committee.

The following committees deal with specific aspects of the Group's affairs:

Audit Committee

The Audit Committee, which is chaired by David Quint, comprises only the Non-executive Directors and meets as required and at least twice a year. 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.

Remuneration Committee

The Remuneration Committee, which is chaired by Alan Henderson, and comprises only the Non-executive Directors. Its responsibilities include: recommending to the Board the remuneration of the Executive Director and the ongoing review of the remuneration and other benefits of the Executive Director and senior executives, and recommending from time to time the introduction, variation or discontinuance of any benefits, including bonuses and share options.

Relations with shareholders

Communication with shareholders is conducted through correspondence, meetings, London Stock Exchange releases and the Company's website, www.nautilusmarineplc.com.

Internal controls
The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal control, the effectiveness of which is reviewed on a regular basis. The internal control system is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and is 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 2017, 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 Management 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.

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 2017.

Change of name

On 8 February 2017, at a general meeting of the Company, shareholders approved the acquisition of offshore service vessel-owning companies through two separate transactions. As part of the approved resolutions, the Company's name was changed to Nautilus Marine Services PLC from Global Energy Development PLC 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") on 9 February 2017. Previously, the Company's shares had been traded on the AIM since March 2002 as Global Energy Development PLC (LSE-AIM: "GED").

Principal activities and future developments

The principal activities of the Group are identifying and assessing opportunities to purchase assets in the offshore services industry. During 2017, the Group made progress in its assessment of strategic opportunities and completed the due diligence, negotiation, and structuring of two separate transactions to acquire a package of offshore service assets in the Gulf of Mexico in the United States. These transactions were completed in February 2017, further details of which are set out in note 2 to the Group financial statements. Plans for future activities are explained in the Chairman's Statement and Review of Operations on pages 2 and 3 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 Business Review section, as well as the Chairman's Statement and Review of Operations on page 2 and 3. In addition, note 25 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 2017, the Group has a strong Statement of Financial Position and holds sufficient cash reserves and positive working capital of $20 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 20 to the financial statements.

The Group´s forecast and projections, taking into account cost-cutting measures which were undertaken during the second half of 2017, 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 in 2017, 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.

Business review

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 Review of Operations on pages 2 and 3, and the Strategic Report on page 11, which form part of this report. The Group's primary key performance indicators and key events for 2017 were:

- Completion of two transactions to acquire vessels and equipment with a fair market value of $13.6 million.
- Cash balance at 31 December 2017 of $16.8 million (31 December 2016: $16.4 million).
- Reduction of the existing secured Note Receivable to $4.0 million at 31 December 2017 with a reduced interest rate of 8 per cent per annum (31 December 2016: $12.0 million with an interest rate of 12 per cent per annum).
- Issuance of deeply discounted convertible loan notes with an outstanding balance, net of unamortised discount and including accrued interest payable, at 31 December 2017 of $15.8 million.
- Recovered oil pricing of $66.87 per bbl at 31 December 2017 (2016: $56.82 per bbl) led to the partial reversal of $4.0 million of the previously-booked impairment of the capitalised costs for the Bolivar Contracts. This recovery is based on the Group's estimated value of the contingent reserves which have been assigned to the Bolivar Contract. The Bocachico Contract remains uneconomic at 31 December 2017 pricing.
- Administrative expenses increased slightly to $6.3 million compared to $6.1 million for the prior year as a result of the integration and reorganization efforts related to the Transaction.
- Operating expenses increased by $3.2 million as compared to the prior year period, of which vessel operating costs comprised $2.8 million of this increase.

Principal business risk factors

The Group is subject to various risks and uncertainties relating to the offshore services industry and its investment in offshore service assets. These risks and uncertainties may have a material impact on the Company's future performance and could cause future results to differ materially from expected and historical results. The Group's business risks and uncertainties include, but are not limited to, the items described below.

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.

The 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 intends to provide services to the offshore industry. Oil and gas produced offshore is a relatively expensive source of hydrocarbons. Consequently, offshore operations are more sensitive to a decline in commodity prices compared with conventional sources onshore. Indeed, operations in Louisiana, United States, have been severely curtailed since the oil price fell in 2010. As a countercyclical investment, the success of the Group's business plan is predicated on a recovery in the offshore drilling activity in the areas in which it operates. If such recovery does not take place or if there is further curtailment of offshore drilling activities this could have an adverse impact on the Groups' financial performance and future prospects. The Group mitigates this by its ability to move the fleet and equipment to cold-stack and thus reduce the related crew and technical management costs while projects are uneconomic.

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.

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 undertake unprofitable tenders and has a sufficiently robust working capital position to enable it to choose the work it accepts for the foreseeable future. However, any failure in the medium term of the pricing levels within the subsea services industry in the Gulf of Mexico to improve 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.

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.

Results and dividends

The Group's net loss after taxation for the year amounted to $9.0 million (Net loss in 2016: $6.6 million). The Directors do not propose to recommend any distribution by way of a dividend for the year ended 31 December 2017 (2016: $nil). Further, the terms of its convertible loan notes issued during 2017 preclude the Group from declaring or paying any dividends until 2020.

Financial instruments

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

- Foreign exchange risk
- Liquidity risk
- Conversion risk

Foreign exchange risk
Foreign exchange risk arises because the Group has operations located in various parts of the world, such 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 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 of 31 December 2017, 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 or long-term commitments related to its offshore service business. 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.

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 where permitted and if the Group so determines, 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.

These policies have been followed during the year 2017, and additional details are located in note 25 of the Group financial statements.

Directors

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

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

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 $17 thousand during 2017 (2016: $19 thousand). There were no contracts existing during, or at the end of the year, in which a Director was or is materially interested.

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 2017		As at 31 December 2016	
	Ordinary shares	**Options**	Ordinary shares	Options
Mikel Faulkner	**370,000**	**2,140,000**	370,000	1,890,000
Alan Henderson	**14,527**	**150,000**	14,527	150,000
David Quint	**135,000**	**150,000**	135,000	150,000
Zac Phillips	**15,241**	**50,000**	15,241	50,000
Total	**534,768**	**2,490,000**	534,768	2,240,000

All the holdings are beneficially held.

There were no Director holdings of cash-settled – long-term service benefits as at 31 December, 2017 and 2016, respectively as detailed in note 27.

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.

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. Further details are set out in the Corporate Social Responsibility statement on page 12.

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.

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

Mikel Faulkner
Chairman
13 March 2018

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

STRATEGIC REPORT

Section 414C of the Companies Act 2006 (the "Act") requires that the Company inform members as to how the Directors have performed their duty to promote the success of the Company, by way of a Strategic Report.

Set out below are the applicable reporting requirements under the Act for the purposes of the Strategic Report, together with guidance to other applicable sections of the 2017 Annual Report, which are incorporated by reference into the Company's Strategic Report.

Fair review of the business

(Section 414C (2) (a) of the Act)

The principal activities of the Group are identifying and assessing opportunities to purchase offshore service assets in the energy industry. During 2017, the Group completed a transaction and fundamental change of business upon the closing of two separate transactions to acquire a package of offshore service assets in the Gulf of Mexico in the United States. These transactions were completed in February 2017 as discussed in note 2 to the Group financial statements.

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 country. The Group continues to be in discussions regarding possible strategic alternatives associated with its Colombia contracts.

A review of the 2017 financials is contained within the Chairman's Statement and Review of Operations on pages 2 and 3 and the Directors' Report on pages 8 to 10, which form part of this report.

Principal risks and uncertainties

(Section 414C (2) (b) of the Act)

The Group is subject to various risks and uncertainties which derive from its strategy to acquire offshore service assets and technology. These risks and uncertainties may have a material impact on the Company's performance and could cause future results to differ materially from expected and historical results. The Group's business risks and uncertainties include, but are not limited to price risk, market risk, foreign exchange risk and liquidity risk. The Group determines the appropriate course of action to manage those risks as discussed in the Directors' Report on pages 8 to 10 and detailed in note 25 of the Group financial statements.

Analysis of the development and performance of the business

(Section 414C (3) of the Act)

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. A full review of the Group's activities during the year, recent events, principal risks and uncertainties and expected future developments is contained within the Chairman's Statement and Review of Operations on pages 2 and 3 and the Directors' Report on pages 8 to 10, which form part of this report.

Analysis using key financial performance indicators

(Section 414C (4) (a) of the Act)

As at 31 December 2017, the Group has a strong balance sheet holding sufficient cash reserves and positive working capital. The Group's primary key performance indicators and key events for 2017 are contained within the Directors' Report on page 8 to 10, which form part of this report.

Approval of the Board

(Section 414D (1) of the Act)

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
Chairman
13 March 2018

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

CORPORATE SOCIAL RESPONSIBILITY

The Company carefully evaluates all future projects and contract areas, assessing their economic viability, future value for the Company and also the effect on the local communities and surrounding areas.

The Company acknowledges its responsibility as a participant in the communities in which it operates. To that end, the Company's social 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 Company'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 labor, environmental and social issues.
- Support for local communities through the furnishing of supplies.
- Participation and sponsoring of reforestation programmes in areas affected by our operations.

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

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 2017 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 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, 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 2017 and of the group's loss for the year then ended;
- the group and parent company 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.

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.

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.

Accounting for the transactions occurring in the year

The Group completed two transactions in the year in order to acquire a number of offshore vessels and related equipment. These transactions are described in detail in note 2 of the consolidated financial statements.

The Group's Management and the Board are required to identify how the transactions should be accounted for within the scope of International Financial Reporting Standards as adopted by the European Union ("IFRS").

Given the significance of the transactions, the material impact on the Group's statement of financial position and the management judgement involved in the determination of the accounting treatment to be adopted to record the transactions we considered there to be a significant risk of material misstatement.

Response

We evaluated Management's and the Board's detailed assessment of the accounting for the transactions as asset acquisitions.

We critically challenged the judgements made and conclusions drawn specifically with reference to whether the transactions should be recorded as business combinations under the requirements of IFRS 3 'Business Combinations'.

We assessed whether the asset acquisition accounting treatment adopted was appropriately presented in the Group's accounting policy and the Group's accounting policy was in line with IFRS.

Our specific audit testing in respect of the transaction also included:
- Verification of the consideration paid for the transactions
- An assessment of fair value of the vessels and equipment acquired by reference to third party valuation reports commissioned by the Group and relevant available market information
- Reviewing the date of acquisition identified by Management and the Board with reference to when the significant risk and rewards of the assets passed
- Reviewing the Sales and Purchase Agreements ("SPA") in detail to ensure the terms of the acquisition were appropriately identified and presented in the financial statements
- Considering Management and the Board's assessment relating to the element of contingent consideration contained within the SPA
- Performed physical verification of a sample of the vessels and equipment acquired.

We also assessed the disclosures relating to the transactions which are included in the financial statements.

Accounting for the convertible loan notes

Part of the consideration for acquiring the vessels and equipment noted above included the issue of three convertible loan notes. A summary of the key terms of these loan notes is set out in note 20 to the consolidated financial statements.

Management and the Board are required to evaluate each of the convertible loan notes against the criteria of IAS 32 and IAS 39 to conclude on whether each loan note met the definition of a financial liability, a financial liability with a derivative element or whether the loan notes met the 'fixed for fixed' requirements of IFRS and would be bifurcated as debt and equity on initial recognition.

Given the significance of the transactions, the judgement involved in determining the appropriate accounting treatment and, as necessary, the fair value of any derivative element of the convertible loans we considered there to be a significant risk of material misstatement.

Response

We critically evaluated Management's and the Board's considerations of the conversion features of each loan note and specifically whether the convertible loans notes met the 'fixed for fixed' criteria as per IAS 32.

For the loan note which was determined by Management and the Board to meet the 'fixed for fixed' criteria we performed our own assessment of the proposed accounting treatment having reviewed in detail the terms of the loan note. In addition, we reviewed Management's discounted cashflow model for the loan note and their proposed split of the note between debt and equity. We re-performed calculations within the model, verified inputs and formula and critically assessed the judgements such as discount rate.

For the loan notes which were determined by Management and the Board to be financial liabilities with derivative conversion features we also performed our own assessment of the proposed accounting treatment having reviewed in detail the terms of the loan notes. In addition, we reviewed the third party valuation report commissioned by Management to assist them in the determination of the initial and year end fair values of the derivative option features. We utilised our specialist valuation team to reassess the inputs and judgements made by the third party valuer for these derivative option features.

For all three loan notes we reviewed Management's effective interest calculations and re-performed our own model in order to ensure there were no material differences identified.

We also assessed the disclosures relating to the loan notes included in the financial statements.

Carrying value of the oil and gas assets

As at 31 December 2016 the Group's Colombian oil and gas assets were fully impaired and carried at zero within the Consolidated financial statements.

At each reporting period end Management and the Board are required to consider market conditions and relevant trends when considering whether the period end carrying value of assets remains appropriate. In making such an assessment Management are required to make a number of estimates and conclude upon a number of judgements. IAS 36 'Impairment of Assets' also requires Management to consider during their assessment non-financial and financial data.

Following their assessment Management and the Board considered it appropriate to reverse $4m of the historic impairment taken against the Bolivar cash generating unit ("CGU"). Please refer to note 14 of the annual report for more details.

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

Response

Our specific testing on this area included:
- Undertaking a review of Management's conclusion that the Group had two CGUs, and
- For each CGU reviewing Management's assessment and conclusion on whether there were indicators that prior period impairments may require reversal. We also performed an independent assessment of financial and non-financial data for indicators.

Where Management and the Board had identified an impairment reversal was appropriate we;
- Considered whether Management had correctly identified the proposed reversal value based on the higher of value-in-use or fair value less costs to sell as required by IAS 36.
- Critically evaluated Management's judgements and estimates of both the value-in-use and fair value less costs to sell and concluded on the appropriate model to be applied
- Challenged the significant inputs used in the value-in-use model such as the discount rate applied, oil prices incorporated, operating cost estimates and judgements relating to the life of fields
- Assessed the independence and competence of the third party petroleum engineer contracted by Management to perform the technical analysis of the CGU
- Re-performed the calculations performed by Management in the determination of the impairment reversal, and
- Checked to ensure that the impairment reversal was in line with the Group's accounting policy and IFRS accounting guidance.

We also assessed the disclosures included in the financial statements relating to the impairment reversal.

Our application of materiality

Group materiality as at 31 December 2017	Basis for materiality
US$550,000	1.5% 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 $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 oil and gas services asset base.

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 $412,500, 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 $75,000 to $370,000.

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 statement of the Company.

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

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 bulk 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NAUTILUS MARINE SERVICES PLC
CONTINUED

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 13, 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. This description forms part of our auditor's report.

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

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 2017

	Note	2017 $'000	2016 $'000
Continuing operations			
Revenue	3	**250**	178
Cost of Sales	8	**(5,552)**	(602)
Gross loss		**(5,302)**	(424)
Gain/(loss) on disposal of assets		**100**	(1)
Administrative expenses		**(6,336)**	(6,112)
Impairment reversal/(charge)	14	**3,968**	(703)
Operating loss from continuing operations		**(7,570)**	(7,240)
Finance income and other	9	**877**	1,242
Finance expense and other	10	**(2,074)**	(285)
Loss before taxation from continuing operations		**(8,767)**	(6,283)
Tax expense	11	**(179)**	(197)
Loss from continuing operations, net of tax		**(8,946)**	(6,480)
Loss from discontinued operations, net of tax		**(13)**	(147)
Total loss for the year attributable to the equity owners of the parent		**(8,959)**	(6,627)
Other comprehensive income/(loss)		**–**	–
Total comprehensive loss for the year attributable to the equity owners of the parent		**(8,959)**	(6,627)
Loss per share for continuing operations			
– Basic and diluted	5	**$(0.25)**	$(0.18)
Loss per share for discontinued operations			
– Basic and diluted	5	**$(0.00)**	$(0.00)
Total loss per share			
– Basic and diluted	5	**$(0.25)**	$(0.18)

The notes on pages 23 to 47 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
At 1 January 2016		608	27,139	51,855	–	(47,349)	32,253
Comprehensive loss for the year:							
Total loss for the year		–	–	–	–	(6,627)	(6,627)
Other comprehensive income/(loss)		–	–	–	–	–	–
Total comprehensive loss for the year attributable to equity owners of the parent		–	–	–	–	(6,627)	(6,627)
Transaction with owners:							
Share-based payment – options equity settled		–	–	–	–	10	10
Other movements within equity		–	–	–	–	10	10
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	26	**–**	**–**	**(21,420)**	**–**	**21,420**	**–**
Equity proportion of convertible loan note	20	**–**	**–**	**–**	**1,307**	**–**	**1,307**
Other movements within equity		**–**	**–**	**(21,420)**	**1,307**	**21,434**	**1,321**
At 31 December 2017		**608**	**27,139**	**30,435**	**1,307**	**(41,491)**	**17,998**

The notes on pages 23 to 47 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 $'000	2016 $'000
Assets			
Non-current assets			
Intangible assets	13	**130**	144
Other non-current assets	18	**946**	888
Property, plant and equipment	14	**15,427**	21
Total non-current assets		**16,503**	1,053
Current assets			
Inventories	16	**146**	259
Note receivable and accrued interest	17	**4,013**	12,060
Trade and other receivables		**7**	66
Prepayments and other assets	18	**303**	283
Cash and cash equivalents		**16,758**	16,446
Total current assets		**21,227**	29,114
Total assets		**37,730**	30,167
Liabilities			
Non-current liabilities			
Convertible loan notes and accrued interest	20	**(15,809)**	–
Long-term provisions	21	**(2,712)**	(2,161)
Total non-current liabilities		**(18,521)**	(2,161)
Current liabilities			
Trade and other payables	22	**(533)**	(1,306)
Short-term provisions	21	**(361)**	(948)
Corporate and equity tax liabilities	23	**(55)**	(116)
Derivative financial liabilities	20,24	**(262)**	–
Total current liabilities		**(1,211)**	(2,370)
Total liabilities		**(19,732)**	(4,531)
Net assets		**17,998**	25,636
Capital and reserves attributable to equity holders of the parent			
Share capital	26	**608**	608
Share premium		**27,139**	27,139
Capital reserve	26	**30,435**	51,855
Other reserves	20	**1,307**	–
Accumulated losses		**(41,491)**	(53,966)
Total equity		**17,998**	25,636

These financial statements were approved by the Board of Directors and authorised for issue on 13 March 2018 and were signed on its behalf by:

Mikel Faulkner
Chairman
13 March 2018

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

The notes on pages 23 to 47 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash used by operations	4	**(10,343)**	(6,137)
Tax paid (continuing and discontinued operations)		**(203)**	(201)
Net cash used in operating activities		**(10,546)**	(6,338)
Cash flows from investing activities			
Placement of note receivable		**–**	(4,000)
Interest on note receivable		**366**	1,222
Proceeds from disposal of assets		**116**	39
Purchase of intangible assets and property, plant and equipment	13,14	**(124)**	(85)
Net cash provided by/(used in) investing activities		**358**	(2,824)
Cash flows from financing activities			
Issuance of convertible loan notes pursuant to Transaction B	20	**10,500**	–
Net cash provided by financing activities		**10,500**	–
Increase (decrease) in cash and cash equivalents for the year		**312**	(9,162)
Cash and cash equivalents at beginning of year		**16,446**	25,608
Cash and cash equivalents at the end of year		**16,758**	16,446

The notes on pages 23 to 47 form an integral part of these financial statements.

NOTES TO THE PRIMARY FINANCIAL STATEMENTS
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

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 current cash flow from operations 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 2017 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union.

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 net losses on foreign currency exchange previously presented separately within continuing operations which are now presented within finance expense and other. In addition, the loss on the disposal of assets previously presented within finance expense and other has been presented separately in the current period.

New standards and interpretations

(a) New standards, amendments to published standards and interpretations to existing standards effective in 2017 and adopted by the Group:

Standard description	Date of adoption	Impact on initial application
Annual Improvements to IFRSs 2014–2016 Cycle*	1 January 2017	The improvements in this amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	Clarifies deferred tax on unrealised losses generated by debt instruments carried at fair value.
Amendments to IAS 7: Disclosure Initiative	1 January 2017	The amendments clarify and improve information provided to users of financial statements about an entity's financing activities.

The implementation of these standards did not have a material impact on the Group's consolidated financial statements.

(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 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 initial assessment of the potential impact of IFRS 9 has focused on the changes in IFRS 9 around expected credit losses on trading and intercompany balances. The impact of the new Standard on these areas is not assessed to be material.
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 does not have material revenue at present Management do not consider there to be a significant impact of IFRS 15.
IAS 28 Investments in Associates and Joint Ventures	1 January 2018	Clarifies whether an entity has an investment-by- investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds.
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.

1. Accounting policies continued

Standard description	Date of adoption	Impact on initial application
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.
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. Management have not identified material lease arrangements to date but will continue to assess the potential impact of the Standard prior to the effective date of the Standard.
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 up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 recognized.

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, Managing Director and the Finance Director.

Prior to February 2017, the Group organised its business units based upon the field locations of its production, development and sale of hydrocarbons and related activities in Colombia, South America in the Bolivar Contract area (the "Bolivar area") and the Bocachico Contract area (the "Bocachico area") in the Magdalena Valley of Colombia. As a result of the February 2017 asset acquisitions, the Group's principal focus is now the acquisition of offshore service vessels and technology and the provision of offshore oil services. As such, the Group restructured its operating segments, which are now comprised of three operating segments as defined below:

- Offshore (comprised of offshore services investments and operations, currently located in the Gulf of Mexico)
- Oil and Gas (comprised of the Bolivar and Bocachico Contracts in the Magdalena Valley)
- 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.

Revenue and other income

Revenue reflects actual volumes of oil, delivered to customers when the risk is transferred, valued at invoiced prices, as well as accruals for volumes delivered to the sales point but not yet invoiced pending finalisation of pricing negotiations. Those volumes are accrued as sales and valued at the weighted average sales price for the month.

Revenues relating to the sale of oil are recognised when the oil is received by the customer and the risk is transferred and are net of taxes and royalty interests.

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 of the life of a vessel in order to maintain a vessel's classification. These expenditures will be 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 recognized 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 CGUs 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 2017, the Group's assessment resulted in an impairment charge of $53 thousand 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:

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 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 of disposal 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.

1. Accounting policies continued

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; or
- obsolescence or physical damage of an asset;
- an asset becoming idle or plans to dispose of the asset before the previously expected date; or
- 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 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. 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 recognized. 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 recognized 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 current pricing. During 2017, the Bolivar area recognized a partial recovery due to higher oil pricing in the current year, while Bocachico area remained fully impaired. As a result, any capital costs, including plugging and abandonment activities and related changes of estimates in the associated provisions, are recorded to impairment reversal or expense as incurred.

Decommissioning

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 2017 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 included within short-term and long-term provisions within the Consolidated Statement of Financial Position and are reviewed periodically to take into account any material changes to those assumptions.

The unwinding discount arising on the recognition of the provision is released to the Consolidated Statement of Comprehensive Income and included within finance expense.

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 2016, the Group made the decision to perform a portion of its remediation obligations related to the Bocachico and Bolivar Contract Areas in Colombia during 2017 rather than upon expiration of the contracts. This decision was made in order to take advantage of lower oilfield service pricing during depressed industry conditions in Colombia and to also reduce future environmental obligations. This decision resulted in the increase in short-term provisions from $184 thousand to $948 thousand during 2016, as the projects and their related costs were reclassified from non-current and increased to their present values. 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 $587 thousand.

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 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 recognised in profit or loss in the expense category that is consistent with the function of the intangible assets. 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 recognized. 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 recognized 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 realizable 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.

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 assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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 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.

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. The Group has not classified any of its financial assets as held to maturity or available for sale. The Group has not classified any of its assets at fair value through profit and loss.

1. Accounting policies continued

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 a note receivable and the provision of goods and services to customers (i.e. trade receivables). The 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 to carrying cost) less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired 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.

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 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 recognized as a liability, net of transaction costs. The conversion features were analyzed 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 IAS 32 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 amortized 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 recognized 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 recognized 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.

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 2017 and 2016, the Company's long-term and short-term provisions comprised of estimated decommissioning, required reinvestment activities and social and environmental obligations.

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.

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 14);
- Commercial reserves estimates (on page 4 and note 14);
- Decommissioning provision (note 21);
- Fair value of financial instruments associated with the convertible loan notes (note 24).

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 17 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 24 for further information).

2. Acquisition of offshore service vessel – owning companies continued

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 20 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 24 for further information).

3. Segmental analysis

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

- Offshore (comprised of offshore services investments and operations, currently located in the Gulf of Mexico)
- Oil and Gas (comprised of the Bolivar and Bocachico Contracts in the Magdalena Valley)
- 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.

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

For the year ended 31 December 2017

(in $'000)	**Offshore**	**Oil and Gas**	**Corporate**	**Total**
Revenue	**–**	**250**	**–**	**250**
Operating expenses	**(2,843)**	**(851)**	**–**	**(3,694)**
Depreciation and amortisation	**(1,812)**	**(2)**	**(44)**	**(1,858)**
Impairment (charge)/reversal	**(53)**	**4,021**	**–**	**3,968**
Finance expense and other	**(1,756)**	**(247)**	**(71)**	**(2,074)**
(Loss)/income from continuing operations before tax	**(6,536)**	**2,431**	**(4,662)**	**(8,767)**

For the year ended 31 December 2016

(in $'000)	Offshore[1]	Oil and Gas[1]	Corporate[1]	Total[1]
Revenue	–	178	–	178
Operating expenses	(15)	(474)	–	(489)
Depreciation and amortisation	–	(88)	(25)	(113)
Impairment charge	–	(703)	–	(703)
Finance expense and other	–	(258)	(27)	(285)
Loss from continuing operations before tax	(15)	(2,097)	(4,171)	(6,283)

(1) Re-presented due to the reorganisation of the operating segments effective February 2017.

For the year ended 31 December 2017

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

For the year ended 31 December 2016

(in $'000)	Offshore	Oil and Gas[1]	Corporate[1]	Total[1]
Total non-current assets	–	989	64	1,053
Total non-current liabilities	–	(2,161)	–	(2,161)

(1) Re-presented due to the reorganisation of the operating segments effective February 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 and $178 thousand for the year ended 31 December 2017 and 2016, respectively. As of 31 December 2017, the Bocachico field was shut-in in order to decrease operating costs and environmental risk while the contract area remains uneconomic.

Operating expenses for the offshore segment 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 $768 thousand in dock and facility costs, $352 thousand in vessel crewing and technical management fees, $571 thousand in allocated labor and management costs, and $586 thousand in insurance, maintenance and other expenses.

For the year ended 31 December 2017, the offshore segment recognized an impairment charge of $53 thousand related to the offshore service vessels as a result of decreased market valuations. However, the oil and gas segment recognized a net impairment reversal of $4 million. This 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 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 increased current year pricing. The impairment charge within the oil and gas segment for the year ended 31 December 2016 includes $314 thousand and $389 thousand in impairment charges for the Bolivar area and the Bocachico area, respectively, due to the decision to perform certain remediation obligations earlier than originally anticipated resulting in an increase to their present values in the current period.

The increase in finance expense and non-current liabilities for the offshore and corporate segments, respectively, for the year ended 31 December 2017 resulted from the issuance of convertible loan notes pursuant to the Transaction (see notes 2 and 20 for further information).

4. Notes to the Consolidated Statement of Cash Flows

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

	Note	**2017 $'000**	2016 $'000
Continuing operations			
Loss before tax		**(8,767)**	(6,283)
Adjustments for:			
Depreciation of property, plant & equipment	14	**1,843**	113
Amortisation of intangible assets	13	**15**	–
Gain on derivative financial instruments	9	**(543)**	–
(Gain)/loss on sale of assets		**(100)**	1
Impairment (reversal)/charge	14	**(3,968)**	703
Inventory obsolescence provision and write downs	16	**380**	–
Provision for uncollectible accounts		**–**	4
Share based expense	27	**14**	10
Finance income	9	**(366)**	(1,222)
Interest and accretion expense on convertible loan notes	10	**1,756**	–
Unwinding of discount on decommissioning provision	10	**219**	172
Operating cash flow before movements in working capital		**(9,517)**	(6,502)
Decrease/(increase) in inventories		**36**	(13)
Decrease/(increase) in trade and other receivables		**28**	(44)
(Decrease)/increase in trade and other payables		**(876)**	438
Cash used in continuing operations		**(10,329)**	(6,121)
Discontinued operations			
Loss before tax		**(13)**	(147)
Adjustments for:			
Provision for uncollectible accounts		**1**	131
Operating cash flow before movements in working capital		**(12)**	(16)
Increase in trade and other receivables		**–**	(5)
(Decrease)/increase in trade and other payables		**(2)**	5
Cash used in discontinued operations		**(14)**	(16)
Cash used by operations		**(10,343)**	(6,137)

(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).

4. Notes to the Consolidated Statement of Cash Flows continued

(c) Reconciliation of liabilities arising from financing activities

			Non-cash changes					
	2016	Cash flows $'000	Acquisition $'000	Foreign exchange movement $'000	Fair value changes '$'000	Interest payable '$'000	Accretion '$'000	**2017**
Convertible loan notes	–	10,500	3,553	–	–	1,663	93	**15,809**
Derivative liabilities	–	–	780	25	(543)	–	–	**262**
Total liabilities from financing activities	**–**	**10,500**	**4,333**	**25**	**(543)**	**1,663**	**93**	**16,071**

The Group had no liabilities arising from financing activities as at 31 December 2015 or during the year ended 31 December 2016.

5. Loss per share

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

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 recognized 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 period.

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 $)

	2017 $´000	2016 $'000
Loss from continuing operations after taxation	**(8,946)**	(6,480)
Loss from discontinued operations after taxation	**(13)**	(147)
Net loss attributable to equity holders	**(8,959)**	(6,627)
Loss per share for continuing operations		
– Basic and diluted	**$ (0.25)**	$ (0.18)
Loss per share for discontinued operations		
– Basic and diluted	**$ (0.00)**	$ (0.00)
Total loss per share		
– Basic and diluted	**$ (0.25)**	$ (0.18)
Basic weighted average number of shares	**36,112,187**	36,112,187
Dilutive potential ordinary shares:		
Employee and Director share option plans	**–**	–
Shares on conversion of loan notes	**–**	–
Diluted weighted average number of shares	**36,112,187**	36,112,187

Where a loss has occurred, 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:

	2017	2016
Employee and Director share option plans	**2,350,000**	3,989,364
Shares on conversion of loan notes	**25,802,596**	–

6. Operating loss from continuing operations

Loss from continuing operations is stated after charging:

	2017 $'000	2016 $'000
Depletion, depreciation and amortisation (included in cost of sales):		
Other property plant and equipment	**1,843**	113
Intangible assets	**15**	–
(Gain)/loss on disposal of assets	**(100)**	1
Other cost of sales	**3,694**	489
Employee costs	**4,515**	2,829
Auditor's remuneration	**409**	297
Other administrative costs[1]	**1,412**	2,986
Impairment (reversal)/charge	**(3,968)**	703
Total cost of sales, administrative and other operating costs	**7,820**	7,418

1 Other administrative costs in 2017 and 2016 include $329 thousand and $1.04 million, respectively, related to due diligence and advisory costs related to the transaction (see note 2).

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

Analysis of auditors' remuneration

	2017 $'000	2016 $'000
Group Auditors[1]		
Audit Services		
Statutory audit	**98**	71
Review of interim report	**22**	13
Non-audit Services		
Transaction-related due diligence services[2]	**7**	129
Other services (tax and consulting)	**122**	5
Other Auditors		
Prior year statutory audit	**7**	–
Audit of subsidiaries pursuant to legislation	**12**	12
Transaction-related due diligence services[2]	**52**	–
Other services (tax and consulting)	**89**	67
Total auditors' remuneration	**409**	297

1 The Group had a change in Group auditor for fiscal year 2017. The Group auditor for 2017 and 2016 was BDO LLP and RSM UK Audit LLP, respectively.
2 See note 2 for additional information regarding the transaction.

7. Employee costs

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

	2017 $'000	2016 $'000
Wages and salaries	**3,776**	2,382
Social security costs and other payroll taxes	**251**	199
Insurance and other benefits	**319**	179
Company contributions to defined contribution plan	**155**	59
Share-based payments - options - equity settled	**14**	10
Total employee costs	**4,515**	2,829

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

	2017	2016
Technical and operations	**7**	7
Management and administrative	**15**	13
Total Group employees	**22**	20

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.

7. Employee costs continued

Directors' remuneration

	Salary $'000	Benefits $'000	Bonus $'000	Fees $'000	**Total 2017 $'000**	Total 2016 $'000
Executives						
Mikel Faulkner	395[2]	60	196	–	**651**	246
Non-executives[1]						
Alan Henderson	–	–	–	80	**80**	74
David Quint	–	–	–	80	**80**	74
Zac Phillips	–	–	–	80	**80**	74
Total	395	60	196	240	**891**	468

1 The non-executive fees were paid in Pounds Sterling of the amount £60 thousand each (2016: £47.5 thousand).
2 This included 2016 salary of $75 thousand contingent on the completion of the transaction in 2017 to acquire offshore service assets.

Compensation paid to key management personnel, comprising of the Executive Directors such as the Chairman, Managing Director and Finance Director, and the Non-executive Directors:

	2017 $'000	2016 $'000
Non-executive Director fees	**240**	222
Compensation and benefits paid to key management personnel:		
Compensation paid	**1,363**	837
Performance bonuses	**270**	13
Health and life insurances	**72**	30
Company contributions to defined contribution plan	**66**	–
Company contributions to payroll taxation	**61**	48
Other benefits	**47**	–
Share-based payments - options - equity-settled	**12**	9
Total	**2,131**	1,159

At 31 December 2017, there were no amounts due to or from key management personnel (2016: nil).

8. Cost of sales

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

	2017 $´000	2016 $'000
Operating expenses[1]	**3,694**	489
Depreciation and amortization	**1,858**	113
Total cost of sales	**5,552**	602

1 Of the current year increase, $2.8 million is due to operating cost incurred following acquisition of the offshore services segment in 2017 (see note 2 for additional information).

9. Finance income and other

	2017 $'000	2016 $'000
Income on note receivable and others[1]	**334**	1,242
Unrealized gain on derivative financial liabilities[2]	**543**	–
Total finance income and other	**877**	1,242

1 The decrease in the current year is mainly related to the decrease in the principal balance from $12 million to $4 million in connection with the transaction in 2017 (see note 2).
2 The increase in the current year is a result of the convertible loan notes issued in connection with the transaction (see note 2).

10. Finance expense and other

	2017 $'000	2016 $'000
Unwinding of discount on decommissioning provision	**219**	172
Accretion expense on convertible loan notes[1]	**93**	–
Interest payable on convertible loan notes[1]	**1,663**	–
Net loss on foreign currency exchange	**99**	113
Total finance and other expenses	**2,074**	285

1 The increase in the current year is a result of the convertible loan notes issued in connection with the transaction (see note 2).

11. Tax

The Group is subject to UK, United States ('US") and Colombian taxation.

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 $29 million as at 31 December 2017 and $27 million as at 31 December 2016.

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 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 $1.7 million as at 31 December 2017 and $1.8 million as at 31 December 2016. Of the $1.7 million trading losses carried forward, $421 thousand and $1.3 million will expire in 2025 and 2026, respectively.

Colombian taxation

The Group pays taxes in Colombia through the branch offices of its wholly owned subsidiaries in the oil and gas segment. For 2017, 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 2017. A rate of 34 per cent is applied to the presumptive income to arrive at the tax obligation; or
- Net income tax. Calculated at a base rate of 34 per cent taking into account revenues minus costs, standard and special deductions. On 29 December 2016, the Colombia tax authority approved a new tax bill in which the base Income tax rates were adjusted to 34 per cent for 2017 (2016: 25 per cent), 33 per cent for 2018 and 33 per cent for 2019 forward. An additional surcharge of 6 per cent for 2017 and 4 per cent for 2018 may be applied if the tax base exceeds a statutory threshold.
- CREE tax. On 29 December 2016, the Colombia tax authority approved a new tax bill. In this law, CREE tax was abolished for fiscal year 2017. CREE tax was calculated at a rate of 9 per cent for 2016.
- Equity tax. Calculated each year for a three year period using a taxable base of the Net Equity (as at 1 January) at regressive rates of 1.15 per cent for 2015, 1.00 per cent for 2016 and 0.40 per cent for 2017. The payment of the tax is required with instalments made twice per year (May and September). For fiscal year 2018 the equity tax three year period will have expired and thus no additional equity tax is expected to be assessed.

The major components of tax expense for the periods ended 31 December 2017 and 2016 are:

	2017 $'000	2016 $'000
Current taxes:		
Current tax charge (continued operations)[1]	**142**	87
CREE tax (continuing operations)	**–**	31
Equity tax[2]	**36**	85
Other withholding tax (continuing operations)	**1**	–
Total current taxes	**179**	203
Deferred tax:		
Relating to origination and reversal of temporary differences	**–**	(6)
Total deferred benefit	**–**	(6)
Total tax expense reported in the income statement	**179**	197

1 Current tax for 2017 and 2016 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.
2 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 for 2016 was calculated at 1 per cent of the Group's net equity of its Colombian branches as of 1 January 2016.

11. Tax continued

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:

	2017 $'000	2016 $'000
Loss before tax in the Statement of Comprehensive Income	**(8,767)**	(6,283)
Tax benefit on Group loss at UK Corporation tax rate of 19.25% (2016: 20%)	**(1,688)**	(1,257)
Effects of:		
CREE tax	**–**	31
Presumptive income tax on alternative basis and other withholdings	**179**	172
Tax on losses carried forward and losses not deductible	**1,220**	1,333
Effect of higher tax rates than in the UK[1]	**(280)**	(314)
Permanent differences on deferred taxes primarily arising from foreign exchange	**748**	232
Total tax expense from comprehensive income reported in the income statement	**179**	197

1 Current income tax for rates in Colombia for 2017 and 2016 was were 34 per cent and 25 per cent, respectively.

12. Deferred tax

The gross movement in net deferred tax liabilities are reported as follows:

	2017 $'000	2016 $'000
Opening balances as of 1 January	**–**	(6)
Change in deferred tax related to temporary differences and other	**–**	6
Closing balances as at 31 December	**–**	–

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 related to corporation taxes levied by the same tax authority. Deferred tax assets and liabilities listed below are related to corporation taxes levied by the Colombian tax authority with jurisdiction over the Group's Colombian branches. Deferred taxes primarily have been provided at a 21 per cent rate (2016: 34 per cent rate).

The Group had no movement in recognized deferred income tax assets during the year as the balance remained $nil at 1 January 2017 and 31 December 2017. The movement in recognized deferred income tax liabilities during the year is as follows:

Deferred tax liabilities	Fixed assets value $'000	Total $'000
As at 1 January 2016	(6)	(6)
Increase in temporary differences	6	6
As at 1 January 2017	–	–
Change in temporary differences and other	–	–
As at 31 December 2017	–	–

The Group has not recognized 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. Unrecognized deferred income tax assets and liabilities related to temporary differences and unused tax losses are attributable to the following:

	2017 $'000	2016 $'000
Tax losses (revenue in nature)	**6,452**	5,166
Tax losses (capital in nature)	**104**	104
Deductible temporary differences	**2,176**	2,095
Non-deductible temporary differences	**(1,488)**	–

13. Intangible assets

The balance in intangible assets was associated with the costs of the Group's accounting systems. Additions for 2016 consisted of $7 thousand related to modification costs of the existing SAP-ERP accounting system and $44 thousand related to implementation costs for a new accounting system, SAGE 300, both to be used for continuing operations.

	2017 $'000	2016 $'000
Costs		
At 1 January	**149**	98
Additions	**1**	51
Total costs	**150**	149
Accumulated amortisation		
At 1 January	**(5)**	(5)
Provided during the year	**(15)**	–
Accumulated amortisation at 31 December	**(20)**	(5)
Total intangible assets at 31 December	**130**	144

14. Property, plant and equipment

	Vessels $'000	Offshore equipment and site improvements $'000	Oil properties $'000	Facilities and pipelines $'000	Office equipment and other $'000	Total $'000
Cost						
At 1 January 2016	–	–	44,561	2,956	949	48,466
Additions	–	–	–	–	34	34
Disposals	–	–	–	–	(116)	(116)
Change in decommissioning and environmental provision	–	–	703	–	–	703
At 31 December 2016	**–**	**–**	**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)
At 31 December 2017	**12,025**	**1,341**	**45,101**	**2,956**	**545**	**61,968**
Depreciation:						
At 1 January 2016	–	–	(44,561)	(2,956)	(804)	(48,321)
Provided during the year	–	–	–	–	(113)	(113)
Reclassification of intangible assets	–	–	–	–	71	71
Impairment charge	–	–	(703)	–	–	(703)
At 31 December 2016	**–**	**–**	**(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
At 31 December 2017	**(1,565)**	**(296)**	**(41,243)**	**(2,956)**	**(481)**	**(46,541)**
Net book value at 31 December 2017	**10,460**	**1,045**	**3,858**	**–**	**64**	**15,427**
Net book value at 31 December 2016	–	–	–	–	21	21
Net book value at 1 January 2016	–	–	–	–	145	145

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 period. These disposals resulted in a gain on disposal of assets of $100 thousand for the year ended 31 December 2017.

The Group performed its annual impairment assessment as at 31 December 2017. 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 2017. As a result, the Group recognized an impairment charge of $53 thousand related to the offshore service vessels as a result of decreased current market valuations. 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).

14. Property, plant and equipment continued

As the Group's oil and gas segment was fully impaired as at 31 December 2016, the Group considered market conditions and recent oil price trends, among other factors, when reviewing for indicators of any impairment reversal. The recoverable amounts of the two CGUs, the Bolivar area and the Bocachico area, were determined based upon value in use calculations using risked cash flow projections. The value in use calculations 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 purposes. The projected risked discounted cash flows are calculated using the Brent oil pricing as at December 2017 of $66.87 per bbl (2016: $56.82 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 (2016: 10 per cent).

As at 31 December 2017, the Group's recognized a net impairment reversal of $4 million. 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 current year pricing. As a result, an impairment charge of $57 thousand was recognized due to increases in the decommissioning and environmental provisions during 2017.

As at 31 December 2016, the Group's Bolivar and Bocachico area oil assets were fully impaired as a result of continued low oil prices of $56.82 per bbl which caused the oil reserves within the Bolivar and Boacachico contract areas to continue to be uneconomic at 31 December 2016. As a result, the Group recognized impairment charges of $314 thousand and $389 thousand in impairment charges for the Bolivar area and the Bocachico area, respectively, due to increases in the decommissioning and environmental provisions during 2016.

15. Investments in subsidiaries

During 2017, the Company exchanged its shares in 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
Global Energy Management Resources- Colombia, Inc.	Panama	Oil and gas	Ordinary	100%
Lagosur Petroleum Colombia, Inc.	Panama	Oil and gas	Ordinary	100%
Cinco Ranch Petroleum Colombia, Inc.	Panama	Oil and gas	Ordinary	100%
Harken del Peru Limitada	Cayman Islands	Discontinued Operations	Ordinary	100%
Nautilus Marine Services US, Inc.	United States	Offshore	Ordinary	100%

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

Global Energy Management Resources- Colombia, Inc. Sucursal Colombia	Colombian Branch	Oil and gas	Indirect holding	100%
Lagosur Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Oil and gas	Indirect holding	100%
Cinco Ranch Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Oil and gas	Indirect holding	100%
Harken del Peru Limitada	Peruvian Branch	Discontinued Operations	Indirect holding	100%
Global Energy 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, Inc.	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%

The list of registered offices is as follows:

Company	Registered Office Address
Nautilus Marine Services PLC	3 More Riverside, London, United Kingdom, SE1 2AQ
Global Energy Management Resources- Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Lagosur Petroleum Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Cinco Ranch Petroleum Colombia, Inc.	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Harken del Peru Limitada	Arias Araguez 250, Miraflores, Lima 18 Peru
Nautilus Marine Services US, Inc.	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 Petroleum Colombia, Inc. Sucursal Colombia	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Cinco Ranch Petroleum Colombia, Inc. Sucursal Colombia	Calle 113 # 7-21 Torre A Piso 11 Oficina 1101, Bogota, Colombia
Harken del Peru Limitada	Arias Araguez 250, Miraflores, Lima 18 Peru
Global Energy 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, Inc.	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

16. Inventories

	2017 $'000	2016 $'000
Oil stocks	**–**	17
Materials and supplies	**146**	242
Total inventories	**146**	259

The inventories are carried at cost related to materials and oil stocks are carried at market value.

For the year ended	**2017 $'000**	2016 $'000
Total cost of inventory charged to the Consolidated Income Statement	**36**	24
Write-down of inventories charged to the Consolidated Income Statement	**177**	–
Provision for obsolescence charged to the Consolidated Income Statement	**203**	–

Inventories included a provision for obsolescence as at 31 December 2017 of $265 thousand related to both materials and supplies and marine diesel fuel (2016: $62 thousand).

17. Note receivable

	2017 $'000	2016 $'000
Note receivable	**4,000**	12,000
Accrued interest receivable	**13**	60
Total note receivable and accrued interest as at 31 December	**4,013**	12,060
Cash received for interest income	**366**	1,182
Cash received for commission	**–**	40

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, ("HKN"), 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 is 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.

17. Note receivable continued

On 29 February 2016, the Co-Lenders amended the Note Receivable (the "Amendment") with Everest. Under the 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 closing 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 continues to be subject to an interest charge of 12 per cent per annum, payable monthly in arrears.

The Note Receivable was further amended on 8 February 2017 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. Part of the existing collateral under the Note Receivable, comprised of Everest's and its affiliates' shareholdings in HKN, which is a substantial shareholder in the Company, remains in place.

18. Prepayments and other assets

	2017 $'000	2016 $'000
Prepayments	**286**	161
Prepaid taxes[1]	**17**	122
Total prepayments and other assets, current	**303**	283
Prepaid taxes[2]	**941**	888
Deposits	**5**	–
Total other assets, non-current	**946**	888

1 Prepaid taxes represent tax deposits that could be refunded or offset against taxes payable in 2017.
2 Prepaid taxes represent VAT deposits that do not expire and are not expected to be offset against taxes payable during the next year.

19. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash and cash equivalents	**16,758**	16,446

All cash balances constitute demand deposits or short-term investments available at call and held in US Dollars and Colombian Pesos. Details of balances, interest rates on deposits and currency exposures are summarised in note 25.

20. 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. All three series have been issued and all consideration has been received by the Group as at 31 December 2017.

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

	Convertible Loan Note		
Term:	**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 period:

	2017 $´000
Balance at 31 December 2016	**–**
Issuance of convertible loan notes	**16,140**
Proportion classified as equity	**(1,307)**
Proportion classified as derivative financial liabilities	**(780)**
Interest payable	**1,663**
Accretion expense	**93**
Convertible loan notes and accrued interest	**15,809**

21. Decommissioning and environmental provisions

Long-term provisions	**2017 $'000**	2016 $'000
Decommissioning liability at start of year, non-current[1]	**2,161**	2,005
Unwinding of discount	**219**	172
Reclassification from (to) short-term provisions[2]	**578**	(555)
(Decrease)/increase in provision[3]	**(246)**	539
Decommissioning liability at end of year, non-current	**2,712**	2,161
Total long-term provision	**2,712**	2,161

Short-term provisions	**2017 $'000**	2016 $'000
Decommissioning liability at start of year, current[1]	**810**	–
Reclassification to (from) long-term provisions[2]	**(578)**	555
Increase in provision[3]	**82**	255
Decommissioning liability at end of year, current	**314**	810
Environmental provision - current, at start of year[4]	**138**	184
Decrease in provision	**(91)**	(46)
Environmental provision - current, at end of year	**47**	138
Total short-term provision	**361**	948

1 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 2018 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 included within short-term and long-term provisions within the statement of financial position and are reviewed periodically to take into account any material changes to those assumptions.

2 During 2016, the Group made the decision to perform a portion of its remediation obligations related to the Bocachico and Bolivar Contract Areas in Colombia during the upcoming year rather than upon expiration of the contracts. This decision was made in order to take advantage of lower oilfield service pricing during depressed industry conditions in Colombia and to also reduce future environmental obligations. This decision resulted in the reclassification from long-term to short-term provisions of $555 thousand during 2016. 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.

3 Decommissioning cost estimates increased during 2016 as a result of performing long-term obligations earlier than expected and bringing them to present value and identifying 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.

4 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.

22. Trade and other payables

	2017 $'000	2016 $'000
Trade payables	**177**	240
Accrued liabilities[1]	**356**	1,066
Total trade and other payables	**533**	1,306

1 The decrease in accrued liabilities at 31 December 2017 is primarily due to accrued transaction costs at 31 December 2016 (note 2).

23. Corporate and equity tax liability

	2017 $'000	2016 $'000
Current tax		
Withholding tax[1]	**3**	5
VAT receivables	**(22)**	(8)
Income tax[1]	**74**	119
Total corporate and equity tax liabilties	**55**	116

1 Corresponds to taxes payable in Colombia.

24. Financial instruments – fair value measurement

During 2017, 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

During the year ended 31 December 2017, a gain of $543 thousand was 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 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 of the three vessels was determined to be $nil at acquisition and as at 31 December 2017. Changes to the Group's key assumptions regarding the projected net cash inflows generated by the vessels and the expected timing of potential revenues could impact the fair value of the contingent consideration, which will be assessed at each reporting period for the duration of the 18-month contingency measurement period.

25. 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 liability

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 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.

Financial assets and liabilities as per Statement of Financial Position:	2017 $'000	2016 $'000
Financial assets (all at amortised cost):		
Trade and other receivables	**7**	66
Note receivable	**4,013**	12,060
Cash and cash equivalents	**16,758**	16,446
Total financial assets	**20,778**	28,572
Financial liabilities:		
At amortised cost		
Trade and other payables	**533**	1,306
Convertible loan notes	**15,809**	–
At fair value		
Derivative financial liability	**262**	–
Total financial liabilities	**16,604**	1,306

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. At 31 December 2017, the Group held cash of $15 thousand (2016: $7 thousand) in demand deposits and money market investments subject to floating rates which averaged 0.1 per cent during the year (2016: 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.

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 minimized 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 2017 was as follows:

US Dollar equivalent of:	US Dollar $'000	Colombian Peso $'000	Total $'000
Cash at bank at floating interest rate	**–**	**15**	**15**
Cash at bank on which no interest is received	**16,743**	**–**	**16,743**
Fixed rate debt	**(15,809)**	**–**	**(15,809)**
Net cash	**934**	**15**	**949**

The profile at 31 December 2016 for comparison purposes was as follows:

US Dollar equivalent of:	US Dollar $'000	Colombian Peso $'000	Total $'000
Cash at bank at floating interest rate	–	7	7
Cash at bank on which no interest is received	16,439	–	16,439
Net cash	16,439	7	16,446

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. Credit risk arises from cash and cash equivalents and from exposure via deposits with banks. For cash and cash equivalents, the Group only uses recognized 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.

25. Financial instruments – risk management continued

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:

Foreign currency units to $1.00 US Dollar	Colombian Peso	Pound Sterling	Peruvian Nuevo Sol
At 31 December 2017	**2,984**	**0.741**	**3.228**
At 31 December 2016	3,000	0.813	3.308

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.

US Dollar equivalent of exposed net monetary liabilities	Colombian Peso $'000	Pound Sterling $'000	Peruvian Nuevo Sol $'000	Total $'000
At 31 December 2017	**(3,696)**	**(139)**	**–**	**(3,835)**
At 31 December 2016	(3,452)	(973)	(6)	(4,431)

The year-on-year fluctuation in the Pound Sterling balance is attributed primarily to an increase in accrued liabilities payable (see note 22).

Foreign currency sensitivity analysis

At 31 December 2017, the Group holds net monetary liabilities in foreign currencies, mainly in the form of decommissioning and environmental provisions denominated in the Colombian Peso and trade payable and accrued liabilities payable in Pound Sterling. 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.

Currency Impact on Loss from Operations	Colombian Peso $'000	Pound Sterling $'000	Peruvian Nuevo Sol $'000	Total $'000
At 31 December 2017	**370**	**14**	**–**	**384**
At 31 December 2016	345	97	1	443

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 of 31 December 2017, 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 or long-term commitments related to its offshore service business. 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 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 periodic basis as well as information regarding cash balances and Group 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:

Analysis of current financial liabilities include:	**2017 $'000**	2016 $'000
Up to 3 months	**402**	1,306
3 to 6 months	**131**	–
Total current liabilities	**533**	1,306

Analysis of debt include:	**2017 $'000**	2016 $'000
In ten years or more	**15,809**	–
Total	**15,809**	–

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.

26. Share capital

	2017 Number of shares	**2017 $'000**	2016 Number of shares	2016 $'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**36,112,187**	**608**	36,112,187	608

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.
Other reserve	Equity element of convertible loan notes accounted for in accordance with IAS 32 and IAS 39.
Accumulated losses	Cumulative net gains and losses recognised in the Condensed Consolidated Statement of Comprehensive Income.
Capital reserve	Reserve created on issue of shares for acquisitions of subsidiaries in prior years.

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.

27. Share-based payments

Equity-settled – discretionary share option incentive plan

The Group periodically grants share options to employees and Directors, as approved by the Board. At 31 December 2017 and 31 December 2016 the following share options were outstanding in respect of the ordinary shares:

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
Total	**3,993,530**	**1,585,000**	**(2,093,530)**	**3,485,000**	**2,350,000**			

27. Share-based payments continued

Year ended 31 December 2016

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	–	–	2,415,196	2,415,196	31.01.2002	31.01.2019	50.0p
2004	450,000	–	–	450,000	450,000	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	–	–	300,000	300,000	11.02.2008	11.02.2018	100.0p
2008	500,000	–	–	500,000	500,000	11.12.2008	11.12.2018	70.0p
2011	125,000	–	–	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	–	–	63,334	63,334	01.10.2013	01.10.2023	100.0p
2014	50,000	–	–	50,000	45,834	01.04.2014	01.04.2024	100.0p
Total	**3,993,530**	**–**	**–**	**3,993,530**	**3,989,364**			

The Group's mid-market closing share price at 31 December 2017 was 10.0p (31 December 2016: 23.0p). The highest and lowest mid-market closing share prices during 2017 were 26.0p (2016: 37.0p) and 8.75p (2016: 21.0p), respectively. The weighted average exercise price at the beginning of 2017 was 72.88p (2016: 72.88p) end of period was 66.81p (2016: 72.88p). The total intrinsic value at 31 December 2017 of liabilities for which the counterparty's right to cash or other assets had vested was $nil (2016: $nil).

Under the terms of the equity-settled option scheme the holder has the option, at the time of exercise, to elect to forego a number of their share options, and thereby reduce the exercise price of the remaining shares by the notional gain on the shares foregone. The effect of this is that the number of shares exercised and the price per share may be lower than as disclosed in the table above.

The options are granted to Directors and employees. 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. Of the exercisable options at 31 December 2017, 100,000 share options are grants to former employees, which will expire during 2018 and 2019.

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

Based on the above fair values and the Group's expectations of employee turnover, the expense arising from equity-settled share options made to employees was $14 thousand for the period (2016: $10 thousand).

28. Operating lease commitments

The Group's operating leases as at 31 December 2017 consist of a corporate office lease, an office equipment lease and a dock lease for the offshore service vessels acquired in February 2017. The Group's operating leases as at 31 December 2016 consist of corporate and subsidiary office leases, an office equipment lease and a dock lease for the offshore service vessels acquired in February 2017. The Group has the option to renew the dock lease for two consecutive one year terms. During the year ended 31 December 2017 and 2016, the Group recognised $385 thousand and $297 thousand in operating lease payments, respectively. The Group made no payments related to contingent rents or sublease payments during 2017 and 2016.

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

	2017 $'000	2016 $'000
Not later than 1 year	**387**	318
Later than 1 year and not later than 5 years	**–**	6
Later than 5 years	**–**	–
Total	**387**	324

29. 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 for additional information). As part of the transactions, the Group amended its outstanding Note Receivable with Everest (see note 17 for additional information).

The Group entered into a Shared Services Agreement with HKN during 2015 to allow employees to provide or cause to be provided certain contract services, as needed. The Group paid $32 thousand to HKN for contract services for due diligence purposes during the year ended 31 December 2016. No payments were made for services during 2017.

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. During the prior year period, the Group purchased $22 thousand in furniture and computer equipment from HKN and also sold $39 thousand in furniture and computer equipment to HKN, resulting in a loss on the disposal of assets of $1 thousand.

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 $17 thousand and $19 thousand for contract services during the year ended 31 December 2017 and 2016, respectively.

30. Post reporting date events

After the reporting date, the Group closed on the sale of two of its offshore service vessels and certain offshore equipment for proceeds of $665 thousand. These disposals resulted in a gain on disposal of assets of $541 thousand.

COMPANY ACCOUNTS

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	31 December 2017 $'000	31 December 2016 $'000
Assets			
Non-current assets			
Intangible assets	4	**29**	44
Property, plant and equipment		**–**	2
Other non-current assets		**5**	–
Investment in subsidiaries	5	**16,299**	–
Total non-current assets		**16,333**	46
Current assets			
Note receivable	6	**4,013**	12,060
Trade and other receivables		**2**	–
Prepayments and other assets	7	**137**	151
Cash and cash equivalents	8	**16,595**	16,440
Total current assets		**20,747**	28,651
Total assets		**37,080**	28,697
Liabilities			
Non-current liabilities			
Convertible loan notes and accrued interest	9	**(15,809)**	–
Total non-current liabilities		**(15,809)**	–
Current liabilities			
Trade and other payables	10	**(176)**	(1,053)
Derivative financial liabilities	9	**(262)**	–
Total current liabilities		**(438)**	(1,053)
Total liabilities		**(16,247)**	(1,053)
Net assets		**20,833**	27,644
Capital and reserves attributable to equity holders of the parent			
Share capital	11	**608**	608
Share premium account		**27,139**	27,139
Capital reserve	11	**–**	21,420
Other reserves	9	**1,307**	–
Accumulated losses		**(8,221)**	(21,523)
Total equity		**20,833**	27,644

The Company loss after tax for the year was $8,131,880 (2016: loss $5,716,185)

These financial statements were approved by the Board of Directors and authorised for issue on 13 March 2017 and were signed on its behalf by:

Mikel Faulkner
Chairman
13 March 2018

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

The notes on pages 52 to 57 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
At 1 January 2016		608	27,139	21,420	–	(15,817)	33,350
Comprehensive loss for the year:							
Total loss for the year		–	–	–	–	(5,716)	(5,716)
Other comprehensive income/(loss)		–	–	–	–	–	–
Total comprehensive loss for the year attributable to equity owners of the parent		–	–	–	–	(5,716)	(5,716)
Transaction with owners:							
Share-based payment – options equity settled		–	–	–	–	10	10
Other movements within equity		–	–	–	–	10	10
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 31 December 2017		**608**	**27,139**	**–**	**1,307**	**(8,221)**	**20,833**

The notes on pages 52 to 57 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash used in operations	3	**(10,711)**	(6,190)
Tax paid (continuing and discontinued operations)		**–**	–
Net cash used in operating activities		**(10,711)**	(6,190)
Cash flows from investing activities			
Interest income from note receivable	6	**366**	1,182
Commission income from note receivable		**–**	40
Placement of note receivable		**–**	(4,000)
Purchase of intangible assets and property, plant and equipment		**–**	(47)
Net cash provided by (used in) investing activities		**366**	(2,825)
Cash flows from financing activities			
Issuance of convertible loan notes pursuant to Transaction B	9	**10,500**	–
Net cash provided by investing activities		**10,500**	–
Increase (decrease) in cash and cash equivalents for the year		**155**	(9,015)
Cash and cash equivalents at beginning of year		**16,440**	25,455
Cash and cash equivalents at the end of year		**16,595**	16,440

The notes on pages 52 to 57 form an integral part of these financial statements.

NOTES TO THE FINANCIAL INFORMATION
FOR THE 12 MONTHS ENDED 31 DECEMBER 2017

1. Accounting policies

Basis of preparation

The financial statements of the Company for the 12 months ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union.

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 2017 (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 2017 (2016: $nil).

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 as held to maturity or available for sale. The Company has not classified any of its assets at fair value through profit and loss.

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 recognized 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 IAS 32 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 amortized 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 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 recognized 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 recognized 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.

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 in 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 recognized. 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 recognized 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 2017 and 2016, the Company has not recognized 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.

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. Staff costs and audit fees

The Company retained three Non-executive Directors during both 2017 and 2016. The disclosures relating to the Non-executive Directors' remuneration for the current and prior year, as well as shareholdings and share options interests are included in note 7 in the Group Financial Statements.

The Company had one employee during a portion of both 2017 and 2016, who was also considered a key management personnel. As at 31 December 2017 and 2016, the Company had nil and one employee (excluding Non-executive Directors), respectively.

The Company employee costs during the year amount to:

	2017 $'000	2016 $'000
Wages and salaries	**51**	116
Social security costs and other payroll taxes	**7**	11
Share-based payments - options - equity settled[1]	**14**	10
Total employee costs	**72**	137

1 Share-based payments during 2017 and 2016 comprised of $12 thousand and $9 thousand related to key management personnel.

See note 6 in the Group Financial Statements for disclosures relating to the audit fees incurred during the current and prior year.

3. Notes to the Statement of Cash Flows

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

	Note	**2017 $'000**	2016 $'000
Loss before tax		**(8,132)**	(5,716)
Adjustments for:			
Depreciation of property, plant & equipment		**–**	1
Amortisation of intangible assets	4	**15**	–
Impairment charge on receivables	13	**3,474**	4,289
Impairment reversal of investments, net	5	**(2,658)**	–
Provision for uncollectible accounts		**–**	4
Share based expense	12	**14**	10
Finance income	13	**(366)**	(1,222)
Interest and accretion expense on convertible loan notes	9	**1,756**	–
Gain on derivative financial instruments	9	**(543)**	–
Operating cash flow before movements in working capital		**(6,440)**	(2,634)
Increase in trade and other receivables		**(3,418)**	(4,435)
(Decrease)/increase in trade and other payables		**(853)**	879
Cash used in operations		**(10,711)**	(6,190)

(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.

(c) Reconciliation of liabilities arising from financing activities

			Non-cash changes					
	2016	Cash flows $'000	Acquisition $'000	Foreign exchange movement $'000	Fair value changes '$'000	Interest payable '$'000	Accretion '$'000	**2017**
Convertible loan notes	–	10,500	3,553	–	–	1,663	93	**15,809**
Derivative liabilities	–	–	780	25	(543)	–	–	**262**
Total liabilities from financing activities	**–**	**10,500**	**4,333**	**25**	**(543)**	**1,663**	**93**	**16,071**

The Company had no liabilities arising from financing activities as at 31 December 2015 or during the year ended 31 December 2016.

4. Intangible assets

The balance in intangible assets is associated with $44 thousand related to implementation costs for a new accounting system, SAGE 300, during 2016 to be used for consolidated reporting. This software has a finite life and will be amortized over its useful life. During 2017, the software was placed in service and accordingly $15 thousand of amortisation was recognized during the period.

5. Investments in subsidiaries

During 2017, the Company exchanged its shares in 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 recognized. The Company's investments in directly held subsidiaries at 31 December 2017 comprised of the following:

2017

	At 1 January 2017 $000	Increase $000	Impairment Reversal/ (Charge) $000	At 31 December 2017 $000
Lagosur Petroleum Colombia, Inc.[1]	–	–	**3,858**	**3,858**
Nautilus Marine Services US, Inc.[2]	–	**13,641**	**(1,200)**	**12,441**
Total	–	**13,641**	**2,658**	**16,299**

1 Impairment reversal of $4 million related to the recovery of oil and gas property value in the Bolivar area (please see note 14 in the Group Financial Statements for discussion).
2 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 Company's investment in Cinco Ranch Petroleum, Inc. remained fully impaired at 31 December 2017 and all the Company's investments in its directly held subsidiaries were fully impaired at 31 December 2016 due to lack of future cash flows at the subsidiary level (see note 14 in the Group financial statements).

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	Class of share capital held	Proportion held by the Company
Lagosur Petroleum Colombia, Inc.	Panama	Ordinary	100%
Cinco Ranch Petroleum Colombia, Inc.	Panama	Ordinary	100%
Harken del Peru Limitada	Cayman Islands	Ordinary	100%
Global Energy Management Resources – Colombia, Inc.	Panama	Ordinary	100%
Nautilus Marine Services US, Inc.	United States	Ordinary	100%

The following branches are included in the subsidiaries listed above:

Lagosur Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Indirect holding	100%
Cinco Ranch Petroleum Colombia, Inc. Sucursal Colombia	Colombian Branch	Indirect holding	100%
Harken del Peru Limitada	Peruvian Branch	Indirect holding	100%
Global Energy Management Resources – Colombia Inc. Sucursal Colombia	Colombian Branch	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 15 in the Group Financial Statements.

6. Note receivable

See note 17 in the Group Financial Statements.

7. Prepayments and other assets

	2017 $'000	2016 $'000
Prepayments	**126**	69
Prepaid taxes[1]	**11**	82
Prepayments and other assets	**137**	151

1 Prepaid taxes represent tax deposits that could be refunded or offset against taxes payable in 2017.

8. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash and cash equivalents	**16,595**	16,440

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

9. Convertible loan notes and interest payable

See note 20 in the Group Financial Statements.

10. Trade and other payables

	2017 $'000	2016 $'000
Trade payables	**23**	64
Accrued liabilities[1]	**153**	989
Trade and other payables	**176**	1,053

1 The decrease in accrued liabilities at 31 December 2017 is primarily due to accrued transaction costs at 31 December 2016 (see note 2 in the Group Financial Statements).

11. Share capital

See note 26 in the Group Financial Statements.

12. Share-based payments

See note 27 in the Group Financial Statements.

13. 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

	2017 $'000	2016 $'000
Placement of note receivable[1]	**–**	4,000
Issuance of convertible loan notes pursuant to Transaction B[2]	**10,500**	–
Interest income, fees and cost reimbursement[1]	**366**	1,222
	10,866	5,222

(b) Purchase of services:

	2017 $'000	2016 $'000
Service fees[3]	**17**	51

(c) Purchase/(sale) of property, plant and equipment:

	2017 $'000	2016 $'000
Purchase of furniture and computer equipment[4]	**43**	22
Purchase of vessels[5]	**12,025**	–
Purchase of offshore equipment and inventory[5]	**1,615**	–
Sale of furniture and computer equipment[4]	**–**	(39)

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

	2017 $'000	2016 $'000
Note receivable and accrued interest[1]	**4,013**	12,060
Convertible loan notes, accrued interest and accretion[2]	**15,809**	–
Derivative financial liabilities[2]	**262**	–

(e) Intercompany reversal/(impairments):

	2017 $'000	2016 $'000
Impairment reversal of investment in subsidiaries, net[6]	**2,658**	–
Impairment loss on receivables from subsidiaries[7]	**(3,474)**	(4,289)

1 Please see note 17 in the Group Financial Statements for discussion on placement of the note receivable with Everest.
2 Please see note 20 in the Group Financial Statements for discussion on placement of the convertible loan notes.
3 Please see note 29 in the Group Financial Statements for discussion on the shared service agreement with HKN and Oil and Gas Advisors LTD.
4 Please see note 29 in the Group Financial Statements for discussion on the purchase and sale of property, plant and equipment with HKN.
5 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.
6 Includes $4 million impairment reversal for Lagosur Petroleum Colombia, Inc. related to the recovery of oil and gas property value in the Bolivar area (please see note 14 in the Group Financial Statements for discussion). Also includes an impairment charge of $1.2 million on the investment in Nautilus Marine Services US, Inc. based on the fair value of the subsidiary.
7 Loss resulting from the impairment of receivables from certain subsidiaries due to lack of future cash flows expected at the subsidiary level.

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

Executive Management

John Payne (Managing Director)
Sarah Gasch (Finance Director)
Kristina Humphries (Company Secretary)

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