



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

### Enheten

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

### Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

### Konsern

Morselskap i konsern: Nei

### Regnskapsregler

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

### Årsregnskapet fastsatt av kompetent organ

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

### Grunnlag for avgivelse

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

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

Brønnøysundregistrene, 29.07.2022



## Resultatregnskap

Beløp i: NOK	Note	2020	2019
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Salgsinntekt	3	139 958 158	169 179 001
<b>Sum inntekter</b>		<b>139 958 158</b>	<b>169 179 001</b>
<b>Kostnader</b>			
Varekostnad	8	41 861 438	34 459 136
Lønnskostnad	8,4	80 627 646	76 974 345
Avskrivning på varige driftsmidler og immaterielle eiendeler	5	30 956 765	30 914 205
Nedskrivning av varige driftsmidler og immaterielle eiendeler	5	65 545 690	
Annen driftskostnad	4	3 847 994	3 874 467
<b>Sum kostnader</b>		<b>222 839 533</b>	<b>146 222 153</b>
<b>Driftsresultat</b>		<b>-82 881 374</b>	<b>22 956 847</b>
<b>Finansinntekter og finanskostnader</b>			
Annen finansinntekt	2	2 383 782	3 451 521
<b>Sum finansinntekter</b>		<b>0</b>	<b>0</b>
Rentekostnad til foretak i samme konsern		367 742	478 695
Annen finanskostnad	2	14 916 857	19 477 062
<b>Sum finanskostnader</b>		<b>0</b>	<b>0</b>
<b>Netto finans</b>		<b>-12 900 817</b>	<b>-16 504 236</b>
<b>Ordinært resultat før skattekostnad</b>		<b>-95 782 192</b>	<b>6 452 612</b>
Skattekostnad på ordinært resultat	9	287 661	538 469
<b>Ordinært resultat etter skattekostnad</b>		<b>0</b>	<b>0</b>
<b>Årsresultat</b>		<b>-96 069 852</b>	<b>5 914 143</b>
<b>Totalresultat</b>		<b>-96 069 852</b>	<b>5 914 143</b>
<b>Overføringer og disponeringer</b>			
Overføringer til/fra annen egenkapital		-96 069 852	5 914 143
<b>Sum overføringer og disponeringer</b>	10	<b>-96 069 852</b>	<b>5 914 143</b>



## Resultatregnskap

<b>Beløp i: NOK</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
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## Balanse

Beløp i: NOK	Note	2020	2019
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Sum immaterielle eiendeler		0	0
<b>Varige driftsmidler</b>			
Maskiner og anlegg	5,6	624 000 000	714 377 726
Sum varige driftsmidler		624 000 000	714 377 726
<b>Finansielle anleggsmidler</b>			
Andre fordringer	6,7		21 000 000
Sum finansielle anleggsmidler		0	21 000 000
Sum anleggsmidler		624 000 000	735 377 726
<b>Omløpsmidler</b>			
<b>Varer</b>			
Varer		4 118 203	2 927 395
Sum varer		0	0
<b>Fordringer</b>			
Kundefordringer	6,8	11 037 020	
Andre fordringer	8	54 434 876	31 531 196
Sum fordringer		65 471 896	31 531 196
<b>Investeringer</b>			
Sum investeringer		0	0
<b>Bankinnskudd, kontanter og lignende</b>			
Bankinnskudd, kontanter og lignende	6	11 383 525	37 979 188
Sum bankinnskudd, kontanter og lignende		11 383 525	37 979 188
Sum omløpsmidler		80 973 623	72 437 779
<b>SUM EIENDELER</b>		<b>704 973 623</b>	<b>807 815 506</b>



## Balanse

Beløp i: NOK	Note	2020	2019
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Selskapskapital	11	247 000 000	247 000 000
Annen innskutt egenkapital		0	0
<b>Sum innskutt egenkapital</b>		<b>247 000 000</b>	<b>247 000 000</b>
<b>Opptjent egenkapital</b>			
Annen egenkapital		116 850 788	212 920 640
<b>Sum opptjent egenkapital</b>		<b>116 850 788</b>	<b>212 920 640</b>
<b>Sum egenkapital</b>	10	<b>363 850 788</b>	<b>459 920 640</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
<b>Sum avsetninger for forpliktelser</b>		<b>0</b>	<b>0</b>
<b>Annen langsiktig gjeld</b>			
Konvertible lån	6,7		295 400 000
Øvrig langsiktig gjeld	6,7,8	11 176 105	31 893 993
<b>Sum annen langsiktig gjeld</b>		<b>11 176 105</b>	<b>327 293 993</b>
<b>Sum langsiktig gjeld</b>		<b>0</b>	<b>0</b>
<b>Kortsiktig gjeld</b>			
Gjeld til kredittinstitusjoner	6,7	285 650 000	
Leverandørgjeld	8	5 831 351	2 979 056
Annen kortsiktig gjeld		38 465 379	17 621 815
<b>Sum kortsiktig gjeld</b>		<b>329 946 731</b>	<b>20 600 871</b>
<b>Sum gjeld</b>		<b>341 122 835</b>	<b>347 894 865</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>704 973 623</b>	<b>807 815 505</b>



**Skattedirektoratet**

Saksbehandler  
Geir Johannessen

Deres dato  
11.10.2013

Vår dato  
29.10.2013

Telefon  
22 66 11 14

Deres referanse  
Tommy Walaunet

Vår referanse  
2013/779184

ISLAND OFFSHORE MANAGEMENT AS  
Postboks 370  
6067 ULSTEINVIK

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

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

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

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

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

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

Postadresse  
Postboks 9200 Grønland  
0134 Oslo  
skatteetaten.no/sendepost

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

Sentralbord  
800 80 000  
Telefaks  
22 17 08 60



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

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad

Seniorrådgiver

Rettsavdelingen, foretaksskatt  
Skattedirektoratet

Geir Johannessen



**Island Offshore III KS**

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## **Annual report 2020**

**Board of directors' report**

**Annual accounts**

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

**Auditors' report**



**Annual Report 2020**  
**Island Offshore III KS**  
Org. no 982 411 408

**Business activities**

The Company owns the Light Well Intervention vessel Island Constructor. The vessel has operated in Norway and UK during 2020. The vessel is managed by Island Offshore Management AS, and the business is operated from Ulsteinvik, Norway.

**Statement on results**

Revenue in 2020 totals NOK 140.0 mill versus NOK 169.2 mill in 2019. The vessel had a thruster break down in October 2020 and completed a 3 week yard stay for repairs. Overall utilization for 2020 was 62% compared with 68% in 2019.

The net result for 2020 is a loss of NOK -96.1 mill versus a profit of NOK 5.9 mill in 2019. The negative result is mainly explained by an impairment provision of NOK 65.5 mill in addition to lower vessel utilization thus earnings. The Board is not satisfied with the financial result for 2020, and main focus going forward is to secure sustainable employment and improving utilization thus vessel earnings.

Net equity as of 31.12.2020 is NOK 363.9 mill versus NOK 459.9 mill at 31.12.2019. The change in equity is equal to this years' profit. Net equity ratio is 51.6% as per 31.12.20 compared to 56.9% at 31.12.19.

Cash flow from operational activities is negative with NOK -11.0 mill. Investments in 2020 include NOK 6.1 mill related to vessel upgrades and improvement. Cash flow from financing activities includes payment of installment to secured lenders of NOK 9.5 mill. Accordingly, net cash flow is negative with NOK 26.6 mill in 2020 resulting in a net cash reserve of NOK 11.4 mill at 31.12.2020.

The Company does not have ongoing research and development activities.

**Going concern**

Due to the continued state of the market and the implications for earnings and cash flow, the Island Offshore Group, including Island Offshore III KS, initiated negotiations for a Standstill and Deferral Agreement with secured creditors effective 22.11.2016. Effective April 12th 2018, the refinancing was closed and effective with all parties. The term of the restructuring agreement is until end of 2020 and includes modified amortization schedules for each vessel, in addition to lifting of certain financial covenants. Negotiations with stakeholders for agreements effective post 2020 has been conducted throughout 2020 and continues in 2021. The objective is to conclude the process as soon as possible, but additional time is required due to the complexity of the restructuring. The discussions are constructive and progressing; however, no assurances can be given as to when a conclusion is attainable involving all

Island Offshore III KS  
Org. no 982 411 408



companies and stakeholders. The IOSH Group is in a challenging financial position, and the viability of the IOSH Group will require a long-term agreement with secured and unsecured creditors to strengthen the financial situation.

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

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

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

## **Work environment and gender equality**

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

## **External environment**

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

## **Financial risk**

The demand for LWI services has improved but the backlog offers limited visibility. To date the backlog for 2021 is satisfactory and the vessel has a firm program up to middle of October. The Company's long term liabilities total NOK 296.8 mill.

## **Future outlook**

The vessel is well-established and recognized in the Norwegian and international market for LWI services with a multiple end-client base. The vessel's firm backlog is satisfactory for the first half of 2021 but long-term visibility is limited at present.

Currently, the COVID-19 pandemic is causing operational disruptions to vessel activity and increases the overall risk of activity deferrals and cancellations. Improvement of the long-term outlook for the company is contingent upon global control of the pandemic and increased economic activity.

Island Offshore III KS  
Org. no 982 411 408



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

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

#### Other matters

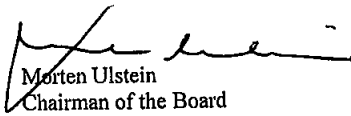
Beyond the above, the Board of Directors is not aware of any subsequent events that could be significant for the evaluation of the Company's financial position and results. Reference is made to the income statement, balance sheet, cash flow statement and notes.

#### Allocation of results

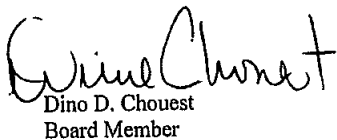
The Board proposes the following allocation of the 2020 net loss of NOK -96.069.852

Transferred to other equity                      NOK   -96.069.852

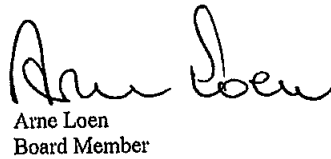
Ulsteinvik, 29.04.21

  
Morten Ulstein  
Chairman of the Board

  
Gary J. Chouest  
Board Member

  
Dino D. Chouest  
Board Member

Håvard Ulstein  
Board Member

  
Arne Loen  
Board Member

Island Offshore III KS  
Org. no 982 411 408



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#### Other matters

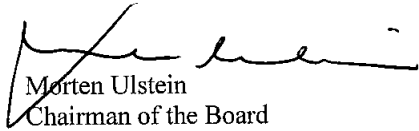
Beyond the above, the Board of Directors is not aware of any subsequent events that could be significant for the evaluation of the Company's financial position and results. Reference is made to the income statement, balance sheet, cash flow statement and notes.

#### Allocation of results

The Board proposes the following allocation of the 2020 net loss of NOK -96.069.852


Transferred to other equity	NOK	-96.069.852
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Ulsteinvik, 29.04.21

  
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Board Member

  
Arne Loen  
Board Member

Island Offshore III KS  
Org. no 982 411 408



## Island Offshore III KS

### Income statement

	Note	2020	2019
<b>Revenue</b>			
Freight income	3	<u>139 958 159</u>	<u>169 179 000</u>
<b>Operating expenses</b>			
Vessel expenses	8	41 861 439	34 459 136
Crew expenses	4,8	80 627 646	76 974 344
Depreciation	5	30 956 765	30 914 205
Write-down on tangible and intangible fixed assets	5	65 545 690	0
Other operating expenses	4	<u>3 847 993</u>	<u>3 874 467</u>
Total operating expenses		<u>222 839 533</u>	<u>146 222 152</u>
Operating result		<u>-82 881 374</u>	<u>22 956 848</u>
<b>Financial income and expenses</b>			
Other financial income	2	2 383 782	3 451 521
Interest paid to group companies		367 742	478 695
Other financial expenses	2	<u>14 916 857</u>	<u>19 477 062</u>
Net financial items		<u>-12 900 817</u>	<u>-16 504 236</u>
Ordinary result before tax		<u>-95 782 191</u>	<u>6 452 612</u>
Tax on ordinary result	9	<u>287 661</u>	<u>538 469</u>
<b>Net profit or loss for the year</b>		<u>-96 069 852</u>	<u>5 914 143</u>
<b>Allocated as follows</b>			
Transferred to other equity	10	<u>-96 069 852</u>	<u>5 914 143</u>



## Island Offshore III KS

### Balance sheet as of December 31

	Note	2020	2019
<b>Fixed assets</b>			
<i>Tangible assets</i>			
Ships	5,6	624 000 000	714 377 726
Total tangible assets		<u>624 000 000</u>	<u>714 377 726</u>
<i>Financial assets</i>			
Other receivables	6,7	0	21 000 000
Total financial assets		<u>0</u>	<u>21 000 000</u>
Total fixed assets		<u>624 000 000</u>	<u>735 377 726</u>
<b>Current assets</b>			
Inventories		<u>4 118 203</u>	<u>2 927 395</u>
<i>Receivables</i>			
Trade receivables	6,8	11 037 020	0
Other receivables	8	54 434 876	31 531 196
Total accounts receivable		<u>65 471 896</u>	<u>31 531 196</u>
Cash and cash equivalents	6	<u>11 383 525</u>	<u>37 979 188</u>
Total current assets		<u>80 973 624</u>	<u>72 437 779</u>
Total assets		<u>704 973 624</u>	<u>807 815 505</u>

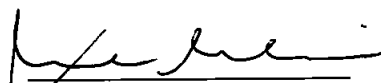


Island Offshore III KS

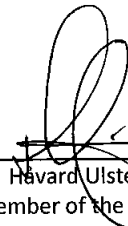
Balance sheet as of December 31


	Note	2020	2019
<b>Equity</b>			
<i>Paid-in capital</i>			
Equity, undistributable	11	247 000 000	247 000 000
Total paid-in capital		<u>247 000 000</u>	<u>247 000 000</u>
<i>Retained earnings</i>			
Other equity		116 850 788	212 920 640
Total retained earnings		<u>116 850 788</u>	<u>212 920 640</u>
Total equity	10	<u>363 850 788</u>	<u>459 920 640</u>
<b>Liabilities</b>			
<i>Other long-term liabilities</i>			
Liabilities to financial institutions	6,7	0	295 400 000
Other long-term liabilities	6,7,8	11 176 105	31 893 993
Total other long term liabilities		<u>11 176 105</u>	<u>327 293 993</u>
<i>Current liabilities</i>			
Liabilities to financial institutions	6,7	285 650 000	0
Trade creditors	8	5 831 351	2 979 056
Other short-term liabilities	8	38 465 380	17 621 816
Total current liabilities		<u>329 946 731</u>	<u>20 600 872</u>
Total liabilities		<u>341 122 836</u>	<u>347 894 865</u>
Total equity and liabilities		<u>704 973 624</u>	<u>807 815 505</u>

31 December 2020  
Ulsteinvik, 29 April 2021

  
Morten Ulstein  
Chairman of the Board

Gary J. Chouest  
Member of the Board

  
Håvard Ulstein  
Member of the Board

  
Arne Loen  
Member of the Board

Dino David Chouest  
Member of the Board

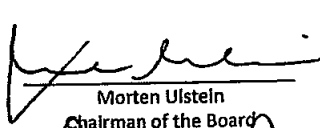


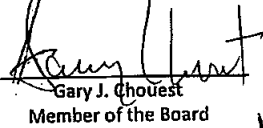
Island Offshore III KS

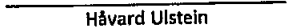
Balance sheet as of December 31

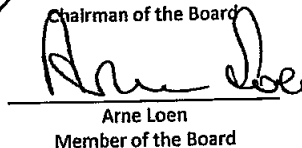
	Note	2020	2019
<b>Equity</b>			
<i>Paid-in capital</i>			
Equity, undistributable	11	<u>247 000 000</u>	<u>247 000 000</u>
Total paid-in capital		<u>247 000 000</u>	<u>247 000 000</u>
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Total current liabilities		<u>329 946 731</u>	<u>20 600 872</u>
Total liabilities		<u>341 122 836</u>	<u>347 894 865</u>
Total equity and liabilities		<u>704 973 624</u>	<u>807 815 505</u>

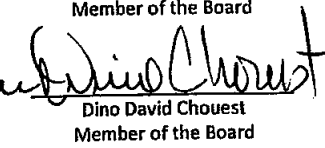
31 December 2020  
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Dino David Chouest  
Member of the Board

**Cash Flow Statement**

## Island Offshore III KS

	2020	2019
<i>Cash flow from operating activities</i>		
Profit before tax	-95 782 191	6 452 612
- Taxes paid	-287 661	-538 469
+ Ordinary depreciation	30 956 765	30 914 205
+ Impairment provision	65 545 690	0
-/+ Change inventory	-1 190 808	-41 650
-/+ - Increase/ + reduction accounts receivable	-11 037 020	930 827
+/- + Increase/ - reduction accounts payable	2 852 295	2 444 499
+/- Change in other accruals	-2 060 115	-447 339
= Net cash flow from operating activities	<u>-11 003 045</u>	<u>39 714 685</u>
<i>Cash flow from investment activities</i>		
- Payments purchase of fixed assets	-6 124 729	-6 054 717
+ Repayment long term receivables	<u>21 000 000</u>	<u>42 000 000</u>
= Net cash flow from investment activities	<u>14 875 271</u>	<u>35 945 283</u>
<i>Cash flow from financing activities</i>		
+ Repayment of other long term liabilities	-21 000 000	-41 776 347
- Repayment of long term liabilities	-9 467 888	-9 750 000
+ Capital call from owners	<u>0</u>	<u>0</u>
= Net cash flow from financing activities	<u>-30 467 888</u>	<u>-51 526 347</u>
= <i>Net change in cash and cash equivalents</i>	<u>-26 595 662</u>	<u>24 133 621</u>
+ <i>Cash reserve 1.1.</i>	<u>37 979 188</u>	<u>13 845 567</u>
= <i>Cash reserve 31.12</i>	<u>11 383 525</u>	<u>37 979 188</u>



## Notes to the financial statements 2020

### Island Offshore III KS

#### NOTE 1 ACCOUNTING PRINCIPLES

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

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

The significant principles are described below.

##### Classification criteria

Assets to be owned or utilized permanently and receivables falling due later than one year from the end of the accounting period are classified as fixed assets. Other assets are classified as current assets. Liabilities due later than one year from the end of the accounting year are classified as long term liabilities. Other debts and liabilities are classified as short term, with the exception of the first installment on secured debt which is serviced by the cash flow from fixed assets.

##### Valuation of current assets

Receivables are recorded net of expected future losses.

Bunkers and lube oil expenses are accrued in the balance sheet at cost based on consumption.

##### Fixed assets and depreciation

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

##### Shipbuilding contracts

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

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

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

##### Financing expenses

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

##### Currency

Transactions in foreign currency are recorded at the exchange rate at the transaction date.

Current assets and liabilities are recorded at the exchange rate at the balance sheet date.

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



## Notes to the financial statements 2020

### Island Offshore III KS

#### Revenue and expense recognition

Revenue and costs related to vessel operations are recorded based upon the number of journey days before and after the end of the accounting period. Commissions are recognized as revenue when earned.

#### Taxes

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

#### Cash flow statement

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

#### NOTE 2 SPECIFICATIONS

	2020	2019
Interest income from bank	161 379	279 201
Foreign exchange gain realized	1 727 064	736 451
Other financial income	7 089	45
Interest income CIRR	488 250	2 435 825
<b>Total other financial income</b>	<b>2 383 782</b>	<b>3 451 521</b>

	2020	2019
Interest cost CIRR	488 250	2 435 825
Foreign exchange loss on currency	1 267 805	1 968 704
Foreign exchange loss on currency (unrealized)	1 820	-110 154
Interest cost long term loan	13 154 326	15 271 885
Other financial costs	4 656	-89 198
<b>Total other financial costs</b>	<b>14 916 857</b>	<b>19 477 063</b>

#### NOTE 3 GEOGRAPHICAL SPLIT OF REVENUE

In NOK mill	2020	2019
Norway	113,4	87,6
UK	26,6	5,9
Equatorial Guinea	-	75,7
<b>Total Revenue</b>	<b>140,0</b>	<b>169,2</b>

The vessel had a thruster break down in October 2020 and completed a 3 week yard stay for repairs. Loss of hire insurance is recorded as revenue in Norway.

Average utilization in 2020 was 62% compared with 68% in 2019.

**Notes to the financial statements 2020**

## Island Offshore III KS

**NOTE 4 PAYROLL, EMPLOYEES**

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

**Auditor**

Audit fees total NOK 180.554 excluding VAT and can be specified as follows:

Audit incl. assessment going concern	87.900
Advisory and tax filing	88.250
Other	4.404
<b>Sum</b>	<b>180.554</b>

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

**NOTE 5 FIXED ASSETS**

	Vessel	Capitalized maintenance	Total
Acquisition cost 1.1	983 867 198	65 023 434	1 048 890 632
Additions	613 417	5 511 311	6 124 728
Accumulated impairment provision	-65 545 690	-	-65 545 690
Accumulated depreciation 31.12.	-318 255 425	-47 214 245	-365 469 670
<b>Book value 31.12.</b>	<b>600 679 500</b>	<b>23 320 500</b>	<b>624 000 000</b>
This year's impairment provision	65 545 690		65 545 690
This year's depreciation charge	23 913 569	7 043 195	30 956 765
Economic life	20 yrs	3 yrs	
Depreciation plan	Linear	Linear	

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

The analysis take into account the present market situation and includes gradual improvement both in utilization and charter hire rates throughout of the expected usage time for the vessel. Key assumption in the analysis include the Weighted Average Cost of Capital (WACC), which is set to 8 %. The usage period of the vessel is assumed to be 30 years after delivery.

The analysis indicated impairment, thus the vessel is written down with NOK 65.5 mill this year.

**Notes to the financial statements 2020**

## Island Offshore III KS

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

IN NOK MILL.

Impairment provision on vessel value	Sensitivity		
	-1%	basis	+1%
Change in WACC			
Island Offshore III KS	-17	-65	-108

Impairment provision on vessel value	Sensitivity		
	-5%	basis	+5%
Change in utilization			
Island Offshore III KS	-196	-65	-

Impairment provision on vessel value	Sensitivity		
	-10%	basis	+10%
Change in day rate			
Island Offshore III KS	-250	-65	-

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

**NOTE 6 MORTGAGE AND GUARANTEE LIABILITIES**

	2020	2019
Liabilities secured by mortgage	285 650 000	316 400 000
Book value of pledged assets:		
Ships	624 000 000	714 377 726
Cash deposits	11 383 525	37 979 188
Factoring	11 037 020	-
CIRR deposits	-	21 000 000
<b>Total</b>	<b>646 420 545</b>	<b>773 356 913</b>

**Notes to the financial statements 2020**

## Island Offshore III KS

**NOTE 7 LONG TERM LOANS**

	2020	2019
Loans from financial institutions	285 650 000	295 400 000
Loan Eksportfinans (CIRR)	-	21 000 000
Loan from general partner	11 176 105	10 893 993
<b>Total</b>	<b>296 826 105</b>	<b>327 293 993</b>

**Liabilities due more than 5 years after the end of the accounting year:**

April 12, 2018 the Company and the senior secured bank lenders as well as unsecured creditors agreed a long-term and a sustainable financing platform including a deferral agreement ending December 31<sup>st</sup> 2020. At 31.03.2020 one ship owning entity in the Group did not comply with the minimum cash requirement and due to cross default provisions, the Company did not comply with covenants as of 31.03.2020. Subsequently, in May 2020 the Group and the Company declared an one-sided stand-still towards the lenders and have following the declaration completed several information meetings and have stopped scheduled installment payments. Negotiations for extension of the current financing were initiated simultaneously with the stand-still declaration, but were not concluded prior to maturity at 31.12.20. Thus, the negotiations are ongoing and progressing. The objective is to conclude the process before 31.3.2021 but additional time is required due to the complexity of the restructuring.

The vessel is financed by a bank syndicate comprising two commercial banks. In accordance with Norwegian Accounting Principles, the loans from financial institutions are classified as short term loans.

**NOTE 8 LIABILITIES TO RELATED PARTIES**

	2020	2019
Other receivables	18 000 000	20 906 530
Trade debtors	1 598 658	-
Trade creditors	-5 799 320	-2 979 056
Other long term liabilities	-11 176 105	-10 893 993
Other short term liabilities	-27 447 784	-8 344 834

Other receivables are prepayment on operating expenses towards Island Offshore Management AS and trade debtors are due from Island Offshore Subsea UK Ltd.

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

Loans are charged at market rates.

**Notes to the financial statements 2020**

## Island Offshore III KS

	<u>2020</u>	<u>2019</u>
Management services	-3 922 466	-4 196 572
Crew hire	-81 253 111	-76 974 344
Bareboat Contract Revenue	8 121 170	0

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

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

**NOTE 9 TAXES****Ordinary taxation:**

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

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

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

	<u>2020</u>	<u>2019</u>
Gains/loss account	8 151 983	10 189 979
Fixed assets	417 758 290	479 412 638
<b>Total temporary differences</b>	<b>425 910 273</b>	<b>489 602 617</b>
<b>Deferred tax</b>	<b><u>93 700 260</u></b>	<b><u>107 712 576</u></b>
<b>Tax rate</b>	<b><u>22 %</u></b>	<b><u>22 %</u></b>

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



## Notes to the financial statements 2020

### Island Offshore III KS

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

	<u>2020</u>	<u>2019</u>
Ordinary result before taxes	-95 782 191	6 452 612
<i>Permanent differences</i>		
Non-deductible expenses	1 232	513
Taxes paid abroad	-287 661	-538 469
<i>Change in temporary differences</i>		
Gains/loss account	2 037 996	2 547 495
Fixed assets	61 654 348	-8 161 217
Tax base	<u>-32 376 276</u>	<u>300 934</u>
Denied deduction interests expenses related parties	181 061	196 583
Annual tax base	<u>-32 195 215</u>	<u>497 517</u>

The vessel Island Constructor has conducted RLWI services on the UKCS in 2018, and the process of filing and settling the tax liability in the UK for this activity was initiated in 2019 and completed in 2020. At present discussions with UK tax authorities are ongoing with regards to an advanced pricing agreement hereto the basis for and method of taxation. Accordingly, there is some uncertainty with regards to the final tax settlement for this activity.

#### NOTE 10 EQUITY

	<u>2020</u>	<u>2019</u>
Tied up capital	98 800 000	98 800 000
Free capital	148 200 000	148 200 000
Registered capital	247 000 000	247 000 000
Uncalled capital	-	-
Paid in capital	<u>247 000 000</u>	<u>247 000 000</u>
Other equity 01.01	212 920 640	207 006 497
Annual net result	-96 069 852	5 914 143
Retained earnings 31.12	<u>116 850 788</u>	<u>212 920 640</u>
Total equity 31.12	<u>363 850 788</u>	<u>459 920 640</u>

**Notes to the financial statements 2020**

## Island Offshore III KS

**NOTE 11 OWNERSHIP**

Participants at 31.12.2020:

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

**NOTE 12 INFORMATION ABOUT FINANCIAL INSTRUMENTS**

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

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

**NOTE 13 GOING CONCERN**

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



## Notes to the financial statements 2020

### Island Offshore III KS

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

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

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

#### NOTE 14 COVID-19

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

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



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## INDEPENDENT AUDITOR'S REPORT

To the Annual Partnership Meeting of Island Offshore III KS

### Report on the audit of the financial statements

#### Opinion

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

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

#### Basis for opinion

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

#### Material uncertainty related to going concern

We draw attention to note 13 and note 14 in the financial statements and the Board of Director's report, which describes that the Company is dependent on an agreement with its creditors for an acceptable and sustainable restructuring to continue as going concern. These events or conditions, along with other matters as set forth in note 13, note 14 and the Board of Director's report, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

#### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors (management) is responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally

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accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

### Report on other legal and regulatory requirements

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

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

Independent auditor's report - Island Offshore III KS

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### Opinion on registration and documentation

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

Bergen, 3 May 2021  
ERNST & YOUNG AS

*The auditor's report is signed electronically*

Jørn Knutsen  
State Authorised Public Accountant (Norway)

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## Jørn Knutsen

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