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Odyssey Marine Exploration Co (OMEX):

Do Mako Investors realize their tenuous security position in Oceanica?

April 16, 2014

This report is a follow up to our first 66-page report published October 31, 2013 which can be found at www.omextruth.com.

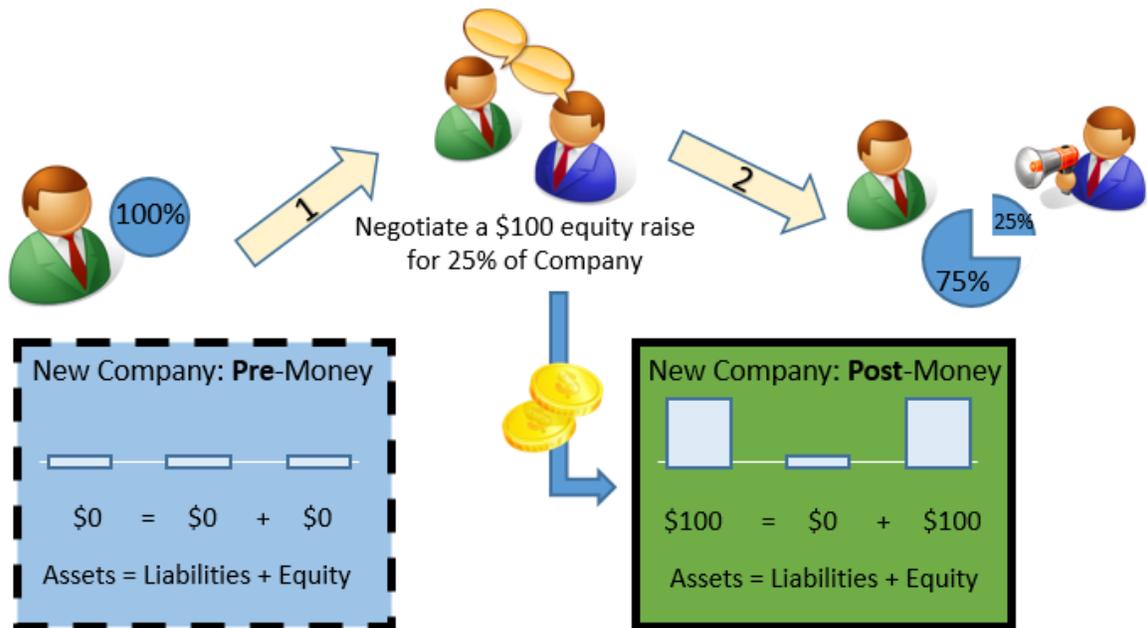
There were two new disclosures on the most recent OMEX conference call held March 17, 2014:

- 1) Oceanica (OMEX's 54% controlled Bahamas→Panama→Mexican mining venture) has less than \$400k in the bank
- 2) Oceanica has a payable of \$10mm to OMEX for services performed

These likely indicate Mako has a very compromised status with respect to their rights as investors and potentially indicate that Mako investors did not conduct their proper Due Diligence or may have been misled. Is this why they chose not to exercise their options December 31 when they were due to expire?

OMEX raising cash via Mako appears to us to be a "backdoor" capital raise that circumvents the SEC securities registration rules required for public companies. Let's understand why OMEX's Oceanica Capital Raise was very different than a typical venture capital round and not something we have ever seen before because of the unnecessary weakness and danger for investors:

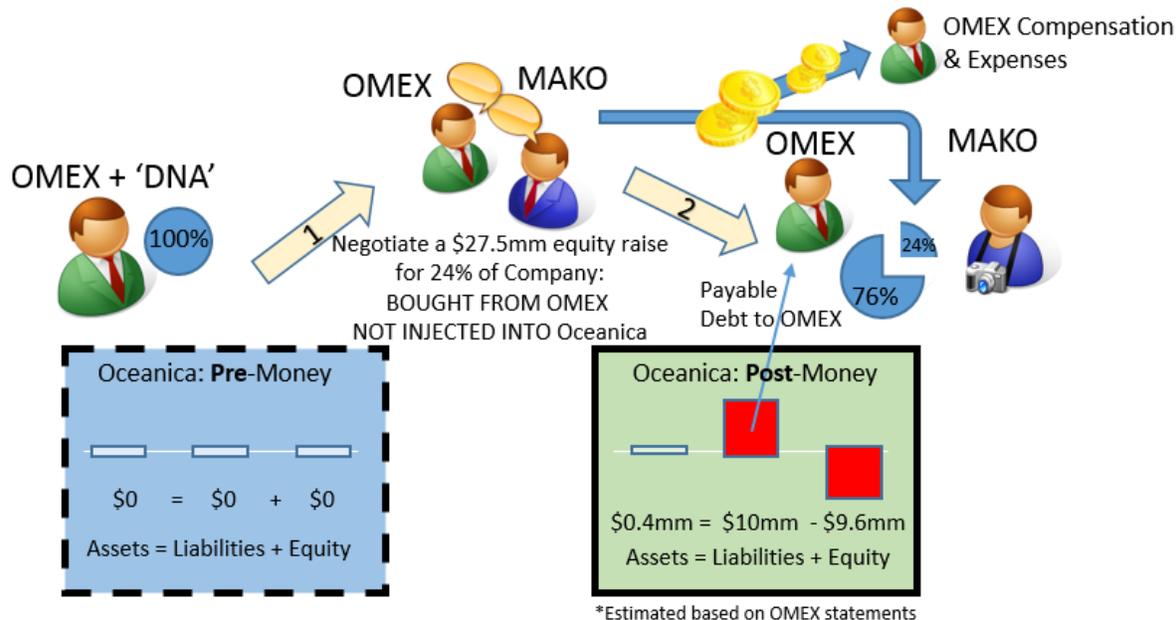
Typical Business Capital Raise



Key Points

- 1) Capital used to build business assets
- 2) Investors have rights to assets as owners
- 3) No related-party transactions in senior securities (i.e. debt) that would potentially impair investors

MAKO → Oceanica → OMEX “Backdoor” Capital Raise



Key Points

- 1) NO Capital injected into business → No new Assets
- 2) Investors have rights to NO Assets as owners
- 3) OMEX is in front of MAKO investors due to \$10mm payable
- 4) OMEX could potentially cram-down & wipe-out MAKO at any time

Why would Mako investors agree to such an unfavorable investment structure? With OMEX as both the controlling shareholder AND senior security holder, they could potentially demand payment on their \$10mm payable and wipe out the *by definition* insolvent equity position (as Oceanica appears never to have directly raised equity). Given the enormous capital requirements to test and prove a mine (still waiting for the NI43-101 report...?), why would Mako be OK with their \$27.5mm instead of being directly injected into Oceanica, going to OMEX to pay for compensation and other unrelated expenses?

“Odyssey has provided approximately \$10 million of services to the Oceanica subsidiary ... if Oceanica were to raise funds itself, then they would pay \$10 million of cash to Odyssey in the future” – Philip Devine, CFO, March 17, 2014 OMEX conference call

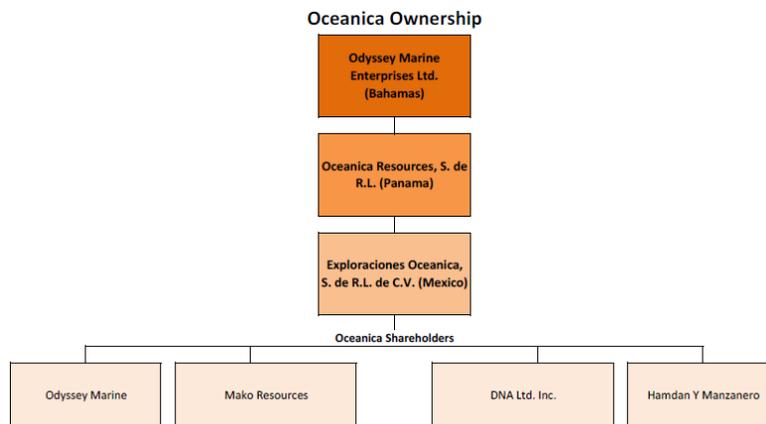
Now, if Oceanica tries to raise capital directly, guess where that cash is going? It is going to cost a LOT more to prove and build a mine and \$10mm is going to go directly back to the OMEX parent to... pay compensation and expenses **unrelated** to Oceanica? Mako doesn't earn a dime if OMEX is successful at its other projects (though this has historically not been a potential outcome). Why are they OK with being 'behind the elephant' in their lower seniority position as investors?



What is Mako Resources exactly?

Mako Resources is managed by Josh Adam out of a one-bedroom apartment next to NYU according to the [SEC form D](#). Josh Adam represents himself to be a CFA charterholder and as manager of Mako has a legal fiduciary duty to those investors who have apparently given him \$27.5mm. Given Josh’s other connections to OMEX via Neptune Minerals, we have questioned whether these are truly arms-length transactions and these new disclosures deepen our concerns.

Still unanswered: Why does Oceanica need to be structured through multiple layers of offshore subsidiaries in the Bahamas and Panama? We discussed in depth their Panamanian partner, DNA Ltd Inc. director’s multiple connections to alleged criminal activity in our original report at omextruth.com on Oct 31, 2013, which has still not been credibly addressed by OMEX management.



What other capital raises has Josh Adam been involved with?

Neptune Minerals, OMEX’s other undersea mining venture where it owns 30%. While apparently deeply insolvent, Neptune has been trying to raise capital at a valuation far lower than OMEX’s most recent representations to public investors. See our [Neptune Smoking-Gun Report](#) for more details.

More interestingly though is a [recent SEC disclosure](#) where Neptune (where Josh Adam is Senior VP of Finance) finally discloses what brokers has helped them raise capital. We understand from our friends in

Tampa that Josh boasts of bringing in the *CRG's* ("Certified Rich Guys") from his NY connections. Who helps him (for fees of \$388k at Neptune) bring in the capital?

We'll start with National Securities Corporation, a firm that has **57 regulatory events** on file with FINRA. The list is long but we will cover only some of the highlights here. The full list is available on the FINRA website.

National Securities Corporation

In 2011 National Securities Corporation was censured and ordered to pay a fine of \$175,000 in restitution to investors for failing to have reasonable grounds for selling private placements (is this similar to the Neptune deal currently being attempted?) to customers of the firm, and for failing to conduct due diligence into the offering. The findings also stated that Mathew Portes (a broker with the firm) and the firm became aware of multiple red flags regarding an offering, including liquidity concerns, missed interest payments and defaults, that should have put them on notice of possible problems, but the firm continued to sell the offering to customers.¹ Given Odyssey just wrote off the money loaned to Neptune last quarter (implying the junior equity security is worthless – watch that \$10mm payable carefully Mako!) we find this similarity striking.

FINRA found that Portes reviewed the PPMs of these offerings and diligence reports others prepared, but the review was cursory. FINRA also found that the due diligence reports noted significant risks and specifically provided that its conclusions were conditioned upon recommendations regarding guidelines, changes in the PPMs and heightened financial disclosure of affiliated party practices, but the firm did not investigate, follow up on, or discuss any of these potential conflicts or risks with either the issuer or any third party. In addition, FINRA determined that the firm, acting through Mathew Portes, failed to enforce reasonable supervisory procedures to detect or address potential "red flags" as related to these offerings; and the firm, acting through Mathew Portes, failed to maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations.²

What kind of due diligence has National Securities Corporation done on Neptune? Are they aware that Neptune appears to be currently insolvent according to Odyssey public filings?

Further, why would the management of Neptune / Odyssey choose to work with a firm with such a consistently questionable track record unless they were absolutely desperate?

It doesn't end there, here are just a few more of the recent multiple fines National Securities Corporation has paid due to publicly known problems:

In December of 2012, to resolve allegations that the firm ignored red flags involving instances of potentially suspicious securities transactions and failed to report those activities as required by the bank secrecy act, they paid FINRA a fine of \$65,000.³

¹ <http://www.whitesecuritieslaw.com/2011/08/03/national-securities-corporation-fined-by-finra-2/>

² <http://www.whitesecuritieslaw.com/2011/08/03/national-securities-corporation-fined-by-finra-2/>

³ <https://www.rexsecuritieslaw.com/National-Securities-Claim.php>

In May 2011, to resolve allegations that their sales and supervision of Reg D/private placement offerings was deficient, National Securities was censured and required to pay restitution of \$175,000 to affected customers.⁴

In one case, National Securities Corporation has even been named a defendant in a RICO suit.⁵

And these are just the recent cases, it actually gets worse and goes back for over three decades. In fact, National Securities Corporation is so bad that it's had **fifty-seven** different FINRA regulatory events against the company going back to the early 1980s – these are not one-off incidents. Meson has already uncovered shady ties between Odyssey and unnecessary offshore Panamanian and Bahamian subsidiaries – which Odyssey has still never explained. The question is, why would you trust these people with your money when they're intentionally tying up with these multiple, very questionable business partners?

International Assets Advisory

International Assets Advisory, the other broker touting Neptune stock, isn't much better. Although IAA "only" has six regulatory events on record with FINRA, the firm and its brokers have been tied to some legendary blow ups.

In one case, Jeffrey Rubin, a broker at International Assets Advisory at the time, was behind an investment scheme that lost a staggering \$40,000,000 for 31 NFL players.⁶ It's unclear what role, if any, IAA played in this melt down and the investigation is ongoing. Mr. Rubin has since been barred from the industry by FINRA.

In our opinion, it's clear both of these firms represent the bottom of the barrel among capital raising opportunities, so it's unclear why Neptune would even consider working with these groups unless they were desperate – but what we do know is the following:

1. Neptune paid these firms ~\$388,000 in commissions in conjunction with their last equity offering⁷
2. Neptune has continued to flounder and is now back in the market for equity, capital that we believe will be squandered needlessly like all the previous capital Neptune has raised.
3. As we highlighted in our last report, Odyssey is no longer claiming Neptune is an off balance sheet source of wealth creation (they removed the slide in their most recent presentation, validating our concerns).

We continue to believe the Odyssey is in the business of selling the dream of a lottery ticket stock – a ticket that has been proven worthless over 16 years, costing shareholders over \$180m in cumulative losses.

⁴ <https://www.rexsecuritieslaw.com/National-Securities-Claim.php>

⁵ <http://seekingalpha.com/instablog/2642041-soreide-law-group/758681-finra-arbitration-filed-against-national-securities-corp-for-selling-roundstone-healthcare-partners>

⁶ <http://taurusports.net/davids-blog/2013/3/12/its-devastating-with-such-a-short-earning-career-to-lose-thi.html>

⁷ http://www.sec.gov/Archives/edgar/data/1535730/000089706913000418/xslFormDX01/primary_doc.xml

Conclusion: Mako investors need to ask questions

Mako and Neptune investors need to start asking tough questions of the people that owe them a legal fiduciary duty.

- 1) Why was Mako's \$27.5mm in capital not injected directly into Oceanica where it could be used to build the business?
- 2) How much of Mako's \$27.5mm has gone to paying OMEX's corporate salaries and perks?
- 3) How much of the \$27.5mm is still in OMEX's US bank accounts and could be sent back, avoiding likely total loss?
- 4) How did OMEX determine that \$10mm was a fair price to charge its controlled subsidiary Oceanica for services?
- 5) How is Oceanica supposed to do anything with only <\$400k in the bank when it takes millions to develop any mine? (Nautilus Minerals Inc. has spent >\$300mm and still has negative cash-flow)
- 6) How is JP Morgan actually involved? Is it merely a local Florida Chase Private branch trying to sell unregistered Oceanica securities to HNW investors?

Appendix:

In case you are losing track of all of the interrelated entities in the OMEX universe:

THE OMEX & FRIENDS LOMBARDI DIAGRAM

