31st of August 2017

Island Offshore Shipholding LP

2nd Quarter 2017

Financial Report

ISLAND OFFSHORE

ISLAND OFFSHORE

The business

Island Offshore Shipholding, L.P. (the "Company" or "Island Offshore") is the parent company in the Island Offshore group (the "Group"). At present the Group has 25 vessels in operation within the vessel segments PSV, AHTS, Well Stimulation (WS), Subsea Construction (SCV) and Light Well Intervention (LWI). Three vessels were sold in January/ February 2017 as part of the ongoing restructuring of the Group.

The fleet operates in Norway, Denmark, UK, Holland, India and Angola. The fleet is modern and versatile and Island Offshore has taken a leading position in attractive market segments. The Group is privately owned.

Main events:

Since the agreement with selected secured bank lenders and the subsequent amendments to the bond agreement in March 2016, the continued deterioration of the market conditions for owners and operators of offshore service vessels has required the Company to re-commence the discussions with its key stakeholders on the conditions for a further restructuring of the long term debt of the Group.

Negotiations have been conducted with the secured bank lenders having provided loans to finance the vessels owned by the Group, the suppliers having provided secured and unsecured loans to various members of the Group, certain bondholders in each of the two outstanding bond issues and the principal owners of the Company.

Subject to satisfaction of certain conditions precedent final and/or in principle agreements have been reached with the secured lenders for a restructuring period commencing June 30th, 2017 and ending December 31st, 2020 involving:

1. Contribution of new cash equity from the existing owners
2. Extension of maturities
3. Amended amortization profiles
4. Cash sweep provisions
5. Amendments to covenant structures
6. Additional measures

A majority of the bondholders in the two outstanding bond issues issued by the Company have indicated their support for the proposed restructuring.

Recent contract awards

Island Constructor: BP UK (wells)

Island Condor: Perenco (one year extension)

Island Crown: Oceangate (project term)

Island Crown: Van Oord (project term)

Island Contender: Lundin Norway (extension one well)

Island Crusader: Wintershall (500 days)

Ocean Intervention III: Oceaneering Inc (3 month extension)

Island Crown: Bluestream (project term)

Island Empress: SNS Peterson (one year extension)

Island Endeavour: SNS Peterson (one year extension)

Island Constructor: Shell Norway, Shell UK, NCA

Island Valiant: KD Marine (project term)

Fleet changes

Sale of Island Earl, February 2017

Sale of Island Express, January 2017

Sale of Island Performer, January 2017

ISLAND OFFSHORE

Fleet

The fleet comprises 25 vessels including the Island Champion which is leased back on bareboat. In addition, the Island Patriot, which was sold in May 2016, is still operated by Island Offshore. Three vessels were divested in January/ February 2017 as part of the ongoing restructuring of the Group.

A total of 4 PSV vessels are currently in lay-up, following mobilization and re-entry to the spot market for the Island Clipper in August. Spot and term day rates for PSVs and AHTS have shown some improvement in recent months but overall continue to be low and unsustainable. We still expect the vessels currently in lay up to remain out of market until sustainable term work can be secured. The Group currently has 2 AHTS vessels in the spot market. Vessels are tendered for term work globally.

Type	Vessels in operation	Vessels under construction	TOTAL
PSV	13	0	13
AHTS	2	1	3
SCV	4	0	4
RLWI	3	0	3
STIM	3	0	3
THD	0	1	1
TOTAL	**25**	**2**	**27**

Vessels under construction:

Vessel	Type/Design	Yard	Planned delivery
Island Victory	DWIV, UT 797 CX	Vard Brevik	April 2018
Island Navigator	THDV, UT 777	Kawasaki Heavy Industries	January 2019

ISLAND OFFSHORE

Quarterly Financial Report
- Comments

Income Statement

Fleet revenue totals NOK 495 mill in Q2-17, a significant improvement from NOK 259 million in Q1-17 which included a sales gain for Island Performer with NOK 55,6 mill, but somewhat lower than the same quarter last year (NOK 566 million in Q2-16). Fleet utilization in Q2-17 was 66% including vessels in lay-up, and improved from April following mobilization of 5 vessels for contracted work.

Revenue from the LWI vessels increased from NOK 10 mill in Q1-17 to NOK 254 mill in Q2-17 following mobilization of all vessels in April/May and high utilization through the quarter. AHTS revenue increased from NOK 15 mill in Q1-17 to NOK 33 mill in Q2-17. Spot market rates have improved in Q2-17 and alternative project work also contributes to improved earnings. SCV revenue and EBITDA also improved in Q2-17 due to mobilization and satisfactory utilization for two vessels previously in seasonal lay-up. PSVs on term charter report marginal but stable earnings.

EBITDA in Q2-17 totals NOK 199 mill versus NOK 60 mill in Q1-17. All vessel segments report positive EBITDA earnings in Q2 and YTD. YTD EBITDA includes a book gain of NOK 55,6 mill from the sale of Island Performer in January 2017.

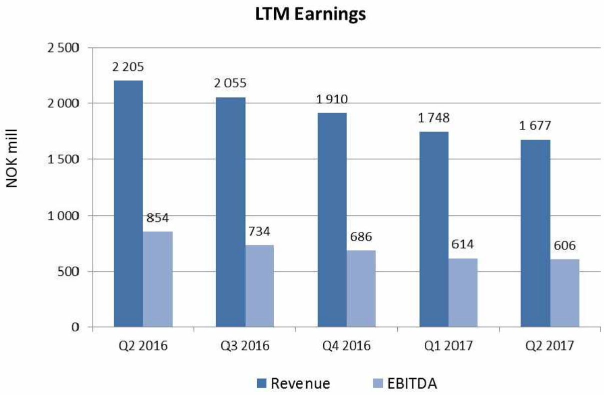
Cost improvements provide important contributions to earnings, especially vessel lay-ups and associated crew reductions, but also continued salary reductions onshore and offshore, and improved maintenance efficiency. The measures will be continued in 2017 but market conditions must improve fundamentally to enable significant earnings improvement.

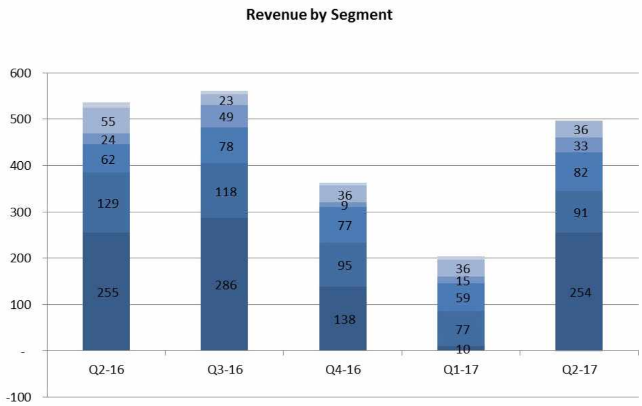
Q2-17 profit before tax is NOK 48 mill versus a loss of NOK -37 mill in Q1-17. Net Financial items in Q1-17 include a net financial income of NOK 56,1 mill related to buy back of ship mortgage at discount.

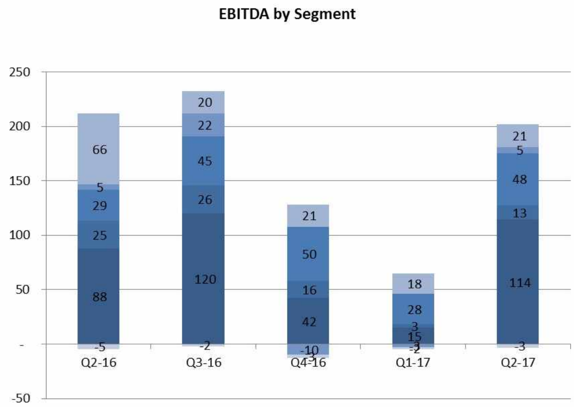
Income Statement

NOK mill	Q2 2016	Q2 2017	YTD Q2 2016	YTD Q2 2017
Revenue	**566**	**495**	**985**	**754**
Net subcontractors	-68	-60	-97	-71
Total operating revenue	**499**	**436**	**889**	**683**
Operating expenses	292	237	548	424
EBITDA	**207**	**199**	**340**	**259**
Depreciation	91	79	181	158
Impairment provision	0	0	0	0
EBIT	**117**	**120**	**159**	**101**
Unrealized foreign exchange gain+/losses- on USD ship mortgages	-12	5	86	7
Net other foreign exchange gain+/losses-	-12	3	-36	-2
Net financial interests & other financial items	-79	-80	-174	-95
Profit before tax	**13**	**48**	**34**	**11**


Quarterly Earnings
NOK mill
800
700
600
500
400
300
200
100
0
566
207
560
231
363
116
259
60
495
199
Q2 2016
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Revenue
EBITDA


LTM Earnings
NOK mill
2 500
2 000
1 500
1 000
500
0
2 205
854
2 055
734
1 910
686
1 748
614
1 677
606
Q2 2016
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Revenue
EBITDA


Revenue by Segment
600
500
400
300
200
100
-
-100
255
129
62
24
55
286
118
78
49
23
138
95
77
9
36
10
77
59
15
36
254
91
82
33
36
Q2-16
Q3-16
Q4-16
Q1-17
Q2-17


EBITDA by Segment
250
200
150
100
50
-
-50
88
25
29
5
66
-5
120
26
45
22
20
-2
42
16
50
21
-10
15
3
28
18
-2
114
13
48
5
21
-3
Q2-16
Q3-16
Q4-16
Q1-17
Q2-17

Balance Sheet and Cash Flow

Book value of fixed assets totals NOK 7,130 mill versus NOK 8,376 mill at 31.12.2016 following sale of 3 vessels in Q1-17. Additions in Q2-17 comprise planned maintenance activities related to class renewals and dry docking.

The cash balance is NOK 108 mill at 30.6.2017 thus down from NOK 142 mill 31.12.2016. The subsidiary Island Offshore VIII KS completed buy-back of a fleet loan in Q1-17, as part of the ongoing restructuring. The transaction was financed by calling of outstanding equity capital, repayment of loans following sale of two vessels and a new fleet loan. The subsidiary Island Offshore III KS completed an equity call in Q2-17 as part of the ongoing restructuring.

YTD cash flow is negative with NOK -35 mill due to reduced earnings from operations, buy-back of a loan and maintenance capex. Following sale of the three vessels in Q1-17, the Company repaid NOK 1,199 mill of financial loans and other long-term liabilities in addition to extraordinary repayment as part of the restructuring.

Net working capital is negative due to re-classification of outstanding ship mortgages to short term liabilities following the ongoing restructuring.

Net interest bearing debt (adjusted for CIRR loans/deposits and shareholder loans) has been significantly reduced from 31.12.2016 and totals NOK 5,742 mill at 30.6.2017 (down from NOK 6,987 mill at 31.12.16). This corresponds to a gearing ratio of 9,48 (NIBD/12M rolling EBITDA).

The Company is in breach with the current financial covenants, and has requested a waiver from the secured and unsecured lenders as part of restructuring negotiations.

The book value of the equity is NOK 1,683 mill up from NOK 1,632 mill 31.12.2016, which equals a book equity ratio of 20,3%, adjusted for CIRR loans/deposits. Following additional reduction in vessel broker values, VAE is estimated to NOK 1,837 mill at 30.6.2017, equal to a ratio of 21,8% based on broker's value appraisals of the fleet.

NOK mill	**31.12.2016**	**31.06.2017**
Ships	8.376	7.130
New building contracts	213	236
Other financial assets	579	556
Total Fixed Assets	**9.169**	**7.922**
Inventory, stock	23	19
Debtors	704	780
Bank, cash	142	108
Total Current Assets	**870**	**907**
Total Assets	**10.039**	**8.829**
Total paid-in equity	696	696
Other equity	936	987
Total Equity	**1.632**	**1.683**
Deferred tax	88	88
Total Provisions	**88**	**88**
Liabilities to financial institutions	0	0
Other long term liabilities	1.387	1.392
Total Long Term Liabilities	**1.387**	**1.392**
Current liability of loan to financial institutions*	6.742	5.447
Trade creditors	35	13
Other Short Term Liabilities	155	205
Total Short Term Liabilities	**6.932**	**5.666**
Total Liabilities	**8.407**	**7.146**
Total Equity and Liabilities	**10.039**	**8.829**

** In accordance with NGAAP, secured bank loans and the NOK 700 mill bond loan are classified as current liabilities as of 30.6.17 as the Group is in breach with revised financial covenants, hereto cross default regulations.*

Cash Flow Statement

NOK mill	31.06.2017
Profit before tax	**11**
Taxes paid	0
Gain on sale of fixed assets	-56
Unrealized foreign exchange gain-/loss+ ship mortgages	-7
Depreciation	159
Change in stock	4
Change in AR	32
Change in AP	-22
Change in other working capital	-57
Cash flow from operations	**65**
Drawdown of long term loans	423
Repayment of long term liabilities	-1.698
Purchase of minority interest	-3
Equity contribution	43
Cash flow from financing activities	**1.236**
Investments	-31
Net sales consideration	1.168
Cash flow from investment activities	**1.136**
Net cash flow	**-35**

Financing and Other Financial Information

Due to the continued state of the market and the implications for cash flow, the Group initiated negotiations for a Standstill and Deferral Agreement with all secured creditors effective 22nd of November 2016. The Company has presented a holistic and comprehensive restructuring proposal to the secured lenders, which is still being evaluated by respective financial and legal advisors. Selective measures representing part of this proposal have already been implemented to facilitate and enable solutions for individual companies within the Group. To date the Group has not received formal waivers as requested from the lenders, to the contrary all the lenders have sent "Reservations of Rights" letters.

As part of the refinancing of the Company in March 2016, an agreement was reached with the bondholders for a 30 month extension of MNOK 470 ("Tranche A") of the bonds' maturity to 05.10.2018 and a new maturity 05.04.2019 for the remaining MNOK 230 of the bonds (Tranche B). In addition easements of financial covenants for 2015, 2016 and 2017 was agreed.

As mentioned above, subject to satisfaction of certain conditions precedent final and/or in principle agreements have been reached with the secured lenders for a restructuring period commencing June 30th, 2017 and ending December 31st, 2020.

Going Concern

While the restructuring discussions are ongoing, the Company has decided to halt all payments of amortization to all of its finance providers.

The Going Concern assumption is based on the Company working with its finance providers to reach a sustainable solution for the Company. Consequently, the Q2-17 accounts reflect a situation where the Company is not liquidated and no forced sale of the vessels are carried out. While the Company remains confident that such a sustainable solution will be reached with the relevant stakeholders, there can be no assurance or guarantee that a solution will be reached.

During the discussions with the finance providers, the Company will continue to operate vessels normally in all other respects. In anticipation of reaching a sustainable solution with the finance providers, the liquidity position of the Company is expected to be stable but challenging in the period to come.

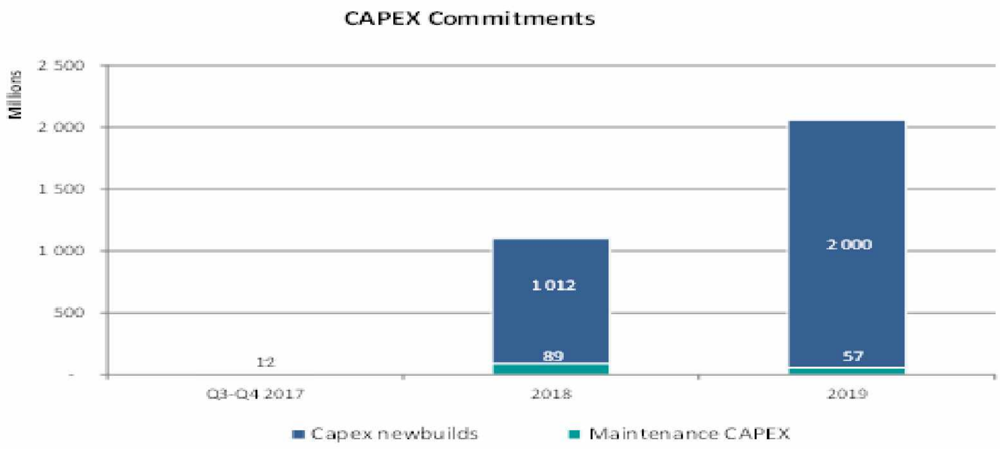
The Q2-17 accounts are not audited.

Status Financial Covenants:

Financial Covenant	Requirement	Status 31.06.2017
Value Adjusted Equity (Consolidated)	30% (banks) / 15% (bonds)	21.8%
Liquidity	Minimum NOK 50 mill	NOK 108 mill
Debt Service Coverage Ratio "as is" (Unconsolidated)	Minimum 0.6	1.3
Gearing ratio	8.5	9.4

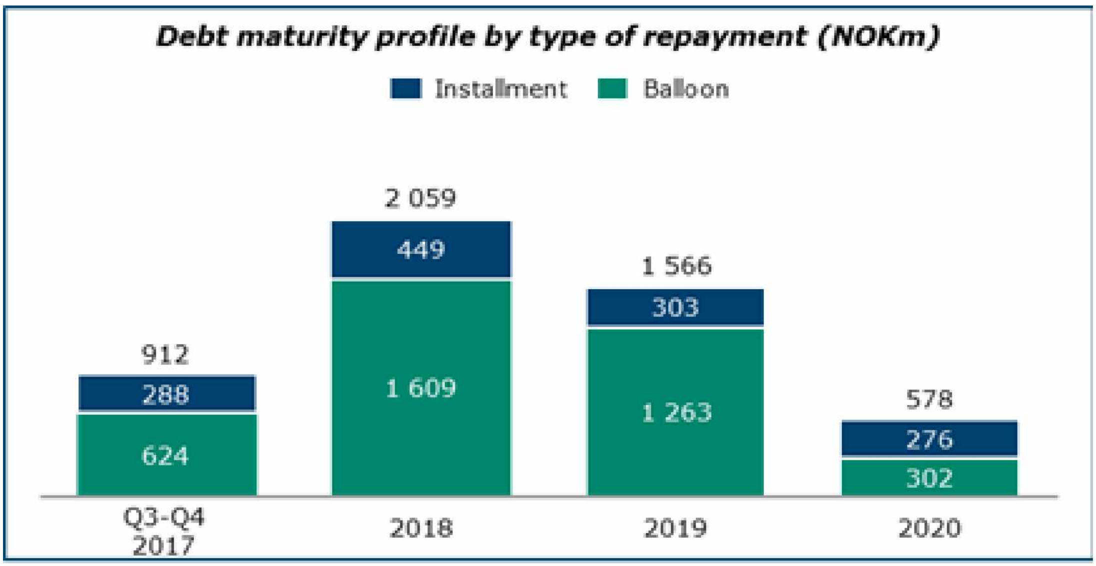

Island Valiant entering Montrose Harbour.
Photo: Glyn Lewis

Outstanding capital expenditures Group:



The Group's future capital expenditure commitments mainly comprise the two new building contracts with delivery in April 2018 and January 2019 respectively. The Island Navigator, to be delivered from Kawasaki Heavy Industries, is fully financed. Initiatives to establish take-out financing for Island Victory, to be delivered from Vard Brevik, are continued but will be subject to the final terms of the restructuring solution currently under negotiation.
Remaining capital expenditure constitutes estimated periodical maintenance activities.

Debt maturity profile Group:



Debt repayment schedule assumes that debt has to be repaid when current bank guarantee expires ; (1) Debt repayments that was not serviced in 2016 and YTD Q2 2017 has been transferred to 2017 (included as part of total balloon payments); (2) Bond repayment includes PIK interest.

The NOK 700 million bond is repayable in two tranches, first in October 2018 with NOK 470 mill and subsequently the buy-back amount of NOK 230 mill in April 2019. Annual loan installments are adjusted for balloon payments year by year.

Note that in accordance with NGAAP, secured bank loans and the NOK 700 mill bond loan are classified as current liabilities as of 31.3.2017 as the Group is in breach with revised financial covenants, hereto cross default regulations.

Market Outlook & Order Backlog

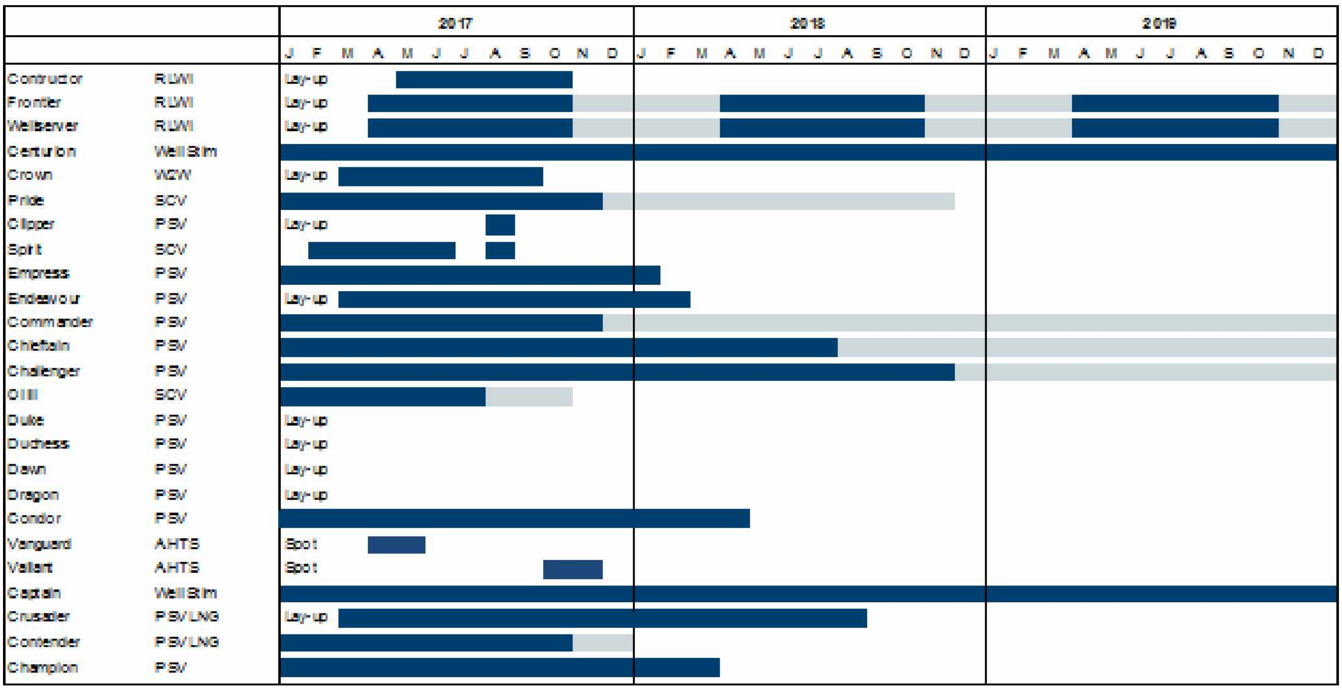
The overall market state has improved somewhat in Q2-17 with spot and term rates for AHTS and PSV vessels showing signs of improvement. Island Offshore has secured extensions for several vessels and across segments in Q2-17.

Despite the recent improvements, we do not expect to see a more extensive market recovery until a more sustainable oil price is established, inducing increased E&P investment thus market activity. Short and long-term work across markets is still extremely competitive. Our view on the subsea and LWI market is maintained and we anticipate an earlier recovery for this market.

Our chartering strategy remains firm with focus on securing long-term commitment with strategically preferred clients, in addition to exploring new business opportunities.

The fleet order backlog excluding charterer's options totals NOK 2,2 billion at 30.6.2017. Contract coverage for the remainder of 2017 is 49%.

Contract coverage by vessel:



Health, Safety and the Environment

Island Valiant and Transocean Barents in the Bremsnesfjord.
Photo: Arvid Mollan/ Island Crusader

Island Offshore endeavors to promote and maintain a safe and healthy working environment offshore and onshore. This includes considering health and safety factors in the design, construction and operation of all vessels and equipment. We are committed to increasing the level of safety involvement and awareness among all employees.

Key performance targets are set, validated and monitored in a QHSE plan. The personnel injury frequency remains low and competitive. Sick leave for offshore personnel has stabilized but the objective is still to reduce sick leave beyond current levels. CO_2 emission from the fleet was reduced by 11% in the last 12 months, partly explained by lower vessel activity and lay-up. We continue with the main focus areas:

- Reductions in emissions by use of alternative fuels, reduction in fuel consumption and cleaning of exhaust
- Selection and handling of chemicals
- Waste management
- Handling of environmentally harmful substances from marine and subsea operations

**This financial report represents the consolidated financial statements for the Island Offshore Shipholding LP Group. The report is prepared on the basis of Generally Accepted Accounting Principles in Norway and has not been audited.*

Investor relations:

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