NAUTILUS
Marine Services PLC

Strategic Investments in the Offshore Services Industry

Nautilus Marine Services PLC
Interim Report 2017

Creating value in the global offshore services industry

Nautilus Marine Services PLC (formerly Global Energy Development PLC) is a highly-liquid company with capital access and available cash resources and has taken first steps to enter the global offshore services industry. Nautilus is aiming to create value for its shareholders through strategic investments and to build a group that provides innovative offshore inspection and repair services which deliver operational savings and efficiencies to the customer.

AIM

As of 9 February 2017, 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"). Previously, the Company's shares had been traded on the AIM since March 2002 as Global Energy Development PLC (LSE-AIM: "GED").

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CHAIRMAN'S STATEMENT AND REVIEW OF OPERATIONS

Nautilus is actively reviewing the Gulf of Mexico and international markets to identify investment prospects in offshore service assets and service providers with commercialised offshore technologies.

In February 2017, the Group commenced its fundamental change of business with the acquisition of a small fleet of shallow-water-specific offshore vessels and equipment (the "Transaction") and changed its name to Nautilus Marine Services PLC. After this acquisition, the Group undertook a thorough assessment and initial enhancement program of these assets aided by the marine management company, Crowley Global Ship Management, Inc. Nautilus continues to assess these vessels and evaluate shallow water Gulf of Mexico opportunities in this complex market. The purchase of these assets was the first step in the Group's new strategy to acquire and invest in the offshore services sector on a global basis.

Nautilus' strategy is to build a service group which provides innovative and technology-led offshore services in a cost-effective manner. Whilst oil price forecasts fluctuate, offshore energy companies continue to focus on keeping project costs low. Offshore energy and renewable resource companies are looking for ways to solve problems, such as required maintenance and inspections of pipelines, facilities and wells, more efficiently while spending less money. Nautilus is seeking to invest in or acquire companies which have commercialised technologies or methods that can cost-efficiently address this need.

In a challenging market, Nautilus is pursuing investments in viable service providers in need of possible restructuring or additional resources in order to achieve regional growth or increase overall market share. As the offshore services sector has been challenged recently by stricter operating margins and decreased utilisation rates, most offshore service providers are struggling to survive.

By streamlining costs and restructuring highly-leveraged balance sheets, the Group believes it can capitalise on the current distressed market and build, or be a part of, a profitable niche offshore service company which can benefit even at current activity levels and related thin profit margins. Many of these offshore service companies have restricted their services to limited regions of the world due to constrained sales resources. By connecting companies that provide complementary services for offshore projects like inspection, survey and repair, Nautilus can provide a synergistic and more economical overall product to the customer.

Financials

Pursuant to the Transaction, the Group raised and received cash proceeds of $10.5 million and acquired twelve offshore service vessels, dive equipment, and related inventory through the purchase of five asset-holding companies 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. As these entities held only assets without any liabilities or contracts, these acquisitions were treated as asset purchases for accounting purposes.

Financial Position

The convertible loan notes issued in conjunction with the Transaction carry a nominal value of $31.6 million and were issued an approximate discount of 49% based on an independent, third party valuation of $16.1 million. The related discount on the convertible loan notes will be recognized as an accretion expense over their respective terms, and $901 thousand in interest and accretion expenses were recorded during the current six month period ending 30 June 2017 (the "Period").

The Group also recognized a $428 thousand gain which is presented within finance income and other related to the interim revaluation of the derivative liabilities associated with the conversion options of the Series B and Series C convertible loan notes which indicated a decrease in the fair value of these options from their value at issuance.

The Group also amended its note receivable pursuant to the asset acquisition to reduce the outstanding principal balance from $12 million to $4 million, to extend the maturity date from 15 January 2017 to 15 September 2018, and to lower the interest rate from 12% per annum to 8% per annum. The reduced principal balance and interest rate resulted in a decrease in finance income on the note receivable from $606 thousand during the six months ended 30 June 2016 to $169 thousand during the Period.

Property, plant and equipment increased significantly during the Period as the Group took delivery of the twelve offshore service vessels, including one lay barge, subsea dive equipment and inventory consisting of other supplies and consumables. Utilising the independent, third party valuations, $12 million of the purchase price was allocated to the vessels and $1.6 million was allocated to dive equipment and inventory.

Prepayments and other assets increased during the Period with the placement of the new maritime insurance program as well as the payment of monthly advances pursuant to contracts for vessel management and crewing arrangements during the Period.

Results of Operations

The Group's cost of sales increased substantially during the Period primarily due to the acquired assets. Cost of sales increased from $269 thousand during the prior year period to $2.7 million during the Period. Vessel operating costs comprised $1.5 million of this increase, depreciation of these assets was responsible for $824 thousand of the increase, while the cost of sales for the Group's legacy oil and gas assets in Colombia remained relatively flat. Vessel operating costs for the Period were comprised of $482 thousand in non-recurring costs to transition and assess the vessels, $416 thousand in dock and facility costs, $264 thousand in vessel crewing and technical management fees, and $368 thousand in insurance, maintenance and other expenses. Following completion of the initial assessment and transition, the Group expects vessel operating costs to be significantly reduced during the second half of 2017 and has already put in place measures for these reductions.

Administrative expenses during the Period increased to $3.7 million compared to $2.3 million for the prior year. The increase was primarily due to transaction costs related to the acquisition of the vessels, additional staffing related to our rebranding and growth initiatives as an offshore service provider, and incentive compensation expense paid during the first quarter of 2017. The Group expects administrative expenses to be reduced during the second half of 2017 and has also put in place measures for these reductions.

Conclusion

Nautilus' near-term goal is to build a service group through investment or acquisition in vessels, equipment, commercialised offshore technologies and other niche offshore service providers. Through balance-sheet restructuring, streamlining of administrative functions and capital infusion, Nautilus aims to build a unique, synergistic service provider for offshore projects in order to create value for our shareholders.

Mikel Faulkner
Chairman
13 September 2017

INDEPENDENT REVIEW REPORT TO NAUTILUS MARINE SERVICES PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Cash Flow Statement, Condensed Consolidated Statement of Changes of Equity and the related explanatory notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP
Chartered Accountants and Registered Auditors
55 Baker Street
London
W1U 7EU
United Kingdom
13 September 2017

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2017

	Note	**Six months ended 30 June 2017 $'000 (Unaudited)**	Six months ended 30 June 2016 $'000 (Unaudited)
Continuing operations			
Revenue	6	**140**	84
Cost of sales	7	**(2,683)**	(269)
Gross loss		**(2,543)**	(185)
Gain/(loss) on disposal of assets		**54**	(1)
Administrative expense		**(3,663)**	(2,278)
Impairment loss		**(2)**	(184)
Operating loss from continuing operations		**(6,154)**	(2,648)
Finance income and other	8	**597**	606
Finance expense and other	9	**(1,040)**	(287)
Loss before taxation from continuing operations		**(6,597)**	(2,329)
Tax expense		**(88)**	(87)
Loss from continuing operations, net of tax		**(6,685)**	(2,416)
Loss from discontinued operations, net of tax		**(8)**	(139)
Total comprehensive loss attributable to the equity holders of the parent		**(6,693)**	(2,555)
Loss per share for continuing operations			
– Basic and diluted	5	**$(0.19)**	$(0.07)
Loss per share for discontinued operations			
– Basic and diluted	5	**$(0.00)**	$(0.00)
Total loss per share			
– Basic and diluted	5	**$(0.19)**	$(0.07)

Figures in thousands except for per share information which is stated in $.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	30 June 2017 $'000 (Unaudited)	31 December 2016 $'000 (Audited)
Assets			
Non-current assets			
Intangible assets		**138**	144
Other non-current assets		**920**	888
Property, plant and equipment	11	**12,606**	21
Note receivable	10	**4,000**	–
Total non-current assets		**17,664**	1,053
Current assets			
Inventories	12	**548**	259
Note receivable and accrued interest	10	**13**	12,060
Trade and other receivables		**870**	349
Cash and cash equivalents		**20,106**	16,446
Total current assets		**21,537**	29,114
Total assets		**39,201**	30,167
Liabilities			
Non-current liabilities			
Convertible loan notes and accrued interest	13	**(14,954)**	–
Long-term provisions		**(2,241)**	(2,161)
Total non-current liabilities		**(17,195)**	(2,161)
Current liabilities			
Trade and other payables		**(456)**	(1,422)
Short-term provisions		**(919)**	(948)
Derivative financial liabilities	13,15	**(374)**	–
Total current liabilities		**(1,749)**	(2,370)
Total liabilities		**(18,944)**	(4,531)
Net assets		**20,257**	25,636
Capital and reserves attributable to equity holders of the parent			
Share capital	14	**608**	608
Share premium		**27,139**	27,139
Capital reserve	14	**30,435**	51,855
Other reserves	13	**1,307**	–
Retained deficit		**(39,232)**	(53,966)
Total equity		**20,257**	25,636

The financial information on pages 4 to 19 was approved and authorised for issue by the Board of Directors on 13 September 2017 and is signed on its behalf by:

Mikel Faulkner
Chairman – 13 September 2017

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2017

	Note	**Six months ended 30 June 2017 $'000 (Unaudited)**	Six months ended 30 June 2016 $'000 (Unaudited)
Cash flows from operating activities			
Cash used by operations	4	**(6,835)**	(3,041)
Taxes paid (continuing and discontinued operations)		**(178)**	(155)
Net cash used in operating activities		**(7,013)**	(3,196)
Cash flows from investing activities			
Placement of note receivable		**–**	(2,000)
Interest and commission fee from note receivable		**206**	590
Proceeds from disposal of assets		**61**	38
Purchase of property plant and equipment		**(94)**	(28)
Net cash generated from (used in) investing activities		**173**	(1,400)
Cash flows from financing activities			
Issuance of convertible loan notes	13	**10,500**	–
Net cash generated from financing activities		**10,500**	–
Increase/(decrease) in cash and cash equivalents		**3,660**	(4,596)
Cash and cash equivalents at beginning period		**16,446**	25,608
Cash and cash equivalents at the end of period		**20,106**	21,012

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Other reserve $'000	Retained deficit $'000	Total $'000
At 31 December 2016 (Audited)		**608**	**27,139**	**51,855**	**–**	**(53,966)**	**25,636**
Total comprehensive loss attributable to equity holders of the parent		–	–	–	–	(6,693)	(6,693)
Share-based payments – options equity settled		–	–	–	–	7	7
Capital reserve transfer	14	–	–	(21,420)	–	21,420	–
Equity proportion of convertible loan note		–	–	–	1,307	–	1,307
At 30 June 2017 (Unaudited)		**608**	**27,139**	**30,435**	**1,307**	**(39,232)**	**20,257**
At 31 December 2015 (Audited)		608	27,139	51,855	–	(47,349)	32,253
Total comprehensive loss attributable to equity holders of the parent		–	–	–	–	(2,555)	(2,555)
Share-based payments – options equity settled		–	–	–	–	5	5
At 30 June 2016 (Unaudited)		608	27,139	51,855	–	(49,899)	29,703

UNAUDITED NOTES FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. Basis of Preparation

The interim financial information has been prepared using policies based on International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. The interim financial information has been prepared using the accounting policies which will be applied in the Company and its subsidiaries (together the "Group") statutory financial information for the year ending 31 December 2017. Of the new international accounting standards issued with effective date of 1 January 2017, none have a material impact on the Group.

The interim financial information for the period 1 January 2017 to 30 June 2017 is unaudited. In the opinion of the Directors, the interim financial information for the period presents fairly the financial position, results from operations and cash flows for the period in conformity with the generally accepted accounting principles consistently applied. The interim financial information incorporates unaudited comparative figures for the interim period 1 January 2016 to 30 June 2016 and the audited financial year as at 31 December 2016.

Certain prior year amounts in Condensed Consolidated Statement of Financial Position and Condensed 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, loss on the disposal of assets previously presented within finance expense and other has been presented separately in the current period. Furthermore, prepayments and other assets and corporate and equity tax liabilities previously presented separately are now presented within trade and other receivables and trade and other payables, respectively.

The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006. The comparatives for the full year ended 31 December 2016 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

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 modeling 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 discretionary expenditures beyond the period of 12 months of the date of this report.

2. Significant Accounting Policies

Significant new accounting policies relevant to the current reporting period are set out below.

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 capitalized 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 Condensed 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 Condensed 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 for the vessels, assets are grouped at the lowest levels for which there are separately identifiable cash flows or Cash Generating Unit ("CGU"). Each vessel is considered as a separate CGU. 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 Condensed Consolidated Statement of Comprehensive Income in the period incurred. At 30 June 2017, the Group's assessment did not identify any factors that would indicate the value of its offshore service vessels and equipment may be impaired since the acquisition date measurement in February 2017 (see note 3 for additional information).

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 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 Reserve 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 Condensed 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 Condensed Consolidated Statement of Comprehensive Income and are included within derivative financial liabilities in the Condensed 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 Condensed 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 at 30 June 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.

3. Acquisition of Offshore Service Vessel-Owning Companies

On 16 January 2017, the Group announced the proposed acquisition of offshore service vessel-owning companies through two separate transactions. Shareholders approved the resolution to complete these transactions on 8 February 2017, and the Group's shares were re-admitted to the 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 the AIM since March 2002 as Global Energy Development PLC (LSE-AIM: "GED"). The Group's principal activity is now the acquisition of offshore service vessels and technology and the provision of offshore oil services. 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% to 8% 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% 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 10 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. This Level 3 fair value was based on internal probability weighted cash projections and operating assumptions related to the three vessels (see note 15 for further information).

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 subsea 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 13 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 15 for further information).

4. Notes to the Condensed Consolidated Cash Flow Statement

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

	Six months ended 30 June 2017 $'000 (Unaudited)	Six months ended 30 June 2016 $'000 (Unaudited)
Continuing operations		
Loss before tax	**(6,597)**	(2,329)
Adjustments for:		
Depreciation of property, plant & equipment	**838**	49
Amortisation of intangible assets	**7**	–
Gain on derivative financial instruments	**(428)**	–
(Gain)/loss on disposal of assets	**(54)**	1
Impairment charge	**2**	184
Provision for uncollectible accounts	**–**	4
Share based expense	**7**	5
Finance income	**(206)**	(590)
Interest and accretion expense on convertible loan notes	**901**	–
Unwinding of discount on decommissioning provision	**111**	93
Operating cash flow before movements in working capital	**(5,419)**	(2,583)
Decrease/(increase) in inventories	**14**	(5)
Increase in trade and other receivables	**(507)**	(16)
Decrease in trade and other payables	**(913)**	(425)
Cash used in continuing operations	**(6,825)**	(3,029)
Discontinued operations		
Loss before tax	**(8)**	(139)
Adjustments for:		
Provision for uncollectible accounts	**1**	130
Operating cash flow before movements in working capital	**(7)**	(9)
Increase in trade and other receivables	**–**	(5)
(Decrease) / increase in trade and other payables	**(3)**	2
Cash used in discontinued operations	**(10)**	(12)
Cash used by operations	**(6,835)**	(3,041)

(b) Significant non-cash transactions

During the six months ended 30 June 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.

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 $)

	Six months ended 30 June 2017 $'000 (Unaudited)	Six months ended 30 June 2016 $'000 (Unaudited)
Loss from continuing operations after taxation	**(6,685)**	(2,416)
Loss from discontinued operations after taxation	**(8)**	(139)
Net loss attributable to equity holders	**(6,693)**	(2,555)
Loss per share for continuing operations		
– Basic and diluted	**$(0.19)**	$(0.07)
Loss per share for discontinued operations		
– Basic and diluted	**$(0.00)**	$(0.00)
Total loss per share		
– Basic and diluted	**$(0.19)**	$(0.07)
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

The calculation of the diluted earnings per share assumes all criteria giving rise to the dilution of the earnings per share are achieved and all outstanding share options with exercise prices lower than the average period share price are exercised. However, 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:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Employee and Director share option plans	**3,550,000**	3,955,752
Shares on conversion of loan notes	**25,802,596**	–

6. Segmental Analysis

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. 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 consistent with the internal reporting provided to the chief operating decision-makers. 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 six months ended 30 June 2017	**Offshore $'000**	**Oil and Gas $'000**	**Corporate $'000**	**Total $'000**
Revenue	**–**	**140**	**–**	**140**
Operating expenses	**(1,531)**	**(307)**	**–**	**(1,838)**
Depreciation, amortisation and impairment	**(824)**	**(2)**	**(21)**	**(847)**
Finance expense and other	**(901)**	**(80)**	**(59)**	**(1,040)**
Loss from continuing operations before tax	**(3,137)**	**(608)**	**(2,852)**	**(6,597)**

For the six months ended 30 June 2016	Offshore $'000	Oil and Gas[1] $'000	Corporate[1] $'000	Total[1] $'000
Revenue	–	84	–	84
Operating expenses	–	(220)	–	(220)
Depreciation, amortisation and impairment	–	(219)	(14)	(233)
Finance expense and other	–	(260)	(27)	(287)
Loss from continuing operations before tax	–	(682)	(1,647)	(2,329)

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

For the six months ended 30 June 2017	**Offshore $'000**	**Oil and Gas $'000**	**Corporate $'000**	**Total $'000**
Total non-current assets	**12,554**	**1,021**	**4,089**	**17,664**
Total non-current liabilities	**–**	**(2,241)**	**(14,954)**	**(17,195)**

For the year ended 31 December 2016	Offshore $'000	Oil and Gas[1] $'000	Corporate[1] $'000	Total[1] $'000
Total non-current assets	–	923	130	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 are generated from one continuing activity which is oil liftings from the Group's Bocachico field located in Colombia. This activity results in sales of crude oil to one Colombia-based customer which amounted to $140 thousand and $84 thousand for the six months ended 30 June 2017 and 2016, respectively.

Operating expenses for offshore services 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 $482 thousand, with the remaining costs consisting of $416 thousand in dock and facility costs, $264 thousand in vessel crewing and technical management fees, and $368 thousand in insurance, maintenance and other expenses.

Impairment losses of $2 thousand and $184 thousand are included in depreciation, amortization and impairment for the oil and gas segment for the six months ended 30 June 2017 and 2016, respectively.

7. Cost of Sales

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

	Six months ended 30 June 2017 $'000 (Unaudited)	Six months ended 30 June 2016 $'000 (Unaudited)
Operating expenses	**1,838**	220
Depreciation and amortization	**845**	49
Total cost of sales	**2,683**	269

8. Finance Income and other

	Six months ended 30 June 2017 $'000 (Unaudited)	Six months ended 30 June 2016 $'000 (Unaudited)
Income on note receivable and other	**169**	606
Unrealized gain on derivative financial liabilities	**428**	–
Total finance income and other	**597**	606

9. Finance Expense and other

	Six months ended 30 June 2017 $'000 (Unaudited)	Six months ended 30 June 2016 $'000 (Unaudited)
Unwinding of discount on decommissioning provision	**111**	93
Accretion expense on convertible loan notes	**318**	–
Interest payable on convertible loan notes	**583**	–
Net loss on foreign currency exchange	**28**	194
Total finance expense and other	**1,040**	287

10. Note Receivable

The Note Receivable was amended on 8 February 2017 as a result of the completion of Transaction A (as disclosed in note 3). 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 annum to payable quarterly in arrears at 8% 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.

As a result, the outstanding principal balance of $4 million on the Note Receivable was classified as non-current, while the related accrued interest of $13 thousand was classified as current at 30 June 2017.

11. 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 31 December 2016 (Audited)	**–**	**–**	**45,264**	**2,956**	**867**	**49,087**
Additions	12,025	1,359	–	–	46	13,430
Disposals	–	(8)	–	–	(396)	(404)
Change in decommissioning and environmental provision	–	–	2	–	–	2
At 30 June 2017 (Unaudited)	**12,025**	**1,351**	**45,266**	**2,956**	**517**	**62,115**
Accumulated Depreciation:						
At 31 December 2016 (Audited)	**–**	**–**	**(45,264)**	**(2,956)**	**(846)**	**(49,066)**
Provided during the period	(687)	(137)	–	–	(14)	(838)
Disposals	–	1	–	–	396	397
Impairment loss	–	–	(2)	–	–	(2)
At 30 June 2017 (Unaudited)	**(687)**	**(136)**	**(45,266)**	**(2,956)**	**(464)**	**(49,509)**
Net book value at 30 June 2017 (Unaudited)	**11,338**	**1,215**	**–**	**–**	**53**	**12,606**
Net book value at 31 December 2016 (Audited)	**–**	**–**	**–**	**–**	**21**	**21**

As a result of the February 2017 asset acquisitions, the Group acquired 11 offshore service vessels, one barge vessel, and related offshore equipment. Three of the acquired offshore service vessels were scrapped 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 $54 thousand for the six months ended 30 June 2017.

As at 31 December 2016, the Group's Bolivar and Bocachico area oil assets were fully impaired and remained fully impaired as at 30 June 2017 due to the oil reserves within the Bocachico and Bolivar areas being uneconomic at current pricing. As a result, any capital costs following the impairment at 31 December 2016, including plugging and abandonment activities and related changes of estimates in the associated provisions, are recorded to impairment expense as incurred.

12. Inventories

	Six months ended 30 June 2017 $'000 (Unaudited)	Year ended 31 December 2016 $'000 (Audited)
Oil stocks	**11**	17
Materials, supplies and non-critical spares	**362**	242
Marine diesel fuel – at cost	**175**	–
Total inventories	**548**	259

Increases in inventories for the six months ended 30 June 2017 are primarily related to the acquisition of offshore service vessel-owning companies in February 2017 (see note 3 for additional information).

13. Convertible Loan Notes and Interest Payable

As a result of the completion of Transaction B on 8 February 2017 (as disclosed in note 3), 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 30 June 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 Share 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 Group.	1 January 2032 (unless converted to Ordinary Share 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 Group.
Interest:	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 8%.	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 6%, payable in cash or satisfied by the issue of Ordinary Shares at the option of the Group.	Non-compounding interest will be payable upon maturity or conversion (calculated on a 360-day calendar year) at 6%, payable in cash or satisfied by the issue of Ordinary Shares at the option of the Group.
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 Group. All three series of convertible loan notes contain both a fixed exchange rate of $1.22:£1 and the right for the Group to force conversion if the Group's average share price equals or exceeds 110% of the conversion price for a period of ten consecutive business days. Furthermore, the Group 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% of the average closing price of the Group's shares for ten consecutive business days, at the option of the Group. 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:

	Six months ended 30 June 2017 $'000 (Unaudited)
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	**583**
Accretion expense	**318**
Convertible loan notes and accrued interest	**14,954**

14. Share Capital

	Six months ended 30 June 2017 (Unaudited)		Year ended 31 December 2016 (Audited)	
	Number of shares	**$´000**	Number of shares	$´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.

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.
Retained deficit	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 Retained deficit 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 Retained deficit. The net effect of the transfer within owners' equity is $nil.

15. Financial Instruments Measured at Fair Value

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
Equity component of convertible loan notes	3	Non-recurring	Discounted cash flow	Risk-free interest rate, volatility and credit spread
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 six months ended 30 June 2017, a gain of $428 thousand was recognised on the revaluation of the derivative financial liabilities within finance income and other in the Condensed 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 3). 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 30 June 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.

16. Related Party Disclosures

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 3 for additional information). As part of the transactions, the Group amended its outstanding Note Receivable with Everest (see note 10 for additional information).

HKN and its parties in concert are major shareholders of the Company. 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 $nil and $29.7 thousand to HKN for contract services for due diligence purposes during the six months ended 30 June 2017 and 2016, respectively.

In addition, during the six months ended 30 June 2017, the Group purchased an automobile for $35 thousand and $3.8 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.

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David Quint (Non-executive Director)
Zac Phillips (Non-executive Director)

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John Payne (Managing Director)
Anna Williams (Director of Strategy and Business Development)
Sarah Gasch (Finance Director)
Kristina Humphries (Company Secretary)

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