



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 982 411 408
Organisasjonsform: Kommandittselskap
Foretaksnavn: ISLAND OFFSHORE III KS
Forretningsadresse: Stålhaugen 9
6065 ULSTEINVIK

Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern: Nei

Regnskapsregler

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

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Asbjørn Hasund
Dato for fastsettelse av årsregnskapet: 09.06.2022

Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

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, 29.06.2023



Resultatregnskap

Beløp i: NOK	Note	2021	2020
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	3	173 799 571	139 958 158
Sum inntekter		173 799 571	139 958 158
Kostnader			
Varekostnad	8	30 209 813	41 861 438
Lønnskostnad	4,8	98 079 141	80 627 646
Avskrivning på varige driftsmidler og immaterielle eiendeler	5	31 653 404	30 956 765
Nedskrivning av varige driftsmidler og immaterielle eiendeler	5		65 545 690
Annen driftskostnad	4	4 043 192	3 847 994
Sum kostnader		163 985 550	222 839 533
Driftsresultat		9 814 021	-82 881 374
Finansinntekter og finanskostnader			
Annen finansinntekt	2	170 500	2 381 962
Sum finansinntekter		0	0
Rentekostnad til foretak i samme konsern		388 422	367 742
Annen finanskostnad	2	15 819 942	14 915 037
Sum finanskostnader		0	0
Netto finans		-16 037 865	-12 900 817
Ordinært resultat før skattekostnad		-6 223 844	-95 782 192
Skattekostnad på ordinært resultat	9		287 661
Ordinært resultat etter skattekostnad		0	0
Årsresultat		-6 223 844	-96 069 852
Totalresultat		-6 223 844	-96 069 852
Overføringer og disponeringer			
Overføringer til/fra annen egenkapital		-6 223 844	-96 069 852
Sum overføringer og disponeringer	10	-6 223 844	-96 069 852



Resultatregnskap

Beløp i: NOK	Note	2021	2020
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Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Sum immaterielle eiendeler		0	0
Varige driftsmidler			
Maskiner og anlegg	5,6	595 102 701	624 000 000
Sum varige driftsmidler		595 102 701	624 000 000
Finansielle anleggsmidler			
Sum finansielle anleggsmidler		0	0
Sum anleggsmidler		595 102 701	624 000 000
Omløpsmidler			
Varer			
Varer		551 346	4 118 203
Sum varer		0	0
Fordringer			
Kundefordringer	6,8	12 376 497	9 438 362
Andre fordringer	8	42 174 328	56 033 534
Sum fordringer		54 550 825	65 471 896
Investeringer			
Sum investeringer		0	0
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	6	26 861 564	11 383 525
Sum bankinnskudd, kontanter og lignende		26 861 564	11 383 525
Sum omløpsmidler		81 963 735	80 973 623
SUM EIENDELER		677 066 436	704 973 623



Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Selskapskapital	11	247 000 000	247 000 000
Annen innskutt egenkapital		0	0
Sum innskutt egenkapital		247 000 000	247 000 000
Opptjent egenkapital			
Annen egenkapital		110 626 945	116 850 788
Sum opptjent egenkapital		110 626 945	116 850 788
Sum egenkapital	10	357 626 945	363 850 788
Gjeld			
Langsiktig gjeld			
Sum avsetninger for forpliktelser		0	0
Annen langsiktig gjeld			
Gjeld til kredittinstitusjoner	6,7	253 962 500	285 650 000
Øvrig langsiktig gjeld	6,7,8	11 362 787	11 176 105
Sum annen langsiktig gjeld		265 325 287	296 826 105
Sum langsiktig gjeld		0	0
Kortsiktig gjeld			
Leverandørgjeld	8	49 145 283	32 907 045
Annen kortsiktig gjeld	8	4 968 921	11 389 684
Sum kortsiktig gjeld		54 114 204	44 296 729
Sum gjeld		319 439 491	341 122 835
SUM EGENKAPITAL OG GJELD		677 066 436	704 973 623



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2022 730446

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Bekreftet av representant for selskapet: Asbjørn Hasund
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Brønnøysundregistrene, 28.07.2022



Organisasjonsnr: 982 411 408
ISLAND OFFSHORE III KS

RESULTATREGNSKAP

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Organisasjonsnr: 982 411 408
ISLAND OFFSHORE III KS

BALANSE

Beløp i: NOK	Note	2021	2020
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Varer		551 346	4 118 203
Sum varer		0	0
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Kundefordringer	6,8	12 376 497	9 438 362
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Organisasjonsnr: 982 411 408
ISLAND OFFSHORE III KS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note

1

Regnskapsprinsipper

The financial statements are prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway. Island Iffshore III KS is included in the consolidated financial statements for Island Offshore Shipholding LP, c/o Island Offshore Shipping AS. P.O Box 370, N-6067 Ulsteinvik. 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. 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 to the financial statement 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. 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. Contract revenue in foreign currency is hedged by use of forward FX contracts. The maturity if 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. Commissions are recognized as revenue when earned. 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



1

Er det usikkerhet om fortsatt drift?: Nei

Note

Antall årsverk i regnskapsåret
0.00

Sum Beløp

Balanseført verdi 31.12. Varige driftsmidler Immaterielle eiend.

Konsernregnskap

Morselskapet sitt navn

Forretningskontor for morselskapet

Begrunnelse for at datterselskap er utelatt fra konsolideringen

Samlet beløp - tilknyttet selskap Årets Fjorårets

Samlet beløp - foretak i samme konsern Årets Fjorårets

Samlet beløp - foretak i samme konsern Årets Fjorårets

Samlet beløp - felles kontrollert virksomhet Årets Fjorårets

Pantstillelse Beløp

Beholdning av egne aksjer Antall Pålydende Andel av aksjek.



Island Offshore III KS

Annual report 2021

Board of directors' report

Annual accounts

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

Auditors' report



Annual Report 2021 Island Offshore III KS Org. no 982 411 408

Business activities

The Company owns the Riserless Light Well Intervention vessel Island Constructor. The vessel has operated in Norway, UK and Angola during 2021. The vessel is managed by Island Offshore Management AS, and the business is operated from Ulsteinvik, Norway.

Statement on results

Revenue in 2021 totals NOK 173.8 mill versus NOK 140.0 mill in 2020. Overall utilization for 2021 was 77% compared with 62% in 2020.

The net result for 2021 is a loss of NOK -6.2 mill versus a loss of NOK -96.1 mill in 2020. Crew expenses are considerably higher in 2021 compared with 2020 mainly due to operation on the Norwegian Continental Shelf as a Mobile Offshore Unit, which requires other manning and tariff arrangements. In addition, increased pension costs of NOK 2.7 mill related to pay-put of additional pension premium following new pension scheme implemented in 2021. The negative result in 2020 is mainly explained by an impairment provision of NOK 65.5 mill in addition to lower vessel utilization thus earnings.

Net equity as of 31.12.2021 is NOK 357.6 mill versus NOK 363.9 mill at 31.12.2020. The change in equity is equal to this years' loss. Net equity ratio is 52.8% as per 31.12.21 compared to 51.6% at 31.12.20.

Cash flow from operational activities is positive with NOK 49.9 mill. Investments in 2021 include NOK 2.8 mill related to vessel upgrades and improvement. Cash flow from financing activities includes payment of installments to secured lenders of NOK 31.7 mill. Accordingly, net cash flow is positive with NOK 15.5 mill in 2021 resulting in a net cash reserve of NOK 26.9 mill at 31.12.2021.

The Company does not have ongoing research and development activities.

Going concern

The current Restructuring Agreement with secured lenders was agreed in December 2021 and made effective in January 2022. The senior secured lenders agreed to extend their loans until the end of 2024 at amended terms. The Company has serviced its debt according to the agreed revised amortization plan. In addition, the market is showing signs of improvement and the backlog for vessel is increasing.

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.

Island Offshore III KS
Org. no 982 411 408



The basis for this assumption is the financial position of the Company at 31.12.2021, and the condition that a new restructuring agreement was agreed in December 2021 and made effective in January 2022 with secured lenders.

Work environment and gender equality

The Company does not have employees. The crew is hired from Island Offshore Management AS including subsidiaries. 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 plans are prepared for the vessel and systematic work is carried out to reduce emission of poisonous gas as well as diesel, chemicals or other oil containing substances.

Financial risk

The demand for LWI services has improved but the backlog offers limited earnings visibility. The Company's long term liabilities to financial institutions totals NOK 254.0 mill.

The cash position / liquidity reserves of the Company are limited, but sufficient for the operation.

Future outlook

The vessel is well-established in the Norwegian and international LWI services market with a multiple end-client base. The vessel's firm backlog is satisfactory for the first half of 2022 but long-term visibility is limited at present.

The COVID-19 pandemic may still cause operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. In addition, the current geopolitical situation could have a negative impact on the financial outlook for the Company thus the recoverable amounts of assets.

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

On a general note, it is emphasized that there is uncertainty related to the prediction of future earnings and results.



Other matters

The board members are covered by a director and officers liability insurance purchased and maintained by the company. The insurance policy is issued by a reputable insurer with an appropriate rating.

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, cash flow statement and notes.

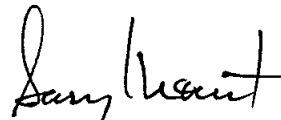
Allocation of results

The Board proposes the following allocation of the 2021 net loss of NOK -6.223.844

Transferred to other equity NOK -6.223.844


Ulsteinvik, 28.04.22


Morten Ulstein
Chairman of the Board


Gary J. Chouest
Board Member


Dino D. Chouest
Board Member


Harald Ulstein
Board Member


Arne Loen
Board Member

Island Offshore III KS
Org. no 982 411 408



Island Offshore III KS

Income statement

	Note	2021	2020
Revenue			
Freight income	3	<u>173 799 571</u>	<u>139 958 159</u>
Operating expenses			
Vessel expenses	8	30 209 813	41 861 439
Crew expenses	4,8	98 079 140	80 627 646
Depreciation	5	31 653 404	30 956 765
Write-down on tangible and intangible fixed assets	5	0	65 545 690
Other operating expenses	4	<u>4 043 194</u>	<u>3 847 993</u>
Total operating expenses		<u>163 985 551</u>	<u>222 839 533</u>
Operating result		<u>9 814 020</u>	<u>-82 881 374</u>
Financial income and expenses			
Other financial income	2	170 500	2 383 782
Interest paid to group companies		388 422	367 742
Other financial expenses	2	<u>15 819 942</u>	<u>14 916 857</u>
Net financial items		<u>-16 037 864</u>	<u>-12 900 817</u>
Ordinary result before tax		<u>-6 223 844</u>	<u>-95 782 191</u>
Tax on ordinary result	9	<u>0</u>	<u>287 661</u>
Net profit or loss for the year		<u>-6 223 844</u>	<u>-96 069 852</u>
Allocated as follows			
Transferred to other equity	10	<u>-6 223 844</u>	<u>-96 069 852</u>



Island Offshore III KS

Balance sheet as of December 31

	Note	2021	2020
Fixed assets			
<i>Tangible assets</i>			
Ships	5,6	<u>595 102 701</u>	<u>624 000 000</u>
Total tangible assets		<u>595 102 701</u>	<u>624 000 000</u>
Total fixed assets		<u>595 102 701</u>	<u>624 000 000</u>
Current assets			
Inventories		<u>551 346</u>	<u>4 118 203</u>
<i>Receivables</i>			
Trade receivables	6,8	<u>12 376 497</u>	<u>11 037 020</u>
Other receivables	8	<u>42 174 329</u>	<u>54 434 876</u>
Total accounts receivable		<u>54 550 826</u>	<u>65 471 896</u>
Cash and cash equivalents	6	<u>26 861 563</u>	<u>11 383 525</u>
Total current assets		<u>81 963 735</u>	<u>80 973 624</u>
Total assets		<u>677 066 436</u>	<u>704 973 624</u>



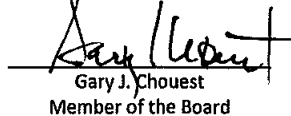
Island Offshore III KS

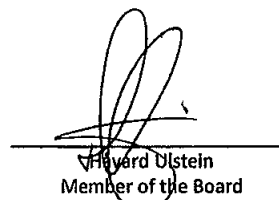
Balance sheet as of December 31

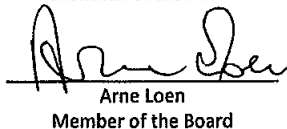
	Note	2021	2020
Equity			
<i>Paid-in capital</i>			
Equity, undistributable	11	<u>247 000 000</u>	<u>247 000 000</u>
Total paid-in capital		<u>247 000 000</u>	<u>247 000 000</u>
<i>Retained earnings</i>			
Other equity		<u>110 626 944</u>	<u>116 850 788</u>
Total retained earnings		<u>110 626 944</u>	<u>116 850 788</u>
Total equity	10	<u>357 626 944</u>	<u>363 850 788</u>
Liabilities			
<i>Other long-term liabilities</i>			
Liabilities to financial institutions	6,7	253 962 500	0
Other long-term liabilities	6,7,8	<u>11 362 787</u>	<u>11 176 105</u>
Total other long term liabilities		<u>265 325 287</u>	<u>11 176 105</u>
<i>Current liabilities</i>			
Liabilities to financial institutions	6,7	0	285 650 000
Trade creditors	8	65 815	5 831 351
Other short-term liabilities	8	<u>54 048 390</u>	<u>38 465 380</u>
Total current liabilities		<u>54 114 205</u>	<u>329 946 731</u>
Total liabilities		<u>319 439 492</u>	<u>341 122 836</u>
Total equity and liabilities		<u>677 066 436</u>	<u>704 973 624</u>

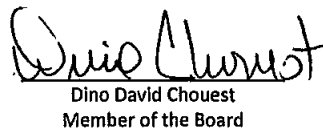
31 December 2021
Ulsteinvik, 28 April 2022


Morten Ulstein
Chairman of the Board


Gary J. Chouest
Member of the Board


Harald Ulstein
Member of the Board


Arne Loen
Member of the Board


Dino David Chouest
Member of the Board

**Cash Flow Statement**

Island Offshore III KS

	2021	2020
<i>Cash flow from operating activities</i>		
Profit before tax	-6 223 844	-95 782 191
- Taxes paid	0	-287 661
+ Ordinary depreciation	31 653 404	30 956 765
+ Impairment provision	0	65 545 690
-/+ Change inventory	3 566 857	-1 190 808
-/+ - Increase/ + reduction accounts receivable	-1 339 477	-11 037 020
+/- + Increase/ - reduction accounts payable	-5 765 536	2 852 295
+/- Change in other accruals	28 030 239	-2 060 115
= Net cash flow from operating activities	<u>49 921 643</u>	<u>-11 003 045</u>
<i>Cash flow from investment activities</i>		
- Payments purchase of fixed assets	-2 756 105	-6 124 729
+ Repayment long term receivables	0	21 000 000
= Net cash flow from investment activities	<u>-2 756 105</u>	<u>14 875 271</u>
<i>Cash flow from financing activities</i>		
+ Repayment of other long term liabilities	0	-21 000 000
- Repayment of long term liabilities	-31 687 500	-9 467 888
+ Capital call from owners	0	0
= Net cash flow from financing activities	<u>-31 687 500</u>	<u>-30 467 888</u>
= <i>Net change in cash and cash equivalents</i>	<u>15 478 038</u>	<u>-26 595 662</u>
+ <i>Cash reserve 1.1.</i>	<u>11 383 525</u>	<u>37 979 188</u>
= <i>Cash reserve 31.12</i>	<u>26 861 563</u>	<u>11 383 525</u>



Notes to the financial statements 2021

Island Offshore III KS

NOTE 1 ACCOUNTING PRINCIPLES

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

Island Offshore III KS is included in the consolidated financial statements for Island Offshore Shipholding LP, c/o Island Offshore Shipping AS. P.O. Box 370, N-6067 Ulsteinvik.

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 period 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 expenses are accrued in the balance sheet at cost based on consumption.

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 the vessel. Please refer to notes to the financial statements for details.

Shipbuilding contracts

Yard installments for new buildings are recorded as fixed assets. Supervision and other investments not included in the contracted price are also 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.

Financing expenses

Expenses incurred in connection with new loans are capitalized at the date of drawdown and expensed over the 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 FX contracts. The maturity of these contracts are aligned with the monthly cash flow thus are recognized as incurred.



Notes to the financial statements 2021

Island Offshore III KS

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 period. Commissions are recognized as revenue when earned.

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 SPECIFICATIONS

	2021	2020
Interest income from bank	73 132	161 379
Foreign exchange gain realized	89 368	1 727 064
Other financial income	8 000	7 089
Interest income CIRR	-	488 250
Total other financial income	170 500	2 383 782

	2021	2020
Interest cost CIRR	-	488 250
Foreign exchange loss on currency	384 348	1 267 805
Foreign exchange loss on currency (unrealized)	-	1 820
Interest cost long term loan	15 428 115	13 154 326
Other financial costs	7 479	4 656
Total other financial costs	15 819 942	14 916 857

NOTE 3 GEOGRAPHICAL SPLIT OF REVENUE

In NOK mill	2021	2020
Norway	131,1	113,4
UK	6,2	26,6
Angola	36,5	-
Total Revenue	173,8	140,0

Average utilization in 2021 was 77% compared with 62% in 2020.

**Notes to the financial statements 2021**

Island Offshore III KS

NOTE 4 PAYROLL, EMPLOYEES

The company has no employees and no obligation to have pension funds. Crew expenses in the financial statements relate to hired crew.

Auditor

Audit fees total NOK 137.344 excluding VAT and can be specified as follows:

Audit incl. assessment going concern	97.500
Advisory and tax filing	36.250
Other	3.594
Sum	137.344

The fees include work performed for the general partner Island Offshore XI AS.

NOTE 5 FIXED ASSETS

	Vessel	Projects in progress	Capitalized maintenance	Total
Acquisition cost I.1	984 480 615	-	70 534 745	1 055 015 360
Additions	-	2 670 961	85 144	2 756 105
Accumulated impairment provision	-65 545 690		-	-65 545 690
Accumulated depreciation 31.12.	-342 111 065		-55 012 009	-397 123 074
Book value 31.12.	576 823 860	2 670 961	15 607 880	595 102 701
This year's impairment provision	0			-
This year's depreciation charge	23 855 640		7 797 764	31 653 404
Economic life	20 yrs		3 yrs	
Depreciation plan	Linear		Linear	

The estimated market value of Island Constructor obtained from independent ship brokers, is lower than the net book value of the vessel. Due to the present market situation with regards to sale and purchase of vessels, the vessel value is also subject to an impairment test analysis employing estimates of future cash flow for the vessel.

The analysis take into account the present market situation and includes gradual improvement both in utilization and charter hire rates throughout of the expected usage time for the vessel. Key assumption 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 analysis did not indicate additional impairment on vessel value. Previous year's impairment is kept at NOK 65.5 mill in the balance sheet.



Notes to the financial statements 2021

Island Offshore III KS

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 III KS	-	-	-1

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Change in utilization			
Island Offshore III KS	-87	-	-

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate			
Island Offshore III KS	-143	-	-

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 previous impairment provision is assumed not to be reversed and the fact that value of vessel can only be adjusted back to original net book value.

NOTE 6 MORTGAGE AND GUARANTEE LIABILITIES

	2021	2020
Liabilities secured by mortgage	253 962 500	285 650 000
Book value of pledged assets:		
Ships	595 102 701	624 000 000
Cash deposits	26 861 563	11 383 525
Factoring	12 376 497	11 037 020
Total	634 340 761	646 420 545

**Notes to the financial statements 2021**

Island Offshore III KS

NOTE 7 LONG TERM LOANS

	2021	2020
Loans from financial institutions	253 962 500	285 650 000
Loan from general partner	11 362 787	11 176 105
Total	265 325 287	296 826 105

At 31.03.2020 the Company 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 a one-sided standstill towards the lenders. Negotiations with secured lenders were not concluded prior to maturity at 31.12.20. In accordance with Norwegian Accounting Principles, the loan from financial institutions was classified as short term loans as per 31.12.20.

The Company has completed several information meetings and negotiations with secured lenders and was successful in December 2021 to agree on a refinancing agreement. The restructuring was effective in January 2022 and included partial buy back of the loan at a discount and issue of new equity.

The loan as per 31.12.2021 is classified as a long-term loan and will be financed by one financial institution post closing. The remaining loan balance will be repaid with an annual installment of NOK 28 mill. The remaining loan will mature on 31.12.2024.

In accordance with Norwegian Accounting Principles, the loans from financial institution is classified as long term loan as per 31.12.21

NOTE 8 LIABILITIES TO RELATED PARTIES

	2021	2020
Other receivables	24 306 045	18 000 000
Trade debtors	-	1 598 658
Trade creditors	-	-5 799 320
Other long term liabilities	-11 362 787	-11 176 105
Other short term liabilities	-49 472 237	-27 447 784

Other receivables are fixed prepayment on operating expenses towards Island Offshore Management AS and outstanding bareboat hire for Island Constructor from Island Offshore Subsea UK Ltd.

Other long term liabilities are loan from general partner Island Offshore XI AS. Trade creditors are due to Island Offshore Crewing AS and Island Offshore Management AS including accrued interests.

Loans are charged at market rates.



Notes to the financial statements 2021

Island Offshore III KS

	2021	2020
Management services	-3 695 668	-3 922 466
Crew hire	-98 079 141	-80 627 646
Bareboat Contract Revenue	6 178 503	8 121 170

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 has in 2021 and 2020 entered into Bareboat Charter Agreement with Island Offshore Subsea UK Limited. The bareboat rent is based on arms-length principles and based on BIMCO standard Bareboat Charter Agreement.

NOTE 9 TAXES

Ordinary taxation:

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 has been calculated on the basis of the following temporary differences:

	2021	2020
Gains/loss account	6 521 586	8 151 983
Fixed assets	417 810 904	417 758 290
Deferred interest expenses	-196 583	-196 583
Total temporary differences	424 135 907	425 713 690
Deferred tax	93 309 900	93 657 012
Tax rate	22 %	22 %

In accordance with GAAP deferred tax is not recorded in companies taxed as partnerships.

**Notes to the financial statements 2021****Island Offshore III KS**

A specification of the differences between accounting profit before tax and taxable profit is presented below.

	<u>2021</u>	<u>2020</u>
Ordinary result before taxes	-6 223 844	-95 782 191
<i>Permanent differences</i>		
Non-deductible expenses	4 710	1 232
Taxes paid abroad	-	-287 661
<i>Change in temporary differences</i>		
Gains/loss account	1 630 397	2 037 996
Fixed assets	-52 614	61 654 348
Tax base	<u>-4 641 351</u>	<u>-32 376 276</u>
Denied deduction interests expenses related parties	216 614	181 061
Annual tax base	<u>-4 424 737</u>	<u>-32 195 215</u>

The vessel Island Constructor has conducted RLWI services on the UKCS in 2018, and the process of filing and settling the tax liability in the UK for this activity was initiated in 2019 and completed in 2020.

NOTE 10 EQUITY

	<u>2021</u>	<u>2020</u>
Tied up capital	98 800 000	98 800 000
Free capital	148 200 000	148 200 000
Registered capital	247 000 000	247 000 000
Uncalled capital	-	-
Paid in capital	247 000 000	247 000 000
Other equity 01.01	116 850 788	212 920 640
Annual net result	-6 223 844	-96 069 852
Retained earnings 31.12	<u>110 626 944</u>	<u>116 850 788</u>
Total equity 31.12	<u>357 626 944</u>	<u>363 850 788</u>

**Notes to the financial statements 2021**

Island Offshore III KS

NOTE 11 OWNERSHIP

Participants at 31.12.2021:

Participant	Share %	Share of registered capital	Paid-in capital	Capital not paid-in
<i>General Partner:</i>				
Island Offshore XI AS	10,00 %	24 700 000	24 700 000	-
<i>Participants:</i>				
Island Offshore Shipholding	57,21 %	141 300 382	141 300 382	-
Island Offshore Invest AS	6,51 %	16 083 867	16 083 867	-
Sueingen AS	17,61 %	43 490 100	43 490 100	-
EMAR Invest AS	1,67 %	4 131 537	4 131 537	-
Inger M. Kristensen AS	1,67 %	4 131 536	4 131 536	-
DUK Invest AS	1,67 %	4 131 536	4 131 536	-
Ingus AS	1,21 %	2 993 486	2 993 486	-
Beeline AS	1,21 %	2 993 486	2 993 486	-
HUK Invest AS	1,23 %	3 044 070	3 044 070	-
Total	100,00 %	247 000 000	247 000 000	-

As part of the agreed restructuring agreement agreed in December 2021 and effective in January 2022, the registered share capital was reduced with NOK 227,000,000 from NOK 247,000,000 to NOK 20,000,000 by way of reducing nominal value on existing shares by NOK 0.919 from NOK 1.0 to NOK 0.081. Simultaneously, the share capital was increased with NOK 41,700,000 from NOK 20,000,000 to NOK 61,700,000 by way of issuing 514,995,000 shares in the company.

Existing shareholders participated on the share capital increase with the exception of Island Offshore Shipholding LP, Borgstein Skipsinvest AS and Island Investment LLC subscribed for the relevant amount of shares.

NOTE 12 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 31.12.21.

NOTE 13 GOING CONCERN

The current Restructuring Agreement with secured lenders was agreed in December 2021 and made effective in January 2022. The senior secured lenders agreed to extend their loans until the end of 2024 at amended terms. The Company has serviced its debt according to the agreed revised amortization plan. In addition, the market is showing signs of improvement and the backlog for vessel is increasing.



Notes to the financial statements 2021

Island Offshore III KS

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 31.12.2021, and the condition that a new restructuring agreement was agreed in December 2021 and made effective in January 2022 with secured lenders.

NOTE 14 COVID-19

The COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations.

The Board of Directors continue to monitor the financial situation of the Company closely.



Statsautoriserte revisorer
Ernst & Young AS

Thormøhlens gate 53 D, 5006 Bergen
Postboks 6163, 5892 Bergen

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Partnership Meeting of Island Offshore III KS

Opinion

We have audited the financial statements of Island Offshore III KS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and statement 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 comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 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 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 requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors) 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 board of directors' report contains the information required by legal requirements and 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 or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

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

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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 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 the board of directors 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.

Bergen, 5 May 2022
ERNST & YOUNG AS

The auditor's report is signed electronically

Jørn Knutsen
State Authorised Public Accountant (Norway)

Independent auditor's report - Island Offshore III KS 2021

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Jørn Knutsen

Statsautorisert revisor

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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.

Postadresse
Postboks 9200 Grønland
0134 Oslo
skatteetaten.no/sendepost

Besøksadresse:
Se www.skatteetaten.no
Org.nr: 996250318

Sentralbord
800 80 000
Telefaks
22 17 08 60



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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