PROFIT AND LOSS ACCOUNT
SOLSHIP INVEST 1 - Group 1.1 - 31.12

	2018	2017
Freight income	542.469.601	547.132.199
Other operating income	24.607.449	33.439.024
Total operating income	**567.077.050**	**580.571.223**
Personnel costs	268.573.728	283.683.265
Vessel operating expenses	96.058.599	125.198.477
Administrative expenses	24.519.691	5.050.019
Other operating expenses	52.185.781	79.775.034
Total operating costs	**441.337.799**	**493.706.795**
Operating result before depreciations	**125.739.251**	**86.864.428**
Ordinary depreciation	73.677.972	62.465.347
Depreciation capitalised periodic maintenance	30.625.311	25.136.000
Impairment fixed assets	292.476.326	68.000.000
Net gain/ loss on sale of assets	0	5.013.348
Operating profit/loss	**-271.040.358**	**-73.750.267**
Interest income	1.611.716	1.758.595
Other financial income	8.185.815	47.543.505
Interest charges	-167.608.436	-172.075.283
Other finance costs	-27.316.345	-7.647.549
Net financing	**-185.127.250**	**-130.420.732**
Ordinary profit before taxes	**-456.167.608**	**-204.170.999**
Tax on ordinary result	-2.277.495	-346.653
Net profit for year	**-458.445.103**	**-204.517.652**
Net profit attributable to:		
Minority shares	29.535.754	31.242.461
Majority shares	-487.980.857	-235.760.113

BALANCE SHEET
SOLSHIP INVEST 1 - Group 1.1 - 31.12

	31.12.18	31.12.17
ASSETS		
Long-term assets		
Long-term fixed assets		
Vessels and new build contracts	2.818.631.702	3.175.736.266
Capitalized periodic maintenance	91.240.506	65.427.254
Other tangible fixed assets	21.368.708	27.585.725
Total long-term fixed assets	**2.931.240.916**	**3.268.749.245**
Financial assets		
Investments in stocks and shares	200.000	200.000
Other long-term receivables	2.469.180	211.313
Total financial assets	**2.669.180**	**411.313**
Total long-term assets	**2.933.910.096**	**3.269.160.558**
Current assets		
Stock	**11.298.253**	**19.178.194**
Receivables		
Account receivables	147.844.121	140.408.851
Other short-term receivables	49.283.863	24.970.499
Total receivables	**197.127.984**	**165.379.350**
Investments		
Market based shares	**306.725**	**687.064**
Bank deposits and cash equivalents	**235.836.278**	**437.740.968**
Total current assets	**444.569.240**	**622.985.576**
TOTAL ASSETS	**3.378.479.336**	**3.892.146.134**

BALANCE SHEET
SOLSHIP INVEST 1 - Group 1.1 - 31.12

	31.12.18	31.12.17
EQUITY AND LIABILITIES		
Equity		
Paid-in equity		
Share capital	100.000	100.000
Other paid-in capital	36.702.827	36.702.827
Share premium	495.991.666	495.991.666
Total paid-in equity	**532.794.493**	**532.794.493**
Earned equity		
Other equity	-900.889.852	-471.980.503
Total earned equity	**-900.889.852**	**-471.980.503**
Minority interests	2.426.825	31.962.579
Total equity	**-365.668.534**	**92.776.569**
Other long-term liabilities		
Other long-term liabilities	10.214.666	10.214.666
Interest bearing liabilities	0	3.642.558.703
Total long-term liabilities	**10.214.666**	**3.652.773.369**
Current liabilities		
Accounts payable	12.798.513	35.676.592
Taxes payable	2.395.961	1.908
Accrued salaries and related taxes	934.853	1.403.172
Other current liabilities	47.622.362	66.477.329
Current interest bearing liabilities	3.670.181.517	43.037.195
Total current liabilities	**3.733.933.206**	**146.596.196**
Total liabilities	**3.744.147.872**	**3.799.369.565**
TOTAL EQUITY AND LIABILITIES	**3.378.479.338**	**3.892.146.134**

Skudeneshavn, 01.07.2019

The Board of Directors of Solship Invest 1 AS

Lars Peder Solstad
Chairman

Sven Stakkestad
Board Member

NOTES TO THE FINANCIAL STATEMENTS (NOK)

NOTE 1 – ACCOUNTING PRINCIPLES

Solship Invest 1 AS (Silo 1) ("the Company") is a limited company with its head office located at Skudeneshavn, Karmøy, Norway. The Group operates a shipping business primarily focusing on the operation of offshore vessels for the oil industry.

The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). These financial statements were authorised for issue by the Board of Directors of Solship Invest 1 AS at 28 June 2019.

The special purpose consolidated accounts are prepared in accordance with special purpose framework and are prepared solely for the creditors of Solship Invest 1 AS. As a result, the special purpose consolidated accounts should not be distributed to or used by parties other than these. The basis for special purpose consolidated accounts is according to the below accounting principles which is based on principles generally accepted in Norway. Comparative figures are not presented in this special purpose framework consolidated financial statements.

All amounts in the notes are in NOK, unless otherwise stated.

The most important accounting principles used in the preparation of the consolidated accounts are described below:

The financial statements consist of:

- Income statement
- Statement of financial position
- Statement of cash flow
- Description of accounting principles and policies
- Notes to the financial statements

Definition of elements in the financial statements
Asset: Resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Liability: Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Equity: Assets less liabilities.

Income: Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expense: Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Recognition of elements
The company uses accrual basis of accounting. Elements are recognised when definitions are satisfied and recognition criteria is met. The company recognises items that meet element definition when:

- it is probable that benefits will flow to/from entity
- items have costs or values that can be measured reliably

Basis of preparation of the annual accounts

The consolidated accounts are based on the principles of historical cost accounting, except for the following accounting items:

- Derivatives (forward exchange contracts and interest rate swaps), marketable securities and bonds are recognised at fair value.
-

Use of estimates – allocations – judgment

Management has used estimates, judgments and assumptions that have affected assets, debts, revenues, expenses and information on potential liabilities. Future events may cause the estimates to change. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on best estimates and historical experience. Revisions to accounting estimates are recognised in the period the change occurs. If the changes also apply to future periods, the effect is distributed over current and future periods.

Areas where management has used assumptions and estimates that are significant to the consolidated financial statements are summarised below:

Judgment and estimates linked to the vessels have a significant impact on the Group's financial statements. As a result of the significant weakening of the Group's markets, there are impairment indicators as per 31 December 2018, and thus value estimates from two independent shipbrokers have been obtained and value in use calculations for all of the company's vessels have been performed. Due to reduced liquidity in the market for vessels, there is an increased uncertainty about the estimated ship values in today's market and greater emphasis has been placed on the value in use calculation than on the broker estimates when assessing the impairment. Unless the vessels' market value is significantly higher than book value, the value in use is used as the basis for the impairment test.

Useful life of vessels – Estimated useful life for vessels is based on strategy, market experience and knowledge of the types of vessel the company owns. The useful life of a vessel is estimated to 20 years.

Residual value by end of useful life - The level of depreciation depends on an estimate of expected residual value of the vessel after 20 years. Assumptions concerning residual value are made based on experience and knowledge of the market for used vessels, where value estimates at the statement of financial position day obtained from shipbrokers is one of the criteria.

Capitalisation and depreciation of deferred maintenance - Periodic maintenance is related to major inspections and overhaul costs. Ordinary maintenance cost will not be included in the capitalisation. Investments made in connection with periodical maintenance are depreciated until the vessel enters into next periodical maintenance. Intervals are calculated on the basis of past experience and best estimates for when next periodical maintenance will be carried out.

Deferred tax – Deferred tax asset is recorded for deductible temporary differences to the extent that the company is likely to have future taxable income so that the asset may be used. Deferred tax asset is evaluated at each presentation of accounts and is reduced in the extent that it is no longer likely that the tax asset will be used.

Provisions for uncertain receivables - When there are objective indicators that the Group will not receive settlement in accordance with original conditions or the receivable is credit impaired, a provision for uncertain receivables is made. A provision is recognised when the Group has an obligation (legal or self-imposed) as a result of a previous event, it is probable (more likely than not) that a financial settlement will take place as a result of this obligation and the size of the amount can be measured reliably.

Principles of consolidation

The Group's consolidated financial statements comprise the parent company Solship Invest 1 AS and entities over which Solship Invest 1 AS has control. An entity has been assessed as being controlled by the Group when the Group is exposed to or have the rights to variable returns from its involvement with the entity, and has the ability to use its power over the entity to affect the amount of the Group's returns. Thus, the Group controls an entity if and only if the Group has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of the Group's returns.

Different accounting principles applied by subsidiaries are adjusted prior to consolidation, such that the consolidated accounts are presented pursuant to uniform principles for all Group companies. Intercompany transactions and balances as well as gains and losses arising from intercompany transactions have been eliminated. The acquisition method is used in accounting for business combinations.

Functional and presentation currency

Functional currency is determined for each company in the Group, based on the currency of the primary economic environment in which each company operates. Transactions in foreign currencies are translated into functional currency at the exchange rate at the transaction date. Monetary items denominated in foreign currencies are translated to the functional currency at the end of each accounting period. Non-monetary items in foreign currencies that are measured at historical cost are translated into functional currency using the exchange rate at the transaction date. Exchange differences are recognised in profit and loss in the period in which they arise.

The Group's presentation currency is NOK. This is also the parent company's and Norwegian subsidiaries' functional currency. Subsidiaries with other functional currencies are translated at the rate as per 31 December for the statement of financial position items, including goodwill, and at the transaction exchange rate for income statement items. Average monthly exchange rates are used as an approximation of the transaction exchange rates.

Exchange differences associated with translation of net investment in foreign operations are classified as translation difference in total comprehensive income. If investments in foreign subsidiaries are sold, the accumulated translation differences relating to the subsidiary attributable to the equity holders of the parent are recognised in the statement of comprehensive income. If vessels are sold internally in the Group translation difference related to the vessels is transferred to the acquiring company and recognized through the income statement when the vessel is sold to an external party outside the Group.

Costs and revenue recognition

The Group's operational vessels are mainly leased on time charter (T/C) parties and are therefore considered to be under lease agreements. T/C contracts also include compensation for such expenses as crew hire. Rental incomes from the chartering of vessels are accounted for as operating leases and are recognized over the lease term unless the contract regulates different rates for different types of missions. The rental period starts from the time the vessel is made available to the lessee and terminates on the agreed return of the vessel. Income and costs associated with charter parties are recognised on the basis of the number of days the contract lasts before and after the end of the accounting period. Gain or loss from the sale of vessels are recognised in the profit and loss once delivery to the new owner has taken place. Interest income is recorded as interest is incurred.

Cash and cash equivalents

Cash includes cash in hand and in bank. Cash equivalents are short-term liquid investments that can be immediately converted into a known amount of cash and have a maximum term of maturity of three months.

Sale of vessels

Gain or loss from the sale of vessels is presented as a separate in total operating income as gain/loss on sale of fixed assets, due to the perception that these transactions are part of the regular business operations.

Government grants

Government grants from the authorities are not recorded until it is reasonably certain that the Group will meet the conditions stipulated in connection with the receipt of the grants and that the grants will be received. Government grants are recorded as deductions to the cost that the grants are meant to cover.

Depreciation of vessels and other fixed assets

The vessels consist of vessels and capitalised deferred maintenance. Vessels are included in the consolidated statement of financial position at their acquisition cost with deductions of the current year's and previous years' accumulated ordinary depreciation and impairment.

The vessels are depreciated linearly over the defined period of useful life of 20 years, taking into account an estimated residual value of the vessels upon expiry of useful life period. Residual values are reviewed on an annual basis. These residual values represent the Groups best estimate of net selling price for the vessels at 20 years of age. The depreciation of vessels in the fleet older than 20 years old are reassessed based on the estimated residual value.

Depreciation for other fixed assets is calculated on a straight-line basis over estimated useful life.

Impairment of fixed assets

The book values of vessels and other fixed assets are reviewed for impairment when events or changes in circumstances indicate the book value may not be recoverable. If any such indicators exist and the book value exceeds the estimated recoverable amount, the assets are impaired to their recoverable amount, which for fixed assets is the greater of the net selling price and value in use. The net selling price is estimated by obtaining valuations from two independent Norwegian shipbrokers. The broker's estimates assume the vessels are without any charter contracts, available for immediate sale on the market and there being a willing seller and a willing buyer. Value in use is calculated by discounting future cash flows to the present value at 31 December. Due to increased uncertainty about the value of the vessels in the current market, as per 31 December 2018 greater emphasis has been placed on the value in use calculation than on the broker estimates when assessing the impairment.

Maintenance costs

Ordinary repairs and maintenance are recognised in the income statement as they occur. The cost of dockings, periodic maintenance and larger modifications of vessels are capitalised and depreciated on a straight-line basis over the period up to the next planned periodic maintenance/docking, normally every 60 months. Upon delivery of new vessels, a portion of the cost of the vessel is separated as deferred maintenance. If a vessel is sold, the capitalised deferred maintenance is included in the gain or loss calculation.

Financial instruments

The Group classifies its financial assets in the following categories: Financial assets at fair value through income statement and loans. The Group classifies its financial liabilities in the following categories: Financial liabilities at fair value through income statement and financial liabilities at amortised cost. Classification depends on the purpose of the assets or liabilities.

Financial assets stated at amortised cost are impaired when on the basis of objective evidence it is likely the instrument's cash flows have been negatively affected by one or more events that have occurred after the initial recognition of the instrument. The impairment amount is recognised in the income statement.

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 are classified as short-term liabilities and current assets.

Inventories

Inventories are valued at the lower of purchase cost (weighted average) and fair value. Lub-oil is valued by using a weighted average

Equity and liabilities

Financial instruments are classified as liabilities or equity in accordance with the underlying economic realities. Interest, dividend, gains and losses relating to a financial instrument classified as a liability will be presented as an expense or income. Amounts distributed to holders of financial instruments that are classified as equity will be recorded directly in statement of changes in equity.

Tax

The company has tax increasing temporary differences posted in the statement of financial position as a deferred tax liability. Deferred tax assets are recognised when it is probable that the Group will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. Deferred tax and deferred tax assets in various countries is presented as a gross amount in the statement of financial position where they cannot be offset. Deferred tax and deferred tax assets are recognised at their nominal value and classified as long-term liabilities or non-current asset investments in the statement of financial position.

Taxes in the income statement represent the payable and withholding tax for the period and changes in deferred tax. Tax on gross income or tax which relates directly to gross income is presented as reduction in income, while other taxes are presented as tax expense. Tonnage tax within the regime is classified as an operating cost and because of the tonnage of Solship Invest 1's vessels it is insignificant.

Deferred tax is recognised in the accounts directly against statement of comprehensive income to the extent that it relates to items recognised in the statement of comprehensive income.

Some of the vessel owning companies are organised in compliance with the tonnage tax regime for shipping companies in Norway, Singapore and United Kingdom.

Cash flow statement

The Group uses the indirect method when presenting its cash flow statement. Bank deposits and shares included in current assets measured at market value are included in cash and cash equivalents. Received and paid interest are presented respectively as investment activity and financing activity.

Group as a lessee - Operating leases

Leases where most of the risk and returns associated with the ownership of the asset have not been transferred to the Group, are classified as operating leases. Lease payments are classified as operating costs and recognised in the income statement in a straight-line during the contract period.

Contingent liabilities and assets

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are unlikely to materialise.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a benefit will be added to the Group.

Events after the reporting period

New information on the company's positions at the statement of financial position sheet date is taken into account in the annual financial statements. Events after the statement of financial position sheet date that do not affect the company's position at the statement of financial position sheet date, but which will affect the company's position in the future, are disclosed if significant.

NOTE 2 – GOING CONCERN

The annual accounts are prepared on the assumption of a going concern. However, the Solship Invest 1 Group's financial situation is unsustainable as equity is negative and liquidity is under pressure. The long-term viability of the Company's and the group's business depends on the Company finding a solution to its financial situation. 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. 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 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. Based on the above the Board is of the opinion that there is significant uncertainty related to the going concern assumption for the Solship Invest 1 AS Group.

The Group has the following covenants:

Solship Invest 1 AS: Minimum liquidity covenant NOK 4 million
Rem Ship AS: Minimum liquidity covenant NOK 125 million
SOFO Skude AS: Minimum liquidity covenant NOK 4 million
SOFO Falnes AS: Minimum liquidity covenant NOK 4 million
Rem Supply AS: Minimum liquidity covenant NOK 8 million
SOFO Tonjer AS: Minimum liquidity covenant NOK 4 million

The Solship Invest 1 Silo are in compliance with the above covenants as per 31.12.2018.

The above covenants are suspended as per suspension agreements with its financial creditors dated 19.12.2018, until 20.06.2019.

Long term liabilities recognized in Solship Invest 1 AS Group of MNOK 3.627 have been reclassified to current liabilities as of 31 December 2018. The reclassification is based on the assumption that the Group might not be in a position to honor its current debt service in accordance with the agreed installment structure in the next 12 months.

The Group is in negotiations with its key creditors and other stakeholders, and the going concern assumption is based on the board's view that the Group's efforts in this respect have a possibility of success. A solution is expected to involve a comprehensive restructuring of the Group's balance sheet. 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 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.

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Directors of Solship Invest 1 AS

Report on the audit of financial statements prepared in accordance with financial reporting to the lenders

Opinion

We have audited the consolidated financial statements of Solship Invest 1 AS ("the Company"), which comprise the statement of financial position as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity 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 consolidated financial statements of the Company for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the special purpose framework defined in note 1 of the financial statement.

Basis for opinion

We conducted our audit in accordance with the 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 in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting, material uncertainty related to the going concern assumption and restriction on distribution and use

We draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the special purpose framework defined in note 1 and is prepared solely for this purpose.

The Company's equity is negative as of 31 December 2018. The Company is a part of Solstad Offshore ASA Group which is currently negotiating a refinancing agreement with its lenders, and for a large part of the Solstad Offshore ASA Group's liabilities the lenders have agreed to a temporary standstill period until 31 October 2019. Because of this there is uncertainty to whether Solstad Offshore ASA can provide financial support to Solship Invest 1 AS. Hence, the going concern assumption is dependent on a successful refinancing. There is a risk that Solstad Offshore ASA 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, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our report is intended solely for the Company and financial reporting to the lenders and should not be distributed to or used by parties other than these.

Our opinion is not modified in respect of these matters.

Responsibilities of Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with note 1 in the financial statements and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors are responsible for overseeing the Company's financial reporting process.

In preparing the financial statements, the Board of Directors 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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' 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;

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

Oslo, 1 July 2019

ERNST & YOUNG AS

Asbjørn Rødal

State Authorised Public Accountant (Norway)