28th of February 2018

Island Offshore Shipholding LP

4th Quarter 2017

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"). At present the Group has 25 vessels within the vessel segments PSV, AHTS, Well Stimulation (WS), Subsea Construction (SCV) and Light Well Intervention (LWI). Three vessels were sold in 2017 as part of the ongoing restructuring of the Group.

The fleet operates in Norway, UK, Holland and West Africa. 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 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

Equity contributions in all subsidiaries have been completed by end of October. An agreement has been reached with a majority of the bondholders in the two outstanding bonds issued by the Company. Please refer to the Financing section for further comments.

Recent contract awards

Island Constructor: well intervention work UKCS and NCS
Island Pride: project work, Trinidad and Tobago
Island Crown: W2W project work, UKCS
Island Champion: 1 year extension, UKCS
Ocean Intervention III: project work, Angola
Island Wellserver: well extension, NCS
Island Frontier: well extension, NCS
Island Commander: 1 year extension, NCS

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. The Island Patriot, which was sold in May 2016, is still operated by Island Offshore Management AS. Three vessels were divested in 2017 as part of the ongoing restructuring of the Group.

A total of 4 PSVs and 1 SCV are currently in lay-up. In addition, the three LWI units will be in seasonal lay-up until February/March pending commencement of intervention campaigns in NCS and UKCS. In the past months, we have seen an increase in tenders for term PSV work, however we still consider day rates to be low and unsustainable. As expected the spot market for AHTS has been soft in the winter months with low activity and day rates. With exception of the vessels in seasonal lay-up, we expect vessels currently in lay up to remain out of market until sustainable term work can be secured. Vessels are tendered for term work globally.

Type	Vessels in operation	Vessels in lay-up	Vessels under construction	TOTAL
PSV	9	4	0	13
AHTS	2	0	1	3
SCV	3	1	0	4
RLWI	3	0	0	3
STIM	3	0	0	3
TOTAL	**20**	**5**	**1**	**26**

Vessels under construction:

Vessel	Type/Design	Yard	Planned delivery
Island Victory	DWIV, UT 797 CX	Vard Brevik	April 2019

The shipbuilding contract with Kawasaki Heavy Industries Ltd for Island Navigator was terminated in January 2018. The yard has been facing difficulties in its engineering process as well as with increases of material costs since the contract was signed. Combined with a common understanding that the environment surrounding the offshore development industry is, and will be, severe and unpredictable in the period of the Vessel’s remaining construction, and the ongoing financial restructuring of the Island Offshore Group, KHI and Island Offshore reached a mutual agreement to terminate the shipbuilding contract for the vessel. The termination agreement is strictly confidential but does not imply negative financial consequences for Island Offshore.

Quarterly Financial Report
- Comments

ISLAND OFFSHORE

Income Statement

Fleet revenue totals NOK 294 mill in Q4-17, a reduction from NOK 510 mill in Q3-17, and also lower than the same quarter last year (NOK 363 mill in Q4-16). Fleet utilization in Q4-17 was 54% including vessels in lay-up.

Revenue from the LWI vessels decreased from NOK 263 mill in Q3-17 to NOK 108 mill in Q4-17 following completion of well intervention campaigns for all three units. Vessels are currently in seasonal lay-up but will re-commence work in March/ April 2018. AHTS revenue decreased from NOK 44 mill in Q3-17 to NOK 22 mill in Q4-17, and as expected this is due to low market activity in winter months. One vessel has been in-house for maintenance in December. SCV revenue in Q4-17 was NOK 38 mill compared with NOK 70 mill in Q3-17 due to three vessels completing contract work end of Q3-17 thus utilization was significantly reduced in Q4.-17. All three vessels have been secured additional work starting 2018. PSVs on term charter report marginal but stable earnings.

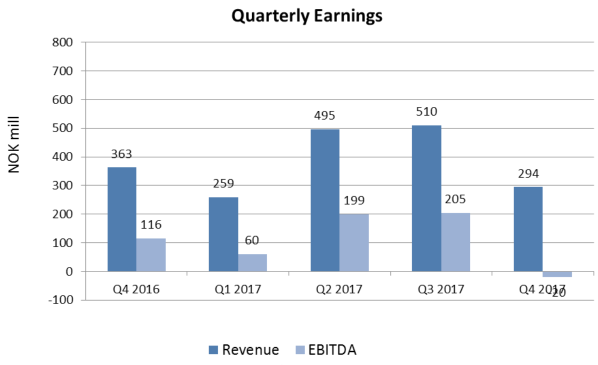
EBITDA in Q4-17 totals a loss of NOK -20 mill versus a profit NOK 205 mill in Q3-17. Only the PSV and SCV segments report a marginal positive EBITDA in Q4, however all vessel segments report positive EBITDA earnings YTD 2017. YTD EBITDA earnings includes a book gain of NOK 55,6 mill from the sale of Island Performer in January 2017.

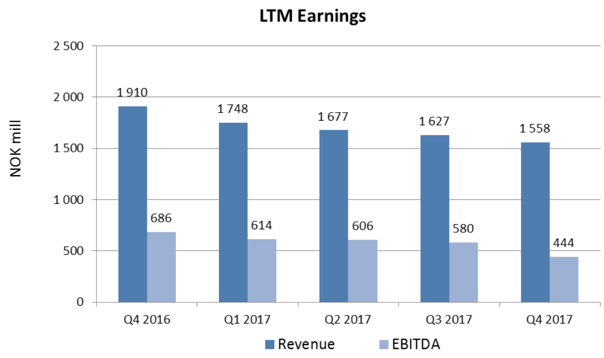
Cost improvements provide important contributions to earnings, especially vessel lay-ups and associated crew reductions, but also continued salary reductions onshore and offshore, and improved maintenance efficiency. Measures to reduce operating cost will be continued in 2018 but market conditions must improve fundamentally to enable significant earnings improvement.

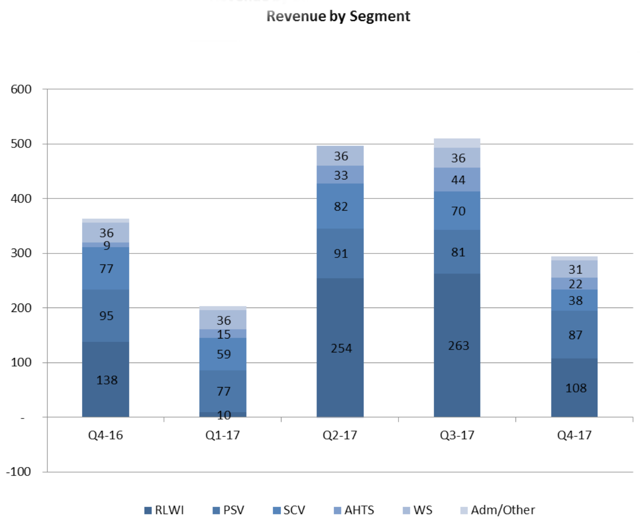
Q4-17 profit before tax is a loss with NOK -186 mill versus a profit of NOK 30 mill in Q3-17. In addition to low utilization of the vessels, the result in Q4-17 is negatively impacted by an additional impairment provision on PSV fleet with NOK 13 mill. In total, impairment provision on vessel value has been increased with NOK 53 mill in 2017. 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.

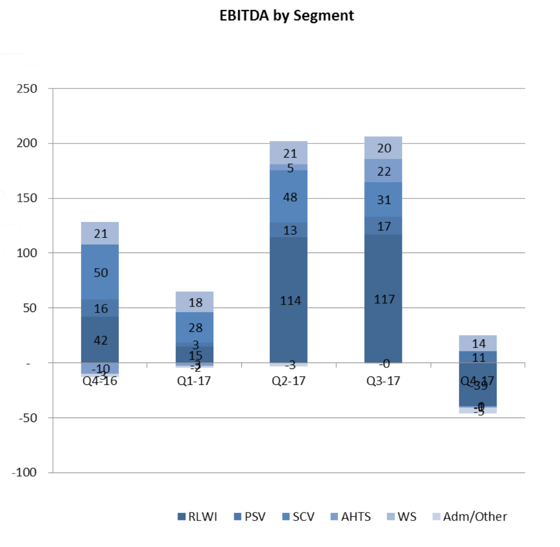
Income Statement

NOK mill	Q4 2016	Q4 2017	YTD Q4 2016	YTD Q4 2017
Revenue	**363**	**294**	**1.908**	**1.558**
Net subcontractors	-31	-55	-196	-180
Total Operating Revenue	**332**	**239**	**1.712**	**1.378**
Operating expenses	216	260	1025	934
EBITDA	**116**	**-20**	**687**	**444**
Depreciation	92	79	364	314
Impairment provision	896	13	896	53
EBIT	**-872**	**-112**	**-573**	**76**
Unrealized foreign exchange gain+/losses- on USD ship mortgages	-83	-7	63	12
Net other foreign exchange gain+/losses-	-2	4	-59	1
Net financial interests & other financial items	-91	-71	-348	-234
Profit before tax	**-1048**	**-186**	**-917**	**-145**


Quarterly Earnings
NOK mill
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
363
116
259
60
495
199
510
205
294
Revenue
EBITDA


LTM Earnings
NOK mill
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
1 910
686
1 748
614
1 677
606
1 627
580
1 558
444
Revenue
EBITDA


Revenue by Segment
Q4-16
Q1-17
Q2-17
Q3-17
Q4-17
RLWI
PSV
SCV
AHTS
WS
Adm/Other


EBITDA by Segment
Q4-16
Q1-17
Q2-17
Q3-17
Q4-17
RLWI
PSV
SCV
AHTS
WS
Adm/Other

Balance Sheet and Cash Flow

Book value of fixed assets totals NOK 6,966 mill versus NOK 8,376 mill at 31.12.2016 following sale of 3 vessels in Q1-17. Additions in Q4-17 comprise planned maintenance activities related to class renewals and dry docking. Book value of vessels is reduced with NOK 53 mill due to increased impairment provision recorded in 2017.

The cash balance is NOK 325 mill at 31.12.2017 and increased by NOK 183 mill 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. In addition the subsidiaries Island Offshore LNG Invest KS and Island Offshore LNG KS have completed equity call in Q3-17 as per agreed term sheets. The subsidiaries Island Offshore VIII KS, Island Offshore LNG Invest KS and Island Offshore LNG KS are resolved to be merged with accounting effect from 01.01.17.

YTD cash flow is positive with NOK 183 mill due to positive cash flow from operations, additional loan from principal owners NOK 164 mill and a net equity capital injection of NOK 63 mill in subsidiaries. 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 5,495 mill at 31.12.2017 (down from NOK 6,987 mill at 31.12.16). This corresponds to a gearing ratio of 12,4 (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 1,552 mill and down from NOK 1,632 mill 31.12.2016, which equals a book equity ratio of 19,4%, adjusted for CIRR loans/deposits. VAE is estimated to NOK 1,209 mill at 31.12.2017, equal to a ratio of 15,8% based on broker's value appraisals of the fleet.

*Please see table on page 6

ISLAND OFFSHORE

Balance Sheet

NOK mill	31.12.2016	31.12.2017
Ships	8.376	6.966
New building contracts	213	244
Other financial assets	579	463
Total Fixed Assets	**9.169**	**7.673**
Inventory, stock	23	27
Debtors	704	431
Bank, cash	142	325
Total Current Assets	**870**	**784**
Total Assets	**10.039**	**8.457**
Total paid-in equity	696	696
Other equity	936	856
Total Equity	**1.632**	**1.552**
Deferred tax	88	79
Total Provisions	**88**	**79**
Liabilities to financial institutions	0	0
Other long term liabilities	1.387	1.234
Total Long Term Liabilities	**1.387**	**1.234**
Current liability of loan to financial institutions*	6.742	5.418
Trade creditors	35	40
Other Short Term Liabilities	155	134
Total Short Term Liabilities	**6.932**	**5.591**
Total Liabilities	**8.407**	**6.905**
Total Equity and Liabilities	**10.039**	**8.457**

** In accordance with NGAAP, secured bank loans and the NOK 700 mill bond loan are classified as current liabilities as of 31.12.17 as the Group is in breach with revised financial covenants, hereto cross default regulations.*

Cash Flow Statement

NOK mill	31.12.2017
Profit before tax	**-145**
Taxes paid	-2
Gain on sale of fixed assets	-56
Unrealized foreign exchange gain-/loss+ ship mortgages	-12
Depreciation	314
Impairment provision on vessel value	53
Change in stock	-4
Change in AR	56
Change in AP	5
Change in other working capital	196
Cash flow from operations	**406**
Drawdown of long term loans	297
Partner's loan	164
Repayment of long term liabilities	-1.826
Purchase of minority interest	-4
Equity contribution	63
Cash flow from financing activities	**-1.307**
Investments	-84
Net sales consideration	1.168
Cash flow from investment activities	**1.083**
Net cash flow	**183**

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 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 2018, 2019 and 2020 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 at the effective date for the restructuring and ending December 31st, 2020. Closing of the remaining conditions precedent are progressing, however certain matters remains to be resolved.

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 Q4-17 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.

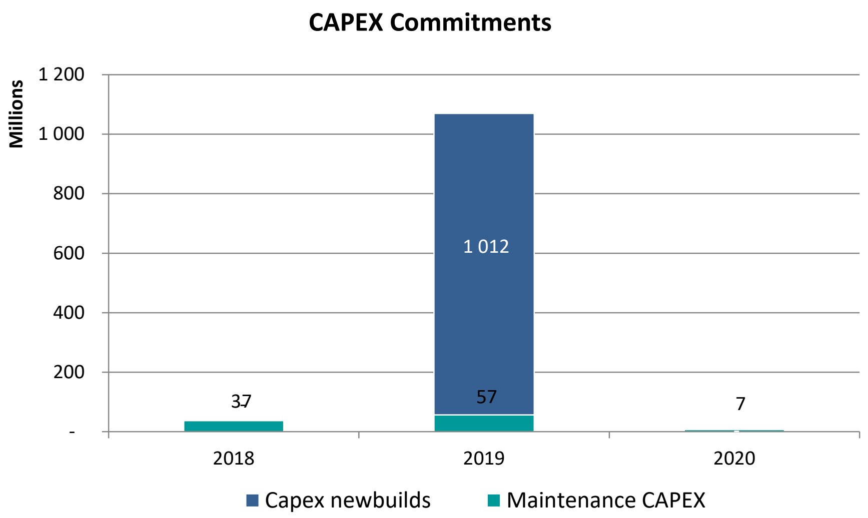
The Q4-17 accounts are not audited.

Status Financial Covenants:

Financial Covenant	Requirement	Status 31.12.2017
Value Adjusted Equity (Consolidated)	30% (banks) / 15% (bonds)	15.8%
Liquidity	Minimum NOK 50 mill	NOK 325 mill
Debt Service Coverage Ratio "as is" (Unconsolidated)	Minimum 0.6	2,2
Gearing ratio	8.5	12.4

Island Pride on its way from India to South Africa after two years of service for Reliance in Kakinada.
Photo: Håkon Osnes

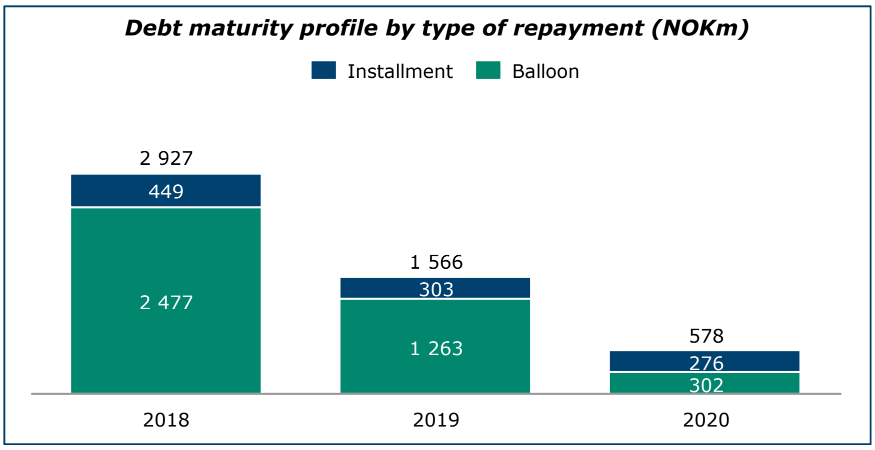
Outstanding capital expenditures Group:



The Group's future capital expenditure commitments mainly comprise the new building contract for Island Victory with expected delivery in April 2019, following the termination agreement for the Island Navigator, to be delivered from Kawasaki Heavy Industries. 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 Q4 2017 has been transferred to Q1 2018 (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 31.12.2017 as the Group is in breach with revised financial covenants, hereto cross default regulations.

Market Outlook & Order Backlog

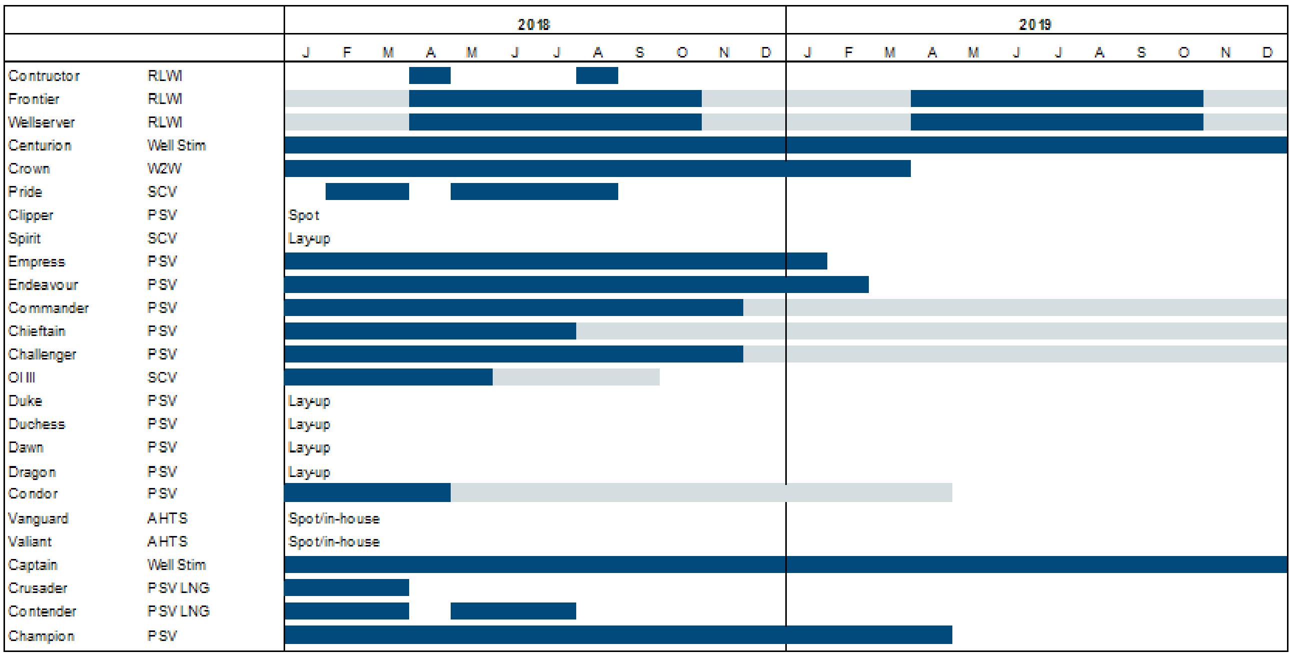
The overall market improvement experienced in Q2-17 was discontinued in Q3-17 and Q4-17 with declining utilization and lower average day rates for spot vessels. As expected, markets have been slow through winter months however we have observed an increase in term tenders for several vessel segments, including PSV and W2W. Island Offshore has been successful in securing new work for several vessels in Q4-17 and Q1-18 including project work for Island Pride, Island Crown and OI III, well intervention work for Island Constructor, and a 1-year extension for the PSV Island Champion.

Our overall market view is however unchanged, and we still do not expect to see an immediate and extensive market recovery. Increased rig activity from March/April 2018 is expected to lead to more vessel activity. The extent and duration of this recovery is dependent on market balance, and potential re-activation of vessels currently in lay-up. Our view on the subsea and LWI market is maintained and we expect this market segment to recover more than other markets in 2018.

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

The fleet order backlog excluding charterer's options totals NOK 1,9 billion at 31.12.2017. Contract coverage for 2018 is 44%.

Contract coverage by vessel:



Health, Safety and the Environment


SAR practise at Ekofisk
Photo: Harald Eksund, Island Centurion

Health, Safety and the Environment

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, despite an increase in this KPI during 2017 comprising 10 incidents. Sick leave for offshore personnel has increased in 2017 but remains comparable to peers. Management efforts are intensified to ensure reduction in 2018. 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:

Mr. Henning Sundet, Chief Financial Officer: hsundet@borgstein.no, +47 913 65 735