



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

Enheten

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

Regnskapsår

Årsregnskapets periode:	01.01.2022 - 31.12.2022
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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:	08.06.2023

Grunnlag for avgivelse

År 2022: Årsregnskapet er elektronisk innlevert
År 2021: Tall er hentet fra elektronisk innlevert årsregnskap fra 2022

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, 18.08.2024



Resultatregnskap

Beløp i: NOK	Note	2022	2021
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	2,9	204 244 869	193 129 498
Sum inntekter		204 244 869	193 129 498
Kostnader			
Varekostnad	9	87 462 634	65 302 015
Lønnskostnad	9	59 684 006	51 051 030
Avskrivning på varige driftsmidler og immaterielle eiendeler	5	34 490 704	30 844 738
Annen driftskostnad	4	3 301 524	3 553 816
Sum kostnader		184 938 868	150 751 599
Driftsresultat		19 306 001	42 377 899
Finansinntekter og finanskostnader			
Annen finansinntekt	3	2 632 291	405 618
Sum finansinntekter		2 632 291	405 618
Nedskrivning av finansielle eiendeler		11 032 061	
Rentekostnad til foretak i samme konsern		2 489 019	185 004
Annen finanskostnad	3	13 359 821	11 003 640
Sum finanskostnader		26 880 901	11 188 644
Netto finans		-24 248 610	-10 783 028
Ordinært resultat før skattekostnad		-4 942 610	31 594 872
Skattekostnad på ordinært resultat	10	1 343 094	6 992 024
Ordinært resultat etter skattekostnad		0	0
Årsresultat		-6 285 704	24 602 848
Totalresultat		-6 285 704	24 602 848
Overføringer og disponeringer			
Udekket tap		-6 285 704	24 602 848
Sum overføringer og disponeringer	11	-6 285 704	24 602 848



Resultatregnskap

Beløp i: NOK	Note	2022	2021
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Balanse

Beløp i: NOK	Note	2022	2021
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Sum immaterielle eiendeler		0	0
Varige driftsmidler			
Maskiner og anlegg	5,7	621 600 086	608 528 789
Sum varige driftsmidler		621 600 086	608 528 789
Finansielle anleggsmidler			
Investering i datterselskap	6	525 909 685	726 941 746
Lån til foretak i samme konsern	9	144 917 667	
Sum finansielle anleggsmidler		670 827 351	726 941 746
Sum anleggsmidler		1 292 427 437	1 335 470 534
Omløpsmidler			
Varer			
Varer		13 373 562	1 141 172
Sum varer		13 373 562	1 141 172
Fordringer			
Kundefordringer	7,9	28 028 293	46 386 714
Andre fordringer	9	229 131 129	44 379 544
Sum fordringer		257 159 422	90 766 258
Investeringer			
Sum investeringer		0	0
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende	7	1 197 369	19 751 259
Sum bankinnskudd, kontanter og lignende		1 197 369	19 751 259
Sum omløpsmidler		271 730 354	111 658 689
SUM EIENDELER		1 564 157 790	1 447 129 223



Balanse

Beløp i: NOK	Note	2022	2021
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Selskapskapital	12	404 097 000	404 097 000
Overkurs		328 188 318	328 188 318
Annen innskutt egenkapital		0	0
Sum innskutt egenkapital		732 285 318	732 285 318
Opptjent egenkapital			
Annen egenkapital		258 025 224	264 310 928
Sum opptjent egenkapital		258 025 224	264 310 928
Sum egenkapital	11	990 310 542	996 596 246
Gjeld			
Langsiktig gjeld			
Utsatt skatt	10	101 820 782	100 477 688
Sum avsetninger for forpliktelser		101 820 782	100 477 688
Annen langsiktig gjeld			
Øvrig langsiktig gjeld		421 222 439	135 876 288
Sum annen langsiktig gjeld		421 222 439	135 876 288
Sum langsiktig gjeld		523 043 221	236 353 976
Kortsiktig gjeld			
Gjeld til kredittinstitusjoner			180 000 000
Leverandørgjeld	7,8	2 909 804	77 250
Annen kortsiktig gjeld	9	47 894 223	34 101 752
Sum kortsiktig gjeld		50 804 027	214 179 001
Sum gjeld		573 847 248	450 532 977
SUM EGENKAPITAL OG GJELD		1 564 157 790	1 447 129 223



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

Journalnummer: 2023 721498

Enheten

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

Regnskapsår

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Konsern

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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: 08.06.2023

Revisjon

Ekstern autorisert regnskapsfører har i løpet av regnskapsåret bistått ved den løpende regnskapsføringen eller utført andre tjenester for selskapet enn å utarbeide årsregnskapet: Ja

Grunnlag for avgivelse

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År 2021: Tall er hentet fra elektronisk innlevert årsregnskap fra 2022.

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Brønnøysundregistrene, 02.09.2023

Brønnøysundregistrene
Postadresse: Postboks 900, 8910 Brønnøysund
Telefon: 75 00 75 00
E-post: firmapost@brreg.no Internett: www.brreg.no
Organisasjonsnummer: 974 760 673



Organisasjonsnr: 994 289 764
ISLAND OFFSHORE XII SHIP AS

RESULTATREGNSKAP

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ISLAND OFFSHORE XII SHIP AS

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Organisasjonsnr: 994 289 764
ISLAND OFFSHORE XII SHIP AS

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 Offshore XII Ship AS is the parent company of Island Victory AS and Island Defender AS, however consolidated accounts are not prepared as these 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. 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

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.



**Consolidated Financial
Statements 2022**

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



ISLAND OFFSHORE



Annual Report 2022

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 16 vessels as per 31.12.2022 compared with 22 vessels in operation at 31.12.2021. Three vessels were sold in 2022, and bareboat contract for two PSVs were terminated in November 2022. In January 2022 one LWI vessel was de-consolidated from the Group's financial statements, due to the parent company no longer having majority control in the ship owning company following dilution of owner interests. Further, from February 2023, one PSV will not be part of the operational fleet due to termination of bareboat charter agreement with external ship-owner.

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, North Sea, UK, US, West Coast of Africa and international waters. The fleet order backlog excluding charterer's options totals NOK 1.8 billion at 31.12.22.

The technical and commercial operations are carried out by management companies in Ulsteinvik and Portugal.

Statement on results

Despite fleet reduction and extensive planned vessel maintenance program in 2022, freight revenue totals NOK 1,638.6 mill in 2022, thus only marginally lower than in 2021 with NOK 1,640.5 mill in 2021. Overall, utilization for remaining fleet has improved due to increased market activity. Average utilization of the fleet was 84% in 2022 compared with 78% in 2021. At year-end 2022, no vessel were in lay-up.

The operating result before depreciation for 2022 is NOK 525 mill versus NOK 554 mill in 2021. All vessel segments report positive EBITDA in 2022 and 2021.

A total of NOK 30.9 mill as capital expenditure for the PSVs Island Empress, Island Endeavour and Island Champion has been written down due to the vessels not being part of the operational fleet from November 2022 and February 2023. A revised impairment analysis of the remaining fleet value has been performed based on estimates of expected future earnings for each vessel and broker valuations. The usage value analysis do not indicate further impairment on vessel value. As per 31.12.22, the remaining fleet value has historically been written down with NOK 578.6 mill with a corresponding negative effect on equity.

Net financial items were NOK -490.7 mill in 2022 compared with NOK -192.4 mill in 2021. Financial expenses includes a loss from investment in associated companies with NOK 259.9 relating to the partnership Island Offshore III KS being de-consolidated from the Group's financial statement. The Group's owner interests was diluted from 63.6% to 24.05%. Thus, shares in the partnership are from January 2022 classified as investment in associated companies recorded in accordance with the equity method. In 2021 a gain of NOK 52.9 mil from loan re-purchase was recorded as financial income.

The net loss for the year is NOK -298.7 mill compared with a profit of NOK 16.1 mill in 2021.

Island Offshore Shipholding LP - Group



Book value for fixed assets totals NOK 5,062.4 mill as per 31.12.22 versus 6,428.9 mill as per 31.12.21. The reduction is mainly due to the sale of three vessels in 2022 and that the LWI Island Constructor was de-consolidated from the Group's financial statement due to the parent company no longer having majority control in the partnership following dilution of owner interests.

The Group's operating cash flow is positive with NOK 276.1 mill. The Group has invested NOK 165.1 mill in vessel capital expenditures related to class-renewals, periodical maintenance and special surveys, vessel contract modifications. The Group received NOK 628.3 mill for the sale of three vessels in 2022 and sales proceeds have been used to reduce vessel loan balances in the Group and to purchase minority shares in two companies with a total of NOK 105.6 mill. The Group has paid in total NOK 930.7 mill to the banks in 2022 of which NK 45.1 mill has been written off and recorded against Group's equity. Partner loan received is NOK 10 mill and an overdraft facility of NOK 20 mill was drawn in 2022. Net cash flow for the year is negative with NOK 198.4 mill in 2022 resulting in a cash balance of NOK 155.6 mill. Please refer to the cash flow statement for further details.

Net equity is NOK 824.0 mill, equivalent to a net book equity-ratio of 14% at 31.12.2022 versus NOK 1.183.3 mill at 31.12.2021. The decrease is due to this year's loss, repurchase of minority interests and a direct booking towards equity of NOK 45.1 mill due to a write down of interest bearing liability. Please refer to note 13.

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 Group concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. The senior secured lenders agreed to extend their loans until the end of 2020 at amended terms, whilst the unsecured lenders agreed to extend until 30.06.2021. Due to the immediate worsening of the market conditions and limited visibility in terms of recovery at the time, the Group announced a unilateral standstill to halt scheduled instalment payments to secured lenders in May 2020. Island Offshore serviced its debt according to the restructuring agreement until May 2020.

Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes a runway for the Parent Company's senior secured debt until 31.12.2023 with an agreed level of amortization and potentially cash sweeps. The unsecured bond loans and sellers' credits were simultaneously extended with a new maturity 30.06.2024.

Discussions regarding an extension of the maturity of these senior secured loan facilities beyond 31.12.2023 have started. Given the improved market conditions and increased order back-log at improved terms and conditions securing the group's ability to service its debt, it is expected that an agreement will be reached, and a revised loan agreement signed before the end of the year.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS. The parent company has issued a guarantee in favor of the banks providing the ship mortgage loans in a total amount of NOK 345.9 mill. The guaranteed liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement entered into in connection with the refinancing agreement. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

Island Offshore Shipholding LP - Group



Although the discussions with the senior lenders to both the Company and I O X KS are constructive and progressing, no assurances can be given as to when a conclusion is reached. However, the senior lenders to I O X KS has accepted, and signed, the re-stated and amended subordination agreement with the senior lenders to the parent company in the Island Offshore Shipholding Group.

There are signs of improvement in the offshore market in 2023 and the Group has a satisfactory backlog for its fleet. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base for the Company 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 31.12.2022, and the condition that a new restructuring agreement will be agreed and made effective with secured and unsecured lenders for the parent company, Island Offshore Shipholding, LP and the Partnership Island Offshore X KS well ahead of the maturity date 31.12.2023.

Work environment and gender equality

The Island Offshore Shipholding Group does not have employees. The offshore crew is hired from Island Offshore Management AS and Island Offshore Crewing AS. The Managers are all men and comprises representatives from the owners in the partnership.

The Vessel Manager Island Offshore Management AS continuously work to promote gender equality in all aspects of the business with the objective of securing equal opportunities irrespective of gender, ethnicity, nationality or religious orientation.

As employer the Vessel Manager has the responsibility to maintain, complete and report on progress with the work to promote and secure basic human rights and decent working conditions (Norwegian Transparency Act; "Openhetsloven"). The report will be available on Island Offshore's webpage www.islandoffshore.com before 30.06.23.

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 2023, which secures predictability of earnings. 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 EUR and GBP. Outstanding contracts 31.12.22 expire in 2022 depending on the underlying cash flow. The estimated net unrealized gain is NOK 0.3 mill at 31.12.2022, which is not recorded in the financial statements in accordance with the Norwegian Accounting Act and NGAAP.

Loans from financial institutions totals NOK 2,861.33 mill and Bond loan totals NOK 832.8 mill at 31.12.2022. In accordance with Norwegian Accounting Principles, the loans from financial institutions are classified as long term loans with the exception of NOK 345 mill belonging to Island Offshore X KS which is classified as short term liability. The loan has been classified as short term as the restructuring agreement has not yet been agreed and made effective with secured and unsecured lenders for the Partnership Island Offshore X KS.

Island Offshore Shipholding LP - Group



Future outlook

Average spot rates and utilization are expected to continue improving going into 2023 as market balance has improved and overall market outlook is positive. This is largely driven by increased offshore Oil & Gas activity as well as growth in Offshore Renewables. Due to the geo-political environment, including the Ukraine conflict, continued market recovery is still fragile and unstable. The COVID-19 pandemic might still cause operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. As such, the ability to secure sustainable term contracts is still impaired by continued market uncertainty and lack of visibility. Fleet contract coverage for 2023 is strong and improved following recent contract awards.

The chartering strategy remains firm with focus on securing long-term commitment with strategically preferred clients, in addition to exploring new business opportunities in niches and markets complementing our existing activity. The fleet is considered to be well-positioned with attractive and strategically important customers.

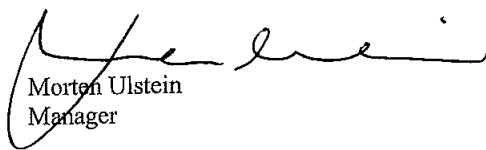
The Managers continue to monitor the financial situation of the Group closely.

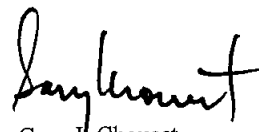
Other matters


The Managers are covered by a director and officer's liability insurance purchased and maintained by the parent company. The insurance policy is issued by a reputable insurer with an appropriate rating.


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, 8/6-23


Morten Ulstein
Manager


Gary J. Chouest
Manager


Dino D. Chouest
Manager


Harald Ulstein
Manager

Island Offshore Shipholding LP - Group



Consolidated Income Statement

Island Offshore Shipholding LP

NOK mill	Note	2022	2021
Freight income	2,11	1 638,6	1 640,5
Other operating income	6	2,6	-
Total operating income		1 641,2	1 640,5
Operating expenses vessel	11	473,1	385,6
Crew expenses	3,11	551,2	618,1
Other operating expenses	3,11	91,6	81,7
Operating expenses before depreciation		1 115,8	1 085,5
Depreciation	6	284,2	328,1
Impairment provision on vessel value	6	30,9	-0,4
Operating expenses		1 430,9	1 413,2
Operating profit		210,3	227,3
Profit +/- Loss - from investment in associated companies	7	-259,9	-
Other interest income		3,4	0,4
Other financial income	4	36,5	71,0
Other interest expenses		229,1	226,6
Other financial expenses	4	41,6	37,1
Net financial income and expenses		-490,7	-192,4
Operating profit before tax		-280,4	34,8
Tax	12	18,3	18,7
Annual net profit		-298,7	16,1
Minority interest	13	-106,3	52,5
Majority interest	13	-192,5	-36,4



Consolidated Balance sheet

Island Offshore Shipholding LP

NOK mill	Note	2022	2021
Assets			
Fixed assets			
Tangible fixed assets			
Ships	6,9	5 062,4	6 428,9
Total tangible assets		5 062,4	6 428,9
Financial fixed assets			
Investments in associated companies	7	97,7	-
Other long term receivables	11	57,2	80,0
Total financial fixed assets		154,9	80,0
Total fixed assets		5 217,3	6 508,9
Current assets			
Stock of supplies	8	24,9	13,3
Debtors			
Accounts receivables	9	270,1	308,1
Other receivables	11	219,7	193,9
Total debtors		489,8	502,0
Investments			
Cash and bank deposits	9	155,6	381,0
Total current assets		670,3	896,4
Total assets		5 887,6	7 405,3



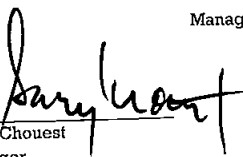
Consolidated Balance sheet

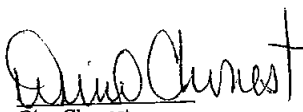
Island Offshore Shipholding LP

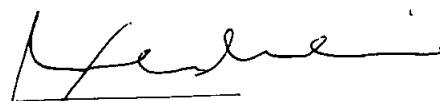
NOK mill	Note	2022	2021
Liabilities and equity			
Equity			
Paid in equity			895,5
Paid in capital	14	895,5	895,5
Total paid in equity		895,5	895,5
Other equity		-957,0	-837,5
Total retained earnings		-957,0	-837,5
Minority Interest		885,4	1 125,3
Total equity	13	824,0	1 183,3
Liabilities			
Provision for liabilities			
Deferred tax	12	98,0	81,1
Total provision		98,0	81,1
Other long term liabilities			
Bonds	10	832,8	-
Liabilities to financial institutions	9,10	2 510,2	1 928,2
Other long term liabilities	11	828,6	650,7
Total long term liabilities		4 171,6	2 578,9
Current liabilities			
Bonds	10	-	809,2
Liabilities to financial institutions	9,10	345,9	2 063,2
Seller credits		20,0	239,9
Trade creditors	11	37,1	103,2
Tax payable	12	1,4	1,5
Other short term liabilities	11	389,6	345,0
Total current liabilities		794,1	3 562,0
Total liabilities		5 063,6	6 222,0
Total equity and liabilities		5 887,6	7 405,3

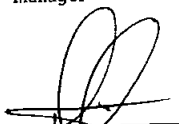
Ulsteinvik, 31.12.22/ 08.06.2023

Managers in Island Offshore Shipholding LP


Gary Chouest
Manager


Dino Chouest
Manager


Moxen Ulstein
Manager


Håvard Ulstein
Manager

**Cash Flow Statement - Consolidated**

Island Offshore Shipholding LP

in NOK mill	31.12.22	31.12.21
<i>Cash flow from operational activities</i>		
Result before tax	-280,4	34,8
- Taxes paid	-1,5	-1,0
-/+ Profit by sale of fixed asset	-6,9	0,0
+/- Results from associated companies	3,6	0,0
- Discount on loan	0,0	-52,9
+ Depreciation	284,2	328,1
+ Write down vessel value	30,9	-0,4
+ Reversed financial expenses due to dilution of shares	256,3	0,0
+/- Change in unrealized agio/disagio	0,0	6,1
-/+ Change in inventory	-12,2	10,1
-/+ Change in accounts receivable	19,3	-133,9
+/- Change in accounts payable	-17,0	81,2
+/- Change in other accruals	-0,3	5,5
= Net cash flow from operational activities	<u>276,1</u>	<u>277,6</u>
<i>Cash flow from investment activities</i>		
+ Payments in connection with sale of assets	628,3	461,0
- Payments in connection with purchase of assets	-165,1	-319,0
= Net cash flow from investment activities	<u>463,2</u>	<u>142,0</u>
<i>Cash flow from financing activities</i>		
+ Drawdown of financial bank loans	20,2	25,6
- Net of refinancing and Repayment of loans	-930,7	-573,2
+ Bond loan	23,5	22,8
+/- Repayment of capital to minority interests /Purchase own shares	-105,8	0,0
+ Partners' loan	10,0	14,0
- Write off interest bearing debt	0,0	-222,3
+ Gain by write off interest bearing debt towards equity	45,1	222,3
+ Share capital issue	0,0	209,4
= Net cash flow from financing activity	<u>-937,7</u>	<u>-301,4</u>
= <i>Net change in cash and cash equivalents</i>	<u>-198,4</u>	<u>118,2</u>
<i>Correction cash 01.01 belonging to subsidiary no longer part of the Group</i>		
-	-26,9	
+ <i>Cash, bank balance in the beginning of the period</i>	<u>380,8</u>	<u>262,6</u>
= <i>Cash, bank balance in the end of the period</i>	<u>155,6</u>	<u>380,8</u>



Notes to the Consolidated Financial Statements 2022

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.

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 and associated companies

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. Associated companies with ownership and control interests from 20% to 50% are accounted for by the equity method.

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 2022

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 ship owning partnership entities are subject to participation taxation. In accordance with Norwegian GAAP, deferred tax/tax asset is not recorded for participation taxed companies. The other ship owning companies i.e. Island Offshore XII Ship AS, Island Defender, Island Discoverer AS and Island Victory AS are subject to Norwegian taxation regime. All general partner companies, operating companies and private limited holding 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. Island Offshore UK Limited and Island Offshore Subsea UK Limited are subject to UK taxation regime.

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.



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

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.

NOTE 2 GEOGRAPHICAL SPLIT OF REVENUE

in NOK mill	Freight revenue	
	2022	2021
Norway	780,4	991,9
UK	250,4	151,6
The Netherlands	91,7	80,7
Denmark	2,5	7,3
USA	60,4	182,8
Morocco	5,5	5,2
Germany	9,0	8,1
Angola	99,9	86,9
Red Sea	8,6	0,0
Turkey	54,5	0,0
Mauritania	113,4	0,0
Senegal	29,9	0,0
Equatorial Guinea	4,8	0,0
Spain	0,2	0,0
International Waters	135,3	119,2
Mexico	0,2	0,0
Trinidad & Tobago	0,0	6,8
Total	1 646,8	1 640,5

Revenue is reduced with NOK 8.2 mill due to commission to broker relating to the sale of the vessels Island Defender and Island Discoverer.

Fleet comprises 16 vessels compared with 22 vessels last year. Overall, utilization for remaining fleet has improved due to increased market activity. Average utilization of the fleet was 84% in 2022 compared with 78% in 2021.

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.

Island Offshore Shipholding LP

3

**Notes to the Consolidated Financial Statements 2022**

Island Offshore Shipholding LP

All figures in NOK mill

Auditor

Remuneration can be specified as follows (NOK mill):

	2022	2021
Statutory audit services	966.7	1,106.8
Other services including tax filing services	455.9	500.5
VAT refunded-/ not refunded +	-87.3	148.8
Various audit confirmations, other audit expenses including travel expenses	255.3	234.2
Expensed auditor remuneration	1,590.6	1,990.3

NOTE 4 SPECIFICATION OF ITEMS**Other financial income:**

NOK mill	2022	2021
Unrealized foreign exchange gain	0,2	0,8
Hedging gain	0,3	-
Foreign currency exchange gain	36,0	17,3
Gain repurchase of loans	-	52,9
Total other financial income	36,5	71,0

Other financial expenses comprise:

NOK mill	2022	2021
Foreign currency exchange loss	27,3	15,1
Amortization of financing costs	9,6	15,7
Hedging loss	0,7	-
Unrealized currency exchange loss on USD loans	-	6,1
Other financial expenses	4,0	0,3
Total other financial expenses	41,6	37,1

NOTE 5 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 and GBP. Outstanding contracts 31.12.22 expire during 2023 depending on the underlying cash flow. The estimated net unrealized gain is NOK 0.3 mill at 31.12.2022, which is not recorded in the financial statements in accordance with the Norwegian Accounting Act and NGAAP.

**Notes to the Consolidated Financial Statements 2022**

Island Offshore Shipholding LP

All figures in NOK mill

NOTE 6 FIXED ASSETS*Tangible fixed assets:*

NOK mill	Ship	Periodic maintenance	Total
Acquisition value 1.1.	9 542,5	684,1	10 226,6
Acquisition value on assets no longer consolidated	-987,2	-70,6	-1 057,8
Additions	8,7	156,5	165,2
Disposals at cost	-805,7	3,5	-802,2
Accumulated depreciation 31.12.	-2 280,1	-610,6	-2 890,7
Accumulated impairment on vessel value 31.12.	-578,6	-	-578,6
Book value 31.12.	4 899,6	162,9	5 062,5
Annual depreciation charge	208,3	75,8	284,2
Annual impairment provision	0,0	30,9	30,9
Economic lifetime	20 yrs	3-10 yrs	

The former subsidiary Island Offshore III KS owns the LWI vessel Island Constructor. As part of the restructuring agreement for the partnership agreed in December 2021 and effective in January 2022, the share capital was reduced by way of reducing nominal value on existing shares. Simultaneously, the share capital was increased by way of issuing new shares in the partnership. Island Offshore Shipholding LP did not participate in the share capital increase, and the Group's owner interests was diluted from 63.6% to 24.05%. Thus, in accordance with Norwegian Accounting principles, the partnership Island Offshore III KS was de-consolidated from the Group's financial statement due to the parent company no longer having majority control in the Partnership. Accordingly, acquisition value on Island Constructor amounting to NOK 1,057.8 in January 2022 is no longer added to the fixed asset register.

The vessels Island Discoverer was sold 18.07.22, the Island Defender was sold 11.10.22 and the Island Condor was sold 27.12.2022 with a total sale amount of NOK 628.3 mill. Extensive maintenance capex program with class renewals, installment of Ballast Water Treatment Units, engine and thruster overhauls and vessel repairs are reported as fleet additions with NOK 165.2 mill in 2022.

The Island Endeavour and Island Empress were sold in June 2021 and the two vessels were leased back on bareboat terms from affiliated company up to sale of the vessels in November 2022. According to standard bareboat charter party agreement the lessee had the responsibility to maintain the leased vessels in good order / state of repair, in efficient operating condition and in accordance with good commercial maintenance practice. Thus, as a consequence of the termination of the lease agreement, expenses for a 15 year class renewal for Island Empress and installment of ballast water treatment unit for both vessel, in total amounting to NOK 18.1 mill, has been expensed as impairment provision.

The vessel Island Champion, currently on bareboat contract from external shipowner, has been purchased by an affiliated company in February 2023, thus will not be part of the Group's operational fleet in Q1-23. Capitalized 15 year class renewal including main engine and thruster overhaul for the vessel is written down as impairment provision with a total of NOK 12.8 mill as per 31.12.22. Thus, this year's impairment provision amounts to NOK 30.9 mill and as per 31.12.22, the remaining fleet value was written down with a total of NOK 578.6 mill.



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

The market values on the vessels obtained by independent brokers are higher than net book value. The management has also 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 9%. The usage period of the vessel is assumed to be 30 years after delivery.

The usage value analysis do not indicate further impairment on vessel value.

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	-1%	basis	+1%
Estimated impairment provision	-	-	-

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

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate	-10%	basis	+10%
Estimated impairment provision	-69	-	-

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.

**Notes to the Consolidated Financial Statements 2022**

Island Offshore Shipholding LP

All figures in NOK mill

NOTE 7 SUBSIDIARIES AND INVESTMENT IN SHARES

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 2022:

Organization No	Company	Address	Ownership
		CAYMAN ISLAND /	
990035903	ISLAND OFFSHORE SHIPHOLDING LP	ULSTEINVIK NORWAY	Parent company
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	55,03 %
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 DISCOVERER 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 %
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.

Following the sale of the vessel Island Discoverer, Island Offshore XII AS purchased Vard Group AS' interests in the company Island Discoverer AS in November 2022 for a total of NOK 95.8 mill. In addition, Island Offshore XII AS purchased own shares from minority owners for a total of NOK 10.1 mill. As per 31.12.22 Island Offshore XII AS owns 53.1% of the shares in Island Offshore XII Ship AS and 100% of the shares in Island Discoverer AS. Island Victory AS and Island Defender 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.

As part of the restructuring agreement for the partnership Island Offshore III KS 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. Thus, the Group's owner interests was diluted from 63.6% to 24.05% and shares in the Partnership Island Offshore III KS are from January 2022 classified as investment in associated companies recorded in accordance with the equity method.

**Notes to the Consolidated Financial Statements 2022**

Island Offshore Shipholding LP

All figures in NOK mill

In NOK mill	Org.No. 982 411 408 Island Offshore III KS
Equity subsidiary as per 01.01.22	357,6
Effect of dilution of shares	(256,3)
Share of this year's profit	(3,6)
Investment in associated company as per 31.12.22	97,7
Island Offshore III KS; This year's profit + / loss - (100%)	(15,1)
Island Offshore III KS; Equity as per 31.12.22 (100%)	406,2
Ownershare including General Partner interests	24,05 %
Address	Stålhaugen Ulsteinvik Norway

NOTE 8 INVENTORY

Inventories in 2022 comprise in total NOK 24.9 mill as vessels' stock of lubricants and fuel valued at cost based on the FIFO principle. Comparable numbers in 2021 was NOK 13.3 mill.

NOTE 9 PLEDGE OF ASSETS

NOK mill	2022	2021
Liabilities secured by pledge	2 677,6	3 772,2
Book value of pledged assets:		
Ships	4 440,8	6 020,8
Factoring	191,0	246,5
Cash deposits	141,8	376,6
Total	4 773,7	6 643,9

In addition, eventual insurance payouts are pledged.

The long term financial liabilities includes NOK 100 mill to one financial institution as a residual debt arising from a buy-back of loans. As part of the refinancing agreement signed in June 2021, it is agreed that NOK 50 mill of the the remaining debt will be forgiven if Island Offshore VIII KS pays NOK 50 mill as a bullet payment within four years after the closing date. This includes PIK interests at 2% which will be written down without further consideration. It is considered very likely that the bullet payment will be paid as planned, thus no PIK interests have been accrued for in the Balance Sheet.



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

Island Duchess, Island Duke and Island Dawn were sold in 2021. The sales proceeds were used in order to repay part of the vessel loans. A remaining vessel loan total of NOK 181.3 mill related to these vessels are classified as unsecured debt as per 31.12.22. The parent company has issued a guarantee in favor of the banks providing financial loans to Island Offshore X KS in a total amount of NOK 345.9 mil. The guaranteed liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement entered into in connection with the refinancing agreement. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

The vessels Island Discoverer and Island Defender were sold in 2022 and sales proceeds were distributed to parent companies in order to repay ship mortgage loan in Island Offshore XII Ship with NOK 180.0 mill and to complete a refinancing agreement in Island Victory AS. Total debt reduction for Island Victory AS in 2022 is a total of NOK 291 mill and includes sweeps, fixed installment and a new loan from secured lenders at NOK 460 mill.

NOTE 10 LONG-TERM LIABILITIES

Island Offshore Shipholding Group concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. The senior secured lenders agreed to extend their loans until the end of 2020 at amended terms, whilst the unsecured lenders agreed to extend until 30.06.2021. Due to the immediate worsening of the market conditions and limited visibility in terms of recovery at the time, the Group announced a unilateral standstill to halt scheduled instalment payments to secured lenders in May 2020. Island Offshore serviced its debt according to the restructuring agreement until May 2020.

Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes a runway for the Company's senior secured debt until 31.12.2023 with an agreed level of amortization and potentially cash sweeps.

Discussions regarding an extension of the maturity of these senior secured loan facilities beyond 31.12.2023 have started. Given the improved market conditions and increased order back-log at improved terms and conditions, it is expected that an agreement will be reached and a revised loan agreement signed before the end of the year.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

Although the discussions with the senior lenders to both the Company and I O X KS are constructive and progressing, no assurances can be given as to when a conclusion is reached. However, the senior lenders to I O X KS has accepted, and signed, the re-stated and amended subordination agreement with the senior lenders to the parent company in the Island Offshore Shipholding Group.

In accordance with Norwegian Accounting Principles, the loans from financial institutions and seller credit are classified as long term loans in 2022 with the following exceptions;

- since formal restructuring agreements for Island Offshore X KS are not in place at the time of approval of the financial statement, the loans from financial institutions NOK 345.9 mill, are classified as short term loans in accordance with Norwegian Accounting Principles.

Financing expenses are capitalized and expensed over the expected term of the loan. The remaining balance is NOK 9.6 mill at 31.12.2022 for the Group.



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

NOTE 11 RELATED PARTIES

Transactions with related parties:

	2022	2021
Long term receivable	57,2	80,0
Other short term receivables	113,9	99,6
Other long term liabilities	(461,2)	(450,5)
Accounts payable	(9,8)	(39,1)
Other short term liabilities	(141,6)	(119,0)
Total	(441,4)	(428,9)

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.

The parent 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 as insurance for this loan. The Company has prepaid operational lease to Borgstein AS for the gangway and pedestal equipment of NOK 6.4 mill, presented as other long term receivables. Corresponding prepayment is received from charterer of the vessel Island Clipper, thus prepayment of NOK 6.4 mill from customer is presented as other long term liability. The long term receivable and liability will be reduced in accordance with monthly lease revenue and lease expenses during the lease period.

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.

Other long term liabilities are loans from the ultimate owners of Island Offshore Shipholding L.P. NOK 400.8 mill, loan from Manager NOK 15.6 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.

	2022	2021
Bareboat hire income	41,6	167,7
Bareboat hire expense	-17,9	-7,7
Crew hire	-551,2	-618,1
Management services	-56,4	-60,4
Total	-583,8	-518,5

Island Victory AS has entered into Bareboat Charter Agreement with Island Offshore Shipping AS when the vessel was operating in the US. From July 2021 to November 2022, Island Offshore VIII KS has leased the vessels Island Endeavour and Island Empress from Green Island PSV AS. The bareboat rent is based on arms-length principles and based on BIMCO standard Bareboat Charter Agreement.



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

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.

NOTE 12 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.

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

	2022	2021
Fixed assets	3 061,1	3 354,6
Receivables and temporary foreign exchange difference	-	-
Gains / losses fixed assets carried forward	81,0	108,3
Other temporary differences	-7,8	-7,0
Tax loss carried forward	-804,8	-724,2
Total temporary differences	2 329,4	2 731,7
Temporary differences from general partner and limited liability companies not included in deferred tax asset calculation	232,7	251,3
Temporary differences from partnerships not included in deferred tax calculations	-2 116,8	-2 614,4
Deferred tax basis	445,4	368,6
Net deferred tax	98,0	81,1
Deferred tax liability	98,0	82,3
Deferred tax asset	-	-1,2
Net deferred tax	98,0	81,1
Tax rate	22 %	22 %
Specification of tax expense		
Tax payable in Norway	1,4	0,3
Foreign tax payable	-	1,2
Change in deferred tax	16,9	17,2
Tax expense	18,3	18,7

The variance between the tax expense in the financial statement and the pre-tax result multiplied by nominal tax rate is mainly 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 31.12.22.

**Notes to the Consolidated Financial Statements 2022****Island Offshore Shipholding LP**

All figures in NOK mill

NOTE 13 EQUITY

	Paid in capital	Other equity	Minority interest	Total
Equity 01.01.2022	895,5	-837,6	1 125,3	1 183,2
Share issue				-
Purchase of minority shares		-105,8		-105,8
Effect changed ownership		133,6	-133,6	-
Debt forgiveness recorded as equity		45,1		45,1
Effect on currency difference		0,2		0,2
Annual result		-192,5	-106,3	-298,8
Equity 31.12.22	895,5	-957,0	885,4	824,0

NOTE 14 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
Totalt	100,00 %	895,5

NOTE 15 OTHER MATTERS

Some of the vessels within the Group has performed work on foreign continental shelves constituting a Permanent Establishment (PE). In 2022 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.

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 Group concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. The senior secured lenders agreed to extend their loans until the end of 2020 at amended terms, whilst the unsecured lenders agreed to extend until 30.06.2021. Due to the immediate worsening of the market conditions and limited visibility in terms of recovery at the time, the Group announced a unilateral standstill to halt scheduled instalment payments to secured lenders in May 2020. Island Offshore serviced its debt according to the restructuring agreement until May 2020.

Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes a runway for the Parent Company's senior secured debt until 31.12.2023 with an agreed level of amortization and potentially cash



Notes to the Consolidated Financial Statements 2022

Island Offshore Shipholding LP

All figures in NOK mill

sweeps. The unsecured bond loans and sellers' credits were simultaneously extended with a new maturity 30.06.2024.

Discussions regarding an extension of the maturity of these senior secured loan facilities beyond 31.12.2023 have started. Given the improved market conditions and increased order back-log at improved terms and conditions securing the group's ability to service its debt, it is expected that an agreement will be reached, and a revised loan agreement signed before the end of the year.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS. The parent company has issued a guarantee in favor of the banks providing the ship mortgage loans in a total amount of NOK 345.9 mill. The guaranteed liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement entered into in connection with the refinancing agreement. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

Although the discussions with the senior lenders to both the Company and I O X KS are constructive and progressing, no assurances can be given as to when a conclusion is reached. However, the senior lenders to I O X KS has accepted, and signed, the re-stated and amended subordination agreement with the senior lenders to the parent company in the Island Offshore Shipholding Group.

There are signs of improvement in the offshore market in 2023 and the Group has a satisfactory backlog for its fleet. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base for the Company 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 31.12.2022, and the condition that a new restructuring agreement will be agreed and made effective with secured and unsecured lenders for the parent company, Island Offshore Shipholding, LP and the Partnership Island Offshore X KS well ahead of the maturity date 31.12.2023.



Island Offshore Shipholding LP

Annual report 2022

Annual accounts

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

Auditors' report



Annual Report 2022

Island Offshore Shipholding LP

The Business

The Company is registered in the Cayman Islands and currently owns one W2W vessel, one Stimulation vessel, two Subsea Construction Vessels (SCV) and one Light Well Intervention vessels (LWI). The vessels are marketed for employment worldwide, but three of the vessels primarily operate in the North Sea; the remaining two have operated outside West Africa and in international waters in 2022.

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 2022 totals NOK 627.3 million compared to NOK 506.6 million in 2021 and includes agent revenue of NOK 41.5 mill reported gross in the revenue and vessel expenses.

The vessel Island Crown was sold 30.09.21. The vessel had a 67% utilization up to the date of the sale. The SCV vessel Island Frontier was in lay up until September 2021 and has in 2022 achieved 98% utilization. The LWI vessel, Island Wellserver, achieved 72% utilization in 2022 compared with 54% thus a significant improvement. The vessels Island Centurion, Island Pride and Island Clipper achieved an average of 99% utilization.

The operating result for 2022 is a profit of NOK 110.4 million compared to a profit of NOK 17.0 million in 2021. The increase in operating results is mainly due to increased utilization for the fleet. For comparison, the sale of the Island Crown in September 2021 resulted in a gain of NOK 16.9 million reported as a reversed impairment provision in 2021. Other operating expenses in 2021 included losses on outstanding receivables NOK 12.7 million from the dissolved partnership Island Navigator Holding KS and the general partner Island Navigator Holding AS.

This year's net loss is NOK -214.1 million compared to a profit of NOK 2.9 million in 2021. The share of the net results from investments in subsidiaries is a loss of NOK -228.3 million in 2022 compared with a profit of NOK 70.6 million in 2021. The main reason for the loss is dilution of ownership interest in Island Offshore III KS, following an equity issue whereby the IOSH's interests were reduced from 57.2% to 18.5%. In addition, the financial statements include a write-down of the value of ownership interests in Island Pioneer KS and Island Pioneer AS. The companies are planned to be dissolved in 2023.

Net cash flow from operational activities is positive with NOK 86.8 million. Capitalized maintenance expenses amount to NOK 31.4 million in 2022. The Company paid NOK 144.2 million of installments to secured lenders in 2022. PIK interests on bond loan has been added to the bond loan with a value of NOK 23.5 million in 2022. Overall, the Company has a negative cash flow of NOK 62.8 million leaving a cash balance at 31.12.2022 of NOK 100.0 million.

Island Offshore Shipholding LP



Net equity totals NOK 114.8 million as at 31.12.2022 compared to NOK 328.9 million at 31.12.2021. The decrease is equal to this year's profit. The net equity is impacted by previous year's impairment of vessel values with a total of NOK 126.5 million recorded as per 31.12.2022.

The Company 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 Group concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. The senior secured lenders agreed to extend their loans until the end of 2020 at amended terms, whilst the unsecured lenders agreed to extend until 30.06.2021. Due to the immediate worsening of the market conditions and limited visibility in terms of recovery at the time, the Group announced a unilateral standstill to halt scheduled instalment payments to secured lenders in May 2020. Island Offshore serviced its debt according to the restructuring agreement until May 2020.

Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes a runway for the Parent Company's senior secured debt until 31.12.2023 with an agreed level of amortization and potentially cash sweeps. The unsecured bond loans and sellers' credits were simultaneously extended with a new maturity 30.06.2024.

Discussions regarding an extension of the maturity of these senior secured loan facilities beyond 31.12.2023 have started. Given the improved market conditions and increased order back-log at improved terms and conditions securing the group's ability to service its debt, it is expected that an agreement will be reached, and a revised loan agreement signed before the end of the year.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS. The parent company has issued a guarantee in favor of the banks providing the ship mortgage loans in a total amount of NOK 345.9 mill. The guaranteed liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement entered into in connection with the refinancing agreement. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

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There are signs of improvement in the offshore market in 2023 and the Group has a satisfactory backlog for its fleet. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base for the Company 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 31.12.2022, and the condition that a new restructuring agreement will be agreed and made effective with secured and unsecured lenders for the parent company, Island Offshore Shipholding, LP and the Partnership Island Offshore X KS well ahead of the maturity date 31.12.2023.

Island Offshore Shipholding LP



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 all men and comprises representatives from the owners in the partnership.

The Vessel Manager Island Offshore Management AS continuously work to promote gender equality in all aspects of the business with the objective of securing equal opportunities irrespective of gender, ethnicity, nationality or religious orientation.

As employer the Vessel Manager has the responsibility to maintain, complete and report on progress with the work to promote and secure basic human rights and decent working conditions (Norwegian Transparency Act; "Åpenhetsloven"). The report will be available on Island Offshore's webpage www.islandoffshore.com before 30.06.23.

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.

Financial Risk

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 to the extent such facilities are available.

Total liabilities are NOK 2,818.7 million including NOK 1,122.9 million of ship mortgages and NOK 832.8 million of corporate bonds. The largest part of the ship mortgage financing has floating interest rate basis.

Future outlook

All vessels have term contracts with expiry in 2023 or later.

Market state is improving with increased activity in many segments. 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 current geopolitical risk may cause operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. This could impact the long-term market outlook and assessments of recoverable asset amounts.

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

Island Offshore Shipholding LP



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.

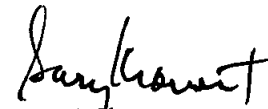
Allocation of results


The Board proposes the following allocation of the 2022 net loss NOK -214 110 006:

Transferred to other equity NOK -214 110 006

Ulsteinvik, 08.06.2023


Morten Ulstein
Manager


Gary J. Chouest
Manager


Dino D. Chouest
Manager


Harald Ulstein
Manager

Island Offshore Shipholding LP



Island Offshore Shipholding LP

Income statement

	Note	2022	2021
Revenue			
Freight income	2,9	<u>627 311 463</u>	<u>506 602 651</u>
Operating expenses			
Vessel expenses	2,9	161 892 923	153 472 261
Crew expenses	9	224 185 310	205 316 857
Depreciation	5	113 116 445	114 483 979
Write-down on ships	5	0	-16 926 015
Other operating expenses	4	<u>17 760 199</u>	<u>33 207 156</u>
Total operating expenses		<u>516 954 877</u>	<u>489 554 238</u>
Operating result		<u>110 356 586</u>	<u>17 048 413</u>
Financial income and expenses			
Income from investments in subsidiaries and associated companies	70	-228 258 413	70 616 487
Interest income from group companies		1 083 530	1 807 892
Other financial income	3	11 394 150	3 913 859
Interest paid to group companies		0	115 863
Other financial expenses	3	<u>108 685 859</u>	<u>90 339 124</u>
Net financial items		<u>-324 466 592</u>	<u>-14 116 749</u>
Ordinary result before tax		<u>-214 110 006</u>	<u>2 931 664</u>
Net profit or loss for the year		<u>-214 110 006</u>	<u>2 931 664</u>
Allocated as follows			
Transferred to other equity	12	<u>-214 110 006</u>	<u>2 931 664</u>



Island Offshore Shipholding LP

Balance sheet as of December 31

	Note	2022	2021
Fixed assets			
<i>Tangible assets</i>			
Ships	5,6	<u>1 903 258 014</u>	<u>1 987 412 122</u>
Total tangible assets		<u>1 903 258 014</u>	<u>1 987 412 122</u>
<i>Financial assets</i>			
Investments in subsidiaries and associated companies	10	647 922 359	955 775 539
Investments in shares and units	10	79 594 766	0
Other receivables	6,7,9	<u>57 203 161</u>	<u>80 035 347</u>
Total financial assets		<u>784 720 286</u>	<u>1 035 810 886</u>
Total fixed assets		<u>2 687 978 300</u>	<u>3 023 223 008</u>
Current assets			
Stock of fuel etc.		<u>4 873 686</u>	<u>5 715 269</u>
<i>Receivables</i>			
Trade receivables	6	75 627 367	62 455 290
Other receivables	9	<u>65 040 406</u>	<u>28 647 186</u>
Total accounts receivable		<u>140 667 773</u>	<u>91 102 476</u>
Cash and cash equivalents	6	<u>100 022 035</u>	<u>162 866 907</u>
Total current assets		<u>245 563 494</u>	<u>259 684 652</u>
Total assets		<u>2 933 541 794</u>	<u>3 282 907 660</u>




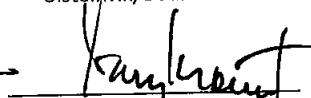
Island Offshore Shipholding LP


Balance sheet as of December 31


	Note	2022	2021
Equity			
<i>Paid-in capital</i>			
Equity, undistributable	13	895 548 243	895 548 243
Total paid-in capital		<u>895 548 243</u>	<u>895 548 243</u>
<i>Retained earnings</i>			
Other equity		<u>-780 741 699</u>	<u>-566 631 693</u>
Total retained earnings		<u>-780 741 699</u>	<u>-566 631 693</u>
Total equity	12	<u>114 806 544</u>	<u>328 916 550</u>
Liabilities			
<i>Other long-term liabilities</i>			
Bonds	7	832 780 494	0
Liabilities to financial institutions	6,7	1 122 854 835	0
Other long-term liabilities	7,9	<u>637 738 317</u>	<u>436 859 492</u>
Total other long term liabilities		<u>2 593 373 646</u>	<u>436 859 492</u>
<i>Current liabilities</i>			
Bonds	7	0	809 246 406
Liabilities to financial institutions	6,7	0	1 264 458 509
Trade creditors	9	1 447 899	456 111
Other short-term liabilities	7,9	<u>223 913 705</u>	<u>442 970 592</u>
Total current liabilities		<u>225 361 604</u>	<u>2 517 131 618</u>
Total liabilities		<u>2 818 735 250</u>	<u>2 953 991 110</u>
Total equity and liabilities		<u>2 933 541 794</u>	<u>3 282 907 660</u>

31 December 2022
Ulsteinvik, 8 June 2023


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

	2022	2021
<i>Cash flow from operational activities:</i>		
Profit before tax	-214 110 006	2 931 664
- Taxes paid	0	0
Reversed share of result gain-/ loss+ from subsidiaries and		
-/+ associated companies	228 258 413	-70 588 903
+ Write down of financial assets	0	0
+ Depreciation	113 116 445	114 483 979
+ Impairment provision on vessel value	0	-16 926 015
-/+ Change in inventory	841 583	-589 282
-/+ Change in accounts receivable	-13 172 078	23 652 462
+/- Change in accounts payable	991 787	-5 030 813
+/- Change in other accruals, prepaid expenses	-29 103 773	29 983 877
= Net cash flow from operational activities	<u>86 822 371</u>	<u>77 916 969</u>
<i>Cash flow from investment activities</i>		
+ Payments sale of fixed assets	2 453 500	310 804 787
- Payments investments in fixed assets	-31 415 838	-61 613 516
+ Payments from liquidation of subsidiaries	0	1 421 987
-/+ Change in long term receivables, fin. Institutions	0	0
= Net cash flow from investment activities	<u>-28 962 338</u>	<u>250 613 258</u>
<i>Cash flow from financing activities</i>		
+ Drawdown of long term interest bearing liabilities	0	0
+ Loan from affiliates	0	15 596 424
+/- Capitalized pik interests of bond loan	23 534 088	22 752 366
- Repayment of loan	-144 238 993	-330 788 857
- Change in long term liabilities, fin. Institutions	0	0
= Net cash flow from financing activities	<u>-120 704 905</u>	<u>-292 440 067</u>
= <i>Net change in cash and cash equivalents</i>	<u>-62 844 872</u>	<u>36 090 160</u>
+ <i>Cash reserve 1.1</i>	<u>162 866 907</u>	<u>126 776 747</u>
= <i>Cash reserve 31.12</i>	<u>100 022 035</u>	<u>162 866 907</u>

Island Offshore Shipholding LP



Notes to the financial statements 2022

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 2022**

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	2022	2021
Norway	388,6	354,6
UK	0,9	-
Trinidad and Tobago	-	6,8
The Netherlands	-	19,9
Angola	99,9	13,8
Mexico	0,2	-
Equatorial Guiana	4,8	-
Mauritania	8,0	-
USA	0,2	-
Spain	0,2	-
Denmark	2,5	-
International waters	122,1	111,5
Total Freight Income	627,3	506,6

On 30.09.21, the Company sold the W2W vessel Island Crown to an affiliated company. The Company had agent contract with the affiliated company Green Island Crown AS in 2022 of which revenue due from external customer is report gross with NOK 41.5 mill as freight income relating to Island Crown with equivalent amount due to Green Island Crown AS reported under vessel expenses.

The remaining fleet consists of one PSV performing Walk to Work services, one Wellstim vessel, two SCVs and one LWI vessel.



Notes to the financial statements 2022

Island Offshore Shipholding LP

The SCV vessel Island Frontier was in lay up until September 2021 and has in 2022 achieved 98% utilization with subsea construction work in Angola. The other SCV vessel, Island Pride, achieved 100% utilization both in 2022 and in 2021. The vessel is working world wide on a term contract for five years with expiry 31.12.23 including 2*1 year options.

The LWI vessel Island Wellserver had 264 operational days in 2022 compared with 196 operational days in 2021 (idle from September-21).

The Wellstim vessel Island Centurion achieved 98% utilization 2022 compared with 100% utilization in 2021.

The PSV/W2W vessel Island Clipper is on a 4 year firm contract with expiry 01.04.27 and achieved 97% utilization in 2022 compared with 100% utilization in 2021.

NOTE 3 SPECIFICATION OF ITEMS

Other financial income:

	<u>2022</u>	<u>2021</u>
Other interest income	86 165	-
Interest income bank and bond asset	1 135 362	14 291
Foreign exchange gain realized	10 170 845	2 979 763
Foreign exchange gain+ / loss - unrealized	-506 414	795 348
Interests income related party	508 192	124 458
Total other financial income	<u>11 394 150</u>	<u>3 913 860</u>

Other financial expenses comprise:

	<u>2022</u>	<u>2021</u>
Deprecation of capitalized financial expenses	2 826 952	4 003 196
Interest cost related party	9 499 350	7 005 647
Interest cost long term loans	87 965 506	76 083 902
Foreign exchange loss realized	8 386 046	3 186 064
Other financial expenses+/-income -	10 005	60 315
Total other financial expenses	<u>108 687 859</u>	<u>90 339 124</u>



Notes to the financial statements 2022

Island Offshore Shipholding LP

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 470.532,- can be specified as follows:

Statutory audit service	198.125
Tax Filing and Group tax computation	176.075
Other services	147.498
Expenditures	36.147
Credit note correction VAT	-87.313
Expensed remuneration excluding VAT	470.532

The Company is not registered in Norwegian VAT register, thus no VAT are charged to the invoice.

NOTE 5 FIXED ASSETS

Tangible fixed assets:

Fixed assets

	Ship	Projects in Progress	Drydocking / periodic maintenance	Total
Acquisition cost I.1.	2 861 598 961	27 725 088	368 950 334	3 258 274 383
Additions	21 570 254	(11 661 567)	21 507 151	31 415 838
Disposals	(2 453 500)	-	-	(2 453 500)
Acc depreciation 31.12	(916 222 135)	-	(341 258 742)	(1 257 480 877)
Acc impairment provision 31.12	(126 497 830)	-	-	(126 497 830)
Book value 31.12.	1 837 995 750	16 063 521	49 198 743	1 903 258 014
Annual depreciation charge	73 456 692	-	39 659 753	113 116 445
Economic life	20 year		3 to 10 years	
Depreciation plan	Linear		Linear	

Additions relates to 10 year class renewal for the well-stim vessel and various engine overhauls, maintenance and repair expenses.

The market values obtained from independent ship brokers are higher than book value on the vessels. 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



Notes to the financial statements 2022

Island Offshore Shipholding LP

the Weighted Average Cost of Capital (WACC), which is set to 9%. The usage period of the vessel is assumed to be 30 years after delivery.

The impairment analysis does not indicate loss in value for the vessels in 2022. Total impairment provision amount to NOK 126.5 mill as per 31.12.22.

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%
Island Offshore Shipholding LP	-	-	-

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Island Offshore Shipholding LP	-	-	-

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Island Offshore Shipholding LP	-47	-	-

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

	2022	2021
Liabilities secured by pledge	1 122 854 835	1 264 458 509
Book value of pledged assets:		
Ships	1 903 258 014	1 987 412 122
Factoring	75 627 367	62 455 289
Cash deposits	100 022 035	162 866 907
Total	2 078 907 416	2 212 734 318

In addition eventual future insurance payouts are pledged.



Notes to the financial statements 2022

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.

The current Restructuring Agreement with secured and unsecured lenders was made effective in April 2018, whereby unsecured lenders agreed to extend facilities until the end of 2020 or later at amended interest terms. All ship owning entities within the IOSH Group has serviced all debt in accordance with the Restructuring Agreement, including both amortization and interest. Due to the immediate worsening of market conditions and limited visibility in terms of recovery, the Group announced a unilateral standstill to halt scheduled installment payments to secured lenders. Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes runway until 31.12.2023 with agreed level of amortization and potentially cash sweep.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS of which the parent company has issued guarantee for the ship mortgage loan in total NOK 345.9 mill. The guarantee liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement. It is expected that an agreement with the lenders to I O X KS will be agreed shortly. Although the discussions are constructive and progressing; no assurance can be given as to when a conclusion is attainable for Island Offshore X KS. However, the senior lenders to I O X KS has accepted, and signed, the re-stated and amended subordination agreement with the senior lenders to the parent company in the Island Offshore Shipholding Group.

Financing expenses are capitalized and expensed over the expected term of the loan. The remaining balance is NOK 6.8 mill at 31.12.2022.

Since formal agreement was not in place at the time of approval of the financial statement 2021, the loans from financial institutions NOK 1,264.5 mill, bond loan NOK 809.2 mill and seller credits NOK 219.9 mill were classified as short term loans as per 31.12.21 in accordance with Norwegian Accounting Principles.

NOTE 8 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 31.12.22.



Notes to the financial statements 2022

Island Offshore Shipholding LP

NOTE 9 RELATED PARTIES

Transactions with related parties:

	2022	2021
Other long term receivables	57 203 160	80 035 347
Other short term receivables	58 616 377	21 496 334
Loans from shareholders	-353 570 613	-352 880 614
Other long term liabilities	-54 763 624	-54 763 624
Accounts payable	-335 195	-105 414
Other short term liabilities	-96 832 698	-113 899 942

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. Remaining accrual NOK 6.4 mill regarding prepaid operational lease to Borgstein AS for the gangway and pedestal equipment, presented as other long term receivables. Corresponding prepayment is received from charterer of the vessel Island Clipper, thus prepayment of NOK 6.4 mill from customer is presented as other long term liability. The long term receivable and liability will be reduced in accordance with monthly lease revenue and lease expenses during the lease period.

Other short term receivables in 2022 includes receivables towards Manager with NOK 1.1 mill and prepaid monthly vessel expenses with NOK 26 mill. In 2022, the Parent Company entered into agent contracts with Island Offshore International Shipping AS and had outstanding NOK 21.4 mill in relation to this. Accrued interests are charged with NOK 9.7 mill as per 31.12.22 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 to the subsidiary Island Offshore X KS in order to fund liquidity shortfall. The loan was written down to zero in the Income Statement for 2020.

Loans from shareholders are related to funding in connection with capital commitments in subsidiaries and cash sweep guarantees. Other long term liabilities is rest of a seller credit loan NOK 39.2 mill towards Island Ventures IV LLC and a long term loan from Island Offshore Management AS. 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 9.8 mill and a short term loan from Island Pioneer KS (sale of vessel proceeds) with NOK 86.3 mill. Island Pioneer KS is going to be dissolved in 2023 thus liquidation settlement will settle outstanding loan.



Notes to the financial statements 2022

Island Offshore Shipholding LP

	2022	2021
Income from bareboat contracts	0	7 047 800
Agent Contracts	103 119 206	0
Crew hire	-224 185 310	-205 316 858
Management services	-17 645 956	-17 829 812

The company has entered into agent contracts with Island Offshore International Shipping AS for the operation of Island Frontier. No risk for the operation company thus revenue is reported by the shipowner. In addition the Company has flow-through contracts with the affiliated company Green Island Crown AS in 2022 of which revenue due from external customer is report gross with NOK 41.5 mill as freight income with equivalent amount NOK 41.5 mill due to Green Island Crown AS reported under vessel expenses ref note 2.

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.

In 2022, 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.

NOTE 10 SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTMENTS IN SHARES

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	TO TAL
Business office	Ulstein	Ulstein	Ulstein	Ulstein	
Date of acquisition	2005	2004/2007/2017	2004	2010	
Acquisition cost	130 757	342 694	427 311	68 400	
Committed capital	288 700	391 342	51 674	175 000	
Uncalled capital	-	-	-	75 000	
Ownership	from 57,2% to 18,5% as per 31.12.22	65,94 %	88,46 %	63,00 %	
Opening balance 1.1	191 475	207 399	-	58 270	457 145
Share of net result 2022	1 469	-28 831	-	-25	-27 387
Paid in capital	-	-	-	-	-
Share of extinguish of debt	4 076	-	-	-	4 076
Write down financial assets	-	-	-	-58 245	-58 245
Dilution of paid in capital	-117 425	-	-	-	-117 425
Reclassify as investment in shares	-79 595	-	-	-	-79 595
Closing balance Partnerships 31.12.	0	178 568	-	0	178 570



Notes to the financial statements 2022

Island Offshore Shipholding LP

Value of shares in the partnership Island Offshore X 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 was written down to zero in financial expenses in the Income Statement in 2020.

The Partnership Island Pioneer KS and the General Partner Island Pioneer AS are going to be dissolved in 2023. The Companies are dormant and there will be no proceeds from the liquidation statement, thus value of shares are written down to zero.

As part of the restructuring agreement for the partnership Island Offshore III KS 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. Thus, the Company's owner interests was reduced from 57.2% to 18.5% and the Partnership Island Offshore III KS is not consolidated in the Island Offshore Shipholding Group accounts from January 2022 and classified as investment in shares and units as per 31.12.22.

NOK 1000	Island Offshore III KS
Business office	Ulstein
Date of acquisition	2005
Acquisition cost	130 757
Committed capital	288 700
Uncalled capital	-
Ownership	18,50 %
Opening balance 1.1	-
Reclassify as investment in shares	79 595
Closing balance investments in shares 31.1	79 595



Notes to the financial statements 2022

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 Pioneer AS	Island Offshore International Shipping AS	Island Offshore UK Ltd	Total
Business address	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	Ulstein	Aberdeen	
Date of acquisition	2005/2017	2004/2007	2004	2007	2010	2015	2015	
Acquisition cost	28 567	24 825	20 432	154 245	7 600	99	12	
Ownership	72,90 %	100,00 %	55,03 %	61,65 %	70,00 %	99,00 %	100,00 %	
Opening balance	29 775	0	28 723	419 952	20 179	0	0	498 630
Share of net result 2022	-3 188		-699	-884	-14 173			(18 944)
Write down financial assets			0		-6 006			(6 006)
Share of extinguish of debt			1 210					1 210
Dilution of paid in capital			-5 537					-5 537
Closing balance limited liability compa	26 587	0	23 697	419 068	0	0	0	469 352
Total loss in profit and loss accounts for partnerships, and limited liability companies								-228 258
Net book value investments in subsidiaries and associated companies								647 922

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, Island Offshore International Shipping AS and Island Offshore UK Limited are with losses, hence the value of shares are written down to zero. As mentioned above, the Island Pioneer AS is going to be dissolved in 2023, thus value of shares are written down to zero.

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:

	2022	2021
Fixed asset	1 288 879 991	1 274 368 088
Gain/loss account	138 136 018	172 670 022
Total temporary differences	1 427 016 009	1 447 038 110
Deferred tax/tax asset	313 943 522	318 348 384
Tax rate	22 %	22 %

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



Notes to the financial statements 2022

Island Offshore Shipholding LP

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

	2022	2021
Profit before tax	-214 110 006	2 931 664
<i>Permanent differences:</i>		
Non-deductible expenses	117 693	66 434
Reversed loss related to liquidation of subsidiaries	-	11 839 427
Net accounting result - partnerships and limited liability companies	228 258 413	-69 755 181
Net tax result - partnerships	34 135 506	8 517 488
<i>Change in temporary differences:</i>		
Fixed assets	-14 511 903	118 993 936
Gain/loss account	34 534 004	-123 587 224
Denied deduction for internal interests expenses	8 989 157	6 881 189
Annual tax basis	77 412 864	-44 112 267

The Partnership is transparent as regards to tax liability, thus Company's partners are liable for the tax liability in accordance to owner share.

NOTE 12 EQUITY

	Paid in capital	Other equity	Total
Equity 1.1	895 548 243	-566 631 693	328 916 550
<i>Change in equity</i>			
Net result		-214 110 006	-214 110 006
Equity 31.12.	895 548 243	-780 741 699	114 806 544

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
Totalt	100,00 %	895 548 243



Notes to the financial statements 2022

Island Offshore Shipholding LP

NOTE 14 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 Group concluded a restructuring agreement with secured and unsecured lenders effective April 12th 2018. The senior secured lenders agreed to extend their loans until the end of 2020 at amended terms, whilst the unsecured lenders agreed to extend until 30.06.2021. Due to the immediate worsening of the market conditions and limited visibility in terms of recovery at the time, the Group announced a unilateral standstill to halt scheduled instalment payments to secured lenders in May 2020. Island Offshore serviced its debt according to the restructuring agreement until May 2020.

Since May 2020, agreement has been reached with the senior secured lenders financing the majority of the ship-owning companies including the parent company. The agreement includes a runway for the Parent Company's senior secured debt until 31.12.2023 with an agreed level of amortization and potentially cash sweeps. The unsecured bond loans and sellers' credits were simultaneously extended with a new maturity 30.06.2024.

Discussions regarding an extension of the maturity of these senior secured loan facilities beyond 31.12.2023 have started. Given the improved market conditions and increased order back-log at improved terms and conditions securing the group's ability to service its debt, it is expected that an agreement will be reached, and a revised loan agreement signed before the end of the year.

Negotiations for an extension are still ongoing and progressing for the subsidiary Island Offshore X KS. The parent company has issued a guarantee in favor of the banks providing the ship mortgage loans in a total amount of NOK 345.9 mill. The guaranteed liabilities were set on hold as a deferred liability in accordance with the Intercreditor Agreement entered into in connection with the refinancing agreement. It is expected that an agreement with the lenders to I O X KS will be reached shortly.

Although the discussions with the senior lenders to both the Company and I O X KS are constructive and progressing, no assurances can be given as to when a conclusion is reached. However, the senior lenders to I O X KS has accepted, and signed, the re-stated and amended subordination agreement with the senior lenders to the parent company in the Island Offshore Shipholding Group.

There are signs of improvement in the offshore market in 2023 and the Group has a satisfactory backlog for its fleet. The assessment is that the Island Offshore Group has the resources, organization, competence, assets and customer base for the Company 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 31.12.2022, and the condition that a new restructuring agreement will be agreed and made effective with secured and unsecured lenders for the parent company, Island Offshore Shipholding, LP and the Partnership Island Offshore X KS well ahead of the maturity date 31.12.2023.



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Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Island Offshore Shipholding Lp

Opinion

We have audited the financial statements of Island Offshore Shipholding Lp (the Company), which comprise the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the Group). The financial statements of the Company and the Group comprise the balance sheet as at 31 December 2022, 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 and the Group as at 31 December 2022 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 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 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.

Emphasis of matter

We draw attention to the Board of Director's report and note 16 in the consolidated financial statements and note 14 in financial statements for the parent company, which include information related to the going concern assumption. Our opinion is not modified in respect of this matter.

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.

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Pennso Dokumentmøkkel: 60EM6-0081E-FFSHP-21PBO-3CZKS-XA46L



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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 and the Group'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 the Group, 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 and the Group'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 and the Group'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 and the Group 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.

Independent auditor's report - Island Offshore Shipholding Lp 2022

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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, 15 June 2023
ERNST & YOUNG AS

The auditor's report is signed electronically

Jørn Knutsen
State Authorised Public Accountant (Norway)

Penneo Dokumentnøkkel: 60EM6-0081E-FF5HP-21P80-3CZK8-AA6L

Independent auditor's report - Island Offshore Shipholding Lp 2022

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Jørn Knutsen

Statsautorisert revisor

På vegne av: Ernst & Young AS

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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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Telefaks
22 17 08 60



2013/779184 Side 3 av 3

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

Annual report 2022

Board of directors' report

Annual accounts

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

Auditors' report



Annual Report 2022
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 100% owned subsidiary owning the vessel Island Victory, a Deep Water Installation / AHTS vessel delivered in 2020 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 which was sold in October 2022.

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

Statement on results

Revenue in 2022 totals NOK 204.2 mill, an increase compared with 2021 when revenues totaled NOK 193.1 mill. The vessels achieved an average utilization of 52% in 2022 compared to 72% in 2021. Average spot rate achieved is higher than in 2021. Operating expenses have increased due to increased own fuel expenses and various equipment break downs. Crew expenses have also increased in 2021, due to increased sick leave and reduced government compensation in 2022. As part of the Governmental Covid-19 support measurements in 2021, the reimbursement cap per employees was temporarily removed, however reintroduced from September 2021.

The operating result in 2022 is a profit of NOK 19.3 mill compared with a profit of NOK 42.4 mill in 2021. Financial items include write down on shares in Island Defender AS with NOK 11.0 mill.

Cash flow from operational activities is positive with NOK 68.6 mill. Capital expenditure totals NOK 47.6 mill in 2022 related to 15-year class renewal projects for both vessels. The Company has repaid its secured debt with NOK 180 mill and issued a loan to the subsidiary Island Victory AS of NOK 144.9 mill. The repayment of secured loans and the loan to the subsidiary have been funded by partner loans from Island Offshore XII AS and the subsidiary Island Defender AS with a total of NOK 285.3 mill. Net cash flow is negative with NOK 18.6 mill in 2022 resulting in a net cash reserve of NOK 1.2 mill at 31.12.2022.

Net equity is NOK 990.3 mill as at 31.12.22 compared to NOK 996.6 mill at 31.12.2021. The change in equity is due to this year's loss of NOK -6.3 mill.

The Company does not have ongoing research and development activities.

Going concern

The Company has repaid its secured debt. In addition, the market is showing signs of improvement. 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 based on a going concern assumption. The basis for this assumption is the financial position of the Company at 31.12.2022.

Island Offshore XII Ship AS
Org. no 994 289 764



Work environment and gender equality

The Company does not have employees. The crew is hired from the Vessel Manager Island Offshore Management AS. The Manager continuously works to promote gender equality in all aspects of the business with the objective of securing equal opportunities irrespective of gender, ethnicity, nationality or religious orientation. The Board of directors are all men and comprises representatives from the largest participants in the Company.

As employer the Vessel Manager has the responsibility to maintain, complete and report on progress with the work to promote and secure basic human rights and decent working conditions (Norwegian Transparency Act; "Openhetsloven"). The report will be available on Island Offshore's webpage www.islandoffshore.com before 30.06.23.

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 GHG emissions, chemicals or other oil containing substances.

Financial risk

The Company's financial position as at 31.12.2022 is satisfactory and the Company has satisfactory working capital.

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 cash position is satisfactory going forward considering achieved spot work with good utilization and strong market rates the first quarter of 2023.

The Company's liabilities total NOK 573.8 mill as of 31.12.2022 of which inter-company debt is NOK 314.2 mill. NOK 190 mill of the inter-company debt will be settled by way of group contribution in 2023.

Future outlook

The vessels will operate in the project and spot market in 2023 and the markets are expected to improve but will remain volatile with seasonal activity variations.

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

Other matters

The CEO and 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.

Island Offshore XII Ship AS
Org. no 994 289 764



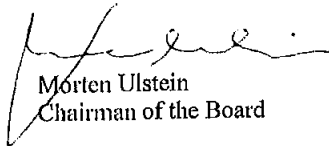
Beyond the above, the Board of Directors is not aware of any subsequent events that could be significant for the evaluation of the Company's financial position and results. Reference is made to the income statement, balance sheet, notes and cash flow analysis.

Allocation of results

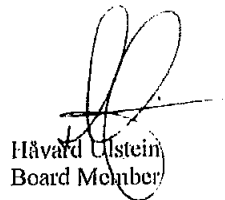
The Board proposes the following transfer of the 2022 loss of NOK -6.285.703

Transferred to other equity NOK -6.285.703

Ulsteinvik, 27.04.23



Morten Ulstein
Chairman of the Board



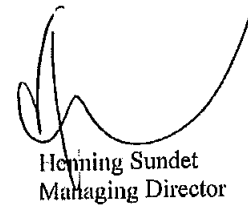
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Board Member



Giovanni Peditto
Board Member

Dino D. Chouest
Board Member

Fredrik Mordal Hessen
Board Member



Henning Sundet
Managing Director



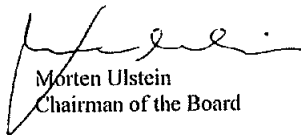
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Chairman of the Board



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

Income statement

	Note	2022	2021
Revenue			
Freight income	2	<u>204 244 869</u>	<u>193 129 498</u>
Operating expenses			
Vessel expenses	9	87 462 634	65 302 015
Crew expenses	9	59 684 005	51 051 030
Depreciation of tangible and intangible fixed assets	5	34 490 704	30 844 738
Other operating expenses	4	<u>3 301 525</u>	<u>3 553 817</u>
Total operating expenses		<u>184 938 868</u>	<u>150 751 600</u>
Operating result		<u>19 306 001</u>	<u>42 377 898</u>
Financial income and expenses			
Other financial income	3	2 632 291	405 618
Write-down on other financial assets	6	11 032 061	0
Interest paid to group companies	9	2 489 019	185 004
Other financial expenses	3	<u>13 359 821</u>	<u>11 003 640</u>
Net financial items		<u>-24 248 610</u>	<u>-10 783 026</u>
Ordinary result before tax		<u>-4 942 609</u>	<u>31 594 872</u>
Tax on ordinary result	10	<u>1 343 094</u>	<u>6 992 024</u>
Net profit or loss for the year		<u>-6 285 703</u>	<u>24 602 848</u>
Allocated as follows			
Transferred to other equity	11	<u>-6 285 703</u>	<u>24 602 848</u>



Island Offshore XII Ship AS

Balance sheet as of December 31

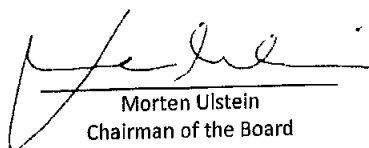
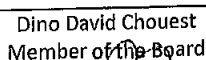
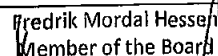

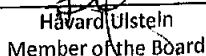
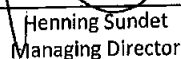
	Note	2022	2021
Fixed assets			
<i>Tangible assets</i>			
Ships	5,7	<u>621 600 086</u>	<u>608 528 789</u>
Total tangible assets		<u>621 600 086</u>	<u>608 528 789</u>
<i>Financial assets</i>			
Investments in subsidiaries	6	525 909 685	726 941 746
Loans to group companies	9	<u>144 917 667</u>	<u>0</u>
Total financial assets		<u>670 827 352</u>	<u>726 941 746</u>
Total fixed assets		<u>1 292 427 438</u>	<u>1 335 470 535</u>
Current assets			
Inventories		<u>13 373 562</u>	<u>1 141 172</u>
<i>Receivables</i>			
Trade receivables	7,9	28 028 293	46 386 714
Other receivables	9	<u>229 131 129</u>	<u>44 379 543</u>
Total accounts receivable		<u>257 159 422</u>	<u>90 766 257</u>
Cash and cash equivalents	7	<u>1 197 369</u>	<u>19 751 259</u>
Total current assets		<u>271 730 353</u>	<u>111 658 688</u>
Total assets		<u>1 564 157 791</u>	<u>1 447 129 223</u>



Island Offshore XII Ship AS

Balance sheet as of December 31

	Note	2022	2021
Equity			
<i>Paid-in capital</i>			
Share capital	12	404 097 000	404 097 000
Share premium reserve		328 188 318	328 188 318
Total paid-in capital		<u>732 285 318</u>	<u>732 285 318</u>
<i>Retained earnings</i>			
Other equity		258 025 225	264 310 928
Total retained earnings		<u>258 025 225</u>	<u>264 310 928</u>
Total equity	11	<u>990 310 543</u>	<u>996 596 246</u>
Liabilities			
<i>Provisions</i>			
Deferred tax liability	10	101 820 782	100 477 688
Total provisions		<u>101 820 782</u>	<u>100 477 688</u>
<i>Other long-term liabilities</i>			
Other long-term liabilities	8,9	421 222 439	135 876 288
Total other long term liabilities		<u>421 222 439</u>	<u>135 876 288</u>
<i>Current liabilities</i>			
Liabilities to financial institutions	7,8	0	180 000 000
Trade creditors		2 909 804	77 250
Other short-term liabilities	9	47 894 223	34 101 751
Total current liabilities		<u>50 804 027</u>	<u>214 179 001</u>
Total liabilities		<u>573 847 248</u>	<u>450 532 977</u>
Total equity and liabilities		<u>1 564 157 791</u>	<u>1 447 129 223</u>

31 December 2022
Ulsteinvik, 27 April 2023
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Chairman of the Board
Dino David Chouest
Member of the Board
Fredrik Mordal Hessen
Member of the Board
Giovanni Peditto
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Håvard Ulstein
Member of the Board
Henning Sundet
Managing Director

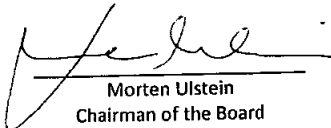


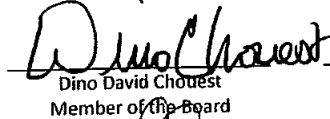
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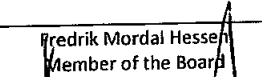
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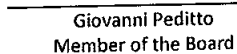
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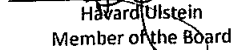
31 December 2022
Ulsteinvik, 27 April 2023


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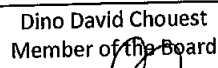
Island Offshore XII Ship AS


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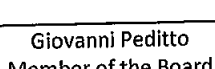
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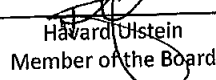
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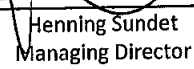

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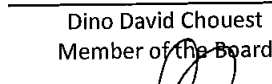
Island Offshore XII Ship AS


Balance sheet as of December 31

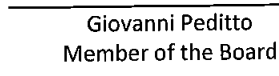
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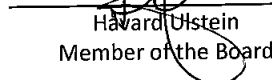
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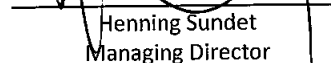

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Håvard Ulstein
Member of the Board


Henning Sundet
Managing Director

**Cash Flow Statement**

Island Offshore XII Ship AS

	2022	2021
<i>Cash flow from operational activities:</i>		
Profit before tax	-4 942 609	31 594 872
- Taxes paid	0	0
-/+ Write down on other financial assets	11 032 061	0
+ Depreciation	34 490 704	30 844 738
-/+ Change in inventory	-12 232 390	4 875 695
-/+ Change in accounts receivable	18 358 421	-31 248 053
+/- Change in accounts payable	2 832 554	-586 784
+/- Change in accruals	19 040 886	-12 568 067
= Cash flow from operational activities	68 579 627	22 912 401
<i>Cash flow from investment activities</i>		
- Payments purchase of fixed assets	-47 562 001	-4 313 505
+ Payments sale of shares and other investments	0	50 000
= Cash flow from investment activities	-47 562 001	-4 263 505
<i>Cash flow from financing activities</i>		
- Payment of loan to subsidiary	-144 917 667	0
- Repayment of debt to financial institutions	-180 000 000	-30 000 000
+ Partner loan and loan from subsidiaries	285 346 151	0
= Net cash flow from financing activities	-39 571 516	-30 000 000
= <i>Net change in cash and cash equivalents</i>	-18 553 890	-11 351 104
+ <i>Cash reserve 1.1</i>	19 751 259	31 102 363
= <i>Cash reserve 31.12</i>	1 197 369	19 751 259



Notes to the financial statements 2022

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.

Island Offshore XII Ship AS is the parent company of Island Victory AS and Island Defender AS, however consolidated accounts are not prepared as these 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.

Island Offshore XII Ship AS



Notes to the financial statements 2022

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	2022	2021
Norway	118,5	147,9
UK	76,8	41,5
Denmark	-	3,8
Germany	9,0	-
Total Revenue	204,2	193,1

Both vessels completed a 15 year class renewal in February and in March 2022.

Both vessels operate in the spot market and have on average achieved 52% utilization in 2022. Comparable average utilization in 2021 was 72% thus average spot rate achieved has been higher than last year. In addition, reimbursed charterers cost of NOK 21,1 mill (NOK 9.7 mill in 2021) has been reported gross in revenue and operating vessel expenses.

**Notes to the financial statements 2022**

Island Offshore XII Ship AS

NOTE 3 SPECIFICATIONS

Other financial income comprises:

	<u>2022</u>	<u>2021</u>
Realized foreign exchange gain+ / loss-	701 120	404 638
Interest income, bank	246 661	980
Interest income, related party	1 684 510	-
Total other interest income	<u>2 632 291</u>	<u>405 618</u>

Other financial expenses comprise:

	<u>2022</u>	<u>2021</u>
Interest expense term loans	4 414 449	5 208 156
Foreign exchange loss	1 682 392	246 806
Hedging gain -/loss +	-42 856	-5 350
Depreciation financial expenses	-	-
Interest expenses shareholder loans	7 306 751	5 553 888
Other financial costs	-914	141
Sum other financial costs	<u>13 359 821</u>	<u>11 003 641</u>

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 202.910 in 2022. The fee is exclusive of VAT and can be specified as follows:

Audit	120.000
Advisory, going concern evaluation and tax filing	77.000
Other	5.910
Total	202.910



Notes to the financial statements 2022

Island Offshore XII Ship AS

NOTE 5 FIXED ASSETS

	Ships	Projects in progress	Capitalized maintenance	Total
Acquisition costs 1.1	984 642 602	65 302	89 096 018	1 073 803 922
Additions		-65 302	47 627 303	47 562 001
Accumulated depreciation 31.12	-415 246 940		-84 518 897	-499 765 837
Book Value 31.12	569 395 662	-	52 204 424	621 600 086
This years' depreciation	24 773 353		9 717 351	34 490 704
Economic life	20 yrs		3 yrs	

Additions relates to a 15 year class renewal for both vessels completed in February and March 2022.

The market value of the two AHTS vessels obtained by independent brokers, is higher than the net book value of the vessels. Due to the present market situation for the sale and purchase of equivalent vessels, the vessels 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 rate and utilization the rest of estimated vessel usage time. Key assumption in the analysis include the Weighted Average Cost of Capital (WACC), which is set to 9%. The usage period of the vessel is assumed to be 30 years after delivery.

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

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	-	-	-
Island Offshore XII Ship AS	-	-	-

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Change in utilization	-	-	-
Island Offshore XII Ship AS	-	-	-

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



Notes to the financial statements 2022

Island Offshore XII Ship AS

NOTE 6 INVESTMENT IN SUBSIDIARIES

The Company incorporated the subsidiary Island Victory AS on 22 March 2018 and Island Defender AS on 28.05.20.

During 2022 the subsidiaries were purchased and capitalized as follows:

	Org.no. 920 718 590	Org.no. 922 593 116	
	Island Victory AS	Island Defender AS	Total
Balance as per 31.12.21	514 629 191	212 312 555	726 941 746
Group contribution	-	-190 000 000	-190 000 000
Write down shares	-	-11 032 061	-11 032 061
Balance as per 31.12.22	514 629 191	11 280 494	525 909 685
This year's profit+/loss- (100%)	28 947 488	1 150 065	
Equity as per 31.12.22 (100%)	572 084 976	3 078 490	
Owner share	100 %	100 %	
Address	Stålhaugen, Ulsteinvik, Norway	Stålhaugen, Ulsteinvik, Norway	

As Island Defender AS has sold its only vessel in 2022, the shares are written down to reflect share of equity including deferred tax assets as per 31.12.22.

The subsidiary Island Defender has lent NOK 190 mill to the parent company and accrued for a group contribution with the same amount in order to settle the outstanding loan in 2023.

NOTE 7 PLEDGE OF ASSETS

	2022	2021
Book value of debt secured by pledge	-	180 000 000
Book value of secured assets		
Vessel	-	608 528 789
Receivables	-	46 386 714
Bank deposits	-	19 751 259
TOTAL	-	674 666 762

The company has no secured debt in 2022.

The senior secured lenders for the subsidiary Island Victory AS had from delivery of the vessel Island Victory AS a 1st priority ship mortgage on the vessel Island Defender and a 2nd priority ship mortgage on the vessels Island Valiant and Island Vanguard as additional security for accepting deferral of payment of installments in 2021 and 2022.

**Notes to the financial statements 2022****Island Offshore XII Ship AS**

The vessel Island Defender was owned by Island Defender AS, a sister company of Island Victory AS and Island Valiant and Island Vanguard is owned by the parent company Island Offshore XII Ship AS. In October 2022, Island Defender was sold and part of the sale proceeds was lent from the parent company in order to partly refinance the original secured loan in Island Victory AS. Thus from December 2022, the security pledge is no longer applicable for the vessels Island Valiant and Island Vanguard.

NOTE 8 LONG TERM LIABILITIES

The Company completed several information meetings and negotiations with secured lenders and was in 2021 successful in agreeing a refinancing agreement which included extended runway, amended amortizations and cash sweep measurements and payments. Due to the short runway period with maturity date on 30.06.2022, the loan was in accordance with Norwegian Accounting Principles classified as short-term loan as per 31.12.21.

The Company was successful in order to repay its secured vessel mortgage loan within maturity date.

Other long-term liabilities include shareholder loans from Vard Group AS at NOK 138 mill, shareholder loan from Island Offshore XII AS at NOK 93 mill and a loan from Island Defender AS at NOK 190 mill. The latter is proposed to be repaid by settling group contribution reported as short term receivables as per 31.12.22.

NOTE 9 RELATED PARTIES

Transactions with related parties:	2022	2021
Other short term receivables	224 000 000	37 577 061
Other long term liabilities	-283 267 885	0
Other short term liabilities	-30 961 006	-25 700 269

Other short term receivables are mainly prepayment of operating vessel expense towards Island Offshore Management AS (Manager), charged at market rates. In addition, a short term loan to Island Victory AS with NOK 18 mill. The parent company will receive NOK 190 mill from its subsidiary Island Defender as proposed group contribution.

Other long term liability is loan from Island Offshore XII AS of NOK 93.3 mill and a loan from Island Defender AS with NOK 190 mill. With reference to Note 8, the proposed group contribution from the subsidiary will settle outstanding loan.

Other short term liabilities are monthly vessel operating invoices from Island Offshore Management AS.



Notes to the financial statements 2022

Island Offshore XII Ship AS

Transactions with related parties	2022	2021
Purchase of management services	-7 037 578	-6 387 259
Crew hire	-59 684 006	-51 051 030
Interest expenses related party	-672 748	-185 004

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.

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:

	2022	2021
Fixed Assets	529 381 855	501 039 510
Gains+/- losses - accounts on fixed assets	2 387 670	2 984 588
Deferred deduction internal interests	-896 219	-223 471
Total temporary differences	530 873 306	503 800 627
Tax loss carried forward	-68 051 571	-47 083 861
Basis for deferred tax	462 821 735	456 716 766
Deferred tax in Balance Sheet	101 820 782	100 477 688
Tax rate	22 %	22 %

**Notes to the financial statements 2022**

Island Offshore XII Ship AS

Calculation of this year's tax expense:

	2022	2021
Profit before tax	- 4 942 602	31 594 872
Permanent differences	11 047 578	-
Disallowed deduction internal interest expenses	672 748	187 056
Change in temporary differences	- 27 745 427	6 029 249
Use of deferred tax losses	-	-37 811 177
Basis for tax payable	- 20 967 703	-
Tax Expenses in Profit and Loss Accounts:	2022	2021
Tax payable	-	-
Change in deferred taxes	1 343 093	6 992 024
Tax expenses	1 343 093	6 992 024

NOTE 11 EQUITY

	Share capital	Share premium account	Other equity	Total
Equity 1.1	404 097 000	328 188 318	264 310 928	996 596 246
This year's result	-	-	-6 285 703	-6 285 703
Equity 31.12	404 097 000	328 188 318	258 025 225	990 310 543

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 31.12.22:

Name and address	Number of Ownership	
	shares	share %
Island Offshore XII AS, Stålhaugen 9, 6065 Ulsteinvik	214 541	53,09 %
Vard Group AS, Skansekaia 2, 6002 Ålesund	189 556	46,91 %
TOTAL	404 097	100,00 %



Notes to the financial statements 2022

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 31.12.22.

NOTE 14 GOING CONCERN

The Company has repaid its secured debt. In addition, the market is showing signs of improvement. 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 31.12.2022.



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Island Offshore XII Ship AS (the Company), which comprise the balance sheet as at 31 December 2022, 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 2022 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 and general manager) 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, 3 May 2023
ERNST & YOUNG AS

The auditor's report is signed electronically

Jørn Knutsen
State Authorised Public Accountant (Norway)

Independent auditor's report - Island Offshore XII Ship AS 2022

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Jørn Knutsen

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