2nd of March 2016

Island Offshore Shipholding LP

4th Quarter 2015

Financial Report

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"). The Group has 29 vessels in operation within the vessel segments PSV, AHTS, Well Stimulation (WS), Subsea Construction (SCV) and Light Well Intervention (LWI). The fleet operates in Norway, UK, Holland, India, West Africa and Gulf of Mexico.

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 2015:

Contract awards

Island Champion: Team Marine
Island Constructor: ConocoPhillips, Shell, Centrica
Island Valiant: Offshore Installation Services
Island Vanguard: KD Marine
Island Crown: Siemens, Siemens Industries, MOUK
Island Clipper: Halliburton
Island Pride: Oceaneering
Ocean Intervention III: Oceaneering
Island Condor: Perenco
Island Earl: Peterson
Island Endeavour: Peterson

Fleet

The fleet comprises 29 vessels in operation including the Island Champion which is leased back following a sale in December 2014. The vessel Island Clipper was delivered in April 2015 from Vard Brevik. At present 7 vessels are in lay-up comprising 3 PSVs, 1 SCV and 3 LWI vessels. The LWI vessels will be back in operation from early April 2016. One SCV is also expected to re-enter the market in April 2016 pending award of contract.

The need for further lay-ups is assessed continuously considering the present market conditions and the need to minimize operational cost. The PSV fleet is particularly exposed and we expect several PSVs to be in long term lay-up. Vessels are still tendered for term work globally.

Three of four new buildings under construction at Vard Brevik will be owned and financed outside the Group and are excluded from the presentation below. Please refer to the Financing section below for further details.

Type	Vessels in operation	Vessels under construction	TOTAL
PSV	15	0	15
AHTS	2	1	3
SCV	4	0	4
RLWI	4	0	4
STIM	4	0	4
THD	0	1	1
TOTAL	**29**	**2**	**31**

Vessel	Type/Design	Yard
Island Victory	DWIV, UT 797 CX	Vard Brevik
Island Navigator	THDV, UT 777	Kawasaki Heavy Industries

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Income Statement

Fleet revenue totals NOK 508 mill in Q4 2015, down from NOK 711 million in Q3 2015, and also lower than the same quarter last year. Fleet utilization in Q4 was 68% including vessels in lay-up. Revenue from the PSV fleet increased in Q4 compared to previous quarters whilst LWI fleet revenue was significantly reduced due to completion of contracts and subsequent temporary winter lay-up.

Fleet utilization for the year was 75% including lay-up with revenue at NOK 2.456 mill compared to NOK 2.740 mill in 2014; equal to a 10% reduction. 2014 includes sales gain of NOK 279 mill. 67% of 2015 revenue was generated by the subsea fleet segments.

EBITDA in Q4 totals NOK 168 mill versus NOK 316 mill in Q4 2014, where last year includes a sales gain of NOK 116 mill. The PSV, WS and SCV fleet reported stable profits and made significant contributions to EBTIDA in Q4. The AHTS market suffered from disappointing day rates and utilization thus vessels reported negative EBITDA in Q4. EBITDA for the LWI vessels was low in Q4 due to completion of contract work mid-October and subsequent winter lay-up of the three vessels from mid-October and December respectively.

EBTIDA for the full year totals NOK 990 mill whereof the subsea fleet including LWI vessels represents a 74% share. The EBITDA margin declined from 57% in Q3 to 36% in Q4 following reduced fleet utilization and lay-up. EBITDA margin for 2015 is 45% compared to 54% in 2014 including sales gains.

Focus is on operational efficiency and cost reductions to mitigate declining revenue. Salary cuts have been implemented both onshore and offshore and other cost reduction initiatives will continue and be reinforced.

The book value of the fleet at 31.12.2015 is written down by NOK 268 mill based on an impairment analysis employing estimates of future cash flow for each vessel. The analysis includes revised day rate and utilization assumptions reflecting contract backlog, current market conditions and expectations for long-term day rates across segments. For specific PSV vessels, the estimated value of future cash flows is lower than book value at 31.12.2015, thus vessel value is written down accordingly.

Book value of investments in shares held by one of the subsidiaries is written down by NOK 67 mill at 31.12.2015 due to reduced market price of the shareholdings.

YTD Q4 2015 profit before tax is NOK –365 mill and includes unrealized FX loss of NOK 193 mill related to conversion of ship mortgages in USD, in addition to the non-recurring items commented above. YTD Q4 2014 profit was NOK 406 mill including gain on sale of vessels of NOK 279 mill.

*see income statement table on page 3.

Income statement

	Q4 2015	Q4 2014	YTD 2015	YTD 2014
NOK mill				
Revenue	**508**	**704**	**2.456**	**2.740**
Net subcontractors	-36	-82	-240	-376
Total operating revenue	**473**	**622**	**2.216**	**2.364**
Operating expenses	305	306	1.226	1.093
EBITDA	**168**	**316**	**990**	**1.270**
Depreciation	91	87	350	300
Impairment provision	268	0	268	0
EBIT	**-191**	**229**	**372**	**970**
Unrealized foreign exchange loss on USD ship mortages	-30	-156	-193	-210
Net other foreign exchange gain+/ losses-	-34	9	-60	3
Net financial interests & other financial items	-198	-122	-484	-357
Profit before tax	**-453**	**-40**	**-365**	**406**

Financing

Discussions with certain secured creditors to ease the repayment schedule on some of the Group's senior secured first lien credit facilities and amendment of certain financial covenants have been ongoing since July 2015. Subject to final documentation, the same certain creditors have agreed to postponement of installments for 18 months and temporary adjustments to debt service coverage and gearing ratios in 2015, 2016 and 2017. Restrictions on dividend payments and capital expenditure will apply going forward.

Conditions precedent include new equity contribution or subordinated shareholder loans of NOK 100 million in addition to NOK 80 million already provided in December 2015.

Three of four new buildings under construction at Vard Brevik will be owned and financed outside the Group. Negotiations with the yard are ongoing with regards to the details in this agreement and further information will follow.

Since early January 2016, the Company and its advisers have been in discussions with the Nordic Trustee ASA and an ad-hoc group of bondholders in its Senior Unsecured Open Callable Bond Issue 2013/2016 that in aggregate beneficially own more than 40% of the Bonds (the "Ad-hoc Committee") to seek consensus on the terms on which the Bond Agreement can be amended to allow for the implementation of the amendments to the senior secured first lien credit facilities referred to above.

The Company has now reached agreement with holders of in excess of 2/3 of the bonds for a 30 month extension of the bonds' maturity to 05.10.2018 and easements of financial covenants for 2015, 2016 and 2017. There will be no change to the aggregate contractual interest accruing on the bonds, however, from and including the date of the implementation of the amendments the cash interest payable will be reduced. The proposal includes restrictions on contribution and loans from the Company to other members of the Group and repayment of long-term unsecured payment obligations. The amendments to the bond agreement are expected to be formally approved by a bondholders' meeting to be held on 16.03.2016. Implementation of the amendments will be subject to a tender offer to acquire NOK 230 mill of nominal value of the bonds being made by one or more external investors, as well as certain other customary conditions.

From the Company's point of view, the above amendments to its financing facilities represents a fair and balanced solution given the current market conditions and other circumstances. Implementation of such amendments is expected to enable the Group to continue to service and repay its debt, and will significantly improve its financial condition. Thus, the amendments will allow the Group to continue operations as a going concern and focus on a long term strategy that will create value for its stakeholders.

Balance Sheet and Cash Flow

Fixed asset additions in 2015 comprise planned maintenance and modifications activities in addition to delivery of the vessel Island Clipper from Vard Brevik in April 2015, as well as installment for new buildings Island Victory and Island Navigator. Book value of the PSV fleet is written down by NOK 268 mill at 31.12.2015 based on impairment analysis commented above.

The cash balance is NOK 271 mill as at 31.12.2015. Net working capital declines mainly due to non-recurring items but also due to reduced profitability in Q4.

Net interest bearing debt totals NOK 7.372 mill at 31.12.2015 adjusted for CIRR loans/deposits and shareholder loans. This corresponds to a gearing ratio of 7,4 (NIBD/12M rolling EBITDA). The Company has obtained acceptance of ease on financial covenants at 31.12.2015, hereto debt service and gearing ratio covenants. Please refer to the Financing section for further details.

The book value of the equity is NOK 2.472 mill, which equals a book equity ratio of 22,4%, adjusted for CIRR loans/deposits. VAE is estimated to NOK 4.019 mill equal to a ratio of 31,9% at 31.12.2015 based on broker's value appraisals of the fleet.

Balance Sheet

NOK mill	31.12.2014	31.12.2015
Ships	9.838	9.773
New building contracts	28	131
Other financial assets	1.016	764
Deferred tax asset	54	54
Total Fixed Assets	**10.936**	**10.722**
Inventory, stock	23	32
Debtors	1.484	774
Bank, cash	390	271
Total Current Assets	**1.898**	**1.077**
Total Assets	**12.834**	**11.800**
Total paid-in equity	596	596
Other equity	2.353	1.876
Total Equity	**2.949**	**2.472**
Deferred tax	130	130
Total Provisions	**130**	**130**
Liabilities to financial institutions	7.833	7.378
Other long term liabilities	1.226	1.427
Total Long Term Liabilities	**9.059**	**8.805**
Trade creditors	408	233
Other Short Term Liabilities	288	160
Total Short Term Liabilities	**696**	**393**
Total Liabilities	**9.885**	**9.328**
Total Equity and Liabilities	**12.834**	**11.800**

Cash Flow Statement

NOK mill	31.12.2015
Profit before tax	**-365**
Taxes paid	-46
Unrealized disagio, ship mortgages	191
Depreciation	350
Impairment provision vessel value	268
Impairment provision financial assets	67
Change in stock	-9
Change in AR	295
Change in AP	-174
Change in other working capital	304
Cash flow from operations	**881**
Drawdown of long term loans	448
Repayment of long term liabilities	-708
Purchase of minority interest	-12
Equity contribution	6
Dividend distribution to minority shareholders	-78
Cash flow from financing activities	**-344**
Investments	-656
Cash flow from investment activities	**-656**
Net cash flow	**-120**

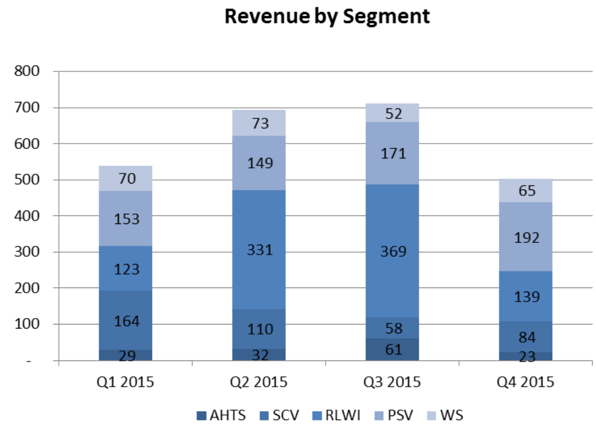
Health, Safety and the Environment

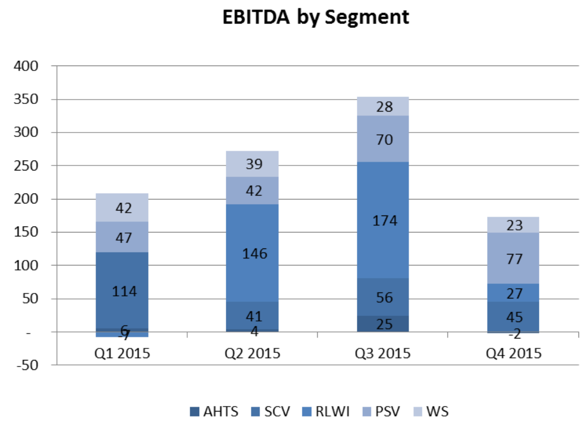
Island Offshore shall endeavor to promote and maintain a safe and healthy working environment offshore and onshore. This includes considering health and safety factors in the design, construction and operation of all vessels and equipment. We are committed to increasing the level of safety involvement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

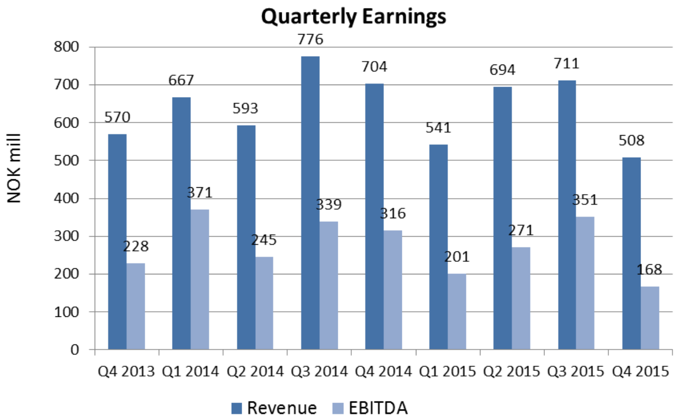
Key performance targets are set, validated and monitored in a QHSE plan. The personnel injury frequency remains low and has continued to improve in 2015. Sick leave for offshore personnel has declined in 2015 and ended close to target at 4.3%. CO_2 emission from the fleet has been reduced by 16% in 2015, however reduction is partly explained by lower vessel activity and lay up.

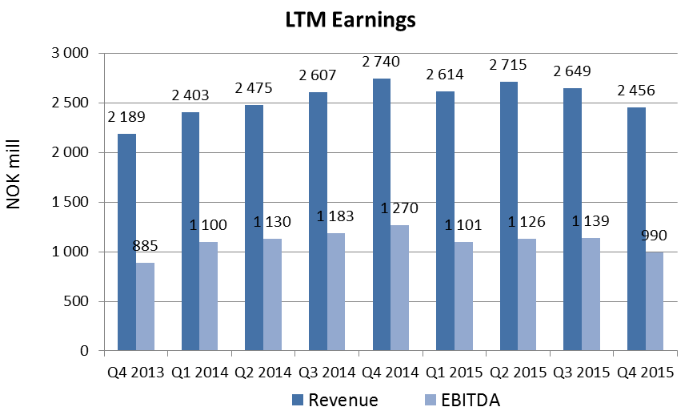
We continue with the main focus areas:

- 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









Market Outlook & Order Backlog

The PSV market is still characterized by continued oversupply despite the increasing number of vessels in lay-up. We do not see any signs of a restored market balance and expect this market to be poor in the next coming years. Extension/renewal risk for vessels completing contracts is increased accordingly. Our strategy remains firm with focus on securing long term commitment with strategically preferred clients. Backlog for the LWI fleet is not satisfactory per February 2016 but there are tender processes to be concluded in Q1 2016 that may add to this backlog. The flow of tenders is generally reduced and very price competitive. The fleet order backlog excluding charterer’s options totals NOK 4,7 billion at 31.12.2015. Contract coverage for 2016 is 49% based on contract days and 76% based on forecasted revenue for 2016.

**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.*

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