

Registered number: 06212769

SWELLFIX UK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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SWELLFIX UK LIMITED
Registered number: 06212769

COMPANY INFORMATION

DIRECTORS

Alan Pearson
William Wright
Colin Cartney
Bradley Baker

COMPANY SECRETARY

Burness Paull LLP

REGISTERED NUMBER

06212769

REGISTERED OFFICE

New Kings Court Tollgate
Chandler's Ford
Eastleigh
Hampshire
United Kingdom

PRINCIPAL PLACE OF BUSINESS

Vanguard House
Kingshill Commercial Park
Venture Drive
Westhill
Aberdeenshire
AB32 6FQ

INDEPENDENT AUDITORS

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

SOLICITORS

Burness Paull LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1DQ

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Principal activities

The principal activity of the Company is the sale of oil and gas completion products and services and the provision of procurement and management services to other companies within the Tendeka B.V. group of companies (the "group"). All revenues were generated from the provision of products and services to the group and third parties.

Review of business

The Company found trading difficult over the last 12 months with the continuing low price of oil and general lack of customer activity.

The key financial indicators that the Company utilises to manage the business are:

- 1) Gross Margin %
- 2) EBITDA
- 3) Cash flow

Gross margin excluding intercompany royalties was 48% (2016: 79%), EBITDA excluding royalty was a loss of \$4,319,662 (2016 – loss of \$6,148,297. This loss is a direct result of the difficult market conditions facing the industry in light of the reduction in world hydrocarbons prices. Cashflow is managed at a group level and support is given by the ultimate parent company when required.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Company include the following:

Use of third party production

Relying on a third party for production presents various risk including quality of products and on time delivery. Products are produced by third party specialists with close assistance from operations managers to ensure standards are maintained.

Customers

Customers present a risk in the event they may fail to pay the Company. The Company maintains strong relationships with key customers and has established credit control parameters. Specific credit terms are agreed with customers where appropriate and are closely managed.

Competitive risk

Competition is always a risk as others progress and enhance their technology and the market becomes increasingly saturated. The Company operates in highly competitive markets. Product and service improvements are worked on an ongoing basis throughout the year and there is a prime focus on technology and research and development.

The effect of legislation or other regulatory activities

Legislation may be introduced that affects the Company and consequently its associated activities. The Company, with the assistance of its professional advisers, monitors forthcoming and current legislation regularly.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
(CONTINUED)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, credit risk, liquidity risk and interest rate risk. Swellfix UK Ltd operates a risk management programme that seeks to limit potential adverse effects on its financial performance by monitoring levels of debt finance and the related finance costs. Swellfix UK Ltd does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied. Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of Directors are implemented by the Company's finance department.

Foreign currency risk

The Company is exposed to foreign currency risk as a result of its operations. However, given the size of the Company's operations, the costs of managing exposure to foreign exchange risk exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the Company's operations change in size or nature. The Company also incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than USD. The currencies giving rise to this are primarily Euros, Norwegian Kroner and Sterling. No formal hedging policy is used.

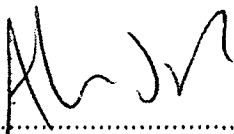
Liquidity risk

The group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the group has sufficient available funds for operations. The ongoing support of Shell Technology Ventures Fund 1 BV remains in place on top of these facilities.

Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to business customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

This report was approved by the board and signed on its behalf by:



.....
Alan Pearson
Director

Date: 24th September 2018

SWELLFIX UK LIMITED
Registered number: 06212769

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

RESULTS

The profit and loss account for the year is set out on page 8. The profit for the financial year amounted to \$113,963 (2016: loss of \$1,488,534). The Directors do not propose payment of a dividend (2016: Nil).

DIRECTORS

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Brendan Barry (resigned 1st July 2017)
Alan Pearson
Gary Smart (resigned 29th June 2017)
William Wright (appointed 1st April 2017)
Colin Cartney (appointed 1st July 2017)
Bradley Baker (appointed 27th November 2017)

In terms of the Articles of Association, Directors are not subject to retirement by rotation.

Financial management

The group prepares a detailed annual budget and this becomes the key document against which performance during the year is monitored.

Turnover for the year was \$5,839,970 (2016: \$1,510,519). The company is still affected by the significant difficulty being experienced in the oil and gas industry with the falling price of oil and customer activity levels on a worldwide basis.

Research & development

Product improvement and development is an essential aspect of the business and considerable resource is dedicated to this end.

Employment of disabled persons

The group policy is to facilitate the employment of disabled people, their recruitment, training, career development and promotion, and the retention of employees who become disabled.

Health and safety

The Company's objective is to achieve zero work related injuries. In 2017 this was achieved. A comprehensive management structure is in place and Company is now ISO 19001 accredited.

Post balance sheet event

There were no post balance sheet events affecting the 2017 (2016: none) financial statements.

Future developments

The Directors expect to be faced with continued pressure during 2018 due to challenging market conditions and the cancellation and delay of many major projects in the oil and gas industry, however, it is believed that the Company has the appropriate structure to manage these conditions and will continue to augment business development and develop technologies to provide alternative solutions and improved products. The Company's ultimate parent, Tendeka BV, has sufficient financial resources and funding to provide continuing support to the Company through 2018 and beyond.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
(CONTINUED)

DISCLOSURE OF INFORMATION TO AUDITORS

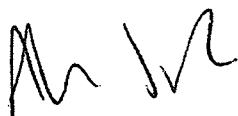
Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- Directors have taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:



.....
Alan Pearson
Director

Date: 24th September 2018

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

The Directors are responsible for preparing the Strategic Report, Directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period. 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 applicable UK Accounting Standards have been followed, 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWELLFIX UK LIMITED

Opinion

We have audited the financial statements of Swellfix UK Limited for the year ended 31st December 2017 which comprise the Income Statement, Statement of Financial Position, Statement of Other Comprehensive Income and the Statement of changes in equity and the related notes¹ to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 below. We are independent of the company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 5], 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 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 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
Date: 24th September 2018

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$	2016 \$
TURNOVER	3	5,839,970	1,510,519
Cost of sales		<u>(3,017,655)</u>	<u>(317,870)</u>
GROSS PROFIT		2,822,315	1,192,649
Administrative expenses		<u>(7,521,040)</u>	<u>(7,675,870)</u>
OPERATING LOSS	5	<u>(4,698,725)</u>	<u>(6,483,221)</u>
Other income	4	5,113,019	5,193,932
Interest payable and similar charges	8	(394,619)	(420,116)
Interest receivable and similar income	9	<u>117,672</u>	<u>184,189</u>
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		137,347	(1,525,216)
Tax (expense) / credit on ordinary activities	10	<u>(23,384)</u>	<u>36,682</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	<u><u>113,963</u></u>	<u><u>(1,488,534)</u></u>

All amounts relate to continuing operations.

The notes on pages 11 to 23 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

There is no other comprehensive income attributable to the shareholders of the Company other than the loss for the year.

SWELLFIX UK LIMITED
Registered number: 06212769

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

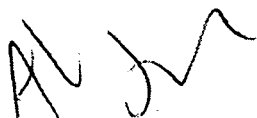
	Share capital	Profit and loss account	Total Equity
	\$	\$	\$
At 1 January 2016	14	1,586,990	1,587,004
Loss for the financial year	-	(1,488,534)	(1,488,534)
At 31 December 2016	14	98,456	98,470
Profit for the financial year	-	113,963	113,963
At 31 December 2017	14	212,419	212,433

SWELLFIX UK LIMITED
REGISTERED NUMBER: 06212769

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	\$	2017 \$	\$	2016 \$
FIXED ASSETS					
Intangible assets	11		108,511		145,166
Tangible assets	12		2,201,147		1,127,549
Investments	13		79		79
			<u>2,309,737</u>		<u>1,272,794</u>
CURRENT ASSETS					
Stocks	14	3,054,898		658,943	
Trade and other receivables	15	15,587,079		17,515,236	
Cash at bank and in hand		<u>757,751</u>		<u>1,275,776</u>	
		19,399,728		19,449,955	
Trade and other payables	16	<u>(21,497,032)</u>		<u>(20,624,279)</u>	
NET CURRENT LIABILITIES			<u>(2,097,304)</u>		<u>(1,174,324)</u>
NET ASSETS			<u>212,433</u>		<u>98,470</u>
CAPITAL AND RESERVES					
Called up share capital	17		14		14
Profit and loss account	18		<u>212,419</u>		<u>98,456</u>
TOTAL SHAREHOLDERS' FUNDS	19		<u>212,433</u>		<u>98,470</u>

The financial statements on pages 8 to 10 were approved and authorised for issue by the board and were signed on its behalf by:



.....
Alan Pearson
Director

Date: 24th September 2018

The notes on pages 11 to 23 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Swellfix UK Limited (the "Company") for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 24th September 2018 and the statement of financial position was signed on the board's behalf by Colin Cartney. Swellfix UK Limited is incorporated and domiciled in England and is a Company limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in US dollars.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Tendeka B.V.

Tendeka B.V., the ultimate parent company and controlling party, is a company incorporated in the Netherlands and heads the smallest and largest group in which the results of the Company are consolidated.

The principal accounting policies adopted by the Company are as set out in note 2.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraph 17 and 18A and IAS 24 Related Party Disclosures.
- The requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Going Concern

The Company believe that a going concern basis is appropriate for the preparation of the financial statements. The Company are of the opinion that trading conditions in the next 12 months will improve significantly and this has already been proven by the increase in contracts won so far in 2018. As a result, revenue and margin should increase along with general market activity. The Company also has the financial support from the ultimate parent, Tendeka BV, whom has sufficient financial resources to provide support to the Company for 2018 and beyond.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2.1 Basis of preparation (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

- Revenue from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract of schedule rates.
- Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial positions date, whether or not work has commenced on these contracts.
- Incentive payments are included in revenue when the contract is sufficiently advanced, and the amount of incentive payments can be measured reliably.
- Royalty income is included on an accruals basis in accordance with the underlying royalty agreement.

2.2 Judgements and key sources of estimation and uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Operating lease commitments

The Company has entered into leases as a lessee and as such it obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised on the balance sheet.

Depreciation of property, plant and equipment

Assets are depreciated based on useful lives dependent on assumptions made in management's judgement and experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, then that charge is adjusted. Variations between actual and estimated useful economic lives could impact operating results significantly, though historically few changes to useful economic lives have been required. Please see note 12 for a breakdown of tangible assets.

2.3 Foreign currencies

The Company is domiciled in the UK. Transactions and balances are predominantly transacted in US dollars. The parent company Tendeka B.V. has a US dollar functional currency. The Company operates as part of the Tendeka B.V. group ("the group") with no autonomy with regard to strategy or operations. The majority of transactions regarding revenues and direct costs are denominated in US dollars hence; the local currency of the Company is US dollars.

The results of Swellfix UK Limited are included in the consolidated financial statements of Tendeka B.V. which are available from the Chamber of Commerce in the Netherlands.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

2.3 Foreign currencies (continued)

Transactions in foreign currencies are recorded in US dollars at the rate of exchange ruling the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the balance sheet date. All differences are taken to the profit and loss account. The applicable exchange rates used in preparation of the financial statements were:

	2017	2016
	£/\$	£/\$
Opening exchange rate	1.23	1.48
Closing exchange rate	1.35	1.23

2.4 Turnover

Turnover represents amounts receivable upon completion of the sale of products and the related services to third parties and group companies that are billable under the terms of contracts (net of excise duties and VAT). The Company recognises revenue once the product has been delivered to the customer and title of the goods has been passed to the customer or once the service has been provided to the customer. Employee costs are recharged for inter-company management services incurred for the period which they relate.

All revenues were generated from the provision of products and services to Tendeka B.V. group companies and third parties.

2.5 Intangible fixed assets and amortisation (Research & Development expenditure)

Development expenditure relates to expenses associated with the application for patents in order to secure and protect intellectual property. Development expenditure is capitalised only when there is a formalised development plan for proven technologies and the viability of these technologies can be determined with reasonable certainty, otherwise the cost is expensed in the income statement. Qualifying expenditure is stated at historic cost less amortisation and is amortised over a maximum estimated useful economic life of 20 years.

Management review capitalised legal costs for impairment on an annual basis. Allowance is made for any impairment losses expected: a loss qualifies as an impairment loss if the carrying amount of the asset (or of the cash generating unit to which it belongs) exceeds its recoverable amounts.

Research expenditure is expensed as it is incurred.

2.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	Lease term
Plant & machinery	-	4 - 7 years
Fixtures & fittings	-	4 - 7 years
Computer equipment	-	3 years

Assets held as under construction are not depreciated until brought into use.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2.7 Investments

Shares in Group undertakings are stated at cost less any provision for impairment.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the cash-generating unit is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

Dividends received are included in the period in which the related dividends are actually received.

2.8 Financial assets

Initial recognition and measurement

Financial assets of the Company are initially recognised at cost. The Company has financial assets in the form of intercompany, trade and other receivables.

Subsequent measurement

Trade and intercompany receivables

Receivables are carried at the lower of their original invoiced value and recoverable amount. Intercompany receivables have no fixed payment terms but are generally assumed to be due within one year whereas the majority of trade receivables are due within 30 days.

Receivables balances are reviewed regularly, and any doubtful debts are provided for accordingly reducing the receivable balance.

Other receivables

The Company has other receivables in the form of security deposits and VAT recoverable. They are measured at the amount expected to be recovered.

2.9 Financial liabilities

Initial recognition and measurement

Financial liabilities of the Company are initially recognised at cost. The Company has financial liabilities in the form of intercompany, trade and other payables and intercompany loans.

Subsequent measurement

Trade and intercompany payables

Payables continue to be carried at cost. Intercompany payables have no fixed payment terms but are generally assumed to be due within one year whereas the majority of trade payables are due within 30 days.

Intercompany loans

Intercompany loans continue to be carried at cost and have no fixed payment terms but are generally assumed to be due within one year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2.9 Financial liabilities (continued)

Other payables

The Company has other payables in the form of tax liabilities, which are due fully to the relevant authorities.

2.10 Impairment

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to assess whether there is an indication that those assets may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

2.11 Stocks

Stocks are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses.

2.12 Taxation

Current tax, including UK and foreign tax is provided on taxable profits at the current rate of taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its result as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured on a non-discounted basis.

2.13 Operating leases

Expenditure on operating leases is charged to the profit and loss account on a basis representative of the benefit derived from the asset, normally on a straight-line basis over the lease period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2.14 Pension

The Company contributes to a defined contribution pension scheme and the pension charge represents the amounts payable by the Company to the fund in respect of the year.

2.15 Share based payments

Swellfix UK Limited is a wholly owned subsidiary of Swellfix B.V, a wholly owned subsidiary of Tendeka B.V. The Tendeka B.V. group operates a share option plan for its employees, the majority of whom provide services to several group companies including Swellfix UK Limited. The share based compensation expense in this respect is initially recorded in the Tendeka B.V. financial statements and an element of the share based compensation expense is reallocated to Swellfix UK Limited by means of a management charge.

3. TURNOVER

Turnover is attributable to the Company's principal activity. A geographical analysis is as follows:

	2017 \$	2016 \$
North & South America	135,475	6,166
Europe, former Soviet Union & Africa	1,098,916	1,123,286
Middle East & North Africa	41,075	2,058
Asia Pacific	4,564,504	379,009
	<u>5,839,970</u>	<u>1,510,519</u>

Revenue from the sale of goods amounted to £5,347,348 (2016 - \$1,021,390) and the sale of services totalled \$492,622 (2016 - \$489,129).

4. OTHER INCOME

	2017 \$	2016 \$
Other income from subsidiaries	-	2,490,253
Royalty income	4,930,805	2,401,420
Research and development expenditure credits	182,214	302,259
	<u>5,113,019</u>	<u>5,193,932</u>

In 2016, other income from subsidiaries included dividends of \$14,785,273 offset by investment impairment of \$12,295,020

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. OPERATING LOSS

The operating loss is stated after charging / (crediting):

	2017 \$	2016 \$
Amortisation - intangible fixed assets	36,654	33,784
Depreciation of tangible fixed assets - owned by the Company	295,813	301,140
Operating lease rentals – other operating leases	503,044	418,543
(Gain)/loss on foreign exchange	(147,210)	246,948
Research and development expenditure	776,754	704,225

The statutory audit fees paid by Swellfix UK were \$Nil (2016 – \$Nil). The statutory audit fees paid by the parent company, Tendeka B.V., on behalf of Swellfix UK Limited, were \$20,250 (2016 - \$14,000).

6. STAFF COSTS

Staff costs, including Directors' remuneration, were as follows:

	2017 \$	2016 \$
Wages and salaries	4,353,697	4,309,232
Social security costs	433,342	411,602
Other pension costs	326,662	322,518
	<u>5,113,701</u>	<u>5,043,352</u>

Amounts shown above are prior to the recharge of employment costs of \$2,943,948 (2016 - \$2,968,707) as part of inter-company management recharges.

Wages and salaries includes contract labour costs of \$415,375 (2016 - \$358,716).

The average monthly number of employees, including the Directors, during the year was as follows:

	2017 No.	2016 No.
Administration	48	50
Research and development	2	2
Sales	5	5
	<u>55</u>	<u>57</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7. DIRECTORS' REMUNERATION

	2017 \$	2016 \$
Directors' emoluments	<u>816,269</u>	<u>599,567</u>
Contributions to pension schemes	<u>52,098</u>	<u>60,521</u>

During the year retirement benefits were accruing to 3 Directors (2016 - 2) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of \$367,886 (2016 - \$324,560) and a pension contribution of \$30,760 (2016 - \$45,619).

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 \$	2016 \$
Intercompany	<u>394,619</u>	<u>420,116</u>

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 \$	2016 \$
Intercompany	<u>117,672</u>	<u>184,189</u>

10. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

	2017 \$	2016 \$
Total tax charge / (credit) for the year		
UK Tax Charge		-
Foreign Withholding Tax	5,009	-
Adjustments in respect of prior years	<u>18,375</u>	<u>(36,682)</u>
	<u>23,384</u>	<u>(36,682)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

10. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting tax charge for the year

The tax assessed for the year is lower (2016 - lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	\$	\$
Profit / (loss) before Taxation	137,347	(1,525,216)
Profit / (loss) before taxation multiplied by the standard rate of UK Corporation tax at 19.25% (2016: 20%)	26,439	(305,043)
Effects of:		
Expenses not deductible for tax purposes	6,548	(27,426)
Re-measurement of deferred tax	(1,931)	515,812
Group relief not paid	-	314,708
Prior year adjustments	18,375	(36,682)
Non-taxable income received	-	(498,051)
Foreign withholding tax	5,009	-
Utilisation of tax losses	(31,056)	-
Tax charge / (credit) for the year	23,384	(36,682)

Factors that may affect future tax charges

The Company has gross tax losses (\$6,902,207) and other deductible temporary differences (\$16,907) which are available indefinitely for offset against future taxable profits of \$6,919,114 (2016: \$7,421,379). Deferred tax assets have not been recognised in respect of these items due to the uncertainty of availability of suitable future profits from which they can be deducted. The corporation tax rate is also due to reduce in 2020 from 19% to 17%.

11. INTANGIBLE ASSETS

Cost	Development expenditure \$
At 1 January 2017	185,826
Additions	-
At 31 December 2017	185,826
Accumulated amortisation	
At 1 January 2017	40,660
Charge for the year	36,655
At 31 December 2017	77,315
Net book value	
At 31 December 2017	108,511
At 31 December 2016	145,166

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

12. TANGIBLE ASSETS

	Leasehold Improvements \$	Plant & Machinery \$	Fixtures & Fittings \$
Cost			
At 1 January 2017	475,232	450,349	757,092
Additions	814,699	124,761	116,982
Disposals	-	(71,521)	(3,573)
At 31 December 2017	<u>1,289,931</u>	<u>503,589</u>	<u>870,501</u>
Accumulated depreciation			
At 1 January 2017	386,793	271,954	536,080
Charge for the year	60,587	63,075	93,244
Disposals	-	(52,477)	(3,573)
At 31 December 2017	<u>447,380</u>	<u>282,552</u>	<u>625,751</u>
Net book value			
At 31 December 2017	<u>842,551</u>	<u>221,037</u>	<u>244,750</u>
At 31 December 2016	<u>88,439</u>	<u>178,395</u>	<u>221,012</u>
	Computer Equipment \$	Assets Under Construction \$	Total \$
Cost			
At 1 January 2017	598,246	492,604	2,773,523
Additions	77,745	254,268	1,388,455
Disposals	-	-	(75,094)
At 31 December 2017	<u>675,991</u>	<u>746,872</u>	<u>4,086,884</u>
Accumulated depreciation			
At 1 January 2017	451,147	-	1,645,974
Charge for the year	78,907	-	295,813
Disposals	-	-	(56,050)
At 31 December 2017	<u>530,054</u>	<u>-</u>	<u>1,885,737</u>
Net book value			
At 31 December 2017	<u>145,937</u>	<u>746,872</u>	<u>2,201,147</u>
At 31 December 2016	<u>147,099</u>	<u>492,604</u>	<u>1,127,549</u>

SWELLFIX UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

13. INVESTMENTS

	\$
At 1 January 2017	79
At 31 December 2017	<u>79</u>

The investment value represents amounts held in the following companies:

Name	Registered office	Share in equity 2017 %	Share in equity 2016 %
Tendeka Canada Limited	1800 – 510 West Georgia Street Vancouver, BC, V6B 0M3, Canada	100	100

The above investment comprises 100 shares of Common class without par value. The nature of the business of all companies above is the supply of completion products and services to the oil and gas industry.

14. STOCKS

	2017 \$	2016 \$
Raw materials	1,876,654	36,296
Work in progress	192,935	101,843
Finished goods and goods for resale	985,309	520,804
	<u>3,054,898</u>	<u>658,943</u>

15. TRADE AND OTHER RECEIVABLES

	2017 \$	2016 \$
Trade debtors	138,330	263,342
Amounts owed by group undertakings	14,329,667	16,018,830
Other debtors	420,613	398,906
VAT recoverable	184,456	120,955
Corporation tax recoverable	16,907	439,799
Prepayments and accrued income	497,106	273,404
	<u>15,587,079</u>	<u>17,515,236</u>

Amounts owed by group undertakings are unsecured, have no specified payment terms and bear interest at a rate of 2%. The carrying amount of trade debtors is a reasonable approximation of fair value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

16. TRADE AND OTHER PAYABLES

Amounts falling due within one year

	2017	2016
	\$	\$
Trade creditors	1,956,140	315,067
Amounts owed to group undertakings	18,112,746	19,943,872
Other taxation and social security	140,334	147,162
Accruals and deferred income	1,287,812	218,178
	<u>21,497,032</u>	<u>20,624,279</u>

Amounts owed to group undertakings are unsecured, have no specified payment terms and bear interest at 2%.

The carrying amount of trade creditors is a reasonable approximation of fair value.

17. CALLED UP SHARE CAPITAL

	2017	2016
	\$	\$
Allotted, called up and fully paid		
10 (2016: 10) Ordinary shares of £1 each	<u>14</u>	<u>14</u>

18. RESERVES

	Profit and loss account \$
At 1 January 2017	98,456
Profit for the financial year	113,963
	<u>212,419</u>
At 31 December 2017	212,419

The Profit and Loss Account Reserve represents the accumulated earnings retained within the Company over time, which have not been paid out as dividends. The purpose of this reserve is to allow the Company to maintain its investment in its core business.

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2017	2016
	\$	\$
Opening shareholder's funds	98,470	1,587,004
Profit/(Loss) for the financial year	<u>113,963</u>	<u>(1,488,534)</u>
Closing shareholder's funds	<u>212,433</u>	<u>98,470</u>

SWELLFIX UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

20. PENSIONS

The Company contributes to a defined contribution pension scheme.
\$27,962 (2016: \$27,158) of contributions were outstanding at the balance sheet date.

21. OPERATING LEASE COMMITMENTS

At 31 December the Company had commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2017	2016
	\$	\$
Expiry date:		
Less than 1 year	21,036	81,361
Between 1 and 5 years		-
After more than 5 years	<u>6,122,346</u>	<u>5,420,683</u>

The above operating lease commitments comprise of rental agreements covering three properties.

22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under IAS 24 Related Party Disclosures not to disclose related party transactions between the subsidiaries of the Tendeka B.V. Group.

There were no other material related party transactions requiring disclosure IAS 24.

23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Swellfix B.V., a company registered in the Netherlands.

Tendeka B.V., the parent company of Swellfix B.V., is the only undertaking for which consolidated financial statements that include the results of Swellfix UK Limited. Copies of the Tendeka B.V. financial statements can be obtained from the Company Secretary, Nassau Zuilensteinstraat IID, The Hague, 2596 CA, the Netherlands.

The ultimate parent of Tendeka B.V.; Shell Technology Venture Fund 1 B.V., is deemed to be the ultimate controlling party. Shell Technology Venture Fund 1 B.V. is registered in the Netherlands. Copies of the Shell Technology Venture Fund 1 B.V. financial statements can be obtained from the Chamber of Commerce in the Netherlands.

The Directors regard Shell Technology Venture Fund 1 B.V. as the ultimate controlling party by virtue of its shareholding in Tendeka B.V.