



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 994 289 764  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: ISLAND OFFSHORE XII SHIP AS  
Forretningsadresse: Stålhaugen 9  
6065 ULSTEINVIK

### Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

### Konsern

Mørselskap i konsern: Ja  
Konsernregnskap lagt ved: Ja

### Regnskapsregler

Regler for små foretak benyttet: Nei  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler  
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Asbjørn Hasund  
Dato for fastsettelse av årsregnskapet: 11.06.2021

### Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert  
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 14.09.2022



### Resultatregnskap

Beløp i: NOK	Note	2020	2019
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Salgsinntekt	2,9	131 756 253	150 073 452
<b>Sum inntekter</b>		<b>131 756 253</b>	<b>150 073 452</b>
<b>Kostnader</b>			
Varekostnad	9	53 875 031	47 602 892
Lønnskostnad	9	53 218 439	50 495 143
Avskrivning på varige driftsmidler og immaterielle eiendeler	5	28 900 189	28 227 206
Annen driftskostnad	4	3 084 129	3 017 575
<b>Sum kostnader</b>		<b>139 077 787</b>	<b>129 342 816</b>
<b>Driftsresultat</b>		<b>-7 321 535</b>	<b>20 730 636</b>
<b>Finansinntekter og finanskostnader</b>			
Annen finansinntekt	3	1 216 286	1 526 387
<b>Sum finansinntekter</b>		<b>0</b>	<b>0</b>
Rentekostnad til foretak i samme konsern		223 471	448 080
Annen finanskostnad	3	14 181 454	9 333 913
<b>Sum finanskostnader</b>		<b>0</b>	<b>0</b>
<b>Netto finans</b>		<b>-13 188 639</b>	<b>-6 523 491</b>
<b>Ordinært resultat før skattekostnad</b>		<b>-20 510 174</b>	<b>14 207 145</b>
Skattekostnad på ordinært resultat	10	-4 512 238	3 125 572
<b>Ordinært resultat etter skattekostnad</b>		<b>0</b>	<b>0</b>
<b>Årsresultat</b>		<b>-15 997 936</b>	<b>11 081 573</b>
<b>Totalresultat</b>		<b>-15 997 936</b>	<b>11 081 573</b>
<b>Overføringer og disponeringer</b>			
Udekket tap		-15 997 936	
<b>Sum overføringer og disponeringer</b>	11	<b>-15 997 936</b>	<b>11 081 573</b>



## Balanse

Beløp i: NOK	Note	2020	2019
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Sum immaterielle eiendeler		0	0
<b>Varige driftsmidler</b>			
Skip, rigger, fly og lignende	5,7	635 060 022	654 165 130
Sum varige driftsmidler		635 060 022	654 165 130
<b>Finansielle anleggsmidler</b>			
Investering i datterselskap	6	726 991 746	224 109 191
Sum finansielle anleggsmidler		726 991 746	308 600 428
Sum anleggsmidler		1 362 051 768	962 765 558
<b>Omløpsmidler</b>			
<b>Varer</b>			
Varer		6 016 867	7 915 675
Sum varer		0	0
<b>Fordringer</b>			
Kundefordringer	7,9	15 138 661	12 340 994
Andre fordringer	9	19 596 514	28 455 309
Sum fordringer		34 735 206	40 796 303
<b>Investeringer</b>			
Sum investeringer		0	0
<b>Bankinnskudd, kontanter og lignende</b>			
Bankinnskudd, kontanter og lignende	7	31 102 363	33 906 019
Sum bankinnskudd, kontanter og lignende		31 102 363	33 906 019
Sum omløpsmidler		71 854 405	82 617 997
<b>SUM EIENDELER</b>		<b>1 433 906 173</b>	<b>1 045 383 555</b>



## Balanse

Beløp i: NOK	Note	2020	2019
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	12	404 097 000	260 000 000
Overkurs		328 188 318	186 464 000
Annen innskutt egenkapital		0	0
<b>Sum innskutt egenkapital</b>		<b>732 285 318</b>	<b>446 464 000</b>
<b>Opptjent egenkapital</b>			
Annen egenkapital		239 708 080	255 706 016
<b>Sum opptjent egenkapital</b>		<b>239 708 080</b>	<b>255 706 016</b>
<b>Sum egenkapital</b>	11	<b>971 993 398</b>	<b>702 170 016</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Utsatt skatt	10	93 485 664	97 997 902
<b>Sum avsetninger for forpliktelser</b>		<b>93 485 664</b>	<b>97 997 902</b>
<b>Annen langsiktig gjeld</b>			
<b>Sum annen langsiktig gjeld</b>		<b>0</b>	<b>219 553 354</b>
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Kortsiktig gjeld</b>			
Gjeld til kredittinstitusjoner		210 000 000	210 000 000
Leverandørgjeld	7,8	664 034	19 370 753
Annen kortsiktig gjeld	9	157 763 077	6 291 530
<b>Sum kortsiktig gjeld</b>		<b>368 427 111</b>	<b>25 662 283</b>
<b>Sum gjeld</b>		<b>461 912 775</b>	<b>342 213 539</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>1 433 906 173</b>	<b>1 045 383 555</b>



**Consolidated Financial  
Statements 2020**

**Island Offshore Shipholding, L.P.  
Group**



**ISLAND OFFSHORE**



## Annual Report 2020

### Island Offshore Shipholding LP - Group

#### Business

The parent company, Island Offshore Shipholding LP, is registered in the Cayman Islands and directly and indirectly owns the majority shareholding of several Norwegian ship owning entities included in the consolidated financial statements. The fleet comprises 25 vessels in operation at 31.12.2020. Three PSVs were sold in 2020, and one subsidiary took delivery of an installation vessel with design UT 797CX from Vard Brevik on 03.02.20. In addition, one PSV was added to the fleet by acquisition of shares in a vessel owning company completed in May 2020.

Two PSVs, one SCV and one LWI were in lay-up as per 31.12.20; two of these were reactivated in the market during Q1-21. The vessels operate in the market segments PSV, AHTS, Wellstim, Walk-to Work, Light Well Intervention and Subsea Construction. The business includes activities in the geographical regions Norway, UK, US, Holland, West Coast of Africa and Brazil. The fleet order backlog excluding charterer's options totals NOK 1.4 billion at 31.12.20. Contract coverage for 2021 was 50% as per 31.12.20.

The technical and commercial operations are carried out by management companies in Ulsteinvik, Portugal and Aberdeen (UK).

#### Statement on results

Freight revenue totals NOK 1,500 mill in 2020 versus NOK 1,701.2 mill in 2019. Average utilization of the fleet was 75% in 2020 compared with 76% in 2019. The decrease in revenue is mainly related to one LWI vessel being in lay-up the whole of 2020, in addition to change of contract model for another LWI vessel. Overall, market state through 2020 has been significantly impaired by COVID-19, low oil prices and therefore reduced E&P spending and vessel activity.

The operating result before depreciation for 2020 is NOK 323.2 mill versus NOK 478.6 mill in 2019. Other operating expenses includes impairment on stock value with NOK 26 mill. Result is also significantly impacted by one LWI vessel being in lay-up the whole of 2020, however all vessel segments report positive EBITDA in 2020 and 2019.

A revised impairment analysis of the fleet value has been performed based on estimates of expected future earnings for each vessel compared to broker valuations. The analysis including completed sale transactions in 2020, implies increase of the provision for impairment at 31.12.20. Thus, vessel value is written down with an additional NOK 623.7 mill. Total recorded impairment provision on existing fleet as per 31.12.20 is NOK 1,328.5 mill with a corresponding negative effect on net equity.

Net financial items were NOK -310.9 mill in 2020 compared with NOK -272.9 mill in 2019. The increase in financial expenses is mainly due to drawdown of long-term loan in connection to delivery of the Island Victory, in addition to increased FX loss and provision for early break fee/ termination fees.

The net profit for the year is a loss of NOK -956.0 mill compared with a loss of NOK -162.9 mill in 2019.

Book value for fixed assets totals NOK 6,906.1 mill as per 31.12.20 versus 6,725.5 mill as per 31.12.19.

Island Offshore Shipholding LP - Group



The Group's operating cash flow is positive with NOK 60.1 mill. The Group has invested NOK 1,315.3 mill in vessel capital expenditures related to periodical maintenance and special surveys, vessel contract modifications and the acquisition of two new vessels to the fleet. The Group received NOK 165 mill for the sale of three PSVs in 2020 and proceeds have been used to reduce vessel loan balances. The partners of Island Offshore Shipholding LP have contributed NOK 30.0 mill of additional shareholder loans to the parent company in order to fund cash sweep guarantees to secured lenders. In addition, a new shareholder has contributed NOK 352 mill through share issues and by way of contribution in kind in connection with take out of Island Victory in February 2020, and purchase of shares in Island Defender AS. Drawdown of new vessel loans total NOK 797.5 million and seller credit from the yard has increased with NOK 170 mill. The Group has paid in total NOK 278.6 as instalments to the banks in 2020. Net cash flow for the year is positive with NOK 0.9 mill in 2020 resulting in a cash balance of NOK 262.6 mill. Please refer to the cash flow statement for further details.

Net equity is NOK 734.4 mill, equivalent to a net book equity-ratio of 9.6% at 31.12.2020 versus NOK 1,339.5 mill at 31.12.2019. The decrease is due to this year's loss partly reduced by capital contribution from the minority owners. Please refer to note 11.

The Group does not have ongoing research and development activities.

### **Going concern**

The Group's vessels operate in the offshore service market, which has suffered a significant downturn from 2015 due to the low oil price and reduced offshore activity.

Island Offshore Shipholding, L.P., initiated negotiations for a Standstill and Deferral Agreement with secured creditors effective 22.11.2016. Effective April 12<sup>th</sup> 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation.

Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 28.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.

**Island Offshore Shipholding LP - Group**



## **Work environment and gender equality**

The Group companies do not have employees. The offshore crew is hired from Island Offshore Management AS and Island Offshore Crewing AS.

## **External environment**

Vessel operations do not pollute the external environment beyond what is normal for this type of business. Annual environmental plans are prepared for each vessel and systematic efforts are employed to reduce the risk of gas, diesel oil or chemicals emissions in addition to other oil-containing substances.

## **Financial risk**

Overall, the Group has satisfactory order backlog and contract coverage for the fleet in 2020, which secures predictability of earnings despite a challenging market following the COVID-19 pandemic and the associated oil price drop. Accordingly, the vessels are exposed to market risk upon renewal of existing contracts and visibility beyond 2021 is limited.

Vessel revenue is exposed to currency risk, especially towards GBP, EUR and USD. Loans in foreign currency and financial instruments are used to hedge cash flow and reduce foreign currency risk. Forward contracts are used to hedge future freight revenue in currency. The estimated net unrealized loss is NOK -0.7 mill at 31.12.2020, which is not recorded in the financial statements in accordance with the Norwegian Accounting Act and NGAAP.

Loans from financial institutions totals NOK 4,829.4 mill and Bond loan totals NOK 786.5 mill at 31.12.2020. The Group companies are in breach with financial covenants at 31.12.20. In accordance with Norwegian Accounting Principles, the loans from financial institutions are classified as short term loans.

## **Future outlook**

Additional contract awards were added to fleet backlog in Q1-21 including LWI work for 2021. Recent awards reduce exposure to the spot market going forward, but visibility with regards to market activity is limited beyond expiry of current contracts.

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Accordingly, the demand for OSV vessels has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

Overall, drilling activity is expected to in 2021 and 2022 compared to 2020. There are signs of market improvement across segments, however continued improvement in demand and supply balance is required to ensure recovery thus attainability of sustainable contracts. Ultimately, a continued high and stable oil price is essential to ensure long-term sustainability for the offshore service industry. The Group's chartering strategy remains firm with focus on securing long-term commitments with strategically preferred clients, in addition to exploring new business opportunities. The fleet is well-positioned with attractive and strategically important customers.

On a general note, the Managers emphasize that there is significant uncertainty with regards to assessment of future outlook and results. The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.

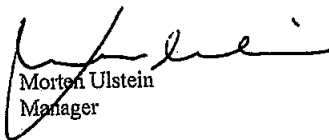
**Island Offshore Shipholding LP - Group**





**Other matters**

Beyond the above, the Managers are not aware of any subsequent events that could be significant for the evaluation of the Group's financial position and results. Reference is made to the income statement, cash flow, balance sheet and notes.

Ulsteinvik, 29.04.2021

  
Morten Ulstein  
Manager

  
Gary J. Chouest  
Manager

  
Dino D. Chouest  
Manager

  
Håvard Ulstein  
Manager

Island Offshore Shipholding LP - Group



**Consolidated Income Statement**

**Island Offshore Shipholding LP**

NOK mill	Note	2020	2019
Freight income	13	1 500,0	1 701,2
Other operating income	4,15	35,0	-
<b>Total operating income</b>		<b>1 535,0</b>	<b>1 701,2</b>
Operating expenses vessel	8,15	431,5	417,4
Crew expenses	3,8	679,7	736,5
Other operating expenses	3,8,15	100,6	68,6
<b>Operating expenses before depreciation</b>		<b>1 211,8</b>	<b>1 222,6</b>
Depreciation	4	341,3	321,7
Impairment provision on vessel value	4	623,7	41,1
<b>Operating expenses</b>		<b>2 176,7</b>	<b>1 585,3</b>
<b>Operating profit</b>		<b>-641,8</b>	<b>115,8</b>
Other interest income		2,1	7,9
Other financial income	2	24,1	10,0
Other interest expenses		281,8	264,1
Other financial expenses	2	55,3	26,7
<b>Net financial income and expenses</b>		<b>-310,9</b>	<b>-272,9</b>
<b>Operating profit before tax</b>		<b>-952,7</b>	<b>-157,1</b>
Tax	10,14	3,3	5,9
<b>Annual net profit</b>		<b>-956,0</b>	<b>-162,9</b>
Minority interest	11	-86,8	-22,0
Majority interest	11	-869,2	-140,9



## Consolidated Balance sheet

### Island Offshore Shipholding LP

NOK mill	Note	2020	2019
<b>Assets</b>			
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Ships under construction	4,5	-	252,6
Ships	4,5	6 906,1	6 472,9
<b>Total tangible assets</b>		<b>6 906,1</b>	<b>6 725,5</b>
<b>Financial fixed assets</b>			
Other long term receivables	5,6,8	50,8	47,3
<b>Total financial fixed assets</b>		<b>50,8</b>	<b>47,3</b>
<b>Total fixed assets</b>		<b>6 956,9</b>	<b>6 772,8</b>
<b>Current assets</b>			
Stock of supplies	8,15	23,4	86,5
<b>Debtors</b>			
Accounts receivables	5,8	174,2	141,7
Other receivables	5,8	231,3	259,6
<b>Total debtors</b>		<b>405,5</b>	<b>401,3</b>
<b>Investments</b>			
Cash and bank deposits	5	262,5	261,7
<b>Total current assets</b>		<b>691,4</b>	<b>749,5</b>
<b>Total assets</b>		<b>7 648,3</b>	<b>7 522,3</b>



## Consolidated Balance sheet

## Island Offshore Shipholding LP

NOK mill	Note	2020	2019
<b>Liabilities and equity</b>			
<b>Equity</b>			
Paid in equity			
Paid in capital	11,12	895,5	895,5
<b>Total paid in equity</b>		<b>895,5</b>	<b>895,5</b>
Other equity	11	-1 038,0	-183,3
<b>Total retained earnings</b>		<b>-1 038,0</b>	<b>-183,3</b>
Minority Interest	11	878,9	627,3
<b>Total equity</b>		<b>734,4</b>	<b>1 339,5</b>
<b>Liabilities</b>			
Provision for liabilities			
Deferred tax	10	63,8	61,1
<b>Total provision</b>		<b>63,8</b>	<b>61,1</b>
Other long term liabilities			
Bonds	6	-	764,4
Liabilities to financial institutions	6,6	-	4 386,6
Other long term liabilities	6,8	397,7	680,6
<b>Total long term liabilities</b>		<b>397,7</b>	<b>5 770,6</b>
Current liabilities			
Bonds	6	786,5	-
Liabilities to financial institutions	5,6	4 829,4	-
Seller credits	6	444,4	-
Trade creditors	8	22,0	27,8
Tax payable	10	1,1	1,1
Unpaid public fees		-	0,0
Other short term liabilities	8	369,1	322,3
<b>Total current liabilities</b>		<b>6 452,4</b>	<b>351,2</b>
<b>Total liabilities</b>		<b>6 913,9</b>	<b>6 182,7</b>
<b>Total equity and liabilities</b>		<b>7 648,3</b>	<b>7 522,3</b>

Ulsteinvik, 31.12.20 / 29.04.21

Managers in Island Offshore Shipholding LP

Gary Chouest  
Manager

Dino Chouest  
Manager

Marten Ulstein  
Manager

Håvard Ulstein  
Manager

**Cash Flow Statement - Consolidated**

## Island Offshore Shipholding LP

in NOK mill	31.12.20	31.12.19
<b><i>Cash flow from operational activities</i></b>		
Result before tax	-952,7	-157,1
- Taxes paid/refunded	-0,7	-2,5
+ Depreciation	341,3	321,7
+ Write down vessel value	623,7	41,1
+/- Change in unrealized agio/disagio	-6,2	-1,4
-/+ Change in inventory	63,1	-2,6
-/+ Change in accounts receivable	-32,5	-6,0
+/- Change in accounts payable	-5,8	-45,5
+/- Change in other accruals	30,0	96,7
= Net cash flow from operational activities	<u>60,1</u>	<u>244,5</u>
<b><i>Cash flow from investment activities</i></b>		
- Payments in connection with purchase of assets	-1 315,3	-213,4
+ Payments in connection with sale of assets	<u>164,7</u>	<u>0,3</u>
= Net cash flow from investment activities	<u>-1 150,6</u>	<u>-213,0</u>
<b><i>Cash flow from financing activities</i></b>		
+ Drawdown of financial bank loans	797,5	70,8
+ Loan from minority owner	170,0	
- Repayment of loans	-278,6	-214,8
+ Bond loan	22,1	21,5
+ Partners' loan	30,0	65,9
+ Partner's loan converted to share capital	0,0	2,0
+ Share capital issue	<u>350,2</u>	<u>14,1</u>
= Net cash flow from financing activity	<u>1 091,3</u>	<u>-40,5</u>
= <i>Net change in cash and cash equivalents</i>	<u>0,9</u>	<u>-9,1</u>
+ <i>Cash, bank balance in the beginning of the period</i>	<u>261,7</u>	<u>270,8</u>
= <i>Cash, bank balance in the end of the period</i>	<u>262,6</u>	<u>261,7</u>



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 1 ACCOUNTING PRINCIPLES

The financial statements are prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway. The significant principles are described below.

##### Consolidation principles

The consolidated statements include Island Offshore Shipholding LP and companies where Island Offshore Shipholding LP has a controlling interest. Controlling interest is normally in place when the Group owns more than 50% of the shares of the company and is in a position to exercise actual control. The minority interest is included in the consolidated equity. Transactions between Group companies are eliminated. The consolidated statements are prepared on the basis of consistent accounting principles whereby subsidiaries apply the same principles as the parent company. Companies with foreign functional currencies are converted to NOK by using average currency rate in Profit and Loss Accounts and December closing rates in Balance Sheet. Currency differences due to conversion to NOK is recorded towards equity.

The acquisition method of accounting is applied when accounting for transactions, including mergers and acquisitions. Entities acquired or sold during the year are included in the consolidated statements from the date actual control is obtained and until actual control ceases. Thus, consolidated numbers includes Island Defender AS' financial statements from 28.05.20-31.20.20.

##### Use of estimates:

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway.

##### Classification criteria

Assets to be owned or utilized permanently, and receivables falling due later than one year from the end of the accounting year, are classified as fixed assets. Other assets are classified as current assets.

Liabilities due later than one year from the end of the accounting year are classified as long term liabilities. Other debts and liabilities are classified as short term.

##### Presentation of subsidiaries / investment in financial shares

The book value of investments in subsidiaries are eliminated in the consolidated financial statements. Investments in shares classified as financial fixed assets are valued at cost price considering write-down of values on shares.

##### Valuation of current assets

Receivables are recorded net of expected future losses.

Bunkers and lube oil is accrued in the balance sheet based upon actual consumption at purchase price.

##### Fixed assets and depreciation

Ships are recorded at purchase price less accumulated depreciation. The purchase price includes conversions, upgrades and other modifications. Contract contribution is recorded as reduction of purchase price. Ship value is depreciated linearly based upon expected economic life, but adjusted for individual modifications and estimated residual value. Adjusted for residual value the vessels are depreciated over 20 years from delivery from the yard. The vessel value is tested on an impairment analysis employing estimates of future cash flow for the vessel. Please refer to note for details.

##### Shipbuilding contracts

Instalments to the yard for new buildings are recorded as fixed assets. Supervision and other investments which are not included in the contracted price, are capitalized.

Island Offshore Shipholding LP



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### Capitalized periodical maintenance (dry docking)

The Company has a program for maintenance and classification of machinery, equipment and hulls. Expenses are capitalized and expensed over the period to the next scheduled dry docking. Upon delivery of new vessels, a portion of acquisition cost is decomposed and recorded as periodic maintenance. Normal maintenance expenses are expensed as incurred.

#### Stock of supplies

Stock of supplies is recorded to lowest of cost price and net sale price. Net sale price is assessed to sale price at ordinary operation considering deduction for necessary expenses in order to complete the sale. Cost price is assigned by the FIFO method and includes expenses accrued at acquisition of goods and costs to bring the goods up to current condition and situation.

#### Financing expenses

Expenses incurred in connection with new loans are capitalized at the date of drawdown and expensed over the expected term of the loan.

#### Currency

Transactions in foreign currency are recorded at the exchange rate at the transaction date. Current assets and liabilities are recorded at the exchange rate at the balance sheet date. The Group has long-term freight contracts in foreign currency and long-term liabilities in foreign currency, which are recorded at the exchange rate at the balance sheet date. Currency gains/losses on revenue contracts are not offset towards gains/losses on long-term liabilities.

#### Revenue and expense recognition

Revenue and costs related to vessel operations are recorded based upon the number of journey days before and after the end of the accounting year. Contract revenue is accrued and recognized linearly over the term of the contract irrespective of invoicing terms.

#### Taxes

Parent company and all ship owning entities with the exception of Island Offshore XII Ship AS and Island Victory AS are subject to participation taxation. In addition to Island Offshore XII Ship AS, all general partner companies are subject to Norwegian taxation regime. The companies' tax expense consist of Norwegian taxation of the limited liability companies as well as any potential foreign payable taxation. In accordance with Norwegian GAAP, deferred tax/tax asset is not recorded for participation taxed companies.

Tax expense comprises payable tax and change in deferred tax. Deferred tax/tax asset is calculated based on differences between accounting and tax values for assets and liabilities. Deferred tax is calculated on the basis of temporary differences between tax and accounting values, in addition to tax losses carried forward at year end. Net deferred tax is recorded to the extent that future offsetting is probable.

#### Cash flow statement

The cash flow statement is prepared on the basis of the indirect method. Cash and cash equivalents include cash and bank deposits.

#### Financial market risk

Group results are exposed to market risk and continuous efforts are sought to reduce the exposure towards various risk factors. Strategies are thereby implemented to secure satisfactory contract coverage and cash flow from the fleet of vessels. Financial instruments are applied to hedge cash flow in foreign currency, and loans in foreign currency are also used to reduce net exposure to currency fluctuations.

**Notes to the Consolidated Financial Statements 2020****Island Offshore Shipholding LP**

All figures in NOK mill

**NOTE 2 SPECIFICATION OF ITEMS****Other financial income:**

NOK mill	2020	2019
Unrealized foreign exchange gain	-0,8	-0,9
Unrealized currency exchange gain on USD loans	6,2	1,4
Foreign currency exchange gain	18,7	9,4
<b>Total other financial income</b>	<b>24,1</b>	<b>10,0</b>

**Other financial expenses comprise:**

NOK mill	2020	2019
Foreign currency exchange loss	45,1	19,6
Amortization of financing costs	9,6	7,5
Other financial expenses	0,7	-0,4
<b>Total other financial expenses</b>	<b>55,3</b>	<b>26,7</b>

**NOTE 3 PAYROLL, EMPLOYEES**

The Group's partnerships and general partners do not have employees.

No consideration has been paid to the Board of Directors or other leading personnel. Payroll expenses in the financial statements relate to hired crew. None of the companies in the Group are obliged to have obligatory pension schemes in accordance with Norwegian law.

**Auditor**

Remuneration can be specified as follows (NOK mill):

	2020	2019
Statutory audit services	981.6	903.8
Other services including tax filing services	685.8	610.5
Various audit confirmations, other audit expenses including travel expenses	267.8	29.7
<b>Expensed auditor remuneration</b>	<b>1,935.0</b>	<b>1,544.0</b>



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 4 FIXED ASSETS

##### Tangible fixed assets:

NOK mill	Ship	Shipbuilding contracts	Periodic maintenance	Total
Acquisition value 1.1.	9 988,5	252,6	813,1	11 054,2
Additions	1 467,1	-252,6	97,4	1 311,9
Disposals at cost	-750,3	-	-33,2	-783,6
Accumulated depreciation 31.12.	-2 633,2	-	-714,7	-3 347,9
Accumulated impairment on vessel value 31.12	-1 328,5	-	-	-1 328,5
<b>Book value 31.12.</b>	<b>6 743,5</b>	<b>-</b>	<b>162,6</b>	<b>6 906,1</b>
Annual depreciation charge	260,7	-	80,6	341,3
Annual impairment provision	623,7	-	-	623,7
Economic lifetime	20 yrs	-	3-10 yrs	
Depreciation plan	Linear		Linear	

Balance 01.01 for Shipbuilding Contracts was relating to prepayments and owners supply expenses for the Island Victory which was delivered 03.02.20. Acquisition price totaled 1.2 billion including previous years payments. In order to finance take out of the vessel, Vard Group contributed NOK 140 mill through a rights issue in the subsidiary Island Offshore XII Ship AS. Further, a rights issue of NOK 212 mill in Island Offshore XII Ship AS was completed towards the same shareholder in May 2020. The capital issue was made by way of a contribution in kind through assignment of 100% of the shares in the vessel owning entity Island Defender AS. Thus, additions in vessel relating to the PSV Island Defender is capitalized with NOK 202 million in the Balance Sheet. Rest of additions are mainly related periodic maintenance, engine overhauls and installation of ESS battery system for three vessels. Enova grant is received in 2020 with NOK 16.5 mill for the ESS battery investments and the funds received are recorded as credit on vessel value.

The PSVs Island Spirit, Island Dawn and Island Duke were sold in 2020. Sale price in total NOK 165 mill for the three vessels. Compensation for cancellation sale contract for Island Duchess is recorded with NOK 6.7 mill under other operating income.

The 2019 impairment provision of NOK 41.1 mill was related to loss on sale of Island Spirit in April 2020 thus vessel value was therefore written down. Accordingly, vessel value of four PSVs were written down with NOK 312 million in Q3-20 related to the loss on sale of two of the PSVs. In addition, estimated sale value for four vessels indicated an impairment of NOK 166.6 mill in Q4-20.

The market values obtained from independent ship brokers indicate impairment of the fleet book value for certain vessels. Considering the present market conditions, management has performed an impairment test analysis employing estimates of future cash flows for each vessel. The analysis takes into account the present market conditions for each segment and vessel. The future cash flow for the Group is expected to be a gradual improvement of both charter hire rates and utilization through the rest of the expected vessel usage time. Key assumptions in the analysis include the Weighted Average Cost of Capital (WACC), which is set to 8 %. The usage period of the vessel is assumed to be 30 years after delivery.

The usage value analysis indicated further impairment on five vessels, hence impairment on vessel value was increased with NOK 145.0 mill. As per 31.12.20, the fleet were written down with a total of NOK 1,328.5 mill.



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

In order to illustrate the implications of changes in key assumptions, a sensitivity analysis has been undertaken. A summary of the implications is presented below:

IN NOK MILL

Impairment provision on vessel value	Sensitivity		
	-1%	basis	+1%
Change in WACC			
Estimated impairment provision	-67	-145	-430

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Change in utilization			
Estimated impairment provision	-808	-145	-19

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate			
Estimated impairment provision	-1 493	-145	-

Note that when amending key assumption with negative effect on impairment provision estimate, the corresponding improvement of key assumption will not have the equivalent positive effect, since the value of vessel can only be adjusted back to original net book value.

#### NOTE 5 PLEDGE OF ASSETS

NOK mill	2020	2019
<b>Liabilities secured by pledge</b>	<u>4 659,9</u>	<u>4 365,4</u>
<b>Book value of pledged assets:</b>		
Ships	6 701,2	6 469,3
Factoring	170,8	141,1
Cash deposits	253,8	254,9
CIRR deposits	-	47,3
<b>Total</b>	<u>7 125,8</u>	<u>6 912,6</u>

In addition eventual future insurance payouts are pledged.

In 2019, long term receivable included NOK 47.3 mill of CIRR loan from Eksportfinans ASA which was secured by a fixed interest rate deposit in a financial institution classified as long term receivable. Deposit and loan, interest revenue and cost is presented gross in the financial statements of 2019 and is fully settled in 2020.



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 6 LONG-TERM LIABILITIES

The vessels are financed in financial institutions with repayment profiles varying between 5 to 15 years. In April 2018, the Parent Company and its subsidiaries agreed with all lenders for a long-term and a sustainable financing platform with an agreed restructuring period up to December 2020.

At 31.03.2020, a subsidiary of the Parent Company did not comply with the minimum cash requirement. Subsequently, in May 2020, due to cross default regulations, the Group declared an one-sided stand-still towards the lenders and have following the declaration completed several information meetings and have stopped scheduled installment payments. Negotiations for extension of the current financing were initiated simultaneously with the stand-still declaration, but were not concluded prior to maturity at 31.12.20. Thus, the negotiations are ongoing and progressing. The objective was to conclude the process before 31.3.2021 but additional time was required due to the complexity of the restructuring. In accordance with Norwegian Accounting Principles, the loans from financial institutions are classified as short term loans.

Financing expenses are capitalized and expensed over the expected term of the loan. The remaining balance is NOK 38.8 mill at 31.12.2020 for the Group.

#### NOTE 7 FINANCIAL INSTRUMENTS

The Group has a strategy to hedge contracted revenue in foreign currency when contracts are entered for a longer period of time. The financial instruments are linked to a specific revenue cash flow and can be measured in respect of success rate according to strategy.

Forward contracts are used to hedge future freight revenue in EUR, USD and GBP. Outstanding contracts 31.12.19 expire during 2021 depending on the underlying cash flow. The estimated net unrealized loss is NOK -0.7 mill at 31.12.2020, which is not recorded in the financial statements in accordance with the Norwegian Accounting Act and NGAAP.

In NOK mill:

Currency Contracts	Unrealized Loss- / Gain +
EURO	-0.8
USD	0.2
GBP	-0.1
<b>In Total</b>	<b>- 0.7</b>

**Notes to the Consolidated Financial Statements 2020****Island Offshore Shipholding LP**

All figures in NOK mill

**NOTE 8 RELATED PARTIES**

Transactions with related parties:

	2020	2019
Long term receivable	50,8	-
Other short term receivables	101,6	138,6
Other long term liabilities	(397,7)	(376,0)
Accounts payable	(10,9)	(16,7)
Other short term liabilities	(161,4)	(145,9)
<b>Total</b>	<b>(417,6)</b>	<b>(400,0)</b>

Loan agreements for receivables / payables and long term liabilities with related parties have been established. Loans are charged at interest based on arm's length principle.

Long term receivables is related to Island Offshore Shipholding LP providing a loan of NOK 50,8 mill to Island Offshore Shipping AS for payment of certain instalments under shipbuilding contracts with Vard. The Company has a pledge on Island Offshore Shipping AS' shares in Island Diligence AS as insurance for this loan. The loan was classified as short term receivables in 2019.

Other short term receivables, other short term liabilities and accounts payable consists mainly of transactions with the management company Island Offshore Management AS and Island Offshore Crewing AS. Borgstein and Island Investment have issued short term permitted owner loans of NOK 11.6 mill each to Island Offshore X KS.

Other long term liabilities are loans from the ultimate owners of Island Offshore Shipholding L.P. NOK 352.9 mill in addition to a seller credit loan NOK 39.2 mill towards Island Ventures 4 LLC. Island Offshore UK Limited has a seller credit loan of balance NOK 5.6 mill towards Borgstein Skipsinvest AS and Brazil Vessel LLC arising from the time the Company purchased the shares in Island Ventures 4 AS.

	2020	2019
Bareboat hire income	44,0	0,0
Crew hire	-679,7	-736,5
Management services	-66,1	-65,7
<b>Total</b>	<b>-701,9</b>	<b>-802,2</b>

Island Victory AS has entered into Bareboat Charter Agreement with Island Offshore Shipping AS when the vessel was operating in the US. The bareboat rent is based on arms-length principles and based on BIMCO standard Bareboat Charter Agreement.

The Group has entered into management agreements with Island Offshore Management AS and Borgstein AS to carry out technical and commercial services for the vessels. The services include crewing, purchase, administration, sales, accounting and technical operations. According to the management agreement, the ship owning company will refund all direct costs related to the vessel, to the management company. An annual fee is paid based on arm's length principle.

Island Offshore Shipholding LP

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**Notes to the Consolidated Financial Statements 2020****Island Offshore Shipholding LP**

All figures in NOK mill

**NOTE 9 SUBSIDIARIES**

Investments in subsidiaries and associated companies are accounted for by the equity method in the separate financial statement. In the consolidated financial statement, the investments and the share of net accounting result from subsidiaries are eliminated. Companies included in the consolidated financial statement 2020:

Organization No	Company	Address	Ownership
		CAYMAN ISLAND /	
990035903	ISLAND OFFSHORE SHIPHOLDINGLP	ULSTEINVIK NORWAY	Parent company
982411408	ISLAND OFFSHORE III KS	ULSTEINVIK, NORWAY	57,21 %
987156783	ISLAND OFFSHORE VIII AS	ULSTEINVIK, NORWAY	72,90 %
987156805	ISLAND OFFSHORE VIII KS	ULSTEINVIK, NORWAY	65,94 %
887254982	ISLAND OFFSHORE X AS	ULSTEINVIK, NORWAY	100,00 %
987845325	ISLAND OFFSHORE XI AS	ULSTEINVIK, NORWAY	63,57 %
888271392	ISLAND OFFSHORE XII AS	ULSTEINVIK, NORWAY	61,65 %
994289764	ISLAND OFFSHORE XII SHIP AS	ULSTEINVIK, NORWAY	0,00 %
920718590	ISLAND VICTORY AS	ULSTEINVIK, NORWAY	0,00 %
922593116	ISLAND DEFENDER AS	ULSTEINVIK, NORWAY	0,00 %
924922494	ISLAND OFFSHORE XII PSV AS	ULSTEINVIK, NORWAY	0,00 %
987255188	ISLAND OFFSHORE X KS	ULSTEINVIK, NORWAY	88,46 %
992611588	ISLAND PIONEER KS	ULSTEINVIK, NORWAY	63,00 %
992611634	ISLAND PIONEER AS	ULSTEINVIK, NORWAY	70,00 %
914405025	ISLAND OFFSHORE INTERNATIONAL SHIPPING AS	ULSTEINVIK, NORWAY	99,00 %
997571290	ISLAND VENTURES 4 AS	ULSTEINVIK, NORWAY	0,00 %
915143407	ISLAND NA VIGATOR HOLDING AS	ULSTEINVIK, NORWAY	100,00 %
915143415	ISLAND NA VIGATOR HOLDING KS	ULSTEINVIK, NORWAY	90,00 %
492749	ISLAND OFFSHORE UK LIMITED	ABERDEEN, UK	100,00 %
492748	ISLAND OFFSHORE SUBSEA UK LIMITED	ABERDEEN, UK	0,00 %

Ownership above is for Island Offshore Shipholding, L.P. direct ownership.

On 21 January 2020, Island Offshore XII AS purchased 100% of the shares in Island Offshore XII Ship AS. The purchase of shares was settled by way of existing shareholders transferring all of their shares in Island Offshore XII Ship AS to the Island Offshore XII AS as contribution in kind. As per 31.12.20, the Island Offshore XII AS owns 64.3% of the shares in Island Offshore XII Ship AS.

Island Victory AS, Island Defender AS and Island Offshore XII PSV AS are 100% owned by Island Offshore XII Ship AS.

Island Ventures 4 AS is 100 % owned by Island Offshore UK Limited.  
Island Offshore Subsea UK Limited is 100% owned by Island Offshore UK Limited.

**NOTE 10 TAXES – NORWAY**

Deferred tax/tax asset is calculated based upon the temporary differences between accounting and tax values at the end of the accounting year. Negative temporary differences and positive temporary differences that reverse or may reverse in the same period are offset and recorded net. Deferred tax is recorded in the balance sheet only for the limited liability companies, but all temporary differences are presented here for information purposes.

**Notes to the Consolidated Financial Statements 2020****Island Offshore Shipholding LP**

All figures in NOK mill

Deferred tax liability/tax asset has been calculated as follows:

	<u>2020</u>	<u>2019</u>
Fixed assets	3 212,7	3 349,9
Receivables and temporary foreign exchange difference	-64,6	-70,9
Gains / losses fixed assets carried forward	-6,6	238,3
Other temporary differences	-6,8	0,4
Tax loss carried forward	-624,3	-365,3
<b>Total temporary differences</b>	<b>2 510,4</b>	<b>3 152,4</b>
Temporary differences from general partner and limited liability companies not included in deferred tax asset calculation	241,4	126,3
Temporary differences from partnerships not included in deferred tax calculations	-2 461,7	-3 001,2
<b>Deferred tax basis</b>	<b>290,1</b>	<b>277,5</b>
<b>Net deferred tax</b>	<b>63,8</b>	<b>61,1</b>
Deferred tax liability	65,6	73,0
Deferred tax asset	1,8	12,0
<b>Net deferred tax</b>	<b>63,8</b>	<b>61,1</b>
Tax rate	22 %	22 %
<b>Specification of tax expense</b>		
Tax payable in Norway	0,4	0,5
Foreign tax payable	0,2	1,0
Change in deferred tax	2,7	4,4
<b>Tax expense</b>	<b>3,3</b>	<b>5,9</b>

The variance between the tax expense in the financial statement and the pre-tax result multiplied by nominal tax rate is explained by participating entities that are not included in basis for calculation of tax expense. As it will take some time for the General Partners to utilize tax loss carried forward to offset future payable tax, it is decided not to record deferred tax asset in the balance sheet of the Group as per 31.12.20.



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 11 EQUITY

	Paid in capital	Other equity	Minority interest	Total
<b>Equity 01.01.2020</b>	<b>895,5</b>	<b>-183,3</b>	<b>627,3</b>	<b>1 339,5</b>
Share issue	-	0,0	350,2	350,2
Effect of increased ownership in retained earnings/loss for minority owners	-	13,8	-13,8	0,0
Foreign exchange difference foreign companies	-	0,7	-	0,7
Annual result	-	-869,2	-86,8	-956,0
<b>Equity 31.12.20</b>	<b>895,4</b>	<b>-1 038,0</b>	<b>876,9</b>	<b>734,4</b>

#### NOTE 12 OWNERSHIP

Owners	Share %	Paid in capital
Amnor LLC	1,00 %	9,0
Island Investment LLC	49,50 %	443,3
Borgstein Skipsinvest AS	49,50 %	443,3
<b>Total</b>	<b>100,00 %</b>	<b>895,5</b>



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 13 GEOGRAPHICAL SPLIT OF REVENUE

in NOK mill	Freight revenue	
	2020	2019
Norway	993,8	1 150,4
UK	209,4	284,2
Brazil	48,3	40,3
The Netherlands	62,3	41,0
Portugal	1,9	0,0
Denmark	4,7	1,2
USA	46,2	9,3
Gibraltar	0,0	3,8
Germany	0,0	5,5
Angola	67,6	60,4
Red Sea	13,8	8,9
Equatorial Guinea	0,0	75,7
Spain	11,0	5,5
International Waters	41,0	15,0
<b>Total</b>	<b>1 500,0</b>	<b>1 701,2</b>

Average utilization of the fleet was 75% in 2020 compared with 76% in 2019. Reduced revenue mainly due to one LWI vessel in lay-up whole of 2020 and another LWI vessel on reduced average charter rate due to changed framework agreement with TIOS AS following lower subcontractor expenses and crew expenses. At year-end 2020, 4 vessels were in lay-up of which two were reactivated in Q1-21.

#### NOTE 14 OTHER MATTERS

Some of the vessels within the Group has performed work on foreign continental shelves constituting a Permanent Establishment (PE). In 2020 this includes the US and UK continental shelf. Compliance with local tax regulations has been undertaken and tax reporting and payments have been initiated on this basis. Tax advisors have been engaged to verify compliance with local tax regulation when there is uncertainty related to the eventual tax liabilities. Island Offshore Shipbuilding LP Group has in 2020 expensed a net of total NOK 0.2 mill in foreign taxes.



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 15 INVENTORY

Inventories in 2020 comprise in total NOK 23.4 mill as vessels' stock of lubricants and fuel valued at cost based on the FIFO principle. Comparable numbers in 2019 was NOK 32.8 mill.

As per 31.12.19, NOK 53.7 mill was recorded as estimated market value of the equipment received as part of the compensation for the cancelled Island Navigator contract. Estimated market value of the equipment received was based on net realizable value of each equipment category, applying conservative assumptions due to significant uncertainty regarding the demand for and application of specialized marine and drilling equipment. The analysis included consulting vendors and other external sources, however price references were limited. The Company has sold only two products from the stock the last two years and it has been proven difficult to sell the items with a profit. Thus, a revaluation analyze was undertaken in September 2020 and the stock was valued to NOK 27.5 mill hence impairment provision of MNOK 26.2 mill recorded in other operating expenses. In October 2020, Island Navigator Holding KS decided to sell the project specific equipment to its manager Island Offshore Management AS for MNOK 26.8 mill. The Manager has in employment, employees with the expertise, know-ledge and the necessary relations to the market in order to realize the stock. The sale of stock is reported gross as sales income and operating expenses vessel.

#### NOTE 16 GOING CONCERN

The Group's vessels operate in the offshore service market, which has suffered a significant downturn from 2015 due to the low oil price and reduced offshore activity.

Island Offshore Shipholding, L.P., initiated negotiations for a Standstill and Deferral Agreement with secured creditors effective 22.11.2016. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation.

Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 29.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.



## Notes to the Consolidated Financial Statements 2020

### Island Offshore Shipholding LP

All figures in NOK mill

#### NOTE 17 COVID-19

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Accordingly, the demand for OSV vessels has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.



Island Offshore Shipholding LP

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## Annual report 2020

### Annual accounts

- Income statement
- Balance sheet
- Cash flow statement
- Notes

### Auditors' report

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## Annual Report 2020

### Island Offshore Shipholding LP

#### The Business

The Company is registered in the Cayman Islands and currently owns two W2W vessels, one Stimulation vessel, one Subsea Construction Vessel (SCV) and two Light Well Intervention vessels (LWI). The vessels are marketed for employment worldwide, but primarily operate in the North Sea. The Island Pride has operated in Brazil and in international waters in 2020.

IOSH LP is the majority shareholder in several Norwegian limited partnerships and limited liability companies owning a fleet of OSVs operating worldwide. Technical and commercial management for the vessels is carried out by Island Offshore Management AS and Borgstein AS respectively, from Ulsteinvik, Norway.

#### Statement of Results

Revenue in 2020 totals NOK 505.4 million compared to NOK 806.7 million in 2019. The decrease in revenue is mainly due to the LWI vessel Island Frontier being idle through 2020 compared with utilization 64% in 2019. The other LWI vessel, Island Wellserver, achieved 80% utilization in 2020 compared with 71% in 2019, however average charter rate is lower due to revised contract terms. With exception of one W2W vessel, the fleet achieved satisfactory utilization with good financial results.

The operating result for 2020 is a loss NOK -11.0 million compared to NOK 138.6 million in 2019. In addition to reduced revenue, the results are impacted by an impairment provision of NOK 40.5 million regarding reduction in vessel value for Island Frontier and Island Crown.

This year's net loss is NOK -391.5 million compared to a loss of NOK -135.9 million in 2019. The loss in 2020 includes share of net loss from investments in subsidiaries of NOK -133.0 million. In 2019, the share of net loss amounted to NOK -148.9 million.

The Company owns 100% of the partnership Island Offshore X KS ("IOX KS"), which is dependent on financial support from the parent through the restructuring period. Thus, the refinancing agreement for these companies are inter-connected and allows for the parent company to provide financial support to the partnership based on certain conditions. In April 2020, the Company as Lender was no longer allowed, or obliged, to make such working capital, as this would cause a breach of the Company's minimum cash covenant. As of 31.12.2020 a total of NOK 124.8 mill was drawn under the working capital facility and the loan has been written down to zero pending outcome of the revised refinancing agreement with secured and unsecured lenders.

Net cash flow from operational activities is negative with NOK 2.5 million. Capitalized maintenance expenses amounts to NOK 19.2 million in 2020. The Company paid NOK 38.1 million as installments to secured lenders in 2020, of which NOK 30.0 million was funded by the ultimate owners as guaranteed cash sweep payments. PIK interests on bond loan has been added to the Bond loan with NOK 22.1 million in 2020. Thus, the Company has a negative cash flow of NOK -7.5 million leaving a cash balance at 31.12.2020 of NOK 126.8 million.

Net equity totals NOK 326.0 million as at 31.12.2020 compared to NOK 717.5 million at 31.12.2019. The decrease is equal to this year's loss. Considering the impairment provision recorded in 2015, 2016,

Island Offshore Shipholding LP



2019 and 2020, the book value of the vessels has been written down with a total of NOK 230.5 million. In addition, the impairment of NOK 125 million related to working capital loan to Island Offshore X KS has significant impact on reduced net equity compared with 2019.

The Company does not have ongoing research and development activities.

## **Going Concern**

Island Offshore Shipholding, L.P., initiated negotiations for a Standstill and Deferral Agreement with secured creditors effective 22.11.2016. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing, however no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation.

Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 29.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.

## **Work Environment and Gender Equality**

The Company does not have employees. The offshore crew is hired from Island Offshore Management AS and Island Offshore Crewing AS. The Managers are representatives for the owners.

## **External Environment**

The Company's operations do not pollute the external environment beyond what is normal for this type of business. Annual environmental plans are prepared for each vessel and systematic efforts are employed to reduce the risk of emissions of gas to air as well as emission of diesel oil, chemicals or other oil-containing substances to the sea.

Island Offshore Shipholding LP



## **Financial Risk**

Overall the order backlog for the Company is relatively strong and this gives visibility in earnings and reduces financial risk. Financial instruments are used to hedge cash flow in foreign currency thus limiting exposure to foreign currency risk.

Total liabilities are NOK 3,223.0 million including NOK 1,555.3 million of ship mortgages and NOK 786.5 million of corporate bonds. In accordance with Norwegian Accounting Principles, the loans from financial institutions including bond loan and seller credits are classified as short term loans. The largest part of the ship mortgage financing has floating interest rate basis.

## **Future outlook**

Two vessels have long term contracts with expiry in 2023 or later. The remaining vessels have shorter contract commitments in 2021 thus are more sensitive to market risk. The LWI vessel Island Frontier is in lay-up but tendered for work worldwide.

Market activity in the last part of 2020 slowed down as expected due to seasonal variations. The underlying market sentiment is however somewhat more positive, especially regarding expected increase in rig activity in 2021 and later. Market recovery is however still on hold and further adjustment to vessel market balance is required before more sustainable contracts are attainable. At present, market visibility is limited and uncertainty is significant.

Our chartering strategy remains firm with focus on securing long-term commitments with strategically preferred clients, in addition to exploring new business opportunities in niches and markets complementing our existing Oil & Gas activity. We consider our fleet to be well- positioned with attractive and strategically important customers. Overall, the Company is well diversified and positioned in attractive market segments and with attractive charterers. On a general note, there is uncertainty with regards to assessment of future results.

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Accordingly, the vessel demand has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.

## **Other matters**

Beyond the above, the Managers are not aware of any subsequent events that could be significant for the evaluation of the Company's financial position and results. Reference is made to the income statement, cash flow, balance sheet and notes.

**Island Offshore Shipholding LP**

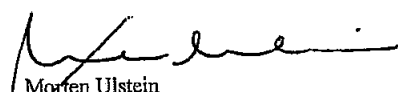


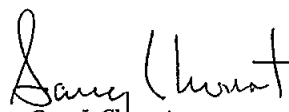
**Allocation of results**


The Board proposes the following allocation of the 2020 net loss of NOK -391.540.394:

Allocated to other equity                      NOK -391.540.394

Ulsteinvik, 29.04.2021

  
Morten Ulstein  
Manager

  
Gary J. Chouest  
Manager

  
Dino D. Chouest  
Manager

  
~~Håvard Ulstein~~  
Manager

Island Offshore Shipholding LP



**Island Offshore Shipholding LP**

**Income statement**

	Note	2020	2019
<b>Revenue</b>			
Freight income	2	<u>505 419 056</u>	<u>806 722 185</u>
<b>Operating expenses</b>			
Vessel expenses	9	109 133 785	199 255 811
Crew expenses	9	227 767 029	321 755 618
Depreciation	5	123 169 281	129 646 441
Write-down on ships	5	40 462 179	0
Other operating expenses	4	<u>15 875 591</u>	<u>17 495 320</u>
Total operating expenses		<u>516 407 864</u>	<u>668 153 190</u>
Operating result		<u>-10 988 808</u>	<u>138 568 995</u>
<b>Financial income and expenses</b>			
Income from investments in subsidiaries and associated companies	10	-133 033 458	-148 919 470
Interest income from group companies		2 448 547	2 695 715
Other financial income	3	5 949 537	5 995 023
Write-down on other financial assets	9,10	124 817 711	0
Interest paid to group companies		349 402	627 435
Other financial expenses	3	<u>132 389 177</u>	<u>133 570 342</u>
Net financial items		<u>-382 191 665</u>	<u>-274 426 509</u>
Ordinary result before tax		<u>-393 180 473</u>	<u>-135 857 514</u>
Tax on ordinary result	11	<u>-1 640 079</u>	<u>0</u>
<b>Net profit or loss for the year</b>		<u><b>-391 540 394</b></u>	<u><b>-135 857 514</b></u>
<b>Allocated as follows</b>			
Transferred to other equity	12	<u>-391 540 394</u>	<u>-135 857 514</u>



## Island Offshore Shipholding LP

### Balance sheet as of December 31

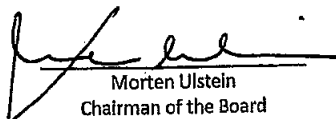
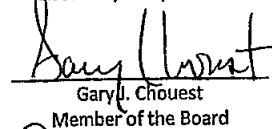
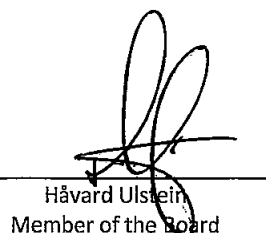
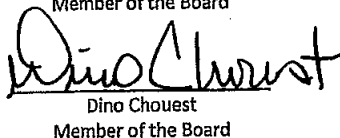
	Note	2020	2019
<b>Fixed assets</b>			
<i>Tangible assets</i>			
Ships	5,6	<u>2 351 087 371</u>	<u>2 495 620 103</u>
Total tangible assets		<u>2 351 087 371</u>	<u>2 495 620 103</u>
<i>Financial assets</i>			
Investments in subsidiaries and associated companies	10	886 608 623	1 019 642 082
Other receivables	6,7,9	<u>50 820 092</u>	<u>26 312 967</u>
Total financial assets		<u>937 428 715</u>	<u>1 045 955 049</u>
Total fixed assets		<u>3 288 516 086</u>	<u>3 541 575 152</u>
<b>Current assets</b>			
Stock of fuel etc.		<u>5 125 987</u>	<u>8 372 925</u>
<i>Receivables</i>			
Trade receivables	6	86 107 751	52 078 293
Other receivables	9	<u>42 413 480</u>	<u>235 811 697</u>
Total accounts receivable		<u>128 521 231</u>	<u>287 889 990</u>
Cash and cash equivalents	6	<u>126 776 747</u>	<u>134 294 405</u>
Total current assets		<u>260 423 966</u>	<u>430 557 320</u>
Total assets		<u>3 548 940 052</u>	<u>3 972 132 472</u>



## Island Offshore Shipholding LP

## Balance sheet as of December 31

	Note	2020	2019
<b>Equity</b>			
<i>Paid-in capital</i>			
Equity, undistributable	13	895 548 243	895 548 243
Total paid-in capital		895 548 243	895 548 243
<i>Retained earnings</i>			
Other equity		-569 563 357	-178 022 963
Total retained earnings		-569 563 357	-178 022 963
Total equity	12	325 984 886	717 525 280
<b>Liabilities</b>			
<i>Other long-term liabilities</i>			
Bonds	7	0	764 374 270
Liabilities to financial institutions	6,7	0	1 619 968 521
Other long-term liabilities	9	393 503 599	617 256 131
Total other long term liabilities		393 503 599	3 001 598 922
<i>Current liabilities</i>			
Bonds	7	786 494 040	
Liabilities to financial institutions	6,7	1 555 253 669	0
Seller Credits	7	254 101 934	
Trade creditors	9	5 486 925	7 563 587
Other short-term liabilities	9	228 114 999	245 444 683
Total current liabilities		2 829 451 567	253 008 270
Total liabilities		3 222 955 166	3 254 607 192
Total equity and liabilities		3 548 940 052	3 972 132 472

31 December 2020  
Ulsteinvik, 29 April 2021  
Morten Ulstein  
Chairman of the Board  
Gary J. Chouest  
Member of the Board  
Håvard Ulstein  
Member of the Board  
Dino Chouest  
Member of the Board

**Cash Flow Statement**

## Island Offshore Shipholding LP

	2020	2019
<b><i>Cash flow from operational activities:</i></b>		
Profit before tax	-393 180 473	-135 857 514
- Taxes paid	1 640 079	0
Reversed share of result gain-/ loss+ from subsidiaries and associated companies	133 033 458	148 919 470
+ Reversed write down of financial assets	124 817 711	0
+ Depreciation	123 169 281	129 646 441
+ Impairment provision on vessel value	40 462 179	0
-/+ Change in inventory	3 246 938	3 375 535
-/+ Change in accounts receivable	-34 029 457	-15 916 385
+/- Change in accounts payable	-2 076 662	-7 685 390
+/- Change in other accruals, prepaid expenses	430 729	-18 281 325
= Net cash flow from operational activities	<u>-2 486 217</u>	<u>104 200 832</u>
<b><i>Cash flow from investment activities</i></b>		
+ Payments sale of fixed assets	88 000	0
- Payments investments in fixed assets	-19 186 728	-69 860 120
- Net payment investment in shares, interests	0	-45 900 000
+/- Change in long term receivables, fin. Institutions	26 312 967	60 625 933
= Net cash flow from investment activities	<u>7 214 239</u>	<u>-55 134 187</u>
<b><i>Cash flow from financing activities</i></b>		
+ Drawdown of long term interest bearing liabilities	0	25 000 000
+ Loan from owners	30 000 000	45 900 000
+/- Capitalized pik interests of bond loan	22 119 770	21 504 658
- Repayment of loan	-38 052 483	-106 929 942
- Conversion of loan to equity	0	-1 994 388
- Change in long term liabilities, fin. Institutions	-26 312 967	-60 625 933
+ Paid in capital	0	1 994 388
= Net cash flow from financing activities	<u>-12 245 680</u>	<u>-75 151 217</u>
= <b><i>Net change in cash and cash equivalents</i></b>	<u>-7 517 658</u>	<u>-26 084 572</u>
+ <b><i>Cash reserve 1.1</i></b>	<u>134 294 405</u>	<u>160 378 977</u>
= <b><i>Cash reserve 31.12</i></b>	<u>126 776 747</u>	<u>134 294 405</u>

Island Offshore Shipholding LP



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

#### NOTE 1 ACCOUNTING PRINCIPLES

The financial statements are prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway. The significant principles are described below.

##### Classification criteria

Assets to be owned or utilized permanently, and receivables falling due later than one year from the end of the accounting year, are classified as fixed assets. Other assets are classified as current assets.

Liabilities due later than one year from the end of the accounting year are classified as long term liabilities. Other debts and liabilities are classified as short term, with the exception of the first instalment on secured debt which is serviced by the cash flow from fixed assets.

##### Use of estimates:

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway.

##### Presentation of subsidiaries and associated companies

Subsidiaries and associated companies are accounted for by the equity method.

##### Valuation of current assets

Receivables are recorded net of expected future losses.

Bunkers and lube oil balances are accrued in the balance sheet based upon consumption and purchase price.

##### Fixed assets and depreciation

Ships are recorded at purchase price less accumulated depreciation. The purchase price includes conversions, upgrades and other modifications. Ship value is depreciated linearly based upon expected economic life, but adjusted for individual modifications and estimated residual value after end of economic life. Adjusted for residual value, the vessels are depreciated over 20 years from delivery from the yard. The vessel value is tested on an impairment analysis employing estimates of future cash flow for the vessel. Please refer to notes for details.

##### Shipbuilding contracts

Instalments to the yard for new buildings are recorded as fixed assets. Supervision and other investments not included in the contracted price are capitalized.

##### Capitalized periodical maintenance (dry docking)

The Company has a program for maintenance and classification of machinery, equipment and hulls. Expenses are capitalized and expensed over the period to the next scheduled dry docking, normally every 30 months. Upon delivery of new vessels, a portion of acquisition cost is decomposed and recorded as periodic maintenance. Normal maintenance expenses are expensed as incurred.

##### Financing expenses

Expenses incurred in connection with new loans are capitalized at the date of drawdown and expensed over the expected term of the loan.

##### Currency

Transactions in foreign currency are recorded at the exchange rate at the transaction date. Current assets and liabilities are recorded at the exchange rate at the balance sheet date. Currency gains/losses on revenue contracts are not offset towards gains/losses on long-term liabilities.

Island Offshore Shipholding LP



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

Contract revenue in foreign currency is hedged by use of forward FX contracts. The maturity of these contracts are aligned with the monthly cash flow thus are recognized as incurred.

#### Revenue and expense recognition

Revenue and costs related to vessel operations are recorded based upon the number of journey days before and after the end of the accounting year. Contract revenue is accrued and recognized linearly over the term of the contract irrespective of invoicing terms.

#### Taxes

Deferred tax/tax asset is calculated on the basis of all differences between accounting and tax values for assets and liabilities. Deferred tax is estimated with 22% rate based on the temporary differences between tax and accounting values, as well as deferred tax loss carried forward at the end of the accounting year. In accordance with NGAAP, deferred tax/tax asset is not recorded for participation taxed companies.

#### Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short term cash equivalents.

### NOTE 2 GEOGRAPHICAL SPLIT OF REVENUE

In NOK mill	2020	2019
Norway	388,8	701,9
UK	14,5	30,9
Brazil	48,3	40,3
Gibraltar	-	3,8
Portugal	1,9	
Spain	11,0	5,5
International waters	41,0	15,0
USA	-	9,3
<b>Total Freight Income</b>	<b>505,4</b>	<b>806,7</b>

The Company owns two PSVs performing Walk to Work services, one Wellstim vessel, one SCV vessel and two LWI vessels.

The decrease in revenue is mainly due to the LWI vessel Island Frontier being idle the whole of 2020 compared with utilization 64% in 2019. The other LWI vessel, Island Wellserver, achieved 80% utilization in 2020 compared with 71% in 2019, however average charter rate lower due to changed framework agreement with TIOS AS following lower subcontractor expenses. The Island Wellserver was awarded an extension of the contract to end 2021 with 3x1 yearly options. The Island Frontier was reflagged and is tendered on the global market.

The OSV vessel achieved 100% utilization both in 2020 and in 2019. The OSV vessel is working world wide on a term contract for five years with expiry 01.04.22 including 4\*6 months options. The Wellstim vessel achieved 100% utilization both in 2020 and 2019.



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

One of the PSV is on a 4 year firm contract and achieved 100% utilization compared with 73% utilization in 2019. The other PSV is operating in the project market and achieved 53% utilization in 2020 compared with 97% in 2019. The vessel is bidding for term and project work on a continuous basis.

#### NOTE 3 SPECIFICATION OF ITEMS

##### Other financial income:

	2020	2019
Interest income, CIRR	538 100	2 848 501
Interest income bank and bond asset	346 262	751 895
Foreign exchange gain realized	4 830 294	3 251 072
Foreign exchange gain+ / loss - unrealized	-	-856 445
Interests income related party	234 881	-
<b>Total other financial income</b>	<b>5 949 537</b>	<b>5 995 023</b>

##### Other financial expenses comprise:

	2020	2019
Deprecation of capitalized financial expenses	4 252 259	4 249 893
Foreign exchange loss unrealized	795 348	-
Interest cost related party	7 057 443	8 292 595
Interest cost long term loans	100 433 791	108 987 069
Interest cost CIRR	538 100	2 848 501
Foreign exchange loss realized	4 326 688	2 543 913
Hedging loss	14 966 096	7 483 962
Other financial expenses+/income -	19 453	-835 590
<b>Total other financial expenses</b>	<b>132 389 178</b>	<b>133 570 343</b>

#### NOTE 4 PAYROLL, EMPLOYEES

The Company does not have employees and has no obligation to have pension funds. There has been no consideration paid to the Board of Directors. Payroll expenses in the financial statements relate to hired crew.

##### Auditor

Remuneration of NOK 502.050,- can be specified as follows:

Statutory audit service	266.250
Tax Filing	91.075
Other services, impairment assessment, going concern assessment	91.565
Expenditures	53.160
<b>Expensed remuneration excluding VAT</b>	<b>502.050</b>



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

#### NOTE 5 FIXED ASSETS

##### *Tangible fixed assets:*

##### *Fixed assets*

	Ship	Projects in Progress	Drydocking / periodic maintenance	Total
Acquisition cost 1.1.	3 390 585 126	4 137 312	374 216 374	3 768 938 812
Additions	3 445 926	(3 600 693)	19 341 495	19 186 728
Disposals	(88 000)	-	-	(88 000)
Acc depreciation 31.12	(874 807 593)	-	(331 680 397)	(1 206 487 990)
Acc impairment provision 31.12	(230 462 179)	-	-	(230 462 179)
<b>Book value 31.12.</b>	<b>2 288 673 280</b>	<b>536 619</b>	<b>61 877 472</b>	<b>2 351 087 371</b>
		(20 964 349)		-
Annual depreciation charge	81 947 449	-	41 221 832	123 169 281
Annual impairment provision	40 462 179	-	-	40 462 179
Economic life	20 year		3 to 10 years	
Depreciation plan	Linear		Linear	

Additions relates to engine overhauls, maintenance and repair expenses. One vessel has installed gangway and pedestal equipment, hired as operational lease from related party.

The market values obtained from independent ship brokers are lower than book value for four of the vessels. Indication of sales value for one vessel indicates an impairment of NOK 21.0 mill compared with net book value.

The vessel values are also subject to an impairment test analysis employing estimates of future cash flows for each vessel. The analysis includes current backlog and an assumed gradual improvement of both charter hire rates and utilization through the rest of the expected vessel usage time. A key assumption in the analysis is the Weighted Average Cost of Capital (WACC), which is set to 8 %. The usage period of the vessel is assumed to be 30 years after delivery.

The impairment analysis does indicate loss in value for one vessels and impairment on vessel value NOK 19.5 mill is recorded as additional write down on vessel value in the Income Statement for 2020. Total impairment provision recorded in Income Statement is 40.5 mill and in the Balance Sheet impairment provision amount to NOK 230.5 mill as per 31.12.20.



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

In order to illustrate the implications of changes in key assumptions, a sensitivity analysis has been undertaken. A summary of the implications is presented below:

IN NOK MILL

Impairment provision on vessel value	Sensitivity		
	-1%	basis	+1%
Change in WACC			
Island Offshore Shipholding	-14	-19	-86

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Change in utilization			
Island Offshore Shipholding	-197	-19	-

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate			
Island Offshore Shipholding	-448	-19	-

Note that when amending key assumption with negative effect on impairment provision estimate, the corresponding improvement of key assumption will not have the equivalent positive effect, since the value of vessel can only be adjusted back to original net book value.

#### NOTE 6 PLEDGE OF ASSETS

	2020	2019
Liabilities secured by pledge	1 555 253 669	1 619 968 521
Book value of pledged assets:		
Ships	2 351 087 371	2 495 620 103
Factoring	86 107 751	52 078 294
Cash deposits	126 776 747	134 294 405
CIRR deposits	-	26 312 967
<b>Total</b>	<b>2 563 971 869</b>	<b>2 708 305 769</b>

In addition eventual future insurance payouts are pledged.

In 2019, long term loans included NOK 26.312.967 of CIRR loan from Eksportfinans ASA which was secured by a fixed interest rate deposit in a financial institution classified as long term receivable. Deposit and loan, interest revenue and cost is presented gross in the financial statements of 2019 and is fully settled in 2020.



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

#### NOTE 7 LONG-TERM LIABILITIES

The vessels are financed in financial institutions with repayment profiles varying between 5 to 15 years. In April 2018, the Company and its subsidiaries agreed with all lenders for a long-term and a sustainable financing platform with an agreed restructuring period up to December 2020.

At 31.03.2020, a subsidiary of the Company did not comply with the minimum cash requirement. Subsequently, in May 2020, due to cross default regulations, the Group and the Company declared an one-sided stand-still towards the lenders and have following the declaration completed several information meetings and have stopped scheduled installment payments. Negotiations for extension of the current financing were initiated simultaneously with the stand-still declaration, but were not concluded prior to maturity at 31.12.20. Thus, the negotiations are ongoing and progressing. In accordance with Norwegian Accounting Principles, the loans from financial institutions are classified as short term loans.

The Company has issued guarantee for ship mortgage loan in total NOK 951.8 mill on behalf of the subsidiary Island Offshore X KS and 65,94% of NOK 25 mill i.e. NOK 16.5 mill on behalf of for Island Offshore VIII KS. However, due to the restructuring agreement effective 12.04.18 with maturity date 31.12.20 with further postponement in 2021, the guarantee liabilities was set on hold as a deferred liability in accordance with the Intercreditor Agreement.

Financing expenses are capitalized and expensed over the expected term of the loan. The remaining balance is NOK 13.8 mill at 31.12.2020.

#### NOTE 8 FINANCIAL INSTRUMENTS

The Company has a strategy to hedge contracted revenue in foreign currency when contracts are long term. The financial instrument is linked to a specific cash flow and can be measured in respect of success rate according to strategy.

Forward currency contracts are used to hedge future freight revenue in foreign currencies. Outstanding contracts 31.12.20 expire in January 2021 with sale of USD with an unrealized profit of NOK 0.2 mill.

The total unrealized gain of NOK 0.2 mill is not recorded in the financial statements as per 31.12.20 in accordance with the Norwegian Accounting Act and NGAAP.

**Notes to the financial statements 2020**

## Island Offshore Shipholding LP

**NOTE 9 RELATED PARTIES**

Transactions with related parties:

	<u>2020</u>	<u>2019</u>
Other long term receivables	50 820 092	50 820 092
Other short term receivables	33 351 736	175 515 032
Loans from shareholders	-354 336 400	-323 986 998
Other long term liabilities	-39 167 200	-39 167 200
Accounts payable	-2 729 187	-8 460
Other short term liabilities	-115 840 802	-123 781 984

The Company has provided a long term loan receivable of NOK 50.8 mill to Island Offshore Shipping AS. The Company has a pledge on Island Offshore Shipping AS' shares in Island Diligence as insurance for this loan.

Other short term receivables includes receivables towards Manager with NOK 4.4 mill in 2020 and MNOK 32.8 mill in 2019. The Parent Company has also granted a loan to Island Navigator Holding KS and Island Navigator Holding AS in total NOK 21.4 mill. In 2019, the Parent Company entered into bareboat agreements with Island Offshore Subsea UK and had outstanding NOK 5.9 mill in relation to this. Accrued interests are charged with NOK 7.5 mill as per 31.12.20 in relation to outstanding receivable towards affiliates.

According to the refinancing agreement and the subordinated working capital facility, the Parent Company has granted a short term loan, in total NOK 125 mill in 2020 (110 mill as per 31.12.19) to the subsidiary Island Offshore X KS in order to fund liquidity shortfall. The loan has been written down to zero hence impairment provision in financial expenses in Income Statement.

Loans from shareholders are related to funding in connection with capital commitments in subsidiaries and cash sweep guarantees. Additional NOK 30 mill has been provided as loan from shareholders in 2020 due to owners guarantee to pay cash sweep to secured lenders. Other long term liabilities is rest of a seller credit loan NOK 39.2 mill towards Island Ventures IV LLC. Loan agreements with related parties have been established and all loans are charged at interest based on arm's length principle.

Other short term liabilities are mainly towards the subsidiary Island Offshore Crewing AS (crew provider) with NOK 5.1 mill (13.4 mill in 2019), short term loan NOK 23.9 mill from Island Ventures 4 AS and a short term loan from Island Pioneer KS (sale of vessel proceeds) with NOK 86.9 mill. It is expected that the latter will be settled when Island Pioneer KS repays paid in capital to its owners.

	<u>2020</u>	<u>2019</u>
Income from bareboat contracts	9 713 459	30 716 615
Crew hire	-227 767 029	-321 755 618
Management services	-17 947 853	-16 870 992



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

The company has entered into management agreements with Island Offshore Management AS and Borgstein AS to carry out technical and commercial services for the vessel. The services include crewing, purchase, administration, sales, accounting and technical operations. According to the management agreement, the ship owning company will refund all direct costs related to the vessel, to the management company. An annual fee is paid based on arm's length principle.

The Company entered into Bareboat Chart Agreement with Island Offshore Subsea UK Limited, for the operation of Island Crown. The bareboat rent was based on arms-length principles.

The parent company has issued a guarantee for vessel mortgage loan in Island Offshore X KS, hence receive guarantee provision from the subsidiary according to transfer pricing regulations.

#### NOTE 10 SUBSIDIARIES

Investments in subsidiaries are accounted for by the equity method. (Figures in NOK thousands).

##### Partnerships:

NOK 1000	Island Offshore III KS	Island Offshore VIII KS	Island Offshore X KS	Island Pioneer KS	Island Navigator Holding KS	TOTAL
Business office	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	
Date of acquisition	2005	2004/2007/ 2017	2004	2010	2015	
Acquisition cost	130 757	342 694	427 311	68 400	1 440	
Committed capital	247 000	391 342	51 674	175 000	2 000	
Uncalled capital	-	-	-	75 000	400	
Ownership	57,21 %	65,94 %	88,46 %	63,00 %	90,00 %	
<b>Opening balance 1.1</b>	<b>249 994</b>	<b>245 100</b>	<b>2 948</b>	<b>58 309</b>	<b>13 468</b>	<b>569 818</b>
Share of net result 2020	-54 959	-81 016	-2 947	-16	-13 468	<b>-152 405</b>
Write down of shares	-	-	-	-	-	-
<b>Closing balance 31.12</b>	<b>195 035</b>	<b>164 084</b>	<b>0</b>	<b>58 293</b>	<b>-</b>	<b>417 413</b>

Value of shares in the partnership Island Offshore X KS and Island Navigator Holding KS have been tested on the partnership's value adjusted equity and the analysis indicated zero as book value of the investment. Correspondingly, the short term receivable of NOK 124.8 million is written down to zero in financial expenses in the Income Statement.



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

*Limited liability companies:*

Company	Island Offshore VIII AS	Island Offshore X AS	Island Offshore XI AS	Island Offshore XII AS	Island Offshore XII Ship AS	Island Pioneer AS	Island Navigator Holding AS	Island Offshore UK Ltd	Total	
Business address	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	Aberdeen		
Date of acquisition	2005/2017	2004/2007	2004	2007	2010	2010	2015	2015		
Acquisition cost	28 567	24 825	20 432	4 080	150 165	7 600	215	12		
Dividend				66 491	-66 491					
Change of ownership				83 674	-83 674					
Ownership	72,90 %	100,00 %	63,57 %	61,65 %	0,00 %	70,00 %	100,00 %	100,00 %		
Opening balance	33 944	5 375	34 633	0	353 155	20 646	2 072	0	449 824	
Share of net result 2020	-8 957	-5 375	-5 543	40 992	0	-261	-1 485	0	19 372	
Change of ownership / Contribution in kind				353 155	-353 155				-	
Closing balance 31.12	24 986	0	29 089	394 147	0	20 385	587	0	469 194	
									Total loss in profit and loss accounts for partnerships and limited liability companies	-133 033
									Net book value investments in subsidiaries and associated	886 608

On 21 January 2020, Island Offshore XII AS purchased 100% of the shares in Island Offshore XII Ship AS. The purchase of shares was settled by way of existing shareholders transferring all of their shares in Island Offshore XII Ship AS to Island Offshore XII AS as contribution in kind of which share capital for the Island Offshore XII AS was increased with NOK 244 mill. As per 31.12.20, the Parent Company owns 61.65% of the shares in Island Offshore XII AS, and Island Offshore Offshore XII AS owns owns 64.3% of the shares in Island Offshore XII Ship AS.

Profit or loss relating to investments in subsidiaries and associates are not recorded in accordance with the Norwegian Accounting Act and NGAAP when total equity for the subsidiary is a loss. Booked equity in Island Offshore X AS and Island Offshore UK Limited are with losses, hence the value of shares are written down to zero.

**Notes to the financial statements 2020**

## Island Offshore Shipholding LP

**NOTE 11 TAXES – NORWAY**

Deferred tax/tax asset is calculated based upon the temporary differences between accounting and tax values at the end of the accounting year. Negative temporary differences and positive temporary differences that reverse or may reverse in the same period are offset and recorded net.

Deferred tax/tax asset has been calculated as follows:

	<u>2020</u>	<u>2019</u>
Fixed asset	1 393 362 044	1 405 021 098
Gain/loss account	49 082 798	61 353 498
<b>Total temporary differences</b>	<b>1 442 444 842</b>	<b>1 466 374 596</b>
<b>Deferred tax/tax asset</b>	<b>317 337 865</b>	<b>322 602 411</b>
Tax rate	22 %	22 %

In accordance with Norwegian GAAP, deferred tax/tax asset is not recorded for participation taxed companies.

A specification of the differences between net accounting result and net tax result is presented below:

	<u>2020</u>	<u>2019</u>
Profit before tax	-393 180 473	-135 857 514
<i>Permanent differences:</i>		
Non-deductible expenses	97 777	6 640
Reversed provision for loss on receivable due from subsidiary	124 817 711	-
Net accounting result - partnerships	133 033 458	148 919 470
Net tax result - partnerships	10 659 412	13 313 660
Refund taxes abroad	1 640 079	-
<i>Change in temporary differences:</i>		
Fixed assets	11 659 054	-49 111 587
Gain/loss account	12 270 700	15 338 374
Denied deduction for internal interests expenses	6 822 564	7 233 898
<b>Annual tax basis</b>	<b>-92 179 718</b>	<b>-157 059</b>

**Notes to the financial statements 2020**

## Island Offshore Shipholding LP

**NOTE 12 EQUITY**

	Paid in capital	Other equity	Total
Equity 1.1	895 548 243	-178 022 963	717 525 280
<i>Change in equity</i>			
Net result		-391 540 394	-391 540 394
<b>Equity 31.12.</b>	<b>895 548 243</b>	<b>-569 563 357</b>	<b>325 984 886</b>

**NOTE 13 OWNERSHIP**

Owners	Owner Share %	Paid in capital
Amnor LLC	1,00 %	8 955 471
Island Investment LLC	49,50 %	443 296 386
Borgstein Skipsinvest AS	49,50 %	443 296 386
<b>Totalt</b>	<b>100,00 %</b>	<b>895 548 243</b>

**NOTE 14 GOING CONCERN**

Island Offshore Shipholding, L.P., initiated negotiations for a Standstill and Deferral Agreement with secured creditors effective 22.11.2016. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation. Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 29.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.



## Notes to the financial statements 2020

### Island Offshore Shipholding LP

#### NOTE 15 COVID-19

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Accordingly, the demand for OSV vessels has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.



Statsautoriserte revisorer  
Ernst & Young AS

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Postboks 6163, NO-5892 Bergen

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Medlemmer av Den norske revisorforening

## INDEPENDENT AUDITOR'S REPORT

To the Annual Partnership Meeting of Island Offshore Shipholding LP

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Island Offshore Shipholding LP, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2020, the income statement, statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2020 and their financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

#### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

#### Material uncertainty related to going concern

We draw attention to note 14 and note 15 the financial statements and the Board of Director's report, which describes that the Company is dependent on an agreement with its creditors for an acceptable and sustainable restructuring to continue as going concern. These events or conditions, along with other matters as set forth in note 14, note 15 and the Board of Director's report, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The financial statements do not reflect impairment charges or provisions that might be required if the Company was liquidated or the assets sold in a distressed situation

#### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has 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 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.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report - Island Offshore Shipholding LP

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Penneo Dokumentnøkkel: 3UB7O-BNQEK-2DHX4-8EO3C-C1DDT-M7X0C



## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Bergen, 3 May 2021  
ERNST & YOUNG AS

*The auditor's report is signed electronically*

Jørn Knutsen  
State Authorised Public Accountant (Norway)

Penneo Dokumentnøkkel: 3UB70-BNQEK-2DHXH-8ED3C-CTDDT-M7X0C



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"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

## Jørn Knutsen

Statsautorisert revisor

På vegne av: Ernst & Young AS

Serienummer: 9578-5992-4-3012515

IP: 84.214.xxx.xxx

2021-05-03 14:27:31Z



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**Skattedirektoratet**

Saksbehandler  
Geir Johannessen

Deres dato  
11.10.2013

Vår dato  
29.10.2013

Telefon  
22 66 11 14

Deres referanse  
Tommy Walaunet

Vår referanse  
2013/779184

ISLAND OFFSHORE MANAGEMENT AS  
Postboks 370  
6067 ULSTEINVIK

**Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk**

Det vises til deres brev av 11. oktober 2013, samt telefonsamtale i sakens anledning, der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende selskaper;

Island Offshore Management AS	org nr 984 285 310
Island Offshore Crewing AS	org nr 995 955 881
Island Offshore XI AS	org nr 987 845 325
Island Offshore III KS	org nr 982 411 408
Island Offshore VIII AS	org nr 987 156 783
Island Offshore VIII KS	org nr 987 156 805
Island Offshore X AS	org nr 887 254 982
Island Offshore X KS	org nr 987 255 188
Island Offshore LNG AS	org nr 996 393 844
Island Offshore LNG KS	org nr 996 393 739
Island Offshore LNG Invest AS	org nr 996 357 813
Island Offshore LNG Invest KS	org nr 996 357 848
Island Offshore XII AS	org nr 888 271 392
Island Offshore XII Ship AS	org nr 994 289 764
Island Pioneer AS	org nr 992 611 634
Istand Pioneer KS	org nr 992 611 588

For Island Offshore Management AS omfatter søknaden også konsernregnskapet, der Island Offshore Crewing inngår med 100 %.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering de ovennevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

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Se [www.skatteetaten.no](http://www.skatteetaten.no)  
Org.nr: 996250318

Sentralbord  
800 80 000  
Telefaks  
22 17 08 60



Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt særlig vekt på at selskapene har klar overvekt av utenlandske eierinteresser og for øvrig en begrenset eierkrets. Selskapenes forretningspråk er engelsk. Videre er det vektlagt at selskapene driver virksomhet i en bransje der aktørene forutsettes å beherske engelsk språk.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad

Seniorrådgiver

Rettsavdelingen, foretaksskatt  
Skattedirektoratet

  
Geir Johannessen



Island Offshore XII Ship AS

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## **Annual report 2020**

**Board of directors' report**

**Annual accounts**

- **Income statement**
- **Balance sheet**
- **Cash Flow**
- **Notes**

**Auditors' report**



**Annual Report 2020**  
**Island Offshore XII Ship AS**  
Org. no 994 289 764

**Business activities**

The Company owns two AHTS vessels which operate in the North Sea. The Company is the parent company of Island Victory AS, a subsidiary owning the vessel Island Victory, a Deep Water Installation / AHTS vessel delivered 03.02.20 from Vard Langsten. On 28.05.20 the Company purchased 100% of the shares in Island Defender AS, a subsidiary owning the PSV vessel Island Defender.

The vessels are managed by Island Offshore Management AS and the Company is operated from Ulsteinvik, Norway.

**Statement on results**

Revenue in 2020 totals NOK 131.8 mill, a reduction compared with 2019 which amounted to NOK 150.1 mill. The market has been weak in 2020 with reduced utilization for the AHTS vessels compared with 2019 due to market implications of COVID-19. The average utilization in 2020 was 58% compared with 70% in 2019. The operating result in 2020 is a loss with NOK -7.3 mill compared with profit NOK 20.7 mill in 2019.

Cash flow from operational activities is positive with NOK 16.3 mill. Capital expenditure totals NOK 9.8 mill in 2020. Cash flow from financing activities includes subscription of share capital of NOK 140 mill in addition to a loan NOK 132.8 mill used as contribution in a share increase in the subsidiary Island Victory AS. Further, a rights issue of NOK 212 mill in Island Offshore XII Ship AS was completed in May 2020. The capital issue was made by way of a contribution in kind through assignment of 100% of the shares in the vessel owning entity Island Defender AS.

The Company has paid NOK 9.6 mill as installment on secured debt. Net cash flow is negative with NOK 2.8 mill in 2020 resulting in a net cash reserve of NOK 31.1 mill at 31.12.2020.

Net equity is NOK 972 mill as at 31.12.20 compared to NOK 702.2 mill at 31.12.2019. Change in equity is due to the above share capital issue with NOK 352 mill, this year's net loss of NOK 16.0 mill and a dividend allocation of MNOK 66.5 mill.

The Company does not have ongoing research and development activities.

**Going concern**

Due to the continued state of the market and the implications for earnings and cash flow, the Island Offshore Group, including Island Offshore XII Ship AS, concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of



the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation.

Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 29.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.

## **Work environment and gender equality**

The Company does not have employees. The crew is hired from Island Offshore Management AS. The Board comprises representatives from the largest participants in the partnership.

## **External environment**

The Company's operations do not pollute the external environment beyond what is normal for this type of business. Annual environmental and emission reduction plans are prepared for each vessel and systematic work is carried out to reduce the risk of emission of poisonous gas as well as diesel, chemicals or other oil containing substances.

## **Financial risk**

The Company's financial position as at 31.12.2020 is satisfactory and the Company has satisfactory working capital. However, the market for AHTS vessels is still expected to be volatile going forward.

The Company's customers are mainly large oil companies with a moderate credit risk. Financial instruments are employed to hedge foreign currency exposure.

The Company's liabilities totals NOK 461.9 mill as of 31.12.2020.

## **Future outlook**

The vessels will operate in the project and spot market also in 2021 and the markets are expected to improve but remain volatile. Further, the COVID-19 implications may impair market recovery as economic activity is deferred and operations are disrupted. Accordingly, the demand for OSV vessels has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.





**Other matters**

Beyond the above, the Board of Directors is not aware of any subsequent events that could be significant for the evaluation of the Company's financial position and results. Reference is made to the income statement, balance sheet, notes and cash flow analysis.

**Allocation of results**

The Board proposes the following transfer of the 2020 net loss of NOK -15 997 936

Transferred to other equity                      NOK -15 997 936

Ulsteinvik, 29.04.21



Morten Ulstein  
Chairman of the Board

Håvard Ulstein  
Board Member

Giovanni Peditto  
Board Member



Dino D. Chouest  
Board Member



Fredrik Mordal Hessen  
Board Member

Henning Sundet  
Managing Director

Island Offshore XII Ship AS  
Org. no 994 289 764



**Island Offshore XII Ship AS****Income statement**

	Note	2020	2019
<b>Revenue</b>			
Freight income	2,9	<u>131 756 253</u>	<u>150 073 452</u>
<b>Operating expenses</b>			
Vessel expenses	9	53 875 031	47 602 892
Crew expenses	9	53 218 439	50 495 143
Depreciation of tangible and intangible fixed assets	5	28 900 189	28 227 206
Other operating expenses	4	<u>3 084 129</u>	<u>3 017 575</u>
Total operating expenses		<u>139 077 788</u>	<u>129 342 816</u>
Operating result		<u>-7 321 535</u>	<u>20 730 636</u>
<b>Financial income and expenses</b>			
Interest income from group companies		0	1 732 115
Other financial income	3	1 216 286	1 526 387
Interest paid to group companies		223 471	448 080
Other financial expenses	3	<u>14 181 454</u>	<u>9 333 913</u>
Net financial items		<u>-13 188 639</u>	<u>-6 523 491</u>
Ordinary result before tax		<u>-20 510 174</u>	<u>14 207 145</u>
Tax on ordinary result	10	<u>-4 512 238</u>	<u>3 125 572</u>
<b>Net profit or loss for the year</b>		<u>-15 997 936</u>	<u>11 081 573</u>
<b>Allocated as follows</b>			
Transferred to other equity	11	<u>-15 997 936</u>	<u>11 081 573</u>



## Island Offshore XII Ship AS

### Balance sheet as of December 31

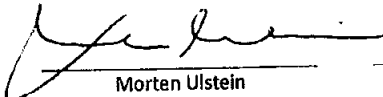

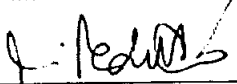
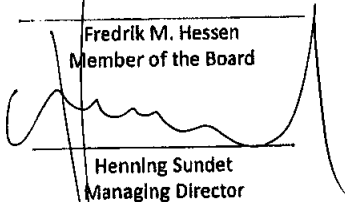
	Note	2020	2019
<b>Fixed assets</b>			
<i>Tangible assets</i>			
Ships	5,7	<u>635 060 022</u>	<u>654 165 130</u>
Total tangible assets		<u>635 060 022</u>	<u>654 165 130</u>
<i>Financial assets</i>			
Investments in subsidiaries	6	726 991 746	242 109 191
Loans to group companies	9	<u>0</u>	<u>66 491 237</u>
Total financial assets		<u>726 991 746</u>	<u>308 600 428</u>
Total fixed assets		<u>1 362 051 768</u>	<u>962 765 558</u>
<b>Current assets</b>			
Inventories		<u>6 016 867</u>	<u>7 915 675</u>
<i>Receivables</i>			
Trade receivables	7,9	15 138 661	12 340 994
Other receivables	9	<u>19 596 514</u>	<u>28 455 309</u>
Total accounts receivable		<u>34 735 175</u>	<u>40 796 303</u>
Cash and cash equivalents	7	<u>31 102 363</u>	<u>33 906 019</u>
Total current assets		<u>71 854 405</u>	<u>82 617 997</u>
Total assets		<u>1 433 906 173</u>	<u>1 045 383 555</u>



## Island Offshore XII Ship AS

## Balance sheet as of December 31

	Note	2020	2019
<b>Equity</b>			
<i>Paid-in capital</i>			
Share capital	12	404 097 000	260 000 000
Share premium reserve		328 188 318	186 464 000
Total paid-in capital		<u>732 285 318</u>	<u>446 464 000</u>
<i>Retained earnings</i>			
Other equity		239 708 080	255 706 016
Total retained earnings		<u>239 708 080</u>	<u>255 706 016</u>
Total equity	11	<u>971 993 398</u>	<u>702 170 016</u>
<b>Liabilities</b>			
<i>Provisions</i>			
Deferred tax liability	10	93 485 664	97 997 902
Total provisions		<u>93 485 664</u>	<u>97 997 902</u>
<i>Other long-term liabilities</i>			
Liabilities to financial institutions	7,8	0	219 553 354
Total other long term liabilities		<u>0</u>	<u>219 553 354</u>
<i>Current liabilities</i>			
Liabilities to financial institutions	7,8	210 000 000	0
Seller credits	8	132 834 688	0
Trade creditors	7,8	664 034	19 370 753
Other short-term liabilities	9	24 928 389	6 291 530
Total current liabilities		<u>368 427 111</u>	<u>25 662 283</u>
Total liabilities		<u>461 912 775</u>	<u>343 213 539</u>
Total equity and liabilities		<u>1 433 906 173</u>	<u>1 045 383 555</u>

31 December 2020  
Uisteinvik, 29 April 2021  
Morten Ulstein  
Chairman of the BoardHåvard Ulstein  
Member of the Board  
Fredrik M. Hessen  
Member of the BoardDino David Chouest  
Member of the Board  
Giovanni Peditto  
Member of the Board  
Henning Sundet  
Managing Director



## Island Offshore XII Ship AS

## Balance sheet as of December 31

	Note	2020	2019
<b>Equity</b>			
<i>Paid-in capital</i>			
Share capital	12	404 097 000	260 000 000
Share premium reserve		<u>328 188 318</u>	<u>186 464 000</u>
Total paid-in capital		<u>732 285 318</u>	<u>446 464 000</u>
<i>Retained earnings</i>			
Other equity		<u>239 708 080</u>	<u>255 706 016</u>
Total retained earnings		<u>239 708 080</u>	<u>255 706 016</u>
Total equity	11	<u>971 993 398</u>	<u>702 170 016</u>
<b>Liabilities</b>			
<i>Provisions</i>			
Deferred tax liability	10	<u>93 485 664</u>	<u>97 997 902</u>
Total provisions		<u>93 485 664</u>	<u>97 997 902</u>
<i>Other long-term liabilities</i>			
Liabilities to financial institutions	7,8	<u>0</u>	<u>219 553 354</u>
Total other long term liabilities		<u>0</u>	<u>219 553 354</u>
<i>Current liabilities</i>			
Liabilities to financial institutions	7,8	210 000 000	0
Seller credits	8	132 834 688	0
Trade creditors	7,8	664 034	19 370 753
Other short-term liabilities	9	<u>24 928 389</u>	<u>6 291 530</u>
Total current liabilities		<u>368 427 111</u>	<u>25 662 283</u>
Total liabilities		<u>461 912 775</u>	<u>343 213 539</u>
Total equity and liabilities		<u>1 433 906 173</u>	<u>1 045 383 555</u>

31 December 2020  
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## Island Offshore XII Ship AS

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31 December 2020  
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Managing Director

**Cash Flow Statement**

## Island Offshore XII Ship AS

	2020	2019
<i>Cash flow from operational activities:</i>		
Profit before tax	-20 510 174	14 207 145
- Taxes paid	0	0
+ Depreciation	28 900 189	28 227 206
-/+ Change in inventory	1 898 808	-809 007
-/+ Change in accounts receivable	-2 797 667	-3 085 646
+/- Change in accounts payable	-18 706 719	4 759 708
+/- Change in accruals	27 495 653	-6 252 761
= <b>Cash flow from operational activities</b>	<b>16 280 090</b>	<b>37 046 645</b>
<i>Cash flow from investment activities</i>		
- Payments purchase of fixed assets	-9 795 081	-3 100 988
- Payments purchase of shares	-484 882 554	-60 000 000
+ Repayment inter-company loans	66 491 237	0
+ Payments long term receivables, fin. institution	0	43 943 088
= <b>Cash flow from investment activities</b>	<b>-428 186 398</b>	<b>-19 157 900</b>
<i>Cash flow from financing activities</i>		
+ Opptak av ny langsiktig gjeld	132 834 688	0
- Repayment of debt to financial institutions	-9 553 354	-20 000 000
- Repayment of other long term loan, fin. institution	0	-43 943 088
- Dividend	-66 491 237	0
+ Issue of Share Capital	352 312 555	60 000 000
= <b>Net cash flow from financing activities</b>	<b>409 102 652</b>	<b>-3 943 088</b>
= <i>Net change in cash and cash equivalents</i>	<i>-2 803 656</i>	<i>13 945 657</i>
+ <i>Cash reserve 1.1</i>	<i>33 906 019</i>	<i>19 960 362</i>
= <i>Cash reserve 31.12</i>	<i>31 102 363</i>	<i>33 906 019</i>



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

#### NOTE 1 ACCOUNTING PRINCIPLES

The financial statements are prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway. Ref Accounting Act §7-36.

Island Offshore XII Ship AS is the parent company of Island Victory AS, Island Offshore XII PSV AS and Island Defender AS, however consolidated accounts are not prepared as these four companies are included in the consolidated financial statements for Island Offshore Shipholding LP, c/o Island Offshore Shipping AS, Stålhaugen 12, 6065 Ulsteinvik, Norway.

The significant principles are described below.

##### Classification criteria

Assets to be owned or utilized permanently, and receivables falling due later than one year from the end of the accounting year, are classified as fixed assets. Other assets are classified as current assets.

Liabilities due later than one year from the end of the accounting year are classified as long term liabilities. Other debts and liabilities are classified as short term, with the exception of the first installment on secured debt which is serviced by the cash flow from fixed assets.

##### Valuation of current assets

Receivables are recorded net of expected future losses.

Bunkers and lube oil balances are accrued in the balance sheet based upon consumption and purchase price.

##### Fixed assets and depreciation

Ships are recorded at purchase price less accumulated depreciation. The purchase price includes conversions, upgrades and other modifications. Ship value is depreciated linearly based upon expected economic life, but adjusted for individual modifications and residual value. Adjusted for residual value, the vessels are depreciated over 20 years from delivery from the yard. The vessel value is tested on an impairment analysis employing estimates of future cash flow for each vessel. Please refer to notes for details.

##### Shipbuilding contracts

Installments to the yard for new buildings are recorded as fixed assets. Supervision and other investments not included in the contracted price are capitalized.

##### Capitalized periodical maintenance (dry docking)

The Company has a program for maintenance and classification of machinery, equipment and hulls. Expenses are capitalized and expensed over the period to the next scheduled dry docking. Normal maintenance expenses are expensed as incurred.

##### Presentation of subsidiaries and associated companies

Subsidiaries are accounted for by the cost method adjusted for capital calls payments and tested on fair value assessments. Associated companies are accounted for by the equity method.



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

#### Financing expenses

Expenses incurred in connection with new loans are capitalized at the date of drawdown and expensed over the expected term of the loan.

#### Currency

Transactions in foreign currency are recorded at the exchange rate at the transaction date. Current assets and liabilities are recorded at the exchange rate at the balance sheet date.

Contract revenue in foreign currency is hedged by use of forward and option contracts. The maturity of these contracts are aligned with the monthly cash flow thus are recognized as incurred.

#### Revenue and expense recognition

Revenue and costs related to vessel operations are recorded based upon the number of journey days before and after the end of the accounting year.

#### Taxes

Deferred tax/tax asset is calculated on the basis of all differences between accounting and tax values for assets and liabilities. Deferred tax is estimated with 22% rate based on the temporary differences between tax and accounting values, as well as deferred tax loss carried forward at the end of the accounting year. In accordance with NGAAP, deferred tax/tax asset is not recorded for participation taxed companies.

#### Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short term cash equivalents.

#### NOTE 2 GEOGRAPHICAL SPLIT OF REVENUE

In NOK mill	2020	2019
Norway	116,5	83,7
UK	15,3	66,4
<b>Total Revenue</b>	<b>131,8</b>	<b>150,1</b>

Both vessels operate in the spot market and has on average achieved 58% utilization in 2020 including periods of lay-up. Comparable average utilization in 2019 was 70%.

**Notes to the financial statements 2020**

## Island Offshore XII Ship AS

**NOTE 3 SPECIFICATIONS**

Other financial income comprises:

	<u>2020</u>	<u>2019</u>
Realized foreign exchange gain+ / loss-	1 170 015	555 988
Interest income, bank	46 262	119 468
Interest income, CIRR	-	850 887
Other financial income	8	45
<b>Total other interest income</b>	<b><u>1 216 286</u></b>	<b><u>1 526 387</u></b>

Other financial expenses comprise:

	<u>2020</u>	<u>2019</u>
Interest expense term loans	7 464 792	8 631 685
Interest expense, CIRR	-	850 887
Foreign exchange loss	1 035 317	246 576
Hedging gain -/loss +	2 777	-1 119 400
Depreciation financial expenses	446 646	702 503
Interest expenses shareholder loans	5 231 044	-
Other financial costs	878	21 662
<b>Sum other financial costs</b>	<b><u>14 181 454</u></b>	<b><u>9 333 913</u></b>

**NOTE 4 PAYROLL, EMPLOYEES**

The Company does not have employees and has no obligation to have pension funds. There has not been any compensation paid to the Board of Directors. Payroll expenses in the financial statements relate to hired crew.

**Auditor**

Expenses audit fee totals NOK 314.573 in 2020. The fee is exclusive of VAT and can be specified as follows:

Audit	105.400
Advisory, going concern evaluation and tax filing	94.500
Capitalization and reorganization	107.000
Other	7.673
<b>Total</b>	<b>314.573</b>



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

#### NOTE 5 FIXED ASSETS

	Ships	Projects in progress	Capitalized maintenance	Total
Acquisition costs 1.1	984 642 602	350 323	74 702 410	1 059 695 335
Additions		3 233 642	6 561 440	9 795 082
Sale				0
Accumulated depreciation 31.12	-365 700 232		-68 730 163	-434 430 395
<b>Book Value 31.12</b>	<b>618 942 370</b>	<b>3 583 965</b>	<b>12 533 687</b>	<b>635 060 022</b>
This years' depreciation	24 838 344		4 061 845	28 900 189
Economic life	20 yrs		3 yrs	

The market value of the two AHTS vessels obtained by independent brokers, is lower than the net book value of the vessels. Due to the present market situation for the sale and purchase of equivalent vessels, the vessels and the new build values are also subject to impairment test analysis employing estimates of future cash flow for each vessel.

The analysis takes into account the present market conditions with a gradual improvement on charter hire rates through the rest of estimated vessel usage time.

The analysis does not indicate any need to write down the book value of the vessels or the new build.

In order to illustrate the implications of changes in key assumptions, a sensitivity analysis has been undertaken. A summary of the implications on the AHTS fleet is presented below:

#### IN NOK MILL

Impairment provision on vessel value	Sensitivity		
	-1%	basis	+1%
Change in WACC	-	-	-8
Island Offshore XII Ship AS	-	-	-8

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Island Offshore XII Ship AS	-33	-	-

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate	-74	-	-
Island Offshore XII Ship AS	-74	-	-



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

#### NOTE 6 INVESTMENT IN SUBSIDIARIES

The Company incorporated the wholly owned subsidiary Island Victory AS on 22 March 2018, Island Offshore XII Ship AS on 09.03.20, Island Defender on 28.05.20.

During 2020 the subsidiaries were purchased and capitalized as follows:

	Island Victory AS	Island Offshore XII PS V AS	Island Defender AS	Total
Balance as per 31.12.19	242 109 191	-	-	242 109 191
Purchase shares	-	-	212 312 555	212 312 555
Share issue	272 520 000	50 000	-	272 570 000
<b>Balance as per 31.12.20</b>	<b>514 629 191</b>	<b>50 000</b>	<b>212 312 555</b>	<b>726 991 746</b>
Owner share	100 %	100 %	100 %	
Address	Ulsteinvik, Norway	Ulsteinvik, Norway	Ulsteinvik, Norway	

Share issue in Island Victory was completed in order to finance the take out of the vessel Island Victory in February 2020.

The Company purchased the shares in Island Defender AS 28.05.20 by inviting Vard Group to increase their owner share in the Company by way of a contribution in kind with assignment of 100% of the shares in the vessel owning entity Island Defender AS.

#### NOTE 7 PLEDGE OF ASSETS

	2020	2019
<b>Book value of debt secured by pledge</b>	<b>210 000 000</b>	<b>219 553 354</b>
<b>Book value of secured assets</b>		
Vessel	635 060 022	654 165 130
Receivables	15 138 661	12 340 994
Bank deposits	31 102 363	33 906 018
<b>TOTAL</b>	<b>681 301 047</b>	<b>700 412 142</b>

In addition any insurance claims are pledged.

#### NOTE 8 LONG TERM LIABILITIES

##### Debt due more than 5 years after end of the accounting period:

April 12, 2018 the Company and the senior secured bank lenders as well as unsecured creditors agreed a long-term and a sustainable financing platform including a deferral agreement ending December 31<sup>st</sup> 2020.



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

At 31.03.2020 one ship owning entity in the Group did not comply with the minimum cash requirement and due to cross default provisions, the Company did not comply with covenants as of 31.03.2020. Subsequently, in May 2020 the Group and the Company declared an one-sided stand-still towards the lenders and have following the declaration completed several information meetings and have stopped scheduled installment payments. Negotiations for extension of the current financing were initiated simultaneously with the stand-still declaration, but were not concluded prior to maturity at 31.12.20.

Thus, the negotiations are ongoing and progressing. The objective is to conclude the process before 31.3.2021 but additional time is required due to the complexity of the restructuring.

#### NOTE 9 RELATED PARTIES

Transactions with related parties:	2020	2019
Other long term receivables	0	66 491 237
Other short term receivables	17 732 115	18 223 278
Trade creditors	-538	-19 370 753
Other short term liabilities	-17 844 466	0

As per 31.12.19, other long term receivables were towards Island Offshore XII AS. The loan was settled in January 2020 following a reorganization of ownership and repayment of capital.

Other short term receivables are prepayment of operating vessel expense towards Island Offshore Management AS (Manager), charged at market rates. Trade creditors is business administration fee to Borgstein and other short term liabilities are vessel operating invoices from Island Offshore Management AS.

Transactions with related parties	2020	2019
Purchase of management services	-6 214 072	-6 105 568
Crew hire	-53 218 439	-50 495 143
Interest expenses related party	-223 471	-448 079
Intercompany interests income	0	1 732 115

The company has entered into management agreements with Island Offshore Management AS and Borgstein AS to carry out technical and commercial services for the vessels. The services include crewing, purchase, administration, sales, accounting and technical operations. According to the management agreement, the ship owning company will refund all direct costs related to the vessels, to the management company. An annual fee is paid based on arm's length principle.

**Notes to the financial statements 2020**

## Island Offshore XII Ship AS

**NOTE 10 TAXES**

Deferred tax is calculated on the basis of temporary differences between accounting and tax values existing at the end of the accounting period.

Negative temporary differences and positive temporary differences that are reversible in the same period are offset and recorded net.

Deferred tax / tax asset has been calculated as follows:

	2020	2019
Fixed Assets	506 322 612	507 985 239
Gains+/- losses - accounts on fixed assets	3 730 735	4 663 419
Capitalized financial expenses	-	446 646
Deferred deduction internal interests	-223 471	-
Total temporary differences	509 829 876	513 095 304
Tax loss carried forward	-84 895 038	-67 650 292
Basis for deferred tax	<u>424 934 838</u>	<u>445 445 012</u>
<b>Deferred tax in Balance Sheet</b>	<b>93 485 664</b>	<b>97 997 902</b>
Tax rate	22 %	22 %

Calculation of this year's tax expense:

	2020	2019
Profit before tax	-20 510 174	14 207 145
Use of deferred tax losses	0	-16 843 738
Disallowed deduction internal interests expenses	223 471	0
Change in temporary differences	3 041 957	2 636 593
Basis for tax payable	<u>-17 244 746</u>	<u>0</u>

Tax expenses in Profit and Loss Accounts:	2020	2019
Tax payable	0	0
Change in deferred taxes	-4 512 238	3 125 572
<b>Tax expenses</b>	<u><b>-4 512 238</b></u>	<u><b>3 125 572</b></u>

**NOTE 11 EQUITY**

	Share capital	Share premium account	Other equity	Total
Equity 1.1	260 000 000	186 464 000	255 706 016	702 170 016
Share issue	144 097 000	208 215 555	-	352 312 555
Dividend	-	-66 491 237	-	-66 491 237
This year's result	-	-	-15 997 936	-15 997 936
<b>Equity 31.12</b>	<b>404 097 000</b>	<b>328 188 318</b>	<b>239 708 080</b>	<b>971 993 398</b>



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

Prior to the delivery of Island Victory the ownership of the Company was reorganized and Island Offshore XII AS became the parent company. It was decided that loan from the Company to Island Offshore XII AS should be settled as way of dividend allocation from the Company to its parent company.

In order to finance take out of the vessel Island Victory in February 2020, Vard Group contributed NOK 140 mill through a rights issue in Island Offshore XII Ship AS.

Further, a rights issue of NOK 212 mill in Island Offshore XII Ship AS was completed towards the same shareholder in May 2020. The capital issue was made by way of a contribution in kind through assignment of 100% of the shares in the vessel owning entity Island Defender AS.

#### NOTE 12 OWNERSHIP

The share capital of NOK 404 097 000 consist of 404 097 shares a NOK 1 000,-.

Summary of owner interests as per 31.12.20:

Name and address	Total number of shares	Owner %
Island Offshore XII AS, Stålhaugen 9, 6065 Ulsteinvik	260 000	64,3 %
Vard Group AS, Skansekaia 2, 6002 Ålesund	144 097	35,7 %
<b>Total</b>	<b>404 097</b>	<b>100,0 %</b>

In January 2020 the owners sold their shares to Island Offshore XII AS with settlement contribution in kind with share issue in Island Offshore XII AS. From 21.01.20, Island Offshore XII AS is the parent company of Island Offshore XII Ship AS.

#### NOTE 13 INFORMATION ABOUT FINANCIAL INSTRUMENTS

The company has a strategy to hedge contracted revenue in foreign currency when contracts are entered for a longer period of time. The financial instrument is linked to a specific revenue cash flow and can be measured in respect of success rate according to strategy. The estimated net unrealized loss or gain is not recorded in the financial statement in accordance with the Norwegian Accounting Act and NGAAP.

There are no forward contracts used to hedge future freight revenue as per 31.12.20.



## Notes to the financial statements 2020

### Island Offshore XII Ship AS

#### NOTE 14 GOING CONCERN

Due to the continued state of the market and the implications for earnings and cash flow, the Island Offshore Group, including Island Offshore XII Ship AS, concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021.

The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation. Further, market state in 2020 has been significantly impaired by the COVID-19 pandemic and the immediate effect on market activity and cost of operations. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base to continue being a going concern.

In accordance with the Norwegian Accounting Act § 3-3a the Board of Directors thus confirms that the financial statements are prepared on the basis of a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2020, and the condition that a new restructuring agreement is agreed and made effective with secured and unsecured lenders before or short after 29.4.2021.

Due to the COVID-19 pandemic and outcome of the financial restructuring process, there is uncertainty for the Company to continue as a going concern over the next 12 months.

#### NOTE 15 COVID-19

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Accordingly, the demand for OSV vessels has also declined across markets and there is increased risk of negative future financial implications for the Company. This could impact the long-term market outlook and future assessments of recoverable amounts of Island Offshore Group's assets.

The Board of Directors continue to monitor the financial situation of the Company closely and will assess the need for capital contributions going forward.



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## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Island Offshore XII Ship AS

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Island Offshore XII Ship AS, which comprise the balance sheet as at 31 December 2020, the income statement and statements of cash for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

#### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

#### Material uncertainty related to going concern

We draw attention to note 14 and note 15 in the financial statements and the Board of Director's report, which describes that the Company is dependent on an agreement with its creditors for an acceptable and sustainable restructuring to continue as going concern. These events or conditions, along with other matters as set forth in note 14, note 15 and the Board of Director's report, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The financial statements do not reflect impairment charges or provisions that might be required if the Company was liquidated or the assets sold in a distressed situation

#### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the

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preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) 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.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on other legal and regulatory requirements

#### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Independent auditor's report - Island Offshore XII Ship AS

A member firm of Ernst & Young Global Limited

Penneo Dokumentnr(kei): Z58QH-C4MYQ-14ANZ6-6VV7A-8EY2F-8BKA5



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### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Bergen, 3 May 2021  
ERNST & YOUNG AS

*The auditor's report is signed electronically*

Jørn Knutsen  
State Authorised Public Accountant (Norway)

Pennso Dokumentnøkkel: Z58QH-C4MYQ-YANZ6-6VV7A-8EY2F-88KA5

Independent auditor's report - Island Offshore XII Ship AS

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## Jørn Knutsen

Statsautorisert revisor

På vegne av: Ernst & Young AS

Serienummer: 9578-5992-4-3012515

IP: 84.214.xxx.xxx

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