



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2018 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 914 439 736
Organisasjonsform: Aksjeselskap
Foretaksnavn: DEEP SEA SUPPLY SHIPOWNING II AS
Forretningsadresse: Storgaten 4
4876 GRIMSTAD

Regnskapsår

Årsregnskapets periode: 01.01.2018 - 31.12.2018

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: Jostein Fjelland
Dato for fastsettelse av årsregnskapet: 28.06.2019

Grunnlag for avgivelse

År 2018: Årsregnskapet er elektronisk innlevert
År 2017: Tall er hentet fra elektronisk innlevert årsregnskap fra 2018

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, 01.11.2020



Resultatregnskap

Beløp i: USD	Note	2018	2017
RESULTATREGNSKAP			
Kostnader			
Avskrivning på varige driftsmidler og immaterielle eiendeler	2	696 000	4 257 000
Nedskrivning av varige driftsmidler og immaterielle eiendeler	2	2 603 000	9 279 000
Operating expenses vessels	10	9 547 000	2 458 000
Other operating expenses	9	567 000	1 070 000
Sum kostnader		13 413 000	17 064 000
Driftsresultat		-13 413 000	-17 064 000
Finansinntekter og finanskostnader			
Annen finansinntekt		1 224 000	4 011 000
Sum finansinntekter		1 224 000	4 011 000
Verdireduksjon andre finansielle instrumenter vurdert til virkelig verdi	5	5 455 000	0
Other losses	12	3 814 000	883 000
Annen finanskostnad		1 814 000	10 762 000
Sum finanskostnader		11 083 000	11 645 000
Netto finans		-9 859 000	-7 634 000
Ordinært resultat før skattekostnad		-23 272 000	-24 698 000
Skattekostnad på ordinært resultat	8	4 000	3 000
Ordinært resultat etter skattekostnad		-23 276 000	-24 701 000
Årsresultat		-23 276 000	-24 701 000
Overføringer og disponeringer			
Overføringer til/fra annen egenkapital		-23 275 000	-24 702 000
Sum overføringer og disponeringer		-23 275 000	-24 702 000



Balanse

Beløp i: USD	Note	2018	2017
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Varige driftsmidler			
Vessels and newbuilding contracts	2	576 000	3 875 000
Sum varige driftsmidler		576 000	3 875 000
Finansielle anleggsmidler			
Investments		0	3 814 000
Sum finansielle anleggsmidler		0	3 814 000
Sum anleggsmidler		576 000	7 689 000
Omløpsmidler			
Varer			
Inventories	3	538 000	540 000
Sum varer		538 000	540 000
Fordringer			
Kundefordringer		2 000	58 000
Andre fordringer		239 000	0
Konsernfordringer	5	85 000	4 533 000
Sum fordringer		326 000	4 591 000
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende		23 000	86 000
Sum bankinnskudd, kontanter og lignende		23 000	86 000
Sum omløpsmidler		887 000	5 217 000
SUM EIENDELER		1 463 000	12 906 000

BALANSE - EGENKAPITAL OG GJELD



Balanse

Beløp i: USD	Note	2018	2017
Egenkapital			
Innskutt egenkapital			
Share capital	6,7	1 190 000	1 190 000
Share premium	6	47 921 000	47 921 000
Sum innskutt egenkapital		49 111 000	49 111 000
Opptjent egenkapital			
Annen egenkapital	3	-103 058 000	-79 783 000
Sum opptjent egenkapital		-103 058 000	-79 783 000
Sum egenkapital		-53 947 000	-30 672 000
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Finance lease liabilities	4	0	8 883 000
Sum annen langsiktig gjeld		0	8 883 000
Sum langsiktig gjeld		0	8 883 000
Kortsiktig gjeld			
Kortsiktig konserngjeld	5	21 709 000	15 565 000
Provision for onerous contracts	11	18 058 000	16 324 000
Finance lease liabilities	4	9 376 000	684 000
Other short-term liabilities		6 267 000	2 122 000
Sum kortsiktig gjeld		55 410 000	34 695 000
Sum gjeld		55 410 000	43 578 000
SUM EGENKAPITAL OG GJELD		1 463 000	12 906 000



Directors' report 2018

Background and activities

Deep Sea Supply Shipowning II AS ("the Company") was established on 28th of October 2014.

The company is owned 100% by Deep Sea Supply AS.

The company is domiciled in Storgaten 4 Grimstad, Norway.

Financial status

Below is a summary of the financial position of the company.

Revenues and Profit

The Company's revenues were MUSD nil during 2018. Revenue is generated from chartering of vessels to third party clients.

Total operating expenses were MUSD 13.4 out of which MUSD 2.6 were impairment charges on vessels values.

Net loss for the year after tax was MUSD 23.3

Equity

The company's total equity at the end of 2018 was negative MUSD 53.9.

Going concern

The financial statements are prepared on a going concern basis.

However, for companies of Solstad Offshore ASA Group ("the Group"), financial situation is unsustainable as equity is negative and liquidity is under pressure. The Group and the Company, is in discussions with key creditors to achieve a global refinancing. The long-term viability of the Group's and Company's business is depending on a successful refinancing. The going concern assumption is based on the board's view that the efforts in this respect have a possibility of success. A solution is expected to involve a comprehensive restructuring of the balance sheet of the companies of the Group. The outcome of the discussions and the going concern assumption is nevertheless subject to material uncertainty. If the discussions are not successful, and in the event the Group and the Company should be forced to realize its assets, there is a risk that these will be realized at a significantly lower value than their carrying amount, as value in use is higher than estimated sales values for several of the vessels.

In July 2018, a number of entities in the Solship Invest 3 AS Group entered into an agreement with their financial creditors for the deferral of scheduled instalments and bareboat payments until 31.12.2019 in a total amount of approximately MUSD 48. The financial restructuring also included a MUSD 27 loan from Sterna Finance Ltd to Solship Invest 3 AS Group ("SI3") which owns the Company. The loan agreement implies that Sterna Finance Ltd has an option to take over the shares of the holding company of SI3 into one option price of NOK 1. In March 2019, all of the relevant creditors but one also agreed to suspend interest payments until 20.06.2019. A unilateral suspension of principal and interest payment was implemented towards the dissenting creditor from the same time. Later in June 2019, the Group has reached an agreement with all secured creditors being part to the Suspension to an extension of the Suspension until the expiry of October 31st, 2019 as more time is required to find a sustainable solution to the financial situation of the SOFF group. Solstad Offshore ASA and the Company is experiencing continued support from its creditors and stakeholders in this process which is conducted in a co-operative manner with a view to find a consensus based overall solution. It is acknowledged by all involved parties that securing contracts and operating the business in its ordinary course is a key priority, and the parties are acting accordingly.

See notes 13,14 to the financial statement for further information.



Financial risk

Below, we will explain some key risk factors:

Assessment of the company's assets

The value of the vessels could change, due to long-term changes in the market (earnings) for this type of vessels, the cost of newbuilding of vessels etc. This may affect the fair value of the vessels which subsequently lead to further impairment of vessel values.

Market risk

The Company have and will have its fleet in the spot market which means uncertainty about future rate levels and thus the company's revenues and profits. The market was weak throughout 2018 and future development depends on the activity level for the oil companies.

Currency rate risk

One risk is the foreign exchange risk. The Company is exposed to that risk mainly due to the amounts to and from related parties. The main currencies that the Company is exposed to are Norwegian Kroner (NOK), British pounds (GBP) and Euro (EUR).

Interest rate risk

The Company is exposed to interest rate risk due to bank borrowings and cash at banks. The risk due to cash held at banks is immaterial as the Company does not intend to hold material liquid reserves in fixed deposits.

Liquidity risk

The Company monitors its risk to a shortage of funds by closely monitoring the projected cash flow from operations, financial expenses and investment expenditure. The Solstad Offshore ASA Group and the Company is currently in negotiations with the lenders to achieve a global refinancing, see more information above.

Health, safety and environment

The company has no employees. The company does not pollute the environment.

Equality

The Board consists of men. The Board strives to gender equality.

Future outlook

The general expectation for the oil price in 2018 was a steady and stable increase towards a more sustainable level. After an upward trend the first 9 months of the year, the Brent Crude oil price was reduced from USD 85 per barrel to USD 52 in fourth quarter. Despite this, a number of new projects have been sanctioned and E&P spending seems to increase in 2019 compared with 2018. Drilling activity in established basins, particularly in mid-water areas like the North Sea, has been leading the increased activity.

The demand for offshore vessels has increased, but the combination of reactivation of vessels from layup and vessels mobilizing between regions, were the main reasons why day rates showed only a modest increase compared to previous year. The number of vessels in layup was reduced during 2018.

Reactivations were mainly done based on firm contract awards and less on a speculative basis. Globally, several hundred vessels are still in layup, many of which have been laid up for a period of more than three years. Newbuilds were scarce in 2018, both in terms of new orders and deliveries from yards.



According to several research analysts, the offshore activity is expected to increase gradually. The increased drilling activity in the North Sea is expected to eventually also expand into other regions like the Mediterranean, West Africa and the Middle East. A recovery is not expected to come uniformly to all vessel types and in all regions at the same time. The winter months may still be challenging in the North Sea as rig and construction activity slows down. Structural changes in the industry that have resulted in greater efficiencies and therefore less demand for vessels will also be an important feature towards a more balanced market.

Other key markets like Brazil and Australia is lagging in the market recovery. Brazil has been an important source of vessel demand previously and the low recovery in the region impacts the global fleet of offshore vessels. Though no further reduction in demand is expected in 2019, only a limited increase is expected. For Australia a moderate uptick in vessel demand may be seen towards the end of 2019.

The Annual report gives a fair review of the developments and the performance of the business as well as the financial position of Company.

Allocation of profit

Loss after tax is MUSD 23.3 and proposed transferred to other equity.

Grimstad, 27th June 2019

Lars Peder Solstad
Chairman of the Board

Sven Stakkestad
Member of the board

Anders Hall Jomaas
Member of the board



Deep Sea Supply Shipowning II AS

INCOME STATEMENT

(Amounts in USD 1000)

	Note	2018	2017
Freight revenue		0	0
Total revenue		0	0
Operating expenses vessels	10	-9.547	-2.458
Depreciation	2	-696	-4.257
Impairment	2	-2.603	-9.279
Other operating expenses	9	-567	-1.070
Total operating expenses		-13,413	-17,065
Operating loss		-13,413	-17,065
Other losses	12	-3.814	-883
Other financial income		1.224	4.011
Impairment financial assets	5	-5.455	0
(Other) financial expenses		-1,814	-10,762
Loss before tax		-23,271	-24,699
Income tax expense	8	-4	-3
Net loss for the year		-23,275	-24,702
<i>Appropriation of loss can be shown here</i>			
Equity		-23,275	-24,702
Total transfer		-23,275	-24,702



Deep Sea Supply Shipowning II AS

BALANCE SHEET AT 31.12.

(Amounts in USD 1000)

ASSETS	Note	2018	2017
Vessels and newbuilding contracts	2	576	3,875
Total tangible assets		576	3,875
Investments		0	3,814
Total financial fixed assets		0	3,814
TOTAL FIXED ASSETS		576	7,689
Inventories	3	538	540
Trade receivables		2	58
Receivables group companies	5	85	4,533
Other receivables		239	0
Total receivables		327	4,591
Cash and bank deposits		23	86
TOTAL CURRENT ASSETS		887	5,217
TOTAL ASSETS		1,463	12,906

**Deep Sea Supply Shipowning II AS**

BALANCE SHEET AT 31.12.

(Amounts in USD 1000)

EQUITY AND LIABILITIES	Note	2018	2017
Share capital	6. 7	1,190	1,190
Share premium	6	47,921	47,921
Total paid-in equity		49,111	49,111
Other equity	6	-103,058	-79,783
Total retained earnings		-103,058	-79,783
TOTAL EQUITY	6	-53,947	-30,672
Finance lease liabilities	4	0	8,883
Total long term liabilities		0	8,883
Provision for onerous contracts	11	18,058	16,324
Finance lease liabilities	4	9,376	684
Liabilities to group companies	5	21,709	15,565
Other short-term liabilities		6,267	2,122
Total short term liabilities		55,410	34,695
TOTAL LIABILITIES		55,410	43,578
TOTAL EQUITY AND LIABILITIES		1,463	12,906

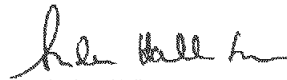
Grimstad, June 27th 2019



Lars Peder Solstad
Chairman of the Board



Sven Stakkestad
Member of the Board



Anders Hall Jomaas
Member of the Board



Cash flow statement
Deep Sea Supply Shipowning II AS

	2018	2017
Cash flow from operations		
Loss before income taxes	-23,271	-24,702
Periods paid tax	-4	3
Impairment of shares	3,814	-13,768
Impairment financial assets	5,455	0
Depreciation	696	4,257
Impairment of fixed assets	2,603	9,279
Change in inventory	2	5
Change in trade debtors and other receivables	-184	105
Change in other provisions	4,145	8,303
Change in provisions for onerous contracts	1,734	
Net cash flow from operations	-5,011	-16,518
Cash flow from investments		
Purchase of fixed assets	0	-22
Proceeds loans receivable group companies (short./long.t)	-1,007	5,283
Net cash flow from investments	-1,007	5,261
Cash flow from financing		
Proceeds in debt to group companies	6,144	11,482
Payments of finance lease (short./long.t)	-190	-356
Net cash flow from financing	5,955	11,126
Net cash from for the period	-64	-131
Cash and cash equivalents at the beginning of the period	86	217
Cash and cash equivalents at the end of the period	23	86
This consist of:		
Bank deposits etc.	23	86



Note 1 Accounting principles

Basis of preparation

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

Functional and presentation currency

The company uses USD as functional currency and presentation currency.

All amounts in these financial statements are in USD 1 000 unless otherwise stated.

Use of estimates

The preparation of financial statements in compliance with the Norwegian Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a great extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

Freight revenues

Revenue derived from the charter of vessels is recognized over the charter period on a straight-line basis.

Charter contracts are classified as operating leases, revenue derived from charter contracts is recognized in the period over the lease term on a straight-line basis. Related services are recognized as revenue in accordance with the services being rendered.

Some charter contracts include mobilization fee, which is paid at the beginning of the charter period. If the fee is to cover upgrades or equipment, the fee is booked as revenue and the relevant capital expenditure is capitalized and depreciated over the charter period on a straight-line basis.

Vessels without signed contract in place at discharge have no revenue before a new contract is signed. Charter related expenses incurred for vessels in the idle time are expensed. Revenues from time charters and bareboat charters accounted for as operating leases are recognized over the rental periods of such charters, as service is performed on a straight-line basis.

Classification of balance sheet items

Assets intended for long term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long-term receivables are, however, not classified as short term liabilities and current assets.



Non-current assets and maintenance costs

Property, plant and equipment are stated at historical cost, less subsequent depreciation and impairment. For vessels purchased, these costs include expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated on a straight-line basis, taking residual values into consideration, and adjusted for impairment charges, if any. The carrying value of the fixed assets on the balance sheet represents the cost less accumulated depreciation and any impairment charges.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Day-to-day maintenance costs are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations and periodic maintenance of vessels are capitalized and depreciated over the useful lifetime of the parts replaced. The useful lifetime of regular vessels docking expenses will normally be the period until next docking which if it is an intermediate survey is after 30 months and if it is a special survey is after 60 months. When ships are acquired, a proportion of the acquisition cost is separated to periodic maintenance.

Depreciation on vessels and other assets (equipment) is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Vessels	20 Years
Deferred maintenance	5 Years
Vehicles	3 Years
Furniture, fittings and equipment	3 Years

The assets' residual values and useful lifetime assumptions of fixed assets are reviewed at each balance sheet date, and where they differ significantly from previous estimates, depreciation charges are changed accordingly.

Relocation costs

Relocation costs, for moving a vessel from one geographical location to another when entering a new charter agreement, are capitalized as a separate component for the vessel. The component is depreciated over the charter period on a straight-line basis.

Asset impairments

Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost to sell and the recoverable amount.

Previous impairment charges, except writedown of goodwill, are reversed in later periods if the conditions causing the write-down are no longer present. Reversal of previously recognized impairment is limited to the amount the carrying value of the asset would have been, had the initial impairment charge not taken place.



Inventories

Inventories are valued at the lower of purchase cost (according to the FIFO principle) and fair value.

Debtors

Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a write down is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

Foreign currencies

Assets and liabilities in foreign currencies are valued at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognised as operating income and cost of goods sold.

Liabilities

Liabilities, with the exception of certain liability provisions, are recognised in the balance sheet at nominal amount.

Taxes

Some of the subsidiaries is taxed under The Norwegian Tonnage Tax Regime and will not be taxed based on its net operating profit. Taxation under the shipping tax regime requires compliance to stringent requirements, and voluntary or compulsory exit from the regime will result in taxation of net profits based on ordinary taxation. Net taxable financial income is taxed according to the shipping tax regime (24 %).

Tonnage tax paid under the tonnage tax regime is classified as operational expenses.

Leases

Lease of property, plant and equipment where the company has all the risks and rewards of ownership, are classified as financial leases. Financial leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long - term interest - bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lifetime of the asset or the lease term.

Any leases where a significant amount of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases net of any incentives



received from the lessor are charged to profit and loss on a straight - line basis over the period of the lease.

Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.



Note 2 Fixed assets

	Vessels and newbuilding contracts	
	2018	2017
Purchase cost 01.01.	135,646	185,199
Additions	0	22
Disposals	0	0
Reclassification from finance to operating lease	0	-49,575
Purchase cost 31.12.	135,646	135,646
Accumulated depreciation 31.12.	26,837	26,141
Accumulated impairment 31.12.	108,233	105,630
Net book value 31.12.	576	3,875
Depreciation in the year	696	4,257
Impairment in the year	2 603	9,279

Impairment

Due to weak and challenging market conditions with decreased ship values, the company has impaired the value for several of the vessels. The company has received independent valuation on the vessels from 2 independent brokers.

Value in use calculation has been prepared for all vessels. The most important assumptions in the value in use calculation are a WACC on 9,3 % and revenue, for vessels having firm contracts, it is based on the current contracts while for vessels without firm contracts, and for vessels where the firm contract expires during the period, it is based on historical data. For the first period it is expected that the day rates for the PSV- and AHTS segment will remain low. From 2023 to 2025 it is assumed a gradual increase of revenue to a level which correspond to the average rates for the past 7-10 years. It is expected that the markets are normalized within 2025.

Reclassification from finance to operating lease

As per September 2017, the company has renegotiated the lease agreement for five vessels. The changes in the lease agreement for four of the vessels were so significant that these were classified as operating lease. As a consequence, vessels with a booked value on USD 49,575 were derecognized from the balance sheet with an associated debt of USD 63,343.

The gain from derecognizing the vessels in the year of 2017 was USD 13,769 and was netted together with the onerous contract of USD 16,733 (Note 12).

Note 3 Inventories

	2018	2017
Bunkers	526	528
Spare parts	12	12
Total	538	540



Note 4 Finance lease liabilities

Finance lease liabilities - minimum lease payments:	2018	2017
0 - 1 year	9,376	683
2 - 5 years	0	1,658
More than 5 years	0	7,225
Total	9,376	9,566
Amortization cost/deferred revenue	0	0
Total	9,376	9,566

The leasing debt is related to the vessel Sea Leopard. The vessels Sea Halibut, Sea Cheetah, Sea Pike and Sea Jaguar has been derecognised as finance lease and recognised as operating lease in 2017.

Based on this the company has recognised in 2017 the onerous contract to USD 16,733. (Note 12).

The long-term liabilities have in accordance with IFRS been classified as current liabilities as per 31 December 2018 due to a waiver period of less than 12 months (ends 31 December 2019). In addition, the restructuring agreement requires that the Company has a new refinancing in place before 31 December 2019.

Liabilities secured by mortgage	2018	2017
	9,376	9,566
Balance sheet value of assets placed as security:	2018	2017
Vessels	576	3,875
Total	576	3,875

Note 5 Balance with group companies, etc.

	Short term receivables	
	2018	2017
Group companies	85	4,533
Total	85	4,533

	Short term liabilities	
	2018	2017
Group companies	-21,709	-15,565
Total	-21,709	-15,565

An amount of USD 5,455 (2017: Nil) has been recognised as an impairment of receivables from group companies.



Transactions with related parties, etc.

Related parties are members of the board, management and other companies within the group.

<u>Revenue transactions</u>	2018	2017
Interest income	1	0
Total Revenue transactions	1	0

<u>Cost transactions</u>		
Management fees	814	734
Interest expense	842	623
Total cost transactions	1,656	1,357

Intercompany balances are charged with an interest of Libor + 2 % margin.

The calculations are prepared in arrears, quarterly, based on the average balance for the quarter passed.

Note 6 Shareholders' equity

Equity changes in the year	Share capital	Share premium	Other paid-in equity	Total
Equity 01.01.	1,190	47,921	-79,783	-30,672
Loss for the year	0	0	-23,275	-23,275
Equity 31.12.	1,190	47,921	-103,058	-53,947

Note 7 Share capital and shareholder information

The share capital consists of 30 shares, each with a nominal value of NOK 334,823

All shares issued are fully paid in.

Deep Sea Supply Shipowning II AS is owned 100 % by Deep Sea Supply AS. Deep Sea Supply A is located in Storgaten 4, 4876 Grimstad.

Note 8 Taxes

The company entered into the Norwegian shipping tax system as of 23.9.2015.

The company does not pay tonnage tax because of the size of the vessels.

Based on net taxable loss from finance the company has a loss carried forward as of 31.12.18 of kNOK 17,710.

Note 9 Payroll expenses, number of employees, remunerations, loans to employees, etc.

There have been no employees in the company throughout the year.

No remuneration has been paid to Board of Directors during 2018.

No loans/securities have been granted to the general manager, Board Chairman or other related parties.



Expensed audit fee

	2018	2017
Statutory audit (incl. technical assistance with financial statements)	16	16
Other assurance services	3	3
Tax advisory fee (incl. technical assistance with tax return)	5	5
Total audit fees	24	24

Note 10 Operating expenses vessels

	2018	2017
Crew expenses	65	312
Insurance	89	172
Repairs and maintenance, lubrication oil, stores, supplies and mis	871	792
Management fee	440	0
Bareboat hire	6,346	1,509
Onerous contract revaluation	1,735	-408
Administration expenses	1	81
Total	9,547	2,458

Note 11 Operating lease

	2018	2017
Total charter hire		
Next year	11,871	6,382
2 - 5 years	44,300	38,223
Above 5 years	20,437	34,858
Total	76,608	79,463

The company has 4 vessels hired in on long term leases classified as operating lease. All 4 leasing agreements were originally classified as financial leases under NGAAP. Due to changes in terms as a result of re-negotiations in 2017, the leases were reclassified to operating leases. Value - in - use calculations based on the terms under the amended agreements, concludes that 2 out of 4 lease agreements are onerous contracts as at 31/12/2018 (4 onerous contracts as at 31/12/2017) refer to note 2.

Note 12 Other gains / losses

	2018	2017
Gain on derecognizing of finance lease (See note 2)	0	13,769
Onerous contract	0	-16,733
Other (losses)/gains	0	2,081
Impairment of investment in subsidiary	-3,814	0
Other losses	-3,814	-883

During the year 2017 due to changes in terms of renegotiation of four leasing agreements, the leases was considered to be to operating leases and not financial leases. (See note 2). Based on rates in the new lease agreement a calculation of potential income was made for four of the vessels given the current rate. The assumptions used in the present value calculation are the same as used in note 2 under the impairment calculation. The outcome of this calculation was that the lease agreement for two of vessels are regarded to be onerous contracts as at 31/12/2018 (4 onerous contract as at 31/12/2017). At the year-end 2018 onerous contracts of USD 18 058 (31/12/2017: USD 16 324) is booked as short - term liabilities in the balance sheet.

The investments in subsidiaries has been impaired with the total of USD 3 814 in 2018, mainly due to negative equity in the subsidiaries.



Note 13 Going concern

The financial statements are prepared on a going concern basis.

However, for companies of Solstad Offshore ASA Group ("the Group"), financial situation is unsustainable as equity is negative and liquidity is under pressure. The Group and the Company, is in discussions with key creditors to achieve a global refinancing. The long-term viability of the Group's and Company's business and hence the Company's is depending on a successful refinancing. The going concern assumption is based on the board's view that the efforts in this respect have a possibility of success. A solution is expected to involve a comprehensive restructuring of the balance sheet of the companies of the Group. The outcome of the discussions and the going concern assumption is nevertheless subject to material uncertainty. If the discussions are not successful, and in the event the Group and the Company should be forced to realize its assets, there is a risk that these will be realized at a significantly lower value than their carrying amount, as value in use is higher than estimated sales values for several of the vessels.

As at 31 December 2018 the Company has negative equity.

Note 14 Events after the balance sheet date

In July 2018, a number of entities in the Solship Invest 3 AS Group entered into an agreement with their financial creditors for the deferral of scheduled instalments and bareboat payments until 31.12.2019 in a total amount of approximately MUSD 48. The financial restructuring also included a MUSD 27 loan from Sterna Finance Ltd to Solship Invest 3 AS Group ("SI3") which owns the Company.

The loan agreement implies that Sterna Finance Ltd has an option to take over the shares of the holding company of SI3 into one option price of NOK 1.

In March 2019, all the relevant creditors but one also agreed to suspend interest payments until 20.06.2019. A unilateral suspension of principal and interest payment was implemented towards the dissenting creditor from the same time. Later in June 2019, the Group has reached an agreement with all secured creditors being part to the Suspension to an extension of the Suspension until the expiry of October 31st, 2019 as more time is required to find a sustainable solution to the financial situation of the SOFF group. Solstad Offshore ASA and the Company is experiencing continued support from its creditors and stakeholders in this process which is conducted in a co-operative manner with a view to find a consensus based overall solution. It is acknowledged by all involved parties that securing contracts and operating the business in its ordinary course is a key priority, and the parties are acting accordingly.



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Deep Sea Supply Shipowning II AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Deep Sea Supply Shipowning II AS, which comprise the balance sheet as at 31 December 2018, 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 2018 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 in the financial statements and the Board of Director's report, which indicates that the Company incurred a net loss of USD 23 275 thousand during the accounting year 2018 and, as of that date, the Company's current liabilities exceeded its total assets by USD 53 947 thousand. Further, as at 31 December 2018 the Company's equity is negative with USD 53 947 thousand. The company is a part of the group Solstad Offshore ASA which is currently negotiating a refinancing agreement with its lenders, and for a large part of the group's and company's liabilities the lenders have agreed to a temporary standstill period until 31 October 2019. The going concern assumption is dependent on a successful refinancing. There is a risk that the group and the company will not reach an agreement with the lenders, and in the event the company should be forced to realize its assets, no assurance can be given that these will not be realized at a significantly lower value than their carrying value. These events or conditions, along with other matters as set forth in note 13 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.

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) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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



Responsibilities of management for the financial statements

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

Independent auditor's report - Deep Sea Supply Shipowning II AS

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assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

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

Oslo, 28 June 2019
ERNST & YOUNG AS

The auditor's report is signed electronically

Asbjørn Rødal
State Authorised Public Accountant (Norway)

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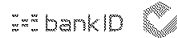
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Skattedirektoratet

Saksbehandler Torstein Kinden Helleland	Deres dato 18.03.2016	Vår dato 29.03.2016
Telefon 22078139	Deres referanse Peter R. Elleson	Vår referanse 2016/247372

ADVOKATFIRMAET PRICEWATERHOUSECOOPERS AS
Postboks 447
4664 KRISTIANSAND S

PRICEWATERHOUSECOOPERS
INNKOMMET 31 MAR 2016

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk

Vi viser til deres brev av 18. mars 2016 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende selskaper;

Deep Sea Supply Management AS	org.nr. 990 397 090
Deep Sea Supply Shipowning AS	org.nr. 986 847 839
Deep Sea Supply BTG AS	org.nr. 914 274 133
Deep Sea Supply Shipowning I AS	org.nr. 914 439 639
Deep Sea Supply Shipowning II AS	org.nr. 914 439 736
Deep Sea Supply Shipowning III AS	org.nr. 914 441 277

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering de overnevnte 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.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Deep Sea Supply Plc er et børsnotert selskap hjemmehørende på Kypros. Selskapet er morselskap i en konsernstruktur med datterselskaper i en rekke land (Kypros, Brasil, Malaysia, Singapore og Norge). I tillegg eier selskapet 50 % i et joint venture med den brasilianske investeringsbanken BTG Pactual. Joint venture er etablert i Norge med et felles holdingselskap og underliggende skipseiende selskaper. Konsernets hovedaktivitet er å eie og drive ankerhånderings- og supplyfartøyer. Driften består av utleie av fartøyene på bareboat eller time charter. Konsernets virksomhet er verdensomspennende, med særlig fokus på Brasil, Nordsjøen, Sør-Øst-Asia og Afrika.

Deep Sea Supply Management AS og Deep Sea Supply Shipowning AS er heleid av Deep Sea Supply Plc. Joint venture med BTG Pactual består av holdingselskapet Deep Sea Supply BTG AS, som er eid 50/50 av Deep Sea Supply Plc og BTG. Dette selskapet har tre underliggende

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Sentralbord
800 80 000
Telefaks
22 17 08 60



heleide skipseiende datterselskaper; Deep Sea Supply Shipowning I AS, Deep Sea Supply Shipowning II AS og Deep Sea Supply Shipowning III AS.

Bransjen selskapene tilhører er internasjonal og arbeidsspråket på verdensbasis er engelsk. Alle sentrale aktører og samarbeidspartnere innen denne bransjen behersker og benytter engelsk. En norsk oversettelse vil kun ha til formål å oppfylle regnskapslovens språkkrav.

Skattedirektoratets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal *”årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.”*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

”Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon.”

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *”informative regnskaper for ulike grupper av regnskapsbrukere”*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

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 er eid av utenlandsk selskaper. Eierkretsen er begrenset. Videre er det vektlagt at selskapene driver virksomhet i en bransje der alle sentrale aktører behersker og benytter engelsk språk.



2016/247372 Side 3 av 3

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen

Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer

