

**NOR OFFSHORE SPV, LTD.**

(Incorporated in Cayman Islands as exempted company with limited liability)

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 31 DECEMBER 2018**

*(with comparatives for the year ended 31 December 2017)*

**NOR OFFSHORE SPV, LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2018**

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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF NOR OFFSHORE SPV, LTD.**

We have audited the accompanying consolidated financial statements of Nor Offshore SPV, Ltd. (the "Company") which comprise the consolidated statement of financial position as at 31 December 2018, and the related consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. The Company's liabilities exceed its assets at the year end by an amount of \$134,204,564. The ability of the Company to continue as a going concern in future periods is dependent upon future income from operations, or failing that, the support of bondholders in providing future financing. Management, in conjunction with the service providers engaged by the Company, are making all possible efforts to market the remaining vessel for sale or bareboat charter. In the absence of future contracts, the operations of the Company for future periods will be dependent upon the willingness of the bondholders to continue to finance the Company. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing. 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 *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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 consolidated 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

This report, including the opinion, has been prepared for and only for the Company's shareholder, as a body, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*Baker Tilly (Cayman) Ltd.*

**Baker Tilly (Cayman) Ltd.**

**15 May 2019**

**Grand Cayman, Cayman Islands**

**NOR OFFSHORE SPV, LTD.**  
**Consolidated Statement of Financial Position**  
**At 31 December 2018**  
*Expressed in U.S. Dollars*

	Notes	2018	2017
<b>Assets</b>			
Current assets			
Cash	3	2,570,952	45,833,231
Accounts receivable		-	178,493
Other current assets		18,948	911,810
Total current assets		<u>2,589,900</u>	<u>46,923,534</u>
Non-current assets			
Fixed assets - net	4	<u>53,627,316</u>	<u>56,032,669</u>
Total non-current assets		<u>53,627,316</u>	<u>56,032,669</u>
Total assets		<u>\$ 56,217,216</u>	<u>102,956,203</u>
<b>Liabilities</b>			
Current liabilities			
Accrued expenses and other payables		<u>-</u>	<u>1,125,567</u>
Total current liabilities		<u>-</u>	<u>1,125,567</u>
Non-current liabilities			
Bonds payable	5	<u>190,421,780</u>	<u>280,378,365</u>
Total non-current liabilities		<u>190,421,780</u>	<u>280,378,365</u>
Total liabilities		<u>190,421,780</u>	<u>281,503,932</u>
<b>Equity</b>			
Share capital	7	-	-
Accumulated losses		<u>(134,204,564)</u>	<u>(178,547,729)</u>
Total shareholder's equity		<u>(134,204,564)</u>	<u>(178,547,729)</u>
<b>Total liabilities and shareholder's equity</b>		<u>\$ 56,217,216</u>	<u>102,956,203</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NOR OFFSHORE SPV, LTD.**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

	Notes	2018	2017
<b>Income</b>			
Service fees		2,016,719	2,419,767
Gain on redemption of bonds payable	5	61,536,243	-
Gain on sale of fixed assets	4	-	4,284,786
Interest income		743	45
Total income		63,553,705	6,704,598
<b>Operating expenses</b>			
Interest expense	6	15,179,658	24,784,072
Depreciation expense	4	2,405,353	4,605,240
Maintenance expense		928,361	10,084,990
Professional fees		302,792	1,269,820
Directors' fees	9	49,000	120,048
Insurance expense		44,777	347,254
Entertainment expense		11,010	280,080
Withholding tax		-	362,965
Foreign currency loss		38,560	2,781
Other expenses		251,029	536,380
Total operating expenses		19,210,540	42,393,630
Net income/(loss)		\$ 44,343,165	(35,689,032)

The accompanying notes are an integral part of these consolidated financial statements.

**NOR OFFSHORE SPV, LTD.**  
**Consolidated Statement of Change in Shareholder's Equity**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

	<b>No. of shares</b>	<b>Share capital</b>	<b>Accumulated losses</b>	<b>Total</b>
Balance at 31 December 2016	1	\$ -	\$ (142,858,697)	\$ (142,858,697)
Net loss	<u>-</u>	<u>-</u>	<u>(35,689,032)</u>	<u>(35,689,032)</u>
Balance at 31 December 2017	1	\$ -	\$ (178,547,729)	\$ (178,547,729)
Net income	<u>-</u>	<u>-</u>	<u>44,343,165</u>	<u>44,343,165</u>
Balance at 31 December 2018	<u><u>1</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (134,204,564)</u></u>	<u><u>\$ (134,204,564)</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**NOR OFFSHORE SPV, LTD.**  
**Consolidated Statement of Cash Flows**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities</i>		
Net income/(loss)	\$ 44,343,165	\$ (35,689,032)
Adjustment to reconcile net income/(loss) to net cash used in operating activities:		
Gain on redemption of bonds payable	(61,536,243)	-
Gain on sale of fixed assets	-	(4,284,786)
Depreciation expense	2,405,353	4,605,240
Interest expense	15,179,658	24,784,072
Working capital adjustments:		
Change in accounts receivable	178,493	(178,493)
Change in other current assets	892,862	(139,045)
Change in accrued expenses and other payables	(1,125,567)	1,017,411
Interest expense paid	(1,545,503)	(2,409,493)
<b>Net cash used in operating activities</b>	<u>(1,207,782)</u>	<u>(12,294,126)</u>
<i>Cash flows from investing activities</i>		
Proceeds from sale of fixed assets	-	60,540,001
<b>Net cash provided by investing activities</b>	<u>-</u>	<u>60,540,001</u>
<i>Cash flows from financing activities</i>		
Payments for bond redemptions	(42,054,497)	(15,187,498)
<b>Net cash used in financing activities</b>	<u>(42,054,497)</u>	<u>(15,187,498)</u>
<b>Net (decrease)/increase in cash</b>	(43,262,279)	33,058,377
<b>Cash at beginning of year</b>	<u>45,833,231</u>	<u>12,774,854</u>
<b>Cash at end of year</b>	<u>\$ 2,570,952</u>	<u>\$ 45,833,231</u>

The accompanying notes are an integral part of these consolidated financial statements.



**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**1. ORGANIZATION OF CORPORATION AND DESCRIPTION OF BUSINESS**

Nor Offshore SPV, Ltd. (the “Company”) is an exempted company incorporated under the Companies Law of the Cayman Islands on 4 May 2016 with registration number 311039. The Company’s registered office is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, Grand Cayman, Cayman Islands.

The Company owns 100% of Nor Offshore Atlantis SPV, Ltd. (“Atlantis SPV”), an exempted company incorporated and existing under the laws of Cayman Islands with registration number 312535 and Nor Offshore Da Vinci SPV, Ltd. (“Da Vinci SPV”), an exempted company incorporated and existing under the laws of Cayman Islands with registration number 312510 (collectively referred to as the “Subsidiaries”).

The Company and the Subsidiaries were incorporated to facilitate the acquisition and ongoing operations of the vessels Nor Atlantis and Nor Da Vinci.

As at 31 December 2018, the Company’s liabilities exceed its assets at the year end by an amount of US\$134,204,564 (2017: US\$178,547,729). The ability of the Company to continue as a going concern in future periods is dependent upon future income from operations, or failing that, the support of bondholders in providing future financing. Management, in conjunction with the service providers engaged by the Company, are making all possible efforts to market the vessels. In the absence of future contracts, the operations of the Company for future periods will be dependent upon the willingness of the bondholders to continue to finance the Company.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The significant accounting policies adopted by the Company are as follows:

**(a) Basis of consolidation and preparation**

The Company is the sole shareholder of the Subsidiaries. The financial position and comprehensive income of the Subsidiaries have been consolidated herein.

The functional and presentation currency of the consolidated financial statements is the United States dollar and not the local currency of the Cayman Islands reflecting the fact that the Company’s participating shares are denominated in United States dollars.

These consolidated financial statements are prepared on a fair value basis for financial assets and financial liabilities at fair value through profit or loss. Other financial assets and liabilities and non-financial assets and liabilities are stated at historical cost or redemption amount.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Standards issued but not yet effective**

New and amended standards and interpretations effective 1 January 2018:

*IFRS 16 - Leases*

The standard is effective for annual periods beginning on or after 1 January 2019 and has not been early adopted. For lessees, it will result in almost all leases being recognized on the statement of financial position, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The Company is currently assessing the impact this will have on the consolidated financial statements.

At the date of authorization of the consolidated financial statements there were a number of other Standards and Interpretations which were in issue but not yet effective. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Company.

**(c) Changes in accounting policies and disclosures**

The Company applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018.

The nature and impact of each new standard and amendment is described below:

*IFRS 9 - Financial Instruments: Classification and Measurement*

The Company adopted IFRS 9 Financial Instruments ("IFRS 9") on its effective date of 1 January 2018. IFRS 9 replaces International Accounting Standards 39 Financial Instruments: Recognition and Measurement ("IAS 39") and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognized at 1 January 2018, the date of initial application.

**i. Classification and measurement**

The Company has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- All financial assets previously held at fair value continue to be measured at fair value.
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal ("SPPI") and interest. Thus, such instruments continue to be measured at amortized cost under IFRS 9.
- The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39.

The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018. However, the Company has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
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*Expressed in U.S. Dollars*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Changes in accounting policies and disclosures (continued)**

**i. Classification and measurement (continued)**

In line with the characteristics of the Company's financial instruments as well as its approach to their management, the Company neither revoked nor made any new designations on the date of initial application. IFRS 9 has not resulted in changes in the carrying amount of the Company's financial instruments due to changes in measurement categories. All financial assets that were classified as FVPL under IAS 39 are still classified as FVPL under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortized cost continue to be.

**ii. Impairment**

IFRS 9 requires the Company to record expected credit losses ("ECLs") on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the Company to credit risk, this amendment has not had a material impact on the financial statements. The Fund only holds accounts receivable with no financing component and that have maturities of less than 12 months at amortized cost. Therefore, it has adopted an approach similar to the simplified approach to ECLs.

The application of the ECL model under IFRS 9 has not significantly changed the carrying amounts of the Company's amortized cost financial assets. No ECL allowance has been recorded against the Company's accounts receivable similar to no impairment recorded under IAS 39.

**iii. Hedge accounting**

The Company has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

*IFRS 15 - Revenue from contracts with customers*

The Company adopted IFRS 15 Revenue from contracts with customers on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 Revenue and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Company.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 1 January 2018 that have had a material impact on the Company.

**(d) Use of estimates**

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported and disclosures made in these consolidated financial statements and accompanying notes. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in the future.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income. Translation differences on financial assets and liabilities at fair value through profit or loss are reported as part of the fair value gain or loss.

**(f) Financial instruments**

In the current period, the Company has adopted IFRS 9. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39.

*i. Classification - Policy effective from 1 January 2018 (IFRS 9)*

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- a. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or;
- b. On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking, or;
- c. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

**Financial assets**

The Company classifies its financial assets as subsequently measured at amortized cost or measured at fair value through profit or loss on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset

*Financial assets measured at amortized cost*

A debt instrument is measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company includes in this category short-term non-financing receivables.

*Financial assets measured at FVPL*

The Company does not hold assets that should be measured at FVPL.

*Financial liabilities measured at amortized cost*

This category includes all financial liabilities, other than those measured at FVPL. The Company includes in this bonds payable and accrued expenses and other payables.

*Financial liabilities measured at FVPL*

The Company does not hold liabilities that should be measured at FVPL.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Financial instruments (continued)**

*i. Initial measurement*

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities at amortized cost, net of directly attributable transaction costs.

*ii. Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Bonds payable*

This is the category most relevant to the Company. After initial recognition, bonds payable are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

*iii. Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

**(h) Fixed assets**

Fixed assets are valued at purchase price including the expenses incidental thereto. Fixed assets are depreciated over their estimated useful economic lives, taking into account their scrap value. The depreciation rates and methods applied are as follows:

<b>Fixed asset</b>	<b>Rate of depreciation</b>	<b>Depreciation Method</b>
Vessels and equipment	4.00% per annum	Straight-line over 25 years

*Impairment on vessels and equipment*

The Company assesses whether there are any indicators of impairment on the fixed assets on a regular basis. Fixed assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the management considers that a fixed asset has suffered a permanent depreciation in value at any time, an additional write-down is recorded in order to reflect this loss. For the year ended 31 December 2018 and 2017, no permanent impairment of fixed assets was recorded.

*Disposal of vessels and equipment*

On disposal of an item of fixed assets, the difference between the disposal proceeds and its carrying amount is recognized in comprehensive income within gain on sale of fixed assets. There were no disposals which took place during the year ended 31 December 2018. During 2017, Nor Atlantis was sold. The sale was executed in terms of a sale agreement dated 20 November 2017 with a sale price of US\$61,000,000. A gain on sale of fixed assets of US\$4,284,786 was earned upon finalization of the sale agreement.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Operating expenses**

Expenses are accounted for on an accrual basis and are charged to the consolidated statement of comprehensive income.

**(j) Interest expenses**

Interest expense is recognized in the consolidated statement of comprehensive income on an effective interest rate method basis for all debt instruments on an accrual basis.

**3. CASH**

The Company's cash mainly comprise of cash deposits with DNB Bank and Fidelity Bank. The Fidelity Bank account bears prevailing bank interest. The DNB Bank account does not bear interest.

**4. FIXED ASSETS**

Fixed assets comprise of the sea vessel "Nor Da Vinci", Marshall Islands flagged diving support vessel owned by Da Vinci SPV, respectively. The vessel was acquired by the Subsidiary on 10 May 2016. During the year ended 31 December 2017 the sea vessel "Atlantis" which had been owned by Atlantis SPV was sold.

The depreciation is based on the assumed remaining useful life of the ship on acquisition of 25 years with nil scrap value.

<b>31 December 2018</b>	<b>"Nor Da Vinci"</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>
Cost – opening balance	\$ 121,249,000	\$ 121,249,000
Cost – closing balance	121,249,000	121,249,000
Accumulated depreciation – opening balance	65,216,331	65,216,331
Depreciation during the year	2,405,353	2,405,353
Accumulated depreciation – closing balance	67,621,684	67,621,684
<b>Net book value – closing balance</b>	<b>53,627,316</b>	<b>53,627,316</b>
<b>Net book value – opening balance</b>	<b>56,032,669</b>	<b>56,032,669</b>

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**4. FIXED ASSETS (continued)**

<b>31 December 2017</b>	<b>“Nor Atlantis” US\$</b>	<b>“Nor Da Vinci” US\$</b>	<b>Total US\$</b>
Cost – opening balance	\$ 121,249,000	\$ 121,249,000	\$ 242,498,000
Disposals	(121,249,000)	-	(121,249,000)
Cost – closing balance	-	121,249,000	121,249,000
Accumulated depreciation – opening balance	62,802,438	62,802,438	125,604,876
Depreciation during the year	2,191,347	2,413,893	4,605,240
Disposals	(64,993,785)	-	(64,993,785)
Accumulated depreciation – closing balance	-	65,216,331	65,216,331
<b>Net book value – closing balance</b>	<b>-</b>	<b>56,032,669</b>	<b>56,032,669</b>
<b>Net book value – opening balance</b>	<b>58,446,562</b>	<b>58,446,562</b>	<b>116,893,124</b>

For the year ended 31 December 2018 and 2017, the management did not recognize permanent impairment for Nor Atlantis and Nor Da Vinci.

**5. BONDS PAYABLE**

Harkand Finance Inc (“Harkand Issuer”), a company existing under the laws of Marshall Island, is the issuer of the 7.50 % Harkand Finance Inc. Senior Secured Callable Bond Issue 2014/2019 (“Harkand Bonds”) and on 4 May 2016, the Bond Trustee for the Harkand Bonds (“Trustee”) declared the entire outstanding Harkand Bonds to be in default and due for immediate payment.

Following arrest of the vessels on Gibraltar, the Company offered on 10 May 2016 to purchase the vessels from the Admiralty Marshal, Supreme Court of Gibraltar. On 28 July 2016, the Company entered into an agreement (the “Memorandum of Agreement”) in connection with the completion of the acquisition of the vessels, hereunder agreeing the following transactions: (i) settlement of the remaining purchase price for the vessels by issuance of bonds (“Recovery Bonds”), (ii) settlement / write down in part of the Harkand Bonds, (iii) transfer of the remaining Harkand Bonds to the Company, (iv) transfer of the cash remaining in the Harkand Issuer and its subsidiaries to the Company and assumption of the Harkand Issuer’s obligation to cover the Trustee’s expenses.

**First issue: 8.40 % Nor Offshore SPV, Ltd. Senior Secured Callable Bond Issue 2016/2020**

On 4 August 2016, the Company issued a series of bonds (the “First Issue Bonds”) in an amount of US\$249,552,788, an amount equal to the amount outstanding under the Harkand Bonds as of 4 August 2016, the date of closing of the vessel transaction. The First Issue Bonds rank pari passu between themselves and the face value is US\$1.

**NOR OFFSHORE SPV, LTD.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 31 December 2018**  
*Expressed in U.S. Dollars*

**5. BONDS PAYABLE (continued)**

The First Issue Bonds were exclusively employed to finance the purchase of the Vessels and the transfer of the cash from the Harkand Issuer to the Company pursuant to the Memorandum of Agreement and were issued to the holders of the Harkand Bonds as settlement in full of the amounts outstanding (at par value) under the Harkand Bonds, to allow for release of the existing mortgages over the Vessels. The remaining Harkand Bonds, after settlement/write down in part in accordance with the Memorandum of Agreement, were transferred to the Company as bondholder.

On 1 March 2018, there was a partial redemption on the principal amount of First Issue Bonds amounting to US\$105,136,243 with proceeds of US\$43,600,000 (including repayment of interest of US\$1,545,503) and resulted to a gain on redemption of US\$61,536,243.

The amount outstanding on the First Issue Bonds (including capitalized interest) as of 31 December 2018 was US\$190,421,780 (2017: US\$280,378,365).

**Second issue: 15% Nor Offshore SPV, Ltd. Super Senior Callable Liquidity Bond Issue 2016/2020**

On 28 November 2016, the Company issued a series of bonds (the “Second Issue Bonds”) in the amount of US\$15,000,000. The Second Issue Bonds rank pari passu between themselves and the face value is US\$1.

The net proceeds from the Second Issue Bonds are employed for the purpose of securing recovery for the holders of the First Issue Bonds by funding eligible costs, primarily funding the Company’s and its subsidiaries’ operations.

The Second Issue Bonds were fully redeemed in 2017, using funds from the sale of the Nor Atlantis.

**6. INTEREST EXPENSE**

The Company shall pay cash interest on the par value of the First Issue Bonds and Second Issue Bonds (collectively referred to as “Bonds”) in accordance with clauses 9.2 and 9.5 of the Bond Agreements. Interest on Bonds will accrue from issuance date and shall be payable quarterly in arrears on the interest payment dates each year, the first interest payment dates on First and Second Issue Bonds being 28 September 2016 and 28 December 2016, respectively. The interest shall be payable as payment-in-kind (“PIK”) interest if there is not sufficient cash in the Company group to meet the agreed threshold for cash payment of interest.

For the year ended 31 December 2018, the Company incurred interest expense relating to the bonds payable amounting to US\$15,179,658 (2017: US\$24,784,072) which was settled as PIK.

**7. SHARE CAPITAL**

The authorized share capital of the Company is US\$50,000 divided into 50,000,000 Class A voting, redeemable and preferred participating shares with par value of US\$0.001 each. As of 31 December 2018 and 2017, one Class A share is issued and outstanding.

Class A Shares entitle the holders thereof to the rights set out in the Articles of the Company, including the right to one vote per share.



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**8. FINANCIAL RISK MANAGEMENT**

The Company's principal financial liabilities comprise bonds payable, and accrued and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include cash in bank that derive directly from the bond issuance and accounts receivable. The Company is exposed to market risk, credit risk and liquidity risk.

The Company's Board of Directors oversees the management of these risks. The company does not trade in derivatives for any purpose. The Board of Directors meets periodically and discusses the risks relevant to the Company and the strategy for risk management. Risks to the Company are summarized below.

***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. Financial instruments affected by market risk include bonds payable.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds fixed rate long-term debt obligations.

The following table details the interest rate profile of the Company's financial assets and liabilities:

<b>31 December 2018</b>	<b>Variable interest rate</b>	<b>Fixed interest rate</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>				
Cash	\$ 730,310	\$ -	\$ 1,840,642	\$ 2,570,952
Other current assets	-	-	18,948	18,948
Total assets	\$ 730,310	\$ -	\$ 1,859,590	\$ 2,589,900
<b>Liabilities</b>				
Bonds payable	\$ -	\$ 190,421,780	\$ -	\$ 190,421,780
<b>31 December 2017</b>				
	<b>Variable interest rate</b>	<b>Fixed interest rate</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>				
Cash	\$ 2,308,689	\$ -	\$ 43,524,542	\$ 45,833,231
Accounts receivable	-	-	178,493	178,493
Other current assets	-	-	911,810	911,810
Total assets	\$ 2,308,689	\$ -	\$ 44,614,845	\$ 46,923,534
<b>Liabilities</b>				
Bonds payable	\$ -	\$ 280,378,365	\$ -	\$ 280,378,365
Accrued expenses and other payables	-	-	1,125,567	1,125,567
Total liabilities	\$ -	\$ 280,378,365	\$ 1,125,567	\$ 281,503,932

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**8. FINANCIAL RISK MANAGEMENT (continued)**

*Market risk (continued)*

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when expense is denominated in a foreign currency) and the Company's net investments in subsidiaries.

*Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions and other receivables.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's assets include vessels which are not easily converted to cash. As a result, the Company may not be able to quickly dispose of its assets at an amount close to fair value in order to meet its liquidity requirements or to respond to specific events.

<b>31 December 2018</b>	<b>Less than one month US\$</b>	<b>One to three months US\$</b>	<b>More than one year US\$</b>	<b>Total US\$</b>
<b>Assets</b>				
Cash	2,570,952	-	-	2,570,952
<b>Liabilities</b>				
Bonds payable	-	-	190,421,780	190,421,780

<b>31 December 2017</b>	<b>Less than one month US\$</b>	<b>One to three months US\$</b>	<b>More than one year US\$</b>	<b>Total US\$</b>
<b>Assets</b>				
Cash	45,833,231	-	-	45,833,231
Accounts receivable	178,493	-	-	178,493
	46,011,724	-	-	46,011,724
<b>Liabilities</b>				
Accrued expenses and other payables	-	1,125,567	-	1,125,567
Bonds payable	-	-	280,378,365	280,378,365
	-	1,125,567	280,378,365	281,503,932

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**9. RELATED PARTY**

Related parties to the Company include directors and entities under common control.

**Directors:**

During the year ended 31 December 2018, the directors earned fees of \$49,000 (2017: \$120,048). As at 31 December 2018 \$nil of the directors' fees are payable (2017: \$15,456).

**10. SUBSEQUENT EVENTS**

Management has performed a subsequent events review from 1 January 2019 through 15 May 2019, which is the date the consolidated financial statements were available to be issued and there is nothing to disclose.