NOR OFFSHORE SPV, LTD.
(Incorporated in Cayman Islands as exempted company with limited liability)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM 4 MAY 2016 (COMMENCEMENT OF OPERATIONS) TO 31 DECEMBER 2016

NOR OFFSHORE SPV, LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the Period From 4 May 2016 (commencement of operations) to 31 December 2016

Contents

BAKER TILLY

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INDEPENDENT AUDITORS' 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 2016, and the related consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the period from 4 May 2016 (commencement of operations) to 31 December 2016, and the notes to the financial statements, including a summary of significant accounting policies.

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 2016 and its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards.

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 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 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 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 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 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 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.

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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a consolidated net loss of $142,858,697 during the period ended 31 December 2016. As a result the Company's liabilities exceed its assets at the period end by the same amount. 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. 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.

Baker Tilly (Cayman) Ltd.

Baker Tilly (Cayman) Ltd.
2 May 2017
Grand Cayman, Cayman Islands

NOR OFFSHORE SPV, LTD.
Consolidated Statement of Financial Position
At 31 December 2016
Expressed in U.S. Dollars

	Notes	31 December 2016
Assets		
Current assets		
Cash	3	12,774,854
Other current assets		772,765
Total current assets		13,547,619
Non-current assets		
Fixed assets - net	4	116,893,124
Total non-current assets		116,893,124
Total assets		$ 130,440,743
Liabilities		
Current liabilities		
Accrued expenses and other payables		108,156
Total current liabilities		108,156
Non-current liabilities		
Bonds payable	5	273,191,284
Total non-current liabilities		273,191,284
Total liabilities		273,299,440
Equity		
Share capital		-
Accumulated losses	7	(142,858,697)
Total shareholder’s equity		(142,858,697)
Total liabilities and shareholder’s equity		$ 130,440,743

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

NOR OFFSHORE SPV, LTD.
Consolidated Statement of Comprehensive Income
For the period from 4 May 2016 (commencement of operations) to 31 December 2016
Expressed in U.S. Dollars

	Notes	For the period from 4 May 2016 to 31 December 2016
Income		
Foreign currency gain		181,500
Total income		181,500
Operating expenses		
Interest expense	6	8,638,496
Maintenance expense		4,945,071
Professional fees		3,485,843
Depreciation expense	4	3,200,390
Insurance expense		284,010
Directors' fees		72,044
Other expenses		9,857
Total operating expenses		20,635,711
Impairment loss on fixed assets	4	122,404,486
Net loss		$ (142,858,697)

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 period from 4 May 2016 (commencement of operations) to 31 December 2016
Expressed in U.S. Dollars

	No. of shares	Share capital	Accumulated losses	Total
Balance at 4 May 2016	-	-	-	-
Issuance of shares	1	-	-	-
Net loss	-	-	(142,858,697)	(142,858,697)
Balance at 31 December 2016	1	$ -	$ (142,858,697)	$ (142,858,697)

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

NOR OFFSHORE SPV, LTD.
Consolidated Statement of Cash Flows
For the period from 4 May 2016 to 31 December 2016
Expressed in U.S. Dollars

	For the period from 4 May 2016 to 31 December 2016
Cash flows from operating activities	
Net loss	(142,858,697)
Adjustment to reconcile net loss to net cash used in operating activities:	
Impairment loss on fixed assets	122,404,486
Depreciation expense	3,200,390
Interest expense	8,638,496
Working capital adjustments:	
Change in other current assets	(772,765)
Change in accrued expenses and other payables	108,156
Net cash used in operating activities	(9,279,934)
Cash flows from financing activities	
Purchase of fixed assets - net	(93,514)
Proceeds from bond issuance	22,148,302
Net cash provided by financing activities	22,054,788
Net increase in cash	12,774,854
Cash at beginning of period	-
Cash at end of period	12,774,854

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

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.

The Company incurred a consolidated net loss of $142,858,697 during the period ended 31 December 2016. As a result, the Company's liabilities exceed its assets at the period end by the same amount. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Standards issued but not yet effective

<u>Standards and amendments to existing standards effective 4 May 2016:</u>

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 4 May 2016 that have had a material impact on the Company.

<u>New and amended standards and interpretations effective 1 January 2017:</u>

Disclosure Initiative – Amendments to IAS 7
Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a ‘net debt’ reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The Company is currently assessing the impact this will have on the consolidated financial statements.

IAS 7 - Statement of Cash Flows
The International Accounting Standards Board (IASB) has published amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted. The amendments came with the objective that entities shall provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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.

(d) 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 period 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.

(e) 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.

(f) 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:

Fixed asset	Rate of depreciation	Depreciation Method
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 period ended 31 December 2016, a permanent impairment of the fixed assets was recorded at $122,404,486.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified at initial recognition as financial liabilities at amortised cost.

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

The Company's financial liabilities include accrued expenses and other payables and bonds payable.

(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.

(h) Operating expenses

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

(i) 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 bears prevailing bank interest.

Expressed in U.S. Dollars

4. FIXED ASSETS

Fixed assets comprise of the sea vessels “Nor Atlantis” and “Nor Da Vinci”, Marshall Islands flagged diving support vessels owned by Atlantis SPV and Da Vinci SPV, respectively. Both vessels were acquired by the Subsidiaries on 10 May 2016.

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

	“Nor Atlantis” US$	"Nor Da Vinci" US$	Total US$
Cost – opening balance	$ -	$ -	$ -
Purchase cost	121,249,000	121,249,000	242,498,000
Cost – closing balance	121,249,000	121,249,000	242,498,000
Accumulated depreciation – opening balance	-	-	
Depreciation during the period	1,600,195	1,600,195	3,200,390
Permanent impairment during the period	61,202,243	61,202,243	122,404,486
Accumulated depreciation and impairment – closing balance	62,802,438	62,802,438	125,604,876
Net book value – closing balance	**58,446,562**	**58,446,562**	**116,893,124**
Net book value – opening balance	**-**	**-**	**-**

Management recognized a permanent impairment for Nor Atlantis and Nor Da Vinci amounting to US$61,202,243 for each vessel.

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.

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.

The amount outstanding on the First Issue Bonds (including capitalised interest) as of 31 December 2016 was US$258,003,786.

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 amount outstanding on the Second Issue Bonds (including capitalised interest) as of 31 December 2016 was US$15,187,498.

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 period ended 31 December 2016, the Company incurred interest expense relating to the bonds payable amounting to US$8,638,496.

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 2016, 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.

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. 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.

Expressed in U.S. Dollars

8. FINANCIAL RISK MANAGEMENT (continued)

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

31 December 2016	**Variable interest rate**	**Fixed interest Rate**	**Non-interest bearing**	**Total**
Assets				
Cash	$ 12,774,854	$ -	$ -	$ 12,774,854
Other current assets	-	-	772,765	772,765
Total assets	$ 12,774,854		772,765	13,547,619
Liabilities				
Bonds payable	-	273,191,284	-	273,191,284
Accrued expenses and other payables	-	-	108,156	108,156
Total liabilities	-	273,191,284	108,156	273,299,440

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 be converted to cash. As a result, the Company may not be able to quickly dispose its assets at an amount close to its fair value in order to meet its liquidity requirements or to respond to specific events.

	Less than one month US$	**One to three months US$**	**More than one year US$**	**Total US$**
Assets				
Cash	12,774,854	-	-	12,774,854
Liabilities				
Accrued expenses and other payables	-	108,156	-	108,156
Bonds payable	-	-	273,191,284	273,191,284
	12,774,854	108,156	273,191,284	260,524,586

9. SUBSEQUENT EVENTS

Management has performed a subsequent events review from 1 January 2017 through 2 May 2017, which is the date the consolidated financial statements were available to be issued and there is nothing to disclose.