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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2016**

**or**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from __________ to __________**

**Commission File Number 001-31895**

**ODYSSEY MARINE EXPLORATION, INC.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Nevada** | **84-1018684** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**5215 W. Laurel Street, Tampa, Florida 33607**

**(Address of principal executive offices) (Zip code)**

**(813) 876-1776**

**(Registrant s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

| | |
|---|---|
| Large accelerated filer: | Accelerated filer: |
| Non-accelerated filer: (Do not check if a smaller Reporting company) | Smaller reporting company: |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

The number of outstanding shares of the registrant s Common Stock, $.0001 par value, as of October 20, 2016 was 7,599,894.

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## PART I: FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | Unaudited September 30, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 529,487 | $ 2,241,317 |
| Restricted cash | 10,000 | |
| Accounts receivable and other, net | 1,280,017 | 801,575 |
| Other current assets | 416,090 | 502,698 |
| Total current assets | 2,235,594 | 3,545,590 |
| PROPERTY AND EQUIPMENT | | |
| Equipment and office fixtures | 17,679,480 | 22,460,256 |
| Accumulated depreciation | (15,660,923) | (19,633,420) |
| Total property and equipment | 2,018,557 | 2,826,836 |
| NON-CURRENT ASSETS | | |
| Other non-current assets | 532,500 | 540,590 |
| Total non-current assets | 532,500 | 540,590 |
| Total assets | $ 4,786,651 | $ 6,913,016 |
| LIABILITIES AND STOCKHOLDERS EQUITY/(DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 2,099,051 | $ 1,567,620 |
| Accrued expenses and other | 4,727,138 | 4,265,456 |
| Deferred income | | 383,148 |
| Derivative liabilities | 142 | 3,402,416 |
| Loans payable | 17,755,196 | 15,058,845 |
| Total current liabilities | 24,581,527 | 24,677,485 |
| LONG-TERM LIABILITIES | | |

| | | |
|---|---|---|
| Loans payable | 4,281,264 | 3,140,787 |
| Deferred income and revenue participation rights | 4,643,750 | 4,643,750 |
| Total long-term liabilities | 8,925,014 | 7,784,537 |
| Total liabilities | 33,506,541 | 32,462,022 |
| Commitments and contingencies (NOTE G) | | |
| STOCKHOLDERS EQUITY/(DEFICIT) | | |
| Preferred stock - $.0001 par value; 24,984,166 shares authorized; none outstanding | | |
| Preferred stock series D convertible - $.0001 par value; 0 and 20,200 shares authorized, respectively, and 0 issued and outstanding for each period end | | |
| Common stock $.0001 par value; 75,000,000 shares authorized; 7,599,894 issued and outstanding at September 30, 2016 and 7,541,111 issued and outstanding at December 31, 2015 | 760 | 754 |
| Additional paid-in capital | 207,216,887 | 204,438,148 |
| Accumulated deficit | (224,540,853) | (220,634,415) |
| Total stockholders equity/(deficit) before non-controlling interest | (17,323,206) | (16,195,513) |
| Non-controlling interest | (11,396,684) | (9,353,493) |
| Total stockholders equity/(deficit) | (28,719,890) | (25,549,006) |
| Total liabilities and stockholders equity/(deficit) | $ 4,786,651 | $ 6,913,016 |

The accompanying notes are an integral part of these financial statements.

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**ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited**

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| REVENUE | | | | |
| Recovered cargo sales and other | $ 2,389 | $ 1,368,795 | $ 7,057 | $ 1,689,968 |
| Exhibit | | 12,500 | | 45,852 |
| Expedition | 2,880,851 | 77,358 | 4,675,978 | 281,667 |
| Total revenue | 2,883,240 | 1,458,653 | 4,683,035 | 2,017,487 |
| OPERATING EXPENSES | | | | |
| Cost of sales recovered cargo and other | | 873,517 | | 1,250,982 |
| Marketing, general and administrative | 2,193,734 | 2,630,094 | 6,511,574 | 9,000,307 |
| Operations and research | 2,886,857 | 2,306,053 | 6,380,651 | 8,557,109 |
| Common stock issued for subsidiary stock option settlement | | | | 2,520,000 |
| Total operating expenses | 5,080,591 | 5,809,664 | 12,892,225 | 21,328,398 |
| INCOME (LOSS) FROM OPERATIONS | (2,197,351) | (4,351,011) | (8,209,190) | (19,310,911) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | | 27 | | 122 |
| Interest expense | (598,931) | (1,206,662) | (1,529,278) | (2,888,386) |
| Change in derivative liabilities fair value | 3,748 | (4,732) | 3,402,273 | (255,745) |
| Other | (5,063) | (11,944) | 386,567 | (22,819) |
| Total other income (expense) | (600,246) | (1,223,311) | 2,259,562 | (3,166,828) |
| (LOSS) BEFORE INCOME TAXES | (2,797,597) | (5,574,322) | (5,949,628) | (22,477,739) |
| Income tax benefit (provision) | | | | |
| NET (LOSS) BEFORE NON-CONTROLLING INTEREST | (2,797,597) | (5,574,322) | (5,949,628) | (22,477,739) |
| Non-controlling interest | 665,294 | 994,067 | 2,043,191 | 2,056,794 |
| NET (LOSS) | $ (2,132,303) | $ (4,580,255) | $ (3,906,437) | $ (20,420,945) |
| NET (LOSS) PER SHARE | | | | |
| Basic and diluted (See NOTE B) | $ (0.28) | $ (0.60) | $ (0.52) | $ (2.76) |

| | | | | |
|---|---|---|---|---|
| Weighted average number of common shares outstanding | | | | |
| Basic | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |
| Diluted | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |

The accompanying notes are an integral part of these financial statements.

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**ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited**

| | Nine Months Ended | |
|---|---|---|
| | **September 30, 2016** | **September 30, 2015** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss before non-controlling interest | $ (5,949,628) | $ (22,477,739) |
| Adjustments to reconcile net loss to net cash (used) by operating activities: | | |
| Depreciation and amortization | 835,428 | 1,093,747 |
| Director fees settled with equity instruments | 39,399 | |
| Loss on sale of building and land | | 29,404 |
| Gain on sale of equipment | (992,595) | |
| Financed lender fees | 50,000 | |
| Change in derivatives liabilities fair value | (3,402,273) | 255,745 |
| Note payable interest accretion | 163,709 | 1,277,026 |
| Inventory markdown | | 151,922 |
| Common stock issued for subsidiary stock option settlement | | 2,520,000 |
| Share-based compensation | 1,436,753 | 2,135,071 |
| Deferred revenue | (383,148) | |
| (Increase) decrease in: | | |
| Accounts receivable | (478,442) | (411,197) |
| Inventory | | 972,352 |
| Other assets | (11,007) | 272,467 |
| Increase (decrease) in: | | |
| Accounts payable | 371,840 | (2,645,548) |
| Accrued expenses and other | 1,795,073 | 1,446,660 |
| NET CASH (USED) BY OPERATING ACTIVITIES | (6,524,891) | (15,380,090) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property and equipment | 200,000 | 850,000 |
| Purchase of property and equipment | (125,150) | (42,828) |
| Acquisition of subsidiary | | (2,000) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 74,850 | 805,172 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of notes payable | 4,825,000 | 14,750,001 |
| Restricted cash held as collateral | (10,000) | 308,612 |
| Repayment of mortgage and loans payable | (76,789) | (1,786,844) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 4,738,211 | 13,271,769 |

| | | | | |
|---|---|---|---|---|
| NET (DECREASE) INCREASE IN CASH | | (1,711,830) | | (1,303,149) |
| CASH AT BEGINNING OF PERIOD | | 2,241,317 | | 3,143,550 |
| CASH AT END OF PERIOD | $ | 529,487 | $ | 1,840,401 |
| SUPPLEMENTARY INFORMATION: | | | | |
| Interest paid | $ | 798,263 | $ | 1,098,719 |
| Income taxes paid | $ | | $ | |
| NON-CASH TRANSACTIONS: | | | | |
| Accrued director fees paid with equity instruments | $ | 177,500 | $ | |
| Accounts payables settled as non-cash consideration for the sale of equipment | $ | 890,598 | $ | |
| Asset received as non-cash consideration for the sale of other property & equipment | $ | 350,000 | $ | |

The accompanying notes are an integral part of these financial statements.

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## ODYSSEY MARINE EXPLORATION, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Odyssey Marine Exploration, Inc. and subsidiaries (the Company, Odyssey, us, we or our ) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, these financial statements reflect all adjustments, including normal recurring adjustments, necessary for a fair presentation of the financial position as of September 30, 2016 and the results of operations and cash flows for the interim periods presented. Operating results for the nine-month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year.

See NOTE I regarding our 1-for-12 reverse stock split. Share related amounts have been retroactively adjusted in this report to reflect this reverse stock split for all periods presented.

**Recent accounting pronouncements**

Recent accounting pronouncements issued by the FASB, the AICPA and the SEC did not or are not believed by management to have a material effect, if any, on the Company s financial statements.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding our financial statements. The financial statements and notes are representations of the Company s management, who is responsible for their integrity and objectivity, and have prepared them in accordance with our customary accounting practices.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries, Odyssey Marine Services, Inc., OVH, Inc., Odyssey Retriever, Inc., Odyssey Marine Entertainment, Inc., Odyssey Marine Enterprises, Ltd., Marine Exploration Holdings, LLC, Odyssey Marine Management, Ltd., Oceanica Marine Operations, S.R.L., Aldama Mining Company, S. De R.L. De C.V., Telemachus Minerals, S. De R.L. De C.V. and majority interests in Oceanica Resources, S.R.L. and Exploraciones Oceanicas, S. De R.L. De C.V. Equity investments in which we exercise significant influence but do not control and of which we are not the primary beneficiary are accounted for using the equity method. All significant inter-company and intra-company transactions and balances have been eliminated. The results of operations attributable to the non-controlling interest are presented within equity and net income and are shown separately from the Company s equity and net income attributable to the Company. Some of the existing inter-company balances, which are eliminated upon consolidation, include features allowing the liability to be converted into equity, which if exercised, could increase the direct or indirect interest of the Company in the non-wholly owned subsidiaries.

**Use of Estimates**

Management used estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Revenue Recognition and Accounts Receivable**

In accordance with Topic A.1. in SAB 13: Revenue Recognition, marine services expedition charter revenue is recognized ratably when realized and earned as time passes throughout the contract period as defined by the terms of the agreement. Expenses related to the marine services expedition charter revenue (also referred to as marine services revenue) are recorded as incurred and presented under the caption Operations and research on our Consolidated Statements of Operations.

Bad debts are recorded as identified and, from time to time, a specific reserve allowance will be established when required. A return allowance is established for sales that have a right of return. Accounts receivable is stated net of any recorded allowances.

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### Cash and Cash Equivalents

Cash, cash equivalents and restricted cash include cash on hand and cash in banks. We also consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. We have $10,000 of restricted cash for collateral related to a corporate credit card program.

### Inventory

Prior to December 10, 2015, Odyssey held two main types of inventory: (i) artifacts and coins held for sale and exhibits, and (ii) merchandise inventory held for sale. On December 10, 2015, we sold all of the existing inventory items to Monaco Financial, LLC and its affiliates. See NOTE S to the consolidated financial statements included in our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 for further information.

Our inventory principally consisted of cargo recovered from the SS *Republic* shipwreck, other artifacts, general branded merchandise and related packaging material. Inventoried costs of recovered cargo included the costs of recovery, conservation and administrative costs to obtain legal title to the cargo. We continually monitored the recorded aggregate costs of the recovered cargo in inventory to ensure these costs did not exceed the net realizable value. Historical sales, publications or available public market data were used to assess market value.

Packaging materials and merchandise were recorded at average cost. We recorded our inventory at the lower of cost or market.

Costs associated with the above noted items were included in our costs of goods. Vessel costs associated with expedition revenue as well as exhibit costs were not included in cost of goods sold. Vessel costs include, but are not limited to, charter costs, fuel, crew and port fees. Vessel and exhibit costs are included in Operations and research in the Consolidated Statements of Operations.

### Long-Lived Assets

Our policy is to recognize impairment losses relating to long-lived assets in accordance with the ASC topic for Property, Plant and Equipment. Decisions on asset impairments are based on several factors, including, but not limited to, management s plans for future operations, recent operating results and projected cash flows. Impairment losses are included in depreciation at the time of impairment. During May 2016, we sold our vessel, *Odyssey Explorer*, for $200,000 in cash and a smaller vessel as in-kind. The vessel received as in-kind consideration has been valued at $350,000 based on management s best estimate of the evaluation at this time considering its physical condition and the prevailing market. We expect to receive an appraisal from our insurance broker in the near future. If further relevant information should arise in the future, the estimate will be revised if needed. During the third quarter of 2016, we sold a marine operations asset for a non-cash gain of $866,604. This gain is included in Operations and research in our Consolidated Statement of Operations.

### Property and Equipment and Depreciation

Property and equipment is stated at historical cost. Depreciation is calculated using the straight-line method at rates based on the assets estimated useful lives, which are normally between three and thirty years. Leasehold improvements are amortized over their estimated useful lives or lease term, if shorter. Major overhaul items (such as engines or generators) that enhance or extend the useful life of vessel related assets qualify to be capitalized and depreciated over the useful life or remaining life of that asset, whichever is shorter. Certain major repair items required by industry standards to ensure a vessel s seaworthiness also qualify to be capitalized and depreciated over the period of time until the next scheduled planned major maintenance for that item. All other repairs and maintenance are accounted for under the direct-expensing method and are expensed when incurred.

**Earnings Per Share**

See NOTE I regarding our 1-for-12 reverse stock split. Share related amounts have been retroactively adjusted in this report to reflect this reverse stock-split for all periods presented.

Basic earnings per share ( EPS ) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. In periods when the Company has income, the Company would calculate basic earnings per share using the two-class method, if required, pursuant to ASC 260 *Earnings Per Share.* The two-class method was required effective with the issuance of certain senior convertible notes in the past because these notes qualified as a participating security, giving the holder the right to receive dividends should dividends be declared on common stock. Under the two-class method, earnings for a period are allocated on a pro rata basis to the common stockholders and to the holders of convertible notes based on the weighted average number of common shares outstanding and number of shares that could be issued

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upon conversion. The Company does not use the two-class method in periods when it generates a loss because the holder of the convertible notes does not participate in losses. Currently, we do not have any convertible notes that qualify as a participating security.

Diluted EPS reflects the potential dilution that would occur if dilutive securities and other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings. We use the treasury stock method to compute potential common shares from stock options and warrants and the if-converted method to compute potential common shares from preferred stock, convertible notes or other convertible securities. For diluted earnings per share, the Company uses the more dilutive of the if-converted method or two-class method. When a net loss occurs, potential common shares have an anti-dilutive effect on earnings per share and such shares are excluded from the Diluted EPS calculation.

At September 30, 2016 and 2015, the weighted average common shares outstanding year-to-date were 7,548,136 and 7,387,952, respectively. For the periods in which net losses occurred, all potential common shares were excluded from diluted EPS because the effect of including such shares would be anti-dilutive.

The potential common shares in the following tables represent potential common shares calculated using the treasury stock method from outstanding options, stock awards and warrants that were excluded from the calculation of diluted EPS:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Average market price during the period | $ 3.24 | $ 4.44 | $ 3.31 | $ 6.96 |
| In the money potential common shares from options excluded | 4,474 | | 4,631 | |
| In the money potential common shares from warrants excluded | | | | |

Potential common shares from out of the money options and warrants were also excluded from the computation of diluted EPS because calculation of the associated potential common shares has an anti-dilutive effect on EPS. The following table lists options and warrants that were excluded from diluted EPS:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Out of the money options and warrants excluded: | | | | |
| Stock options with an exercise price of $3.59 per share | 7,521 | | 7,521 | |
| Stock options with an exercise price of $12.48 per share | 137,666 | 137,666 | 137,666 | 137,666 |
| Stock options with an exercise price of $12.84 per share | 4,167 | 4,167 | 4,167 | 4,167 |

| | | | | |
|---|---|---|---|---|
| Stock options with an exercise price of $20.88 per share | | | | |
| Stock options with an exercise price of $26.40 per share | 75,794 | 79,370 | 75,794 | 79,370 |
| Stock options with an exercise price of $32.76 per share | 53,707 | 53,706 | 53,707 | 53,706 |
| Stock options with an exercise price of $32.88 per share | | 50,783 | | 50,783 |
| Stock options with an exercise price of $34.68 per share | 74,265 | 78,707 | 74,265 | 78,707 |
| Stock options with an exercise price of $39.00 per share | 8,333 | 8,333 | 8,333 | 8,333 |
| Stock options with an exercise price of $40.80 per share | | | | |
| Stock options with an exercise price of $41.16 per share | 833 | 3,333 | 833 | 3,333 |
| Stock options with an exercise price of $42.00 per share | 8,333 | 8,333 | 8,333 | 8,333 |
| Stock options with an exercise price of $46.80 per share | 1,667 | 1,667 | 1,667 | 1,667 |
| Warrants with an exercise price of $43.20 per share | 130,208 | 130,208 | 130,208 | 130,208 |
| Total anti-dilutive warrants and options excluded from EPS | 502,494 | 556,273 | 502,494 | 556,273 |

The weighted average equivalent common shares relating to our unvested restricted stock awards that were excluded from potential common shares in the earning per share calculation due to having an anti-dilutive effect are:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **September 30, 2016** | **September 30, 2015** | **September 30, 2016** | **September 30, 2015** |
| Potential common shares from unvested restricted stock awards excluded from EPS | 104,546 | 127,220 | 104,546 | 127,220 |

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The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income per share:

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Net income (loss) | $ (2,132,303) | $ (4,580,255) | $ (3,906,437) | $ (20,420,945) |
| Numerator, basic and diluted net income (loss) available to stockholders | $ (2,132,303) | $ (4,580,255) | $ (3,906,437) | $ (20,420,945) |
| Denominator: | | | | |
| Shares used in computation basic: | | | | |
| Weighted average common shares outstanding | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |
| Common shares outstanding for basic | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |
| Shares used in computation diluted: | | | | |
| Common shares outstanding for basic | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |
| Shares used in computing diluted net income per share | 7,558,835 | 7,481,798 | 7,548,136 | 7,387,952 |
| Net (loss) per share basic | $ (0.28) | $ (0.60) | $ (0.52) | $ (2.76) |
| Net (loss) per share diluted | $ (0.28) | $ (0.60) | $ (0.52) | $ (2.76) |

**Income Taxes**

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

**Stock-based Compensation**

Our stock-based compensation is recorded in accordance with the guidance in the ASC topic for *Stock-Based Compensation* (See NOTE I).

**Fair Value of Financial Instruments**

Financial instruments consist of cash, evidence of ownership in an entity, and contracts that both (i) impose on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right (a) to receive cash or another financial instrument from the first entity, or (b) to exchange other financial instruments on potentially favorable terms with the first entity. Accordingly, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, derivative financial instruments and mortgage and loans payable. We carry cash and cash equivalents, accounts payable and accrued liabilities, and mortgage and loans payable at the approximate fair market value, and, accordingly, these estimates are not necessarily indicative of the amounts that we could realize in a current market exchange. We carry derivative financial instruments at fair value as is required under current accounting standards. Redeemable preferred stock has been carried at historical cost and accreted carrying values to estimated redemption values over the term of the financial instrument.

Derivative financial instruments consist of financial instruments or other contracts that contain a notional amount and one or more underlying variables (e.g., interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets. See NOTE K for additional information. We generally do not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, we have entered into certain other financial instruments and contracts with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815 *Derivatives and Hedging*, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements with changes in fair value reflected in our income.

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*Fair Value Hierarchy*

The three levels of inputs that may be used to measure fair value are as follows:

*Level 1.* Quoted prices in active markets for identical assets or liabilities.

*Level 2.* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

*Level 3.* Unobservable inputs to the valuation methodology are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.

**Redeemable Preferred Stock**

If we issue redeemable preferred stock instruments (or any other redeemable financial instrument), they are initially evaluated for possible classification as a liability in instances where redemption is certain to occur pursuant to ASC 480 *Distinguishing Liabilities from Equity*. Redeemable preferred stock classified as a liability is recorded and carried at fair value. Redeemable preferred stock that does not, in its entirety, require liability classification is evaluated for embedded features that may require bifurcation and separate classification as derivative liabilities. In all instances, the classification of the redeemable preferred stock host contract that does not require liability classification is evaluated for equity classification or mezzanine classification based upon the nature of the redemption features. Generally, mandatory redemption requirements or any feature that could require cash redemption for matters not within our control, irrespective of probability of the event occurring, requires classification outside of stockholders equity. Redeemable preferred stock that is recorded in the mezzanine section is accreted to its redemption value through charges to stockholders equity when redemption is probable using the effective interest method.

**Subsequent Events**

We have evaluated subsequent events for recognition or disclosure through the date this Form 10-Q is filed with the Securities and Exchange Commission (See NOTE M).

**NOTE C ACCOUNTS RECEIVABLE**

Our accounts receivable consist of the following:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Trade | $ 2,604,893 | $ 2,371,304 |
| Related party | 943,621 | 629,400 |
| Other | 47,300 | 116,668 |
| Reserve allowance | (2,315,797) | (2,315,797) |

| | | | | |
|---|---|---|---|---|
| Total accounts receivable, net | $ | 1,280,017 | $ | 801,575 |

The trade receivable balance at September 30, 2016 and December 31, 2015 consists primarily of a trade receivable from Neptune Minerals, Inc., for which a reserve allowance for the full amount of $2,315,797 has been made for both reported period ends. In December 2015, as part of the acquisition agreement with Monaco Financial, LLC ( Monaco ), a related party, we sold 50% of the Neptune Minerals, Inc. receivable to Monaco. The remaining receivable balance from Neptune Minerals, Inc. on our balance sheet is owned by us. Monaco and related affiliates owes us $943,621 and $629,400 for the periods ended September 30, 2016 and December 31, 2015, respectively, for services rendered on their behalf and other items that were not part of the December 10, 2015 acquisition agreement. See NOTE S to the consolidated financial statements included in our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 for further information.

**NOTE D RELATED PARTY TRANSACTIONS**

In December 2015, we entered into an asset acquisition agreement with Monaco Financial, LLC ( Monaco ). See NOTE S to the consolidated financial statements included in our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 for further information. We had accounts receivable with Monaco and related affiliates at September 30, 2016 and December 31, 2015 of $943,621 and $629,400, respectively. We had general operating payables with Monaco at September 30, 2016 and December 31, 2015 of $210,272 and $47,858, respectively. See NOTE H for further debt commitments between the entities. Based on the economic substance of these business transactions, we consider Monaco

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Financial, LLC to be an affiliated company, thus a related party. We do not own any financial interest in Monaco. During the third quarter of 2016, we performed and completed marine shipwreck search and recovery charter services for this related party, and recognized revenue of $2.9 million. We also lease our corporate office space on an annually renewable basis from Monaco at $20,080 per month.

## NOTE E INVESTMENTS IN UNCONSOLIDATED ENTITIES

***Neptune Minerals, Inc. ( NMI )***

Our current investment position in NMI consists of 3,092,488 Class B Common non-voting shares and 2,612 Series A Preferred non-voting shares. These preferred shares are convertible into an aggregate of 261,200 shares of Class B non-voting common stock. Our holdings now constitute an approximate 14% ownership in NMI. At September 30, 2016, our estimated share of unrecognized NMI equity-method losses is approximately $20.7 million. We have not recognized the accumulated $20.7 million in our income statement because these losses exceeded our investment in NMI. Our investment has a carrying value of zero as a result of the recognition of our share of prior losses incurred by NMI under the equity method of accounting. We believe it is appropriate to allocate this loss carryforward of $20.7 million to any incremental NMI investment that may be recognized on our balance sheet in excess of zero. The aforementioned loss carryforward is based on NMI s last unaudited financial statements as of December 31, 2014. Since then, financial statements of NMI have not been made available to us. We do reasonably believe NMI s losses since then are minimal. We do not have any financial obligations to NMI, and we are not committed to provide financial support.

Although we are a shareholder of NMI, we have no representation on the board of directors or in management of NMI and do not hold any Class A voting shares. We are not involved in the management of NMI nor do we participate in their policy-making. Accordingly, we are not the primary beneficiary of NMI, are not required to consolidate NMI. At September 30, 2016, the net carrying value of our investment in NMI was zero in our consolidated financial statements.

***Chatham Rock Phosphate, Ltd.***

During 2012, we performed deep-sea mining exploratory services for Chatham Rock Phosphate, Ltd. ( CRP ) valued at $1,680,000. As payment for these services, CRP issued 9,320,348 ordinary shares to us. The shares currently represent less than 3% of the outstanding equity of CRP. With CRP being a thinly traded stock and pursuant to guidance per ASC 320: *Debt and Equity Securities* regarding readily determinable fair value, we believe it was appropriate to not recognize this amount as an asset nor as revenue during that period. The net carrying value of this investment in CRP is zero in our consolidated financial statements.

## NOTE F - INCOME TAXES

During the nine-month period ended September 30, 2016, we generated a federal net operating loss ( NOL ) carryforward of $2.5 million and generated $4.4 million of foreign NOL carryforwards. As of September 30, 2016, we had consolidated income tax NOL carryforwards for federal tax purposes of approximately $146 million and net operating loss carryforwards for foreign income tax purposes of approximately $24 million. The federal NOL carryforwards from 2005 forward will expire in various years beginning in 2025 and ending through the year 2035.

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. We have recorded a net deferred tax asset of $0 at September 30, 2016. As required by the *Accounting for Income Taxes* topic in the ASC, we have concluded it is more likely than not that those assets would not be realizable without the recovery, monetization and securing rights of ownership or salvage rights of high value shipwrecks or substantial profits from our mining operations and thus a valuation allowance has been recorded as of September 30, 2016. There was no U.S. income tax expense for the nine months ended September 30, 2016 due to the generation of net operating losses.

The increase in the valuation allowance as of September 30, 2016 is due to the generation of approximately $3.9 million in net operating loss year-to-date.

The change in the valuation allowance is as follows:

| | |
|---|---|
| September 30, 2016 | $ 65,003,356 |
| December 31, 2015 | 64,553,394 |
| Change in valuation allowance | $ 449,962 |

Our estimated annual effective tax rate as of September 30, 2016 is 11.40%, while our September 30, 2016 effective tax rate is 0.0% because of the full valuation allowance.

We have not recognized a material adjustment in the liability for unrecognized tax benefits and have not recorded any provisions for accrued interest and penalties related to uncertain tax positions. The earliest tax year still subject to examination by a major taxing jurisdiction is 2012.

## NOTE G COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. We are currently not a party to any litigation.

### Contingency

During March 2016, our Board of Directors approved the grant and issuance of 3.0 million new equity shares of Oceanica Resources, S.R.L. to two attorneys for their future services. This equity is only issuable upon the Mexican s government approval of the Environmental Impact Assessment ( EIA ) for our Mexican subsidiary. The EIA has not been approved as of the date of this report. This grant of new shares was also approved by the Administrators of Oceanica Resources, S.R.L.

### Going Concern Consideration

We have experienced several years of net losses and may continue to do so. Our ability to generate net income or positive cash flows for the remainder of 2016 or the following twelve months is dependent upon our success in chartering our marine equipment and services to third parties, monetizing our interests in mineral exploration entities, collecting on amounts owed to us, generating income from other project or asset based financing, and completing the MINOSA/Penelope equity financing transaction approved by our stockholders on June 9, 2015. Our 2016 business plan requires us to generate new cash inflows during 2016 to effectively allow us to perform our planned projects. We plan to generate new cash inflows through the chartering of our equipment and services, the monetization of our receivables and equity stakes in seabed mineral companies, financings, syndications or other partnership opportunities. One or more of the planned opportunities for raising cash may not be realized to the extent needed to meet our desired projected business plan requirements, which may require us to follow a contingency business plan that is based on curtailed expenses and requires less cash inflows. We may not be able to maintain compliance with NASDAQ s continued listing requirements, which could lead to a de-listing from NASDAQ and move to a different quotation service. This may have a negative impact on our ability to raise funds. On April 11, 2016 our market capitalization value fell below $35.0 million, the required minimum for continued listing of our stock on NASDAQ. Maintaining a market capitalization of at least $35.0 million for a minimum of ten consecutive business days before November 21, 2016 will permit us to remain listed. Management is working on multiple initiatives that could have the effect of curing this deficiency, however, we cannot provide any assurance the deficiency will be resolved. Initiatives include generating new business results with high positive impact and ongoing efforts to support the environmental application approval process for the Don Diego project, with the goal of approval in the second half of 2016. On March 11, 2015, we entered into a Stock Purchase Agreement with Minera del Norte S.A. de C.V. ( MINOSA ) and Penelope Mining LLC ( Penelope ), an affiliate of MINOSA, pursuant to which Penelope agreed to invest up to $101 million over three years in convertible preferred stock of Odyssey. This equity financing is subject to the satisfaction of certain conditions, which included the approval of our stockholders that occurred on June 9, 2015. MINOSA and Penelope are currently under no obligation to make the preferred share equity investments. (See

Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations General Discussion 2015 Financings.) Epsilon Acquisitions LLC ( Epsilon ) agreed to loan us up to $6.0 million in 2016 of which $4.0 million has been received through October 2016 (See NOTE M). Epsilon is a company affiliated with MINOSA. Our consolidated non-restricted cash balance at September 30, 2016 was $0.5 million, which is insufficient to support operations through the end of 2016. We have a working capital deficit at September 30, 2016 of $22.3 million. We sold a substantial part of our assets to Monaco and its affiliates on December 10, 2015 and we have pledged the majority of our remaining assets to MINOSA, MINOSA s affiliates and to Monaco, leaving us with few opportunities to raise additional funds based on our balance sheet. The total consolidated book value of our assets was $4.8 million at September 30, 2016 and the fair market value of these assets may differ from their net carrying book value. Even though we executed the above noted financing arrangements, Penelope must purchase the shares for us to be able to complete the equity component of the transaction. The Penelope equity transaction is heavily dependent on the approval of our subsidiary s application for an environmental permit to commercially develop a mineralized phosphate deposit in Mexico s exclusive economic zone in the Pacific Ocean. The environmental permit application filed in June 2015 was denied on April 8, 2016. We continue to pursue approval of the environmental permit for the dredging and extraction of the phosphate sands off the western coast of Mexico, but the April 2016 decision has delayed our expected cash inflows from this project. Therefore, the factors noted above raise doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

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**NOTE H LOANS PAYABLE**

The Company s consolidated debt consisted of the following at:

| | | | September 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|---|
| Note 1 | Monaco 2014 | $ | 2,800,000 | $ | 3,449,631 |
| Note 2 | Monaco 2016 | | 1,481,264 | | |
| Note 3 | MINOSA | | 14,750,001 | | 14,750,001 |
| Note 4 | Epsilon | | 3,005,195 | | |
| | | $ | 22,036,460 | $ | 18,199,632 |

**Note 1 Monaco 2014**

On August 14, 2014, we entered into a Loan Agreement with Monaco Financial, LLC ( Monaco ), a strategic marketing partner, pursuant to which Monaco agreed to lend us up to $10.0 million, the first $5.0 million of which (the First Tranche ) was advanced upon execution of the Loan Agreement. Subject to the satisfaction of conditions set forth in the Loan Agreement, we had the right to borrow up to an additional $5.0 million in two separate advances of $2.5 million each, which we refer to as the Second Tranche and the Third Tranche. Each of the three advances is evidenced by separate promissory notes (the Notes ). The Second Tranche was advanced on October 1, 2014, and the Third Tranche was advanced on December 1, 2014. On December 10, 2015, these promissory notes were amended as part of the asset acquisition agreement with Monaco (See NOTE S to the consolidated financial statements included in our Form 10-K for the period ended December 31, 2015). The amendment included the following material changes: (i) $2.2 million of the indebtedness represented by the Notes was extinguished, (ii) $5.0 million of the indebtedness represented by the Notes ceased to bear interest and is only repayable under certain circumstances from certain sources of cash, and (iii) the maturity date on the Notes was extended to December 31, 2017. The outstanding interest-bearing balance of these Notes at September 30, 2016 was $2.8 million. The book carrying value of the Notes was $2.8 million, all of which is classified as long term. The maturity date has been amended to April 1, 2018. See Loan Modification below.

The indebtedness evidenced by the Notes bears interest at 8.0% percent per year until the first anniversary of the note and 11% per annum from the first anniversary through the maturity date. Principal is payable at the maturity date while interest is payable monthly. As consideration for the Notes, the Company (i) entered into a multi-year agreement in which we granted Monaco an exclusive right to market valuable trade cargo through a marketing joint venture, (ii) assigned to Monaco 100,000 shares of Oceanica Resources S. de. R.L ( Oceanica ) and (iii) granted Monaco an option whereby Monaco may purchase shares of Oceanica held by Odyssey (the Share Purchase Option ) at a purchase price which is the lower of (a) $3.15 per share or (b) the price per share of a contemplated equity offering of Oceanica which totals $1.0 million or more in the aggregate. The option may be exercised (i) by conversion of the outstanding principal, (ii) in cash for up to 50% of the initial principal amount of the Note (exercisable until the end of the term of the note) if the Note has been repaid early at the request of Monaco, or (iii) in cash for up to 100% of the initial principal amount of the Note (exercisable until the end of the term of the note) if the Note has been repaid early at the request of the Company. For collateral, we granted the lender a security interest in the proceeds from the sale of valuable trade cargo whenever held, in excess of the proceeds previously pledged under other arrangements, a certain quantity of our Oceanica shares based on the loan balance and certain marine equipment and technology as evidenced by equity in two of our wholly owned subsidiaries. During March 2016, the purchase price of the Share Purchase Option was re-priced to $1.00 per share. See Loan Modification March 2016 below.

***Accounting considerations***

We accounted for the three Tranches as a financing transaction, wherein the net proceeds we received were allocated to the financial instruments issued. Prior to making the accounting allocation, we evaluated the First Tranche for proper classification under ASC 480 *Distinguishing Liabilities from Equity* ( ASC 480 ) and ASC 815 *Derivatives and Hedging* ( ASC 815 ).

ASC 815 generally requires the analysis of embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. The material embedded derivative feature consisted of the share purchase option. The share purchase option was not clearly and closely related to the host debt agreement and required bifurcation.

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Based on the previous conclusions, we allocated the cash proceeds first to the derivative components at their fair values with the residual allocated to the host debt contract, as follows:

| | T1 Allocation | T2 Allocation | T3 Allocation |
|---|---|---|---|
| Promissory Note | $ 3,918,254 | $ 1,937,540 | $ 1,909,127 |
| Embedded derivative (share purchase option) | 831,746 | 562,460 | 590,873 |
| Common shares of Oceanica | 250,000 | | |
| | $ 5,000,000 | $ 2,500,000 | $ 2,500,000 |

No value was assigned to the multi-year exclusive marketing agreement (entered into with Monaco at the same time as the Loan Agreement) because the value attributable to the multi-year exclusive marketing agreement is compensatory in nature. The value of the compensation will be determined when i) the valuable trade cargo is recovered, and ii) the marketing and sales activities are successful. Accordingly, the compensation related to the 5% fee will be a period expense in the period incurred, or when a sale takes place. The assignment to Monaco of 100,000 shares of Oceanica was valued at $250,000 and was included as part of the allocation of proceeds. The financing basis allocated to the Notes is subject to amortization with periodic charges to interest expense using the effective interest method. Amortization of these components included in interest expense during the year ended December 31, 2015 amounted to $1,895,263. There is no amortization in 2016. The derivative components are subject to re-measurement to fair value at the end of each reporting period with the change reflected in income.

**Note 2 Monaco 2016**

In March 2016, Monaco agreed to lend us an additional $1.825 million. These loan proceeds were received in full during the first quarter of 2016. The indebtedness bears interest at 10.0% percent per year. All principal and any unpaid interest is payable on April 1, 2018. The indebtedness is convertible at any time until the maturity date into shares of Oceanica held by us at a conversion price of $1.00 per share. Pursuant to this loan and as security for the indebtedness, Monaco was granted a second priority in a security interest in (a) one-half of the indebtedness evidenced by the Amended and Restated Consolidated Note and Guaranty, dated September 25, 2015 (the ExO Note ), in the original principal amount of $18.0 million, issued by Exploraciones Oceanicas S. de R.L. de C.V. to Oceanica Marine Operations, S.R.L. ( OMO ), and all rights associated therewith (the OMO Collateral ); and (b) all marine technology and assets in our possession or control used for offshore exploration, including deep-tow search systems, winches, multi-beam sonar, and other equipment. We unconditionally and irrevocably guaranteed all obligations of Odyssey and its subsidiaries to Monaco under this loan agreement. As further consideration for the loan, Monaco was granted an option (the Option ) to purchase the OMO Collateral. The Option is exercisable at any time before the earlier of (a) the date that is 30 days after the loan is paid in full or (b) the maturity date of the ExO Note, for aggregate consideration of $9.3 million, $1.8 million of which would be paid at the closing of the exercise of the Option, with the balance paid in ten monthly installments of $750,000.

***Accounting considerations***

ASC 815 generally requires the analysis of embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. The option to purchase the OMO Collateral is an embedded feature that is not clearly and closely related to the host debt agreement and thus requires bifurcation. However, since the option is out of the money, it has no material fair value as of the inception date or at September 30, 2016. The debt agreement did not contain additional any embedded terms or features that have characteristics of derivatives. However, we were required to consider whether the hybrid contract embodied a beneficial conversion feature ( BCF ). The calculation of the effective conversion amount did result in a BCF because the effective conversion price was less than the market price on the date of issuance, therefore a BCF of $456,250 was recorded, which represented the intrinsic value at the commitment date. The BCF represents a debt discount which will be amortized over the life of the loan. For the nine months ended September 30, 2016, interest expense related to the discount in the amount of $112,514 was recorded.

***Loan modification (December 10, 2015)***

In connection with the Acquisition Agreement entered into with Monaco on December 10, 2015, Monaco agreed to modify certain terms of the loans as partial consideration for the purchase of assets. For the First Tranche ($5,000,000 issued on August 14, 2014), Monaco agreed to cease interest as of December 10, 2015 and reduce the loan balance by (i) the cash or other value received by Monaco from the SS *Central America* shipwreck project ( SSCA ) or (ii) if the proceeds received by Monaco from the SSCA project are insufficient to pay off the loan balance by December 31, 2017, then Monaco can seek repayment of the remaining outstanding balance on the loan by withholding Odyssey s 21.25% additional consideration in new shipwreck projects performed for Monaco in the future. For the Second Tranche ($2,500,000 issued on October 1, 2014), Monaco agreed to reduce the principal amount by $2,200,000 leaving a new principal balance of $300,000 and extension of maturity to December 31, 2017. For the Third Tranche ($2,500,000 issued on December 1, 2014), Monaco agreed to the extension of maturity to December 31, 2017.

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On December 10, 2015, the Monaco call option on $10 million of Oceanica shares held by Odyssey was maintained for the full amount of the original loan amount and was extended until December 31, 2017.

As further described in NOTE S to the consolidated financial statements included in our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015, the Acquisition Agreement was accounted for as a troubled debt restructuring in accordance with ASC 470-60. As a result of the troubled debt restructuring, the carrying values of the remaining Monaco loans were required to be recorded at their undiscounted future cash flow values, which amounted to $3,449,632. No interest expense was to be recorded going forward. In the first quarter of 2016, the carrying value was reduced by the interest payments that accrued to the carrying value in 2015.

***Loan modification (March 2016)***

In connection with the $1.825 million loan agreement with Monaco in March 2016, the existing $2.8 million notes were modified. Of the $2.8 million existing loans, $1,349,603 is convertible into shares of Oceanica at a fixed conversion price of $1.00 per share while the remaining $1,450,397 is not convertible. Additionally, the modification eliminated Monaco s option ( share purchase option ) to purchase 3,174,603 shares of Oceanica stock at a price of $3.15 per share. The modification was analyzed under ASC 480 *Distinguishing Liabilities from Equity* ( ASC 480 ) to determine if extinguishment accounting was applicable. Under ASC 470-50-40-10 a modification or an exchange that adds or eliminates a substantive conversion option as of the conversion date is always considered substantial and requires extinguishment accounting. Since this modification added a substantive conversion option, extinguishment accounting is applicable. In accordance with the extinguishment accounting guidance (a) the share purchase option was first marked to its pre-modification fair value, (b) the new debt was recorded at fair value and (c) the old debt and share purchased option was removed. The difference between the fair value of the new debt and the sum of the pre-modification carrying amount of the old debt and the share purchase option s fair value represented a gain on extinguishment. ASC 470-50-40-2 indicates that debt restructuring with a related party may be in essence a capital transaction and as a result the gain upon extinguishment was recognized in additional paid in capital. We performed the following steps:

***Step 1***: After the share purchase option has been market to its pre-modification fair value, the fair value of the new debt is determined. The fair value of the new debt is as follows:

| **Monaco loans** | **Loan one** |
|---|---|
| Forward cash flows: | |
| Principal | $ 2,800,000 |
| Interest | 559,463 |
| Total forward cash flows | $ 3,359,463 |
| Present value of forward cash flows | $ 2,554,372 |
| Fair value of equity conversion option | 1,063,487 |
| Fair value of debt | $ 3,617,859 |

Significant inputs and results arising from the Binomial Lattice process are as follows for the conversion option that is classified in equity after the modification in March 2016:

| | |
|---|---|
| Underlying price on valuation date | $1.25 |