



Farstad Shipping ASA

Recapitalisation and private placement of shares / convertible bonds

7 February 2017

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Summary of risk factors

Risks relating to the Industry in which Farstad Shipping and its subsidiaries (together “the Group”), operates

- The Group's business, results of operations, financial condition and ability to pay dividends depend on the level of activity in the offshore oil and gas industry, which is significantly influenced by, among other things, volatile oil and gas prices, and may be materially and adversely affected by a decline in offshore oil and gas exploration, development and production.
- The Group can face additional supply of vessels in the offshore supply services industry that could materially affect its competitive position and rates.
- Many of the Group's vessels operate in the spot market where prices are highly volatile and may fluctuate significantly.
- The Group's operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues.
- The Group may incur liability from its operations which may not be adequately covered by insurances or other contractual arrangements.
- The Group's vessels operate in a marine environment, which is subject to forces of nature and environmental and climatological risks.
- The Group's operations in international markets are subject to risks inherent in international business activities, including general economic conditions in each country where the Group operates, currency fluctuations, changes in regulatory requirements, foreign laws and regulations etc.

Risks relating to the Business of Farstad Shipping

- The market value of the Group's vessels may decrease, which could limit the Group's financial flexibility or lead to losses in the event of a vessel sale following a decline in market value. The Group may not be able to satisfy liquidity requirements and to finance future operations.
- The service life of the vessels cannot be guaranteed, and other technical/operational solutions/vessels may be preferred
- The Group may be unable to attract sufficient customers which will affect the Group's cash flow and result of operations.
- Due to the distressed financial situation of the Group, the Group has recently experienced significant difficulties in attracting new customers and customer contracts. Moreover, existing customers have sought to renegotiate existing contracts
- The Group may fail to estimate risks, costs or timing when bidding on new contracts and to manage such contracts efficiently which could have a material adverse impact on the profitability of the Group. The Group can be subject to future claims under legal proceedings and disputes.

Risks relating to the Shares and the Private Placement

- The price of the Shares of the Company has fluctuated significantly in the past, and may continue to do so in the future.
- Future issuance of Shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Shares.
- The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions. There can be no assurance that shareholders residing or domiciled in the USA or other jurisdictions than Norway will be able to participate in future capital increases.
- Subscriptions in the Private Placement are made on the basis of the Private Placement Materials only, which is summary form documentation that does not contain the level of disclosure that would be found in a prospectus.
- Completion of the Private Placement is subject to closing conditions, the fulfillment of which is outside the Group's control.
- No due diligence investigations have been conducted prior to the Private Placement, and the Group may be subject to material losses or claims which neither the Group nor the Managers are aware of at the date of this Presentation.

Risks relating to the Combination

- Due to the financial situation of the Company, the Restructuring as well as the proposed combination have been negotiated on an accelerated timeline. No due diligence investigations have been carried out of Solstad Offshore ASA and Deep Sea Supply Plc by the Company and/or any of its advisors and, accordingly, there can be no assurance that there are no unknown liabilities or risks that may have a significant negative effect on the transaction. Moreover, there can be no assurance that the conditions for the proposed combination will be satisfied, and accordingly, that the proposed combination will be effected
- There can no assurance that there will be no negative tax consequences for investors in the convertible bonds as a result of Solstad Offshore ASA assuming the debtor position for the convertible bonds in connection with the proposed combination

AGENDA

- 1** Transaction highlights
- 2 Company update
- 3 Market update
- 4 Summary
- A Appendix: risk factors

Key highlights

Transaction highlights¹

Farstad Shipping is seeking to restructure its capital structure:

- Converting NOK 2,417m of debt to shares at NOK 1.25 per share
 - All NOK 1,407m² of bond debt
 - NOK 940m of 1st lien bank debt
 - NOK 70m of lease debt
- Securing NOK ~1bn of new equity through creditor interest conversion, private placement and a repair offering, all at NOK 0.35 per share
 - NOK 271 million pre-subscribed by banks in exchange for reducing cash interest payments by NOK 332 million next 5 years
 - NOK 91 million pre-subscribed by Ocean Yield in exchange for reducing lease payments by NOK 110 million next 5 years
 - NOK 650 million equity issue fully underwritten by Aker and Hemen on a 50:50 basis. The equity issue will consist of:
 - NOK 450m share issue to Aker and Hemen (private placement 1)
 - NOK 150m share / convertible bond³ issue to Farstad Shipping's bondholders and Tyrholm & Farstad Invest AS (private placement 2)
 - Certain large bondholders have pre-subscribed and will be allocated NOK 50 million
 - Tyrholm & Farstad Invest AS has pre-subscribed and will be allocated NOK 50m either in private placement 2 or private placement 1
 - NOK 50 million repair offering

Farstad Shipping highlights

- Leading provider of specialised offshore service vessel with a fleet of 57 large/medium AHTS/PSV/subsea vessels
- Listed since 1988 with 10.9% RoCE and 14% RoE
 - Entry price at 68% EV/CE
- Restructuring to position for a prolonged downturn:
 - No bond debt
 - Liquidity improved by NOK 9.6bn to and including 2021
 - Refinancing mechanism for all debt in 2021, final maturity in 2023
 - New equity including conversion of debt/interest of NOK ~3.5bn
 - Net debt from NOK 11.2bn to NOK 8.2bn
 - Substantial cost cutting measures implemented
- Farstad Shipping will be positioned to capture a recovery in the market
 - Strong earnings track-record of operational excellence
 - Leading world-wide presence in all major markets
 - Open shareholder structure
- Average “pre-downturn” EBITDA (2008-2014) of NOK 1.5bn
 - Not adjusted for fleet growth. Farstad to enter a firming market with a larger and more high-end fleet
- Equity value post money of NOK 1.7bn fully diluted

Proposed combination of Farstad Shipping, Solstad Offshore and Deep Sea Supply

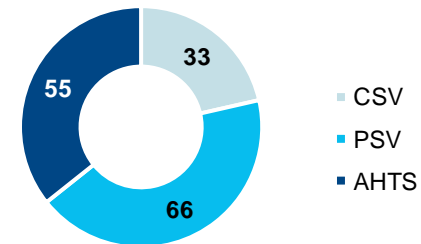
Key comments

- The stakeholders of Farstad Shipping, Solstad Offshore and Deep Sea Supply have agreed to work for a combination of the companies following completion of the Farstad restructuring, creating a world class OSV company (the “Combination”)
- The new consolidated group will build on the complementary strengths of the three companies, combining Solstad Offshore’s CSV capabilities with Farstad Shipping’s AHTS experience and Deep Sea Supply’s cost efficient PSV model
- The proposed transaction is a structural measure in the current OSV market downturn, which enables the combined company to achieve significant cost and revenue synergies

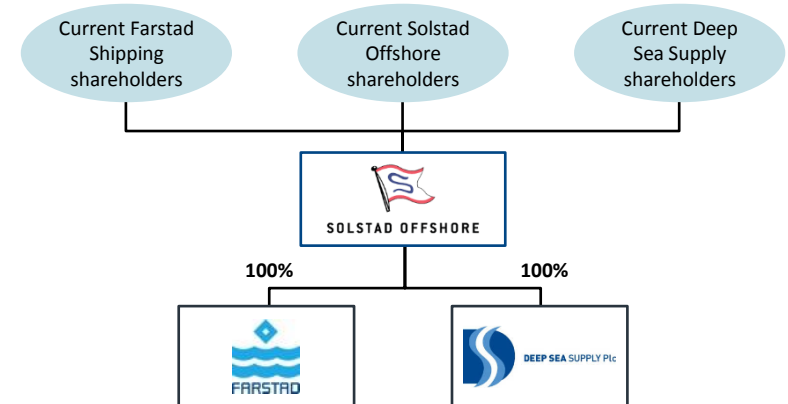
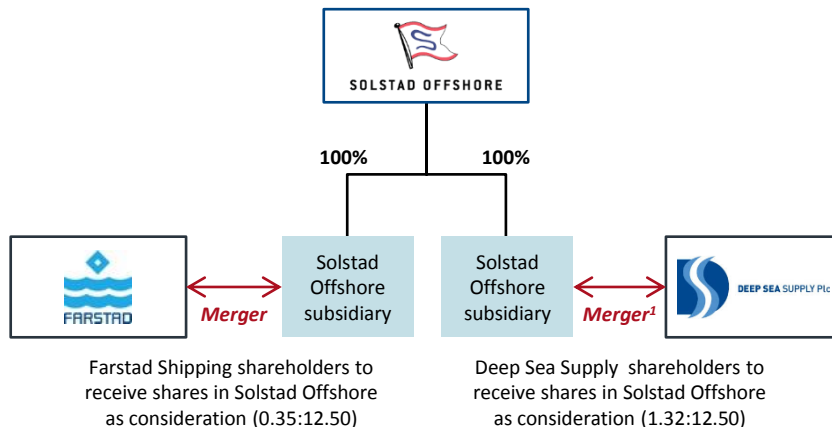
Combined fleet profile

“ A successful completion of the combination will create the largest company in the high-end¹ global OSV industry with a fleet of 154 vessels ”

- SOFF / FAR / DESSC stock exchange announcements



Proposed transaction details and post transaction structure



Recapitalisation summary

New equity

- Capital raise of NOK 600m comprising:
 - NOK 450m new cash equity through issuance of shares directed to Aker and Hemen
 - Up to NOK 150m new cash through issuance of zero-coupon subordinated convertible bonds or shares directed to existing bondholders and main shareholder
- Intention to conduct a subsequent offering of up to NOK 50m

Bonds converted to equity

- FAR03 and FAR04 with total face value NOK 1,407m¹ converted at face value into shares at NOK 1.25 per share
- Will be offered to participate in a new convertible bond or issuance of shares of up to NOK 150m as defined in the Restructuring Term Sheet

Banks

- NOK 940m of principal amount to be converted at face value to equity at NOK 1.25 per share
- Conversion of NOK 332m of future interest payments into NOK 271m worth of ordinary shares at NOK 0.35 per share
 - Voting undertaking to support the Combination
- 90% amortisation deferral to and including 4Q 2021
- Implementation of refinancing mechanism for all senior secured in 2021, with final maturity in 2023
- Cash sweep mechanism

Ocean Yield

- NOK 70m of lease obligation converted at face value into equity at NOK 1.25 per share
- Conversion of NOK 109 million of future lease obligations into NOK 91m worth of shares at NOK 0.35 per share

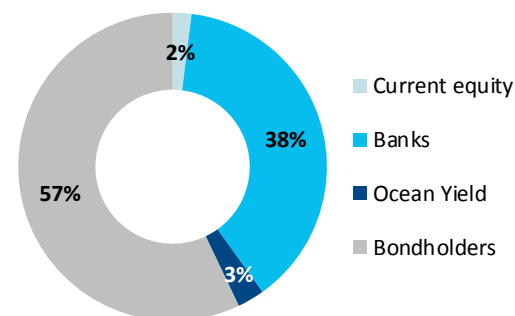
Vard / Newbuilding

- To be carved out in a ring-fenced vessel owning company, Farstad to commit NOK 30m of cash equity to SPV
- Take-out financing of NOK 300m and Vard seller's credit of NOK 100m
- Total project cost NOK 525m

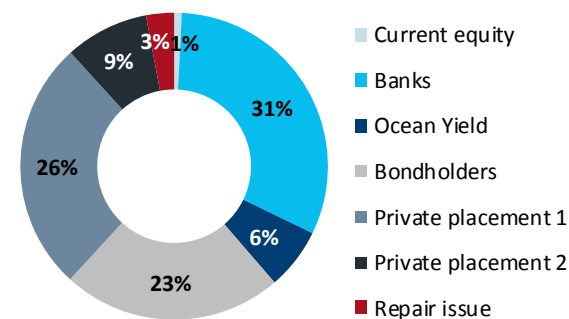
Key terms of private placement 2 and pro-forma ownership post recapitalisation

Issuer:	Farstad Shipping ASA (Ticker: FAR/Oslo Børs)
Shares outstanding:	39,000,000 shares outstanding prior to the private placement, each with a par value of NOK 1. Maximum NOSH post offering but before the repair offering is 4,720,683,544 including principal debt and interest to equity conversion from secured lenders, bondholders and lessors, private placement 1 and private placement 2, all as described in the Restructuring Term Sheet
Pre-money valuation:	Based on NOK 0.35 per share, pre-money valuation is NOK 13.65m. Including the shares to be issued against conversion of debt at a fixed share price of NOK 1.25 (excluding interest conversions) the pre-money valuation is NOK 690.38m
Private placement 2:	The private placement comprises new shares and/or subordinated zero-coupon convertible bonds for a total subscription amount of NOK 150m, resulting in the issuance of up to 428,571,429 new shares (provided that no convertible bonds are subscribed for an allocated) ¹
Pre-subscription:	NOK 50m pre-subscribed by certain large bondholders NOK 50m pre-subscribed by Tyrholm & Farstad Invest AS ²
Use of proceeds:	The proceeds will be used to strengthen the Company's balance sheet and liquidity position, as well as for general corporate purposes
Issue price:	NOK 0.35 per share
Minimum application:	The share equivalent of at least NOK 1,000,000 (or if higher the NOK equivalent of EUR 100,000)
Subscription period: (subject to change)	From 7 Feb 2017 at 08:30 CET to 10 Feb 2017 at 16:30 CET The Company may at its own discretion extend or shorten the subscription period
Allocation, settlement and trading: (subject to change)	Notification of conditional allocation: On or about 13 February 2017 Payment: Expected on or about 8 March 2017 The new shares will following approval and publication of a listing prospectus be listed on Oslo Børs. Pending such listing, the new shares issued in the Private Placement will be registered on a separate ISIN and not be listed or tradable on Oslo Børs. The Company will however seek an interim registration of the new shares on N-OTC or Merkur Market
Conditions for completion:	Completion of the private placement and settlement of the new shares is subject to all necessary corporate resolutions being validly made by the Company, including without limitation approval by an EGM to be held on or about 3 March 2017 and fulfilment of the conditions for the restructuring, including, amongst other things, final loan documentation, approval by the bondholders in the Company's bond loans and the approval of the credit committees of senior lenders. The Private Placement will be cancelled if the completion conditions are not fulfilled within 30 June 2017
Subsequent offering	The Board will propose that the EGM also authorise the Board to carry out a subsequent offering to existing eligible shareholders of up to NOK 50m
Managers:	ABG Sundal Collier and Pareto Securities

Ownership after conversion of principal debt³, prior to the private placement



Ownership post private placement (fully diluted)



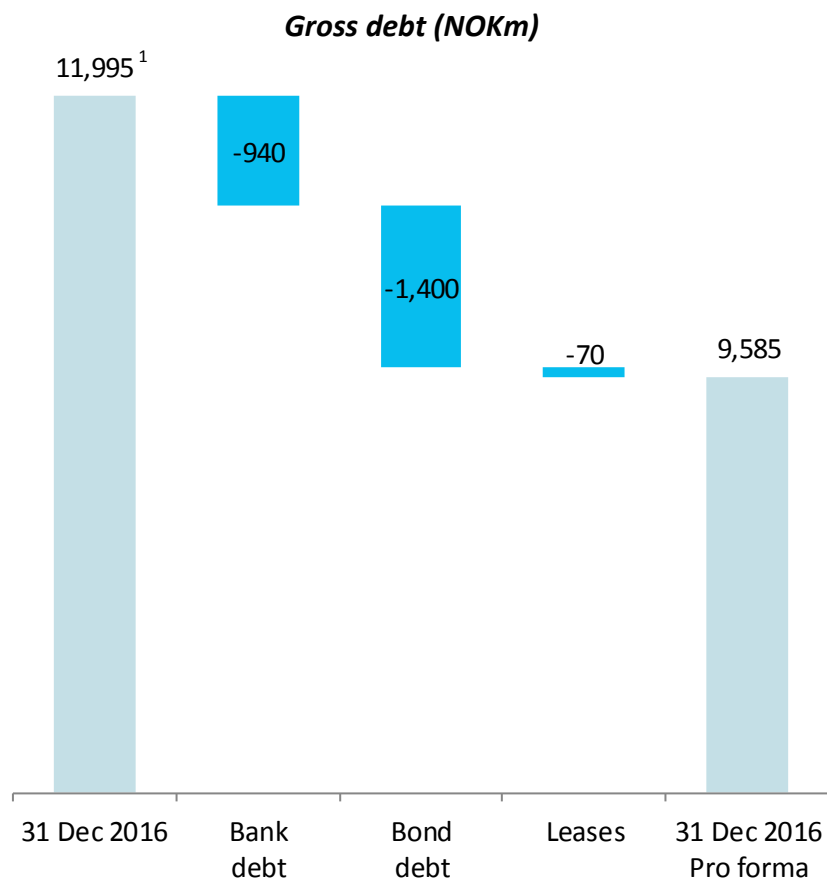
Slide 8

Note: 1) If the convertible bonds issued in the Private Placement (if any) are outstanding at the date of the completion of the proposed combination, the Company shall procure that Solstad Offshore ASA assumes the obligations of the Company under the bond agreement for the convertible bonds. Each of the bondholders shall be deemed to have consented to the resulting change of issuer, and any resulting logical amendments to the bond agreement for the convertible bonds; 2) In case Tyrholm & Farstad's pre-subscription cannot be covered under private placement 2, it will be moved to private placement 1 and Aker and Hemen's allocations will be reduced correspondingly on a 50:50 basis; 3) I.e. not including conversion of interests

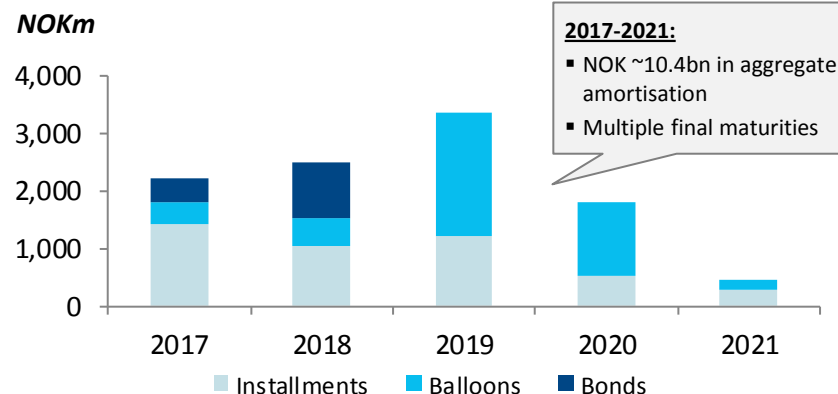


Significantly improved debt profile

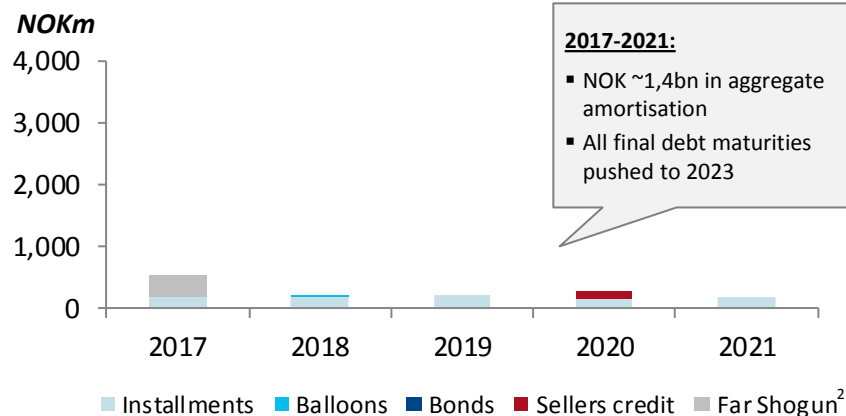
Principal gross debt significantly reduced



Debt amortisation profile pre refinancing

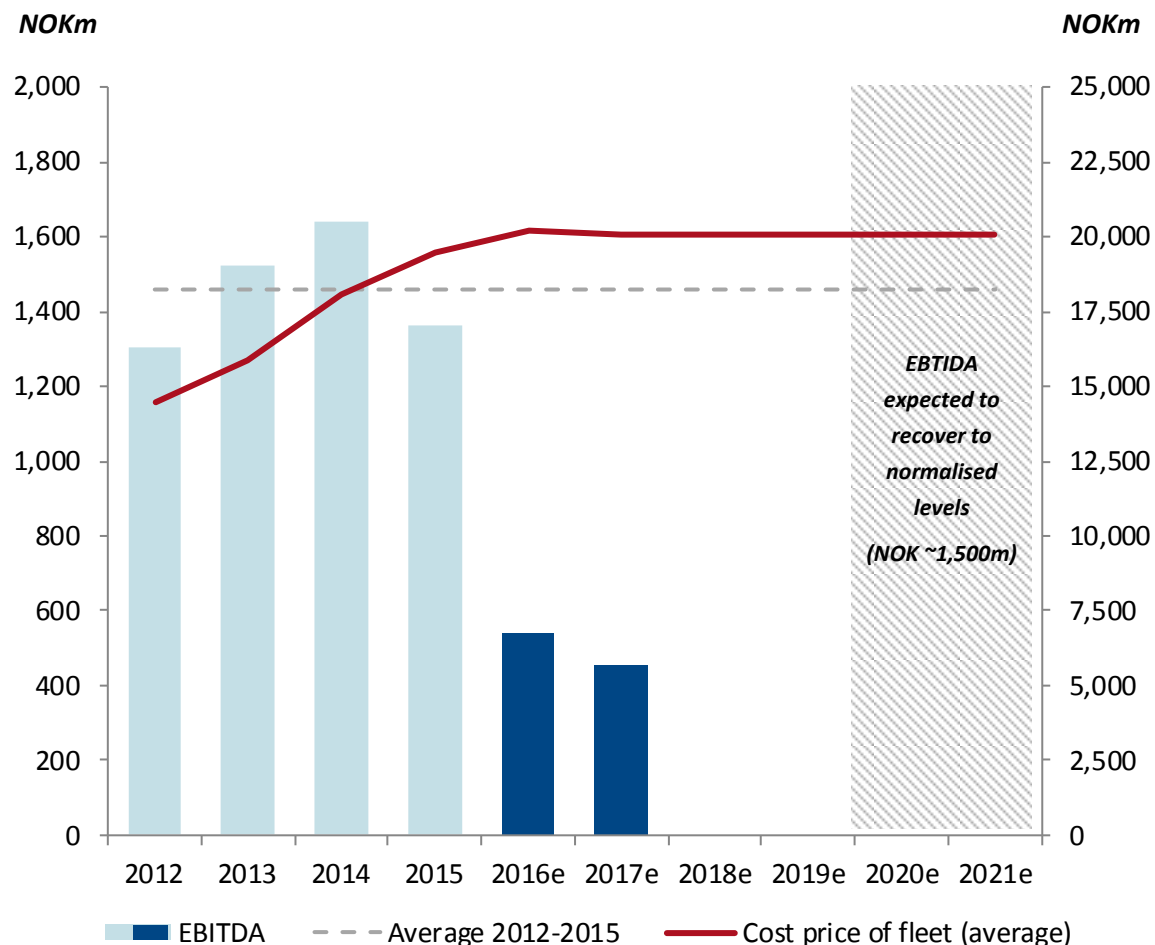


Debt amortisation profile post refinancing



Principal gross debt reduced by NOK 2.41bn. Net debt reduced from NOK 11.2bn to NOK 8.2bn³
Refinancing with NOK ~9.6bn positive liquidity effect to and including 2021 (pre cash sweep)

Farstad 2016 vs 2021



- Market expected to firm towards the end of the period
- Farstad enters the expected firming market with better and more competitive fleet than in the peak years 2013 and 2014
- Strong organisation and solid customer relationships built over time further puts the company in a favourable position to benefit from improved market conditions
- Significant improvement in net debt position expected

Re-establishing the Farstad investment case

A globally leading OSV tonnage supplier

1

Unparalleled track record through +40 years operations of offshore supply vessels

2

Premier management team with vast experience from the offshore supply industry

6

Legacy sponsor with long term commitment



3

Large fleet within the most advanced segments of supply tonnage

5

Preferred position with high-quality customer base built over time

4

A strong international footprint through full service offices in Europe, APAC¹ and Latin America

AGENDA

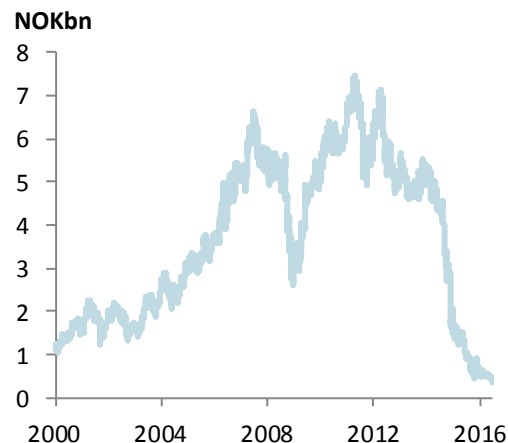
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Overview of Farstad Shipping

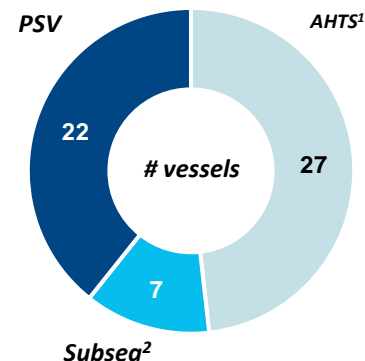
Farstad in brief

- Leading provider of specialised offshore tonnage to the oil and gas industry with track record spanning +40 years
- Operator of large and medium sized supply vessels (AHTS +12,500 BHP; PSV +3,000 DWT), as well as Subsea vessels
- HQ in Ålesund. Offices in Aberdeen, Perth, Singapore, Macaë and Rio de Janeiro
- 1,500 employees onshore and offshore
- Listed on Oslo Stock Exchange since 1988. Largest shareholder is Tyrholm & Farstad controlled by Farstad family

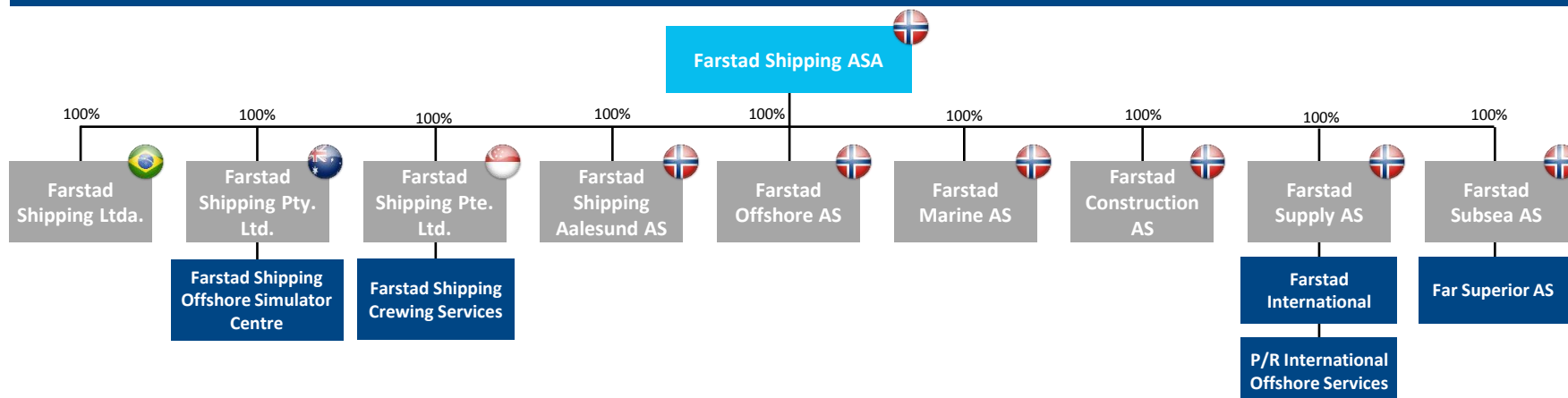
Market cap development



Current fleet



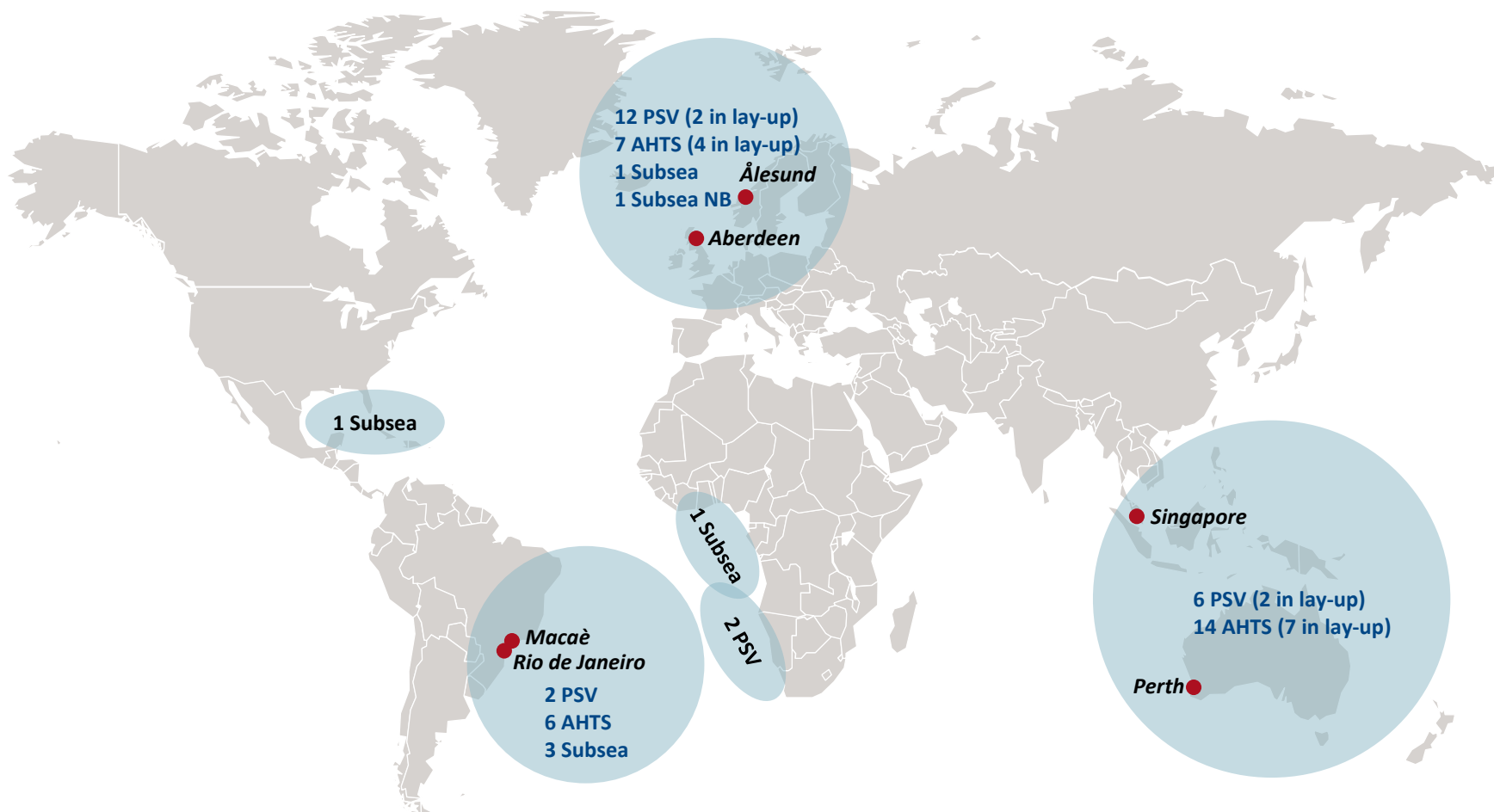
Corporate structure (main companies)



International footprint

Farstad is a global company - servicing a global client base from offices in Norway, UK, Brazil, Singapore and Australia

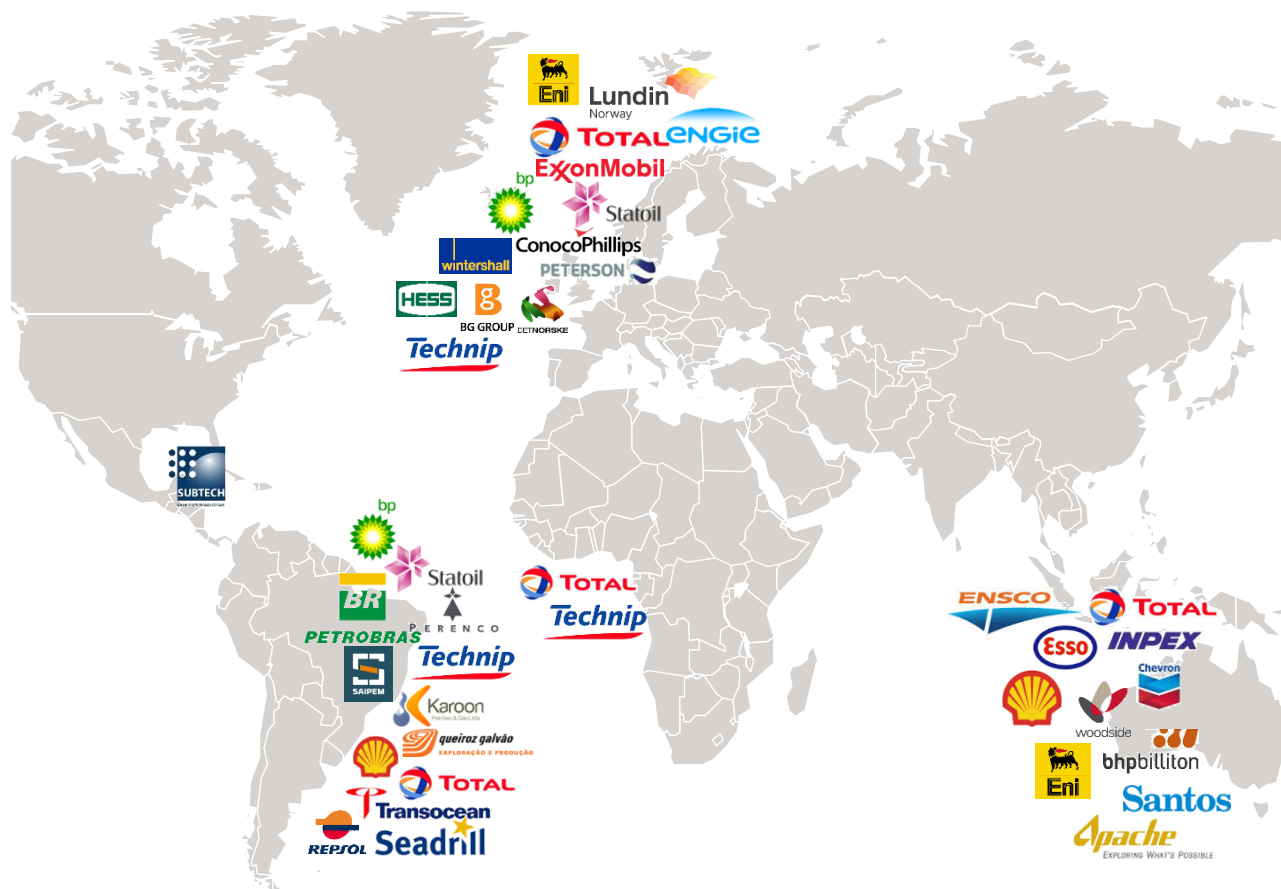
Full service offices in all key offshore oil and gas regions – developing strong business relationships over time



High-quality customer base of major oil and gas companies

Operational excellence secures repeat business with solid counterparties

Key comments

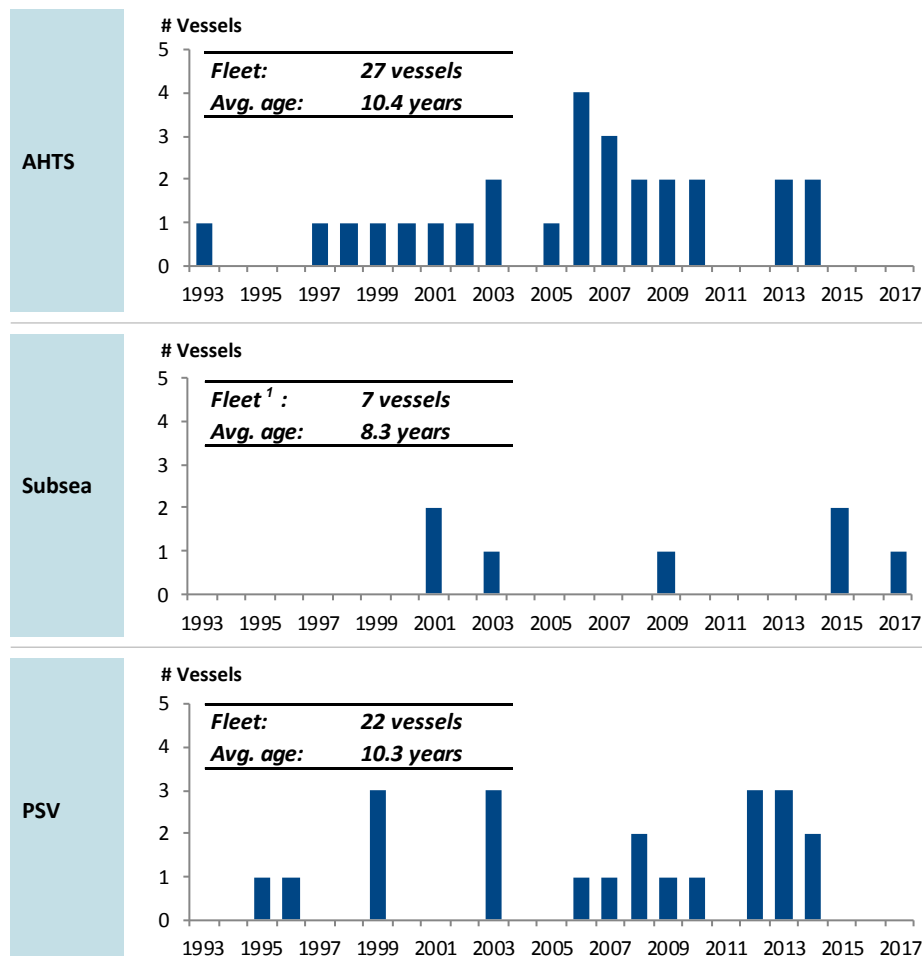


- Farstad is a long-term, strategic supplier to major oil and gas companies world wide
- Strong relationships built over time through offering diversified OSV services in all major offshore oil and gas regions
- The strong position has historically given Farstad access to attractive contracts, and forms the basis of several commercial opportunities going forward

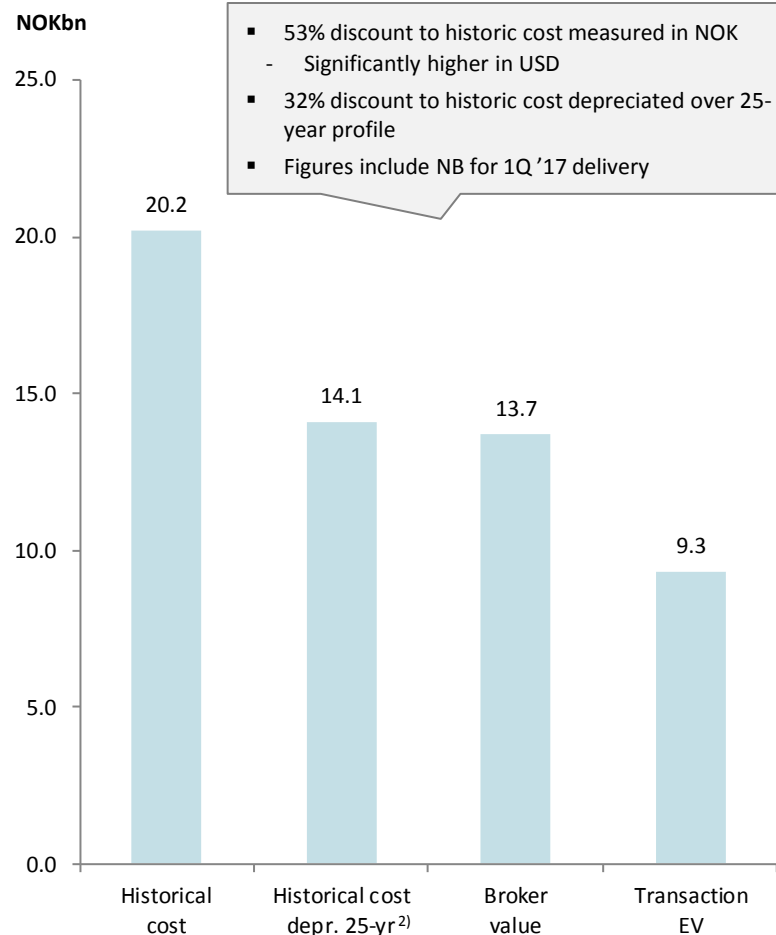
Fleet age distribution and value assessments

Transaction price implies buying 8-year³⁾ old fleet with management for NOK ~9.5bn compared to building cost NOK 20.2bn and depreciated value NOK 14.1bn

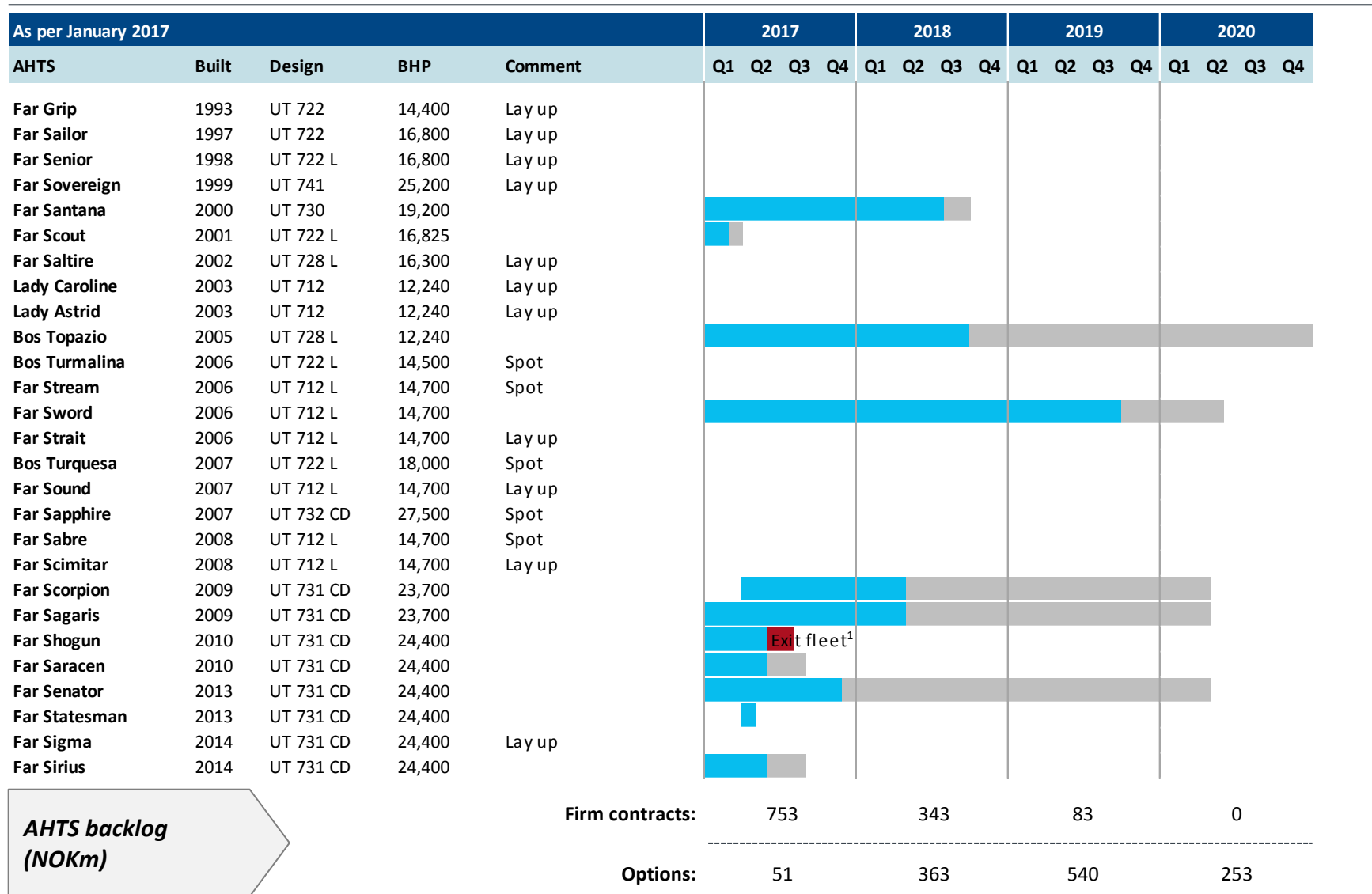
Fleet age distribution per vessel type



8-year old fleet ³⁾ at 53% discount to historic cost (NOK)



Contract summary for the AHTS fleet



**AHTS backlog
(NOKm)**

Contract summary for the PSV fleet

As per January 2017					2017				2018				2019				2020			
PSV	Built	Design	DWT	Comment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Far Service	1995	UT 745	4,680																	
Far Supporter	1996	UT 750	4,680																	
Far Supplier	1999	VS 483	4,709																	
Far Strider	1999	VS 483	4,709																	
Far Star	1999	UT 745	4,403																	
Lady Melinda	2003	UT 755	2,777	Lay up																
Far Symphony	2003	P 105	4,929																	
Far Splendour	2003	P 106	3,503	Lay up																
Far Swan	2006	VS 470 Mk II	3,628	Spot																
Far Spirit	2007	VS 470 Mk II	3,624	Lay up																
Far Seeker	2008	UT 751 E	4,905																	
Far Searcher	2008	UT 751 E	5,127	Lay up																
Far Serenade	2009	UT 751 CD	5,944																	
Far Server	2010	HY 832 CD	4,000																	
Far Scotsman	2012	PSV 08 CD	4,000																	
Far Skimmer	2012	PSV 08 CD	4,000																	
Far Solitaire	2012	UT 754 WP	6,336	Spot																
Far Sitella	2013	PSV 08 CD	4,000	Spot																
Far Spica	2013	PSV 08 CD	4,000																	
Far Starling	2013	PSV 08 CD	4,000																	
Far Sun	2014	Vard 1 07	5,635																	
Far Sygna	2014	Vard 1 07	5,700																	

PSV backlog (NOKm)

Firm contracts:

457

348

242

107

Options:

31

47

53

157

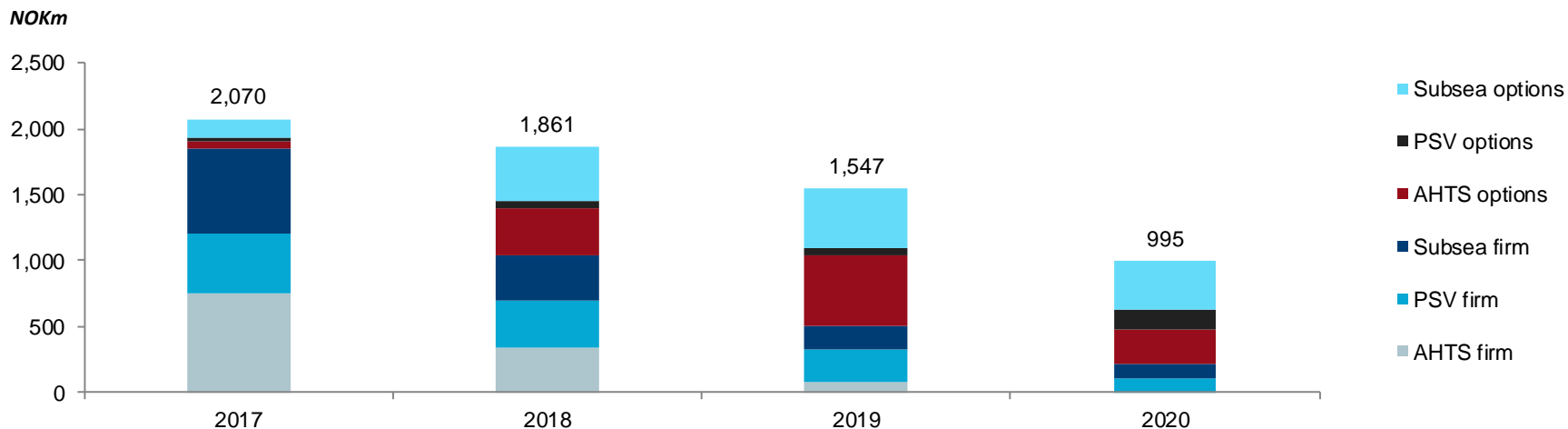
Contract summary for the Subsea fleet and total backlog

As per January 2017				2017				2018				2019				2020			
Subsea	Built	Design	BHP	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Far Scotia	2001	UT 755	5,450																
Far Saga	2001	UT 745 L	10,900																
Far Swift	2003	UT 755 L	5,450																
Far Samson	2009	UT 761 CD	47,600																
Far Sleipner	2015	Vard 3 07	22,800																
Far Sentinel	2015	Vard 3 07	22,800																
Far Superior TBN	2016	Vard 3 17	-																




















**Subsea backlog
(NOKm)**

Firm contracts:	642	348	173	110
Options:	135	411	456	367

Summary of current total backlog for Farstad's fleet



Management team – competent group with long, relevant experience

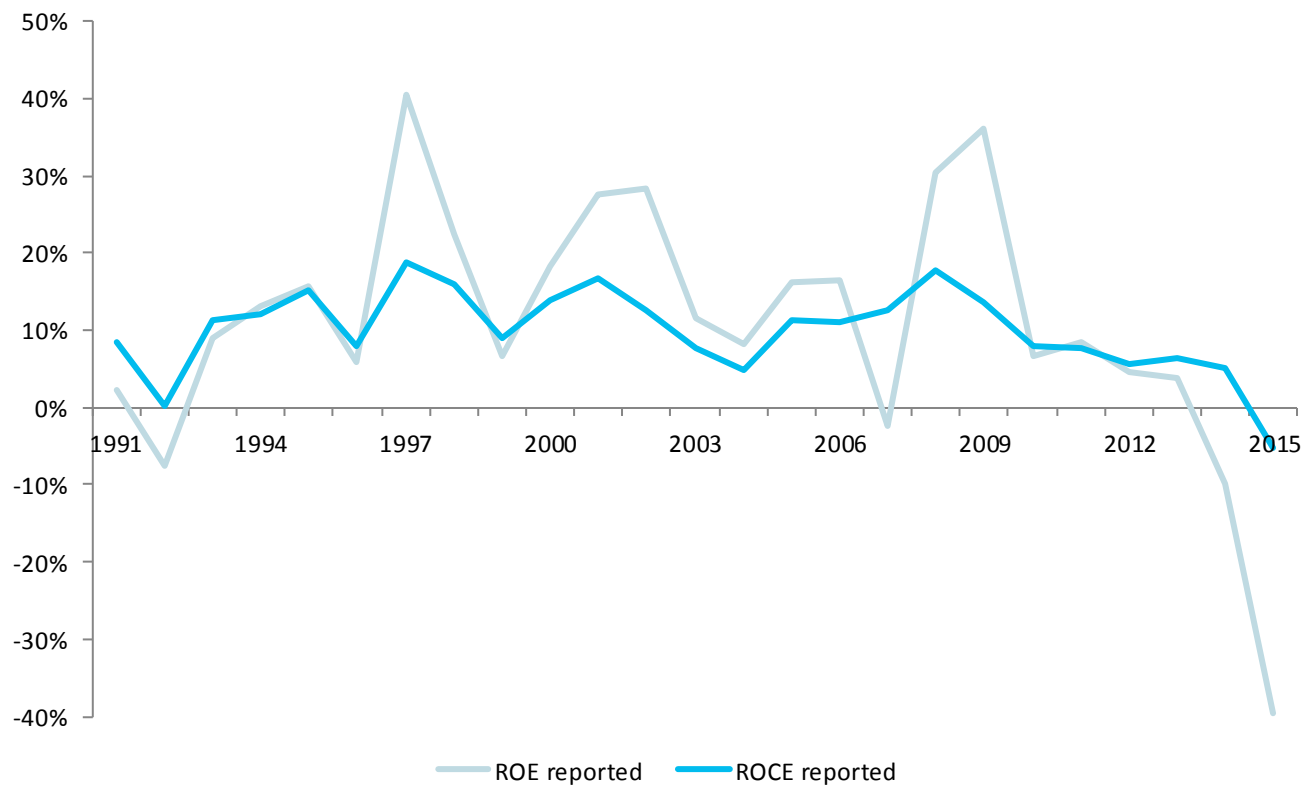
			<i>Years relevant experience</i>	<i>Selected prior experience</i>
	CEO Karl-Johan Bakken	<ul style="list-style-type: none"> - Assumed position as CEO in January 2006 - Previously Director for Market and Operations - Extensive international experience from the ship design and ship building industry - M.Sc. Naval Architecture from the Norwegian University of Science and Technology 	32	
	CFO Olav Haugland	<ul style="list-style-type: none"> - Joined Farstad in 2016 as CFO - Previous position Group CFO with Kistefos - Long experience from international shipping and financial markets - M. Sc. Economics from the Norwegian School of Economics 	17	  
	COO Svein Helge Guldteig	<ul style="list-style-type: none"> - Joined Farstad as COO in January 2015 - Strong leadership experience from senior positions with Norwegian shipping companies - MBA from BI/ESCP Paris - M.Sc. Marine Machinery from the Norwegian University of Science and Technology 	23	  
	CHRO Knut Åsebø	<ul style="list-style-type: none"> - Entered the position as CHRO in May 2016 - 30 years of experience from various positions within HR and management development/ management training - Degree in Social Science from Volda University College and Sogn and Fjordane University College 	30	 
	EVP-APAC Brett Silich	<ul style="list-style-type: none"> - Assumed position as EVP-APAC in December 2016 - Extensive experience from subsea, drilling and shipping. Previously Managing Director Maersk Supply Service, and has held various other CEO / Managing Director positions - B.Sc. Mechanical Engineering (Honours) from Curtin University of Technology 	15	  
	EVP-Americas Felipe R. Alves Meira	<ul style="list-style-type: none"> - Entered the position as EVP-Americas 1 October 2014 - Earlier Managing Director for Brazil region - Has been involved with Farstad Shipping Operations in Brazil since 1994 - Bachelor in Economics, and Post-Graduation in Business Administration from FGV 	22	

Strong historical profitability

Pre-downturn (1991-2013) average return on book equity 14.0% and ROCE of 10.9%

Return on capital employed and Return on equity – not adjusted for write-downs/currency etc.

ROE and ROCE (%)



*Pre downturn¹
averages:*

**ROE:
14.0%**

**ROCE:
10.9%**

*Transaction
entry:*

**EV/CE:
68%**

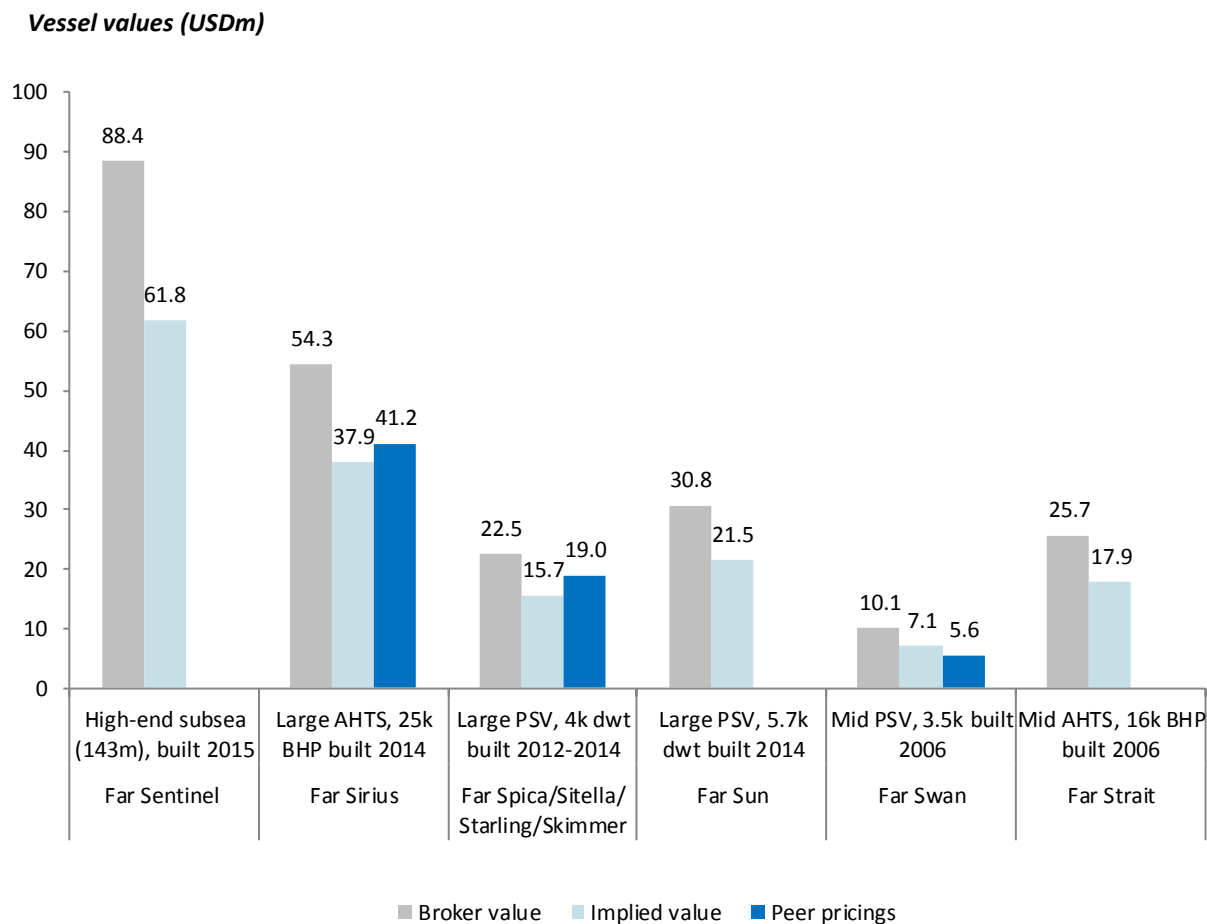
Implied vessel prices in at the transaction prices

Attractive price for vessels with reputable operational management

Implied vessel prices in transaction in line with distressed sales, discount to peers

An EV of NOK 9.525bn implies vessel prices of:

- High-end Subsea vessel Far Sentinel implied price of USD 61.8m vs. broker value USD 88.4m
- High-end AHTS implied price of USD 37.9m vs. broker value USD 54.3m
 - Implied value equal to that of unwilling seller reported in market
- Mid-large PSV (4,000 dwt) implied price around USD 15.7m
 - Discount to the Nordic American Offshore vessels of similar type and design implied by the stock market, which is currently USD ~19.0m
- Largest PSV (5,000 dwt) implied price of USD 21.5m vs. broker value USD 30.8m
- 10-year old mid-sized PSV VS470 implied price of USD 7.1m
 - The recent Standard Drilling acquisition were at USD 5.6m



Source: Managers' calculations. Broker values are average of two/three independent shipbrokers per 31 December 2016

AGENDA

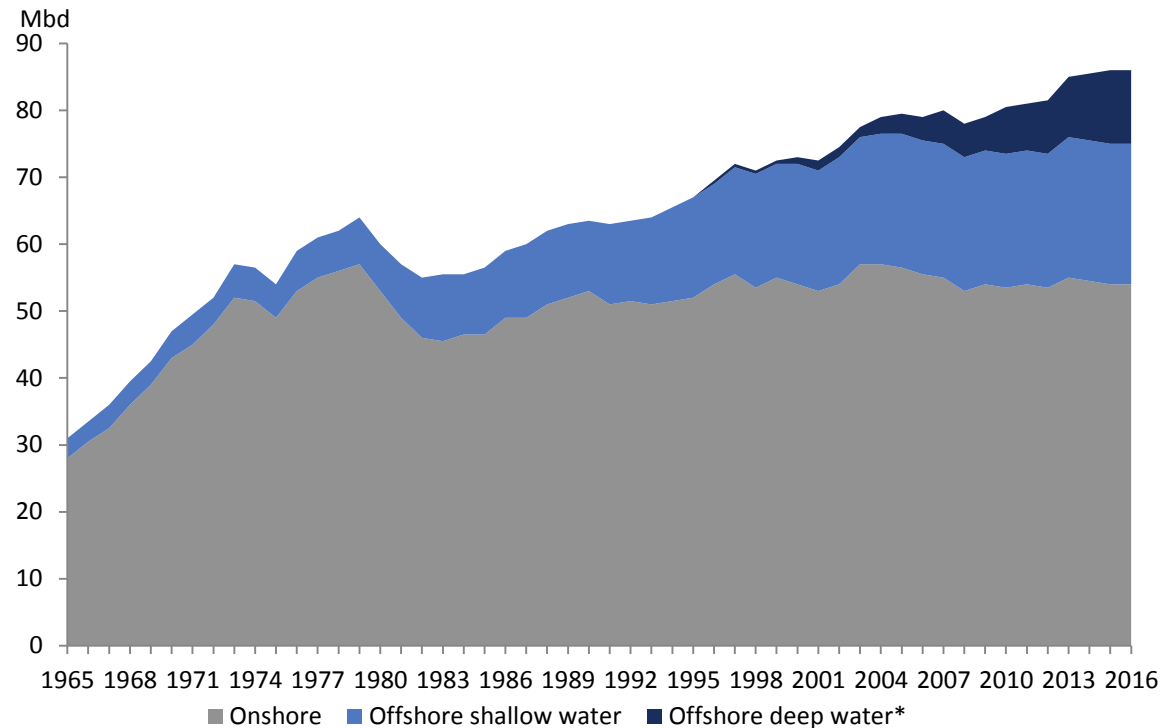
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OSV market demand drivers

45% growth in oil consumption since 1980 – onshore production flat, all growth from offshore production

Oil production by field type

- Since 1980, the global oil consumption has increased 45%, from ~63 million barrels per day (mbd) to ~90 mbd
- Onshore production is flat at ~54 mbd
- Offshore production is up 3x times from ~7 mbd to ~21 mbd
- Deepwater from none to ~11 mbd
- First year with registered deepwater production was in 1996, and now accounts for ~12% of the global production capacity – and increasing
- Offshore share of total oil production:
 - 1980: ~12%
 - 1990: ~16%
 - 2000: ~26%
 - 2010: ~33%
 - Currently: ~36%
- Deepwater share of total production:
 - ~1.5% in 2000
 - ~8.5% in 2010
 - ~12% currently

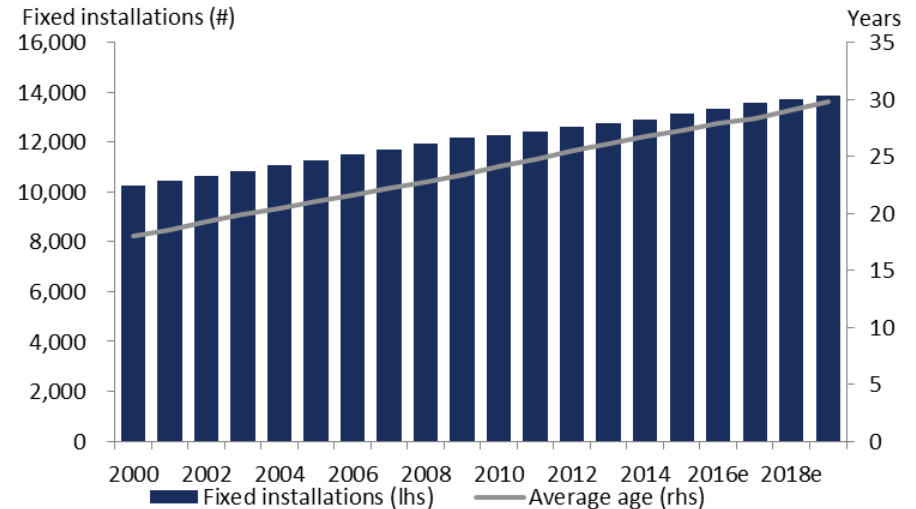


Activity level benefitting from increasing and ageing infrastructure

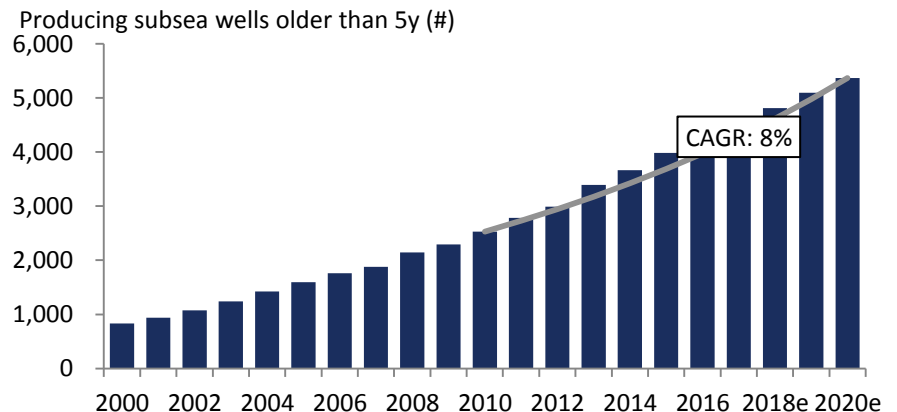
Ageing fixed installations and a 450% growth in subsea wells older than 5 years

Vessel demand driven by ageing fixed installations (top graph) and subsea wells older than 5 years

- Since year 2000, the number of fixed offshore installations has increased from ~10,000 to ~13,000
- Average age from ~17 years to ~30 years, i.e. requiring more maintenance
- The number of subsea wells older than 5 years (requiring maintenance) has during the same period gone from ~1,000 to around ~5,500 (+450%)
- Fleet of subsea vessels >90 meters has gone from ~75 to ~320 (+425%)



Producing subsea wells >5 years

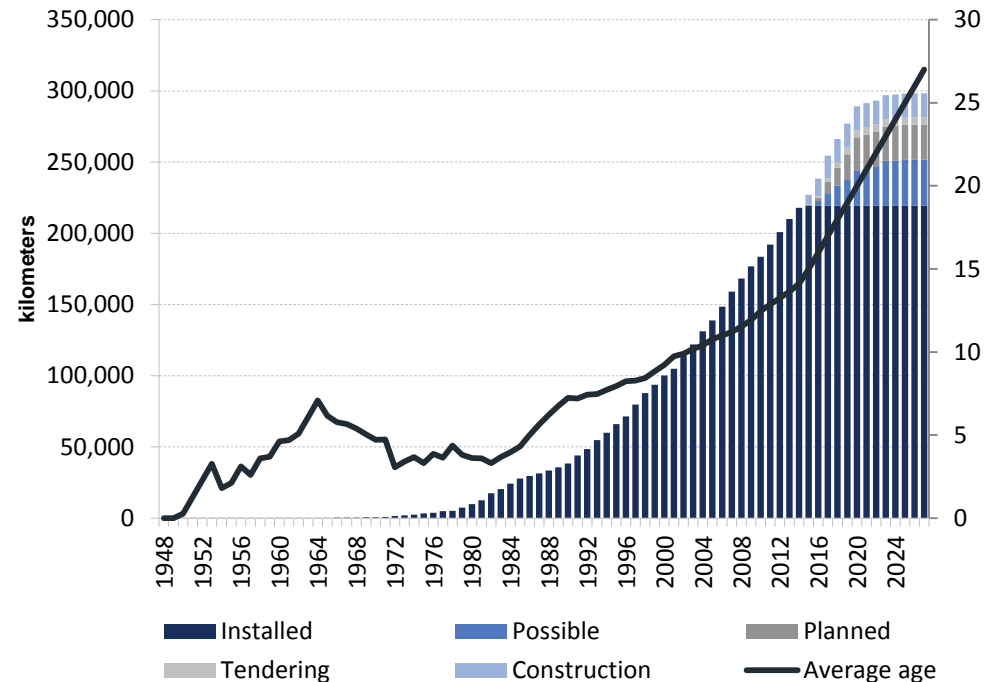


Activity level forecasted to recover from 2020

Increasing demand for maintenance: Pipeline distance more than doubled since 2000 and ageing

Vessel demand driven by increasing and ageing pipeline installations

- The volume of offshore pipelines installed has risen from ~100,000 kilometres in year 2000 to ~230,000 kilometres (~300,000 including pipelines planned and under construction)
- Average age has gone from ~10 years in 2000 to ~17 years now
- Maintenance intensive



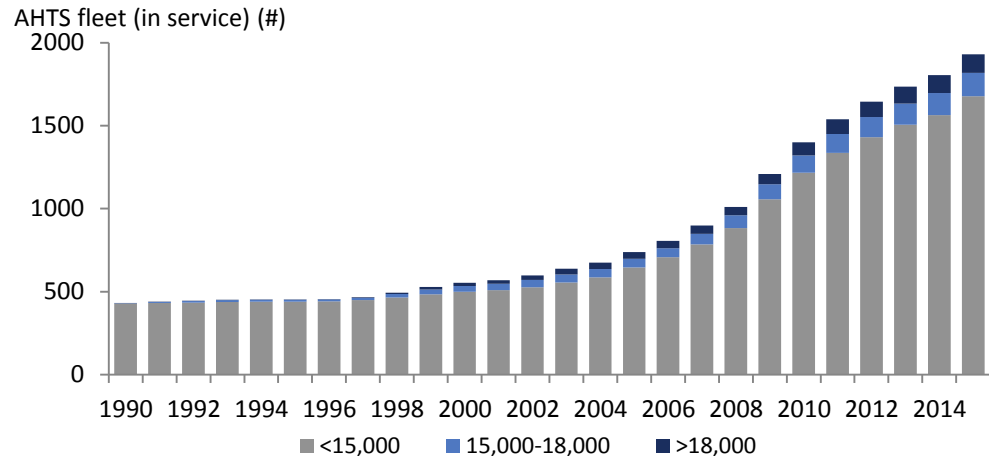
Activity level forecasted to recover from 2020

High fleet growth last 10 years, but also high demand growth from ageing infrastructure

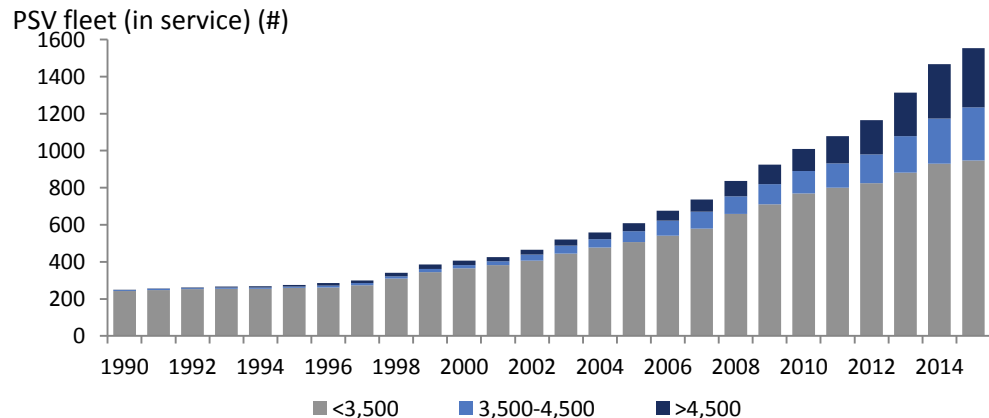
Comparison global supply and demand growth since 2000 / 2005

- AHTS fleet is up 280% / 165%
- Fleet of large AHTS up 590% / 250%
- PSV fleet is up 290% / 165%
- Fleet of subsea vessels (>90 meters) is up ~425% since 2000
- Offshore production up 50% / 40%
- Deepwater production up ~900% / 300%
- Installed & planned pipelines (km) is up ~200% and average age will have doubled by 2020 compared to 2000
- Number of subsea wells older than 5 years is up ~400% from 2000
 - From ~800 to ~4,000

AHTS fleet in service



PSV fleet in service



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Summary

- Farstad will through the proposed recapitalisation secure a financial situation to weather through the current down-cycle
 - The overall goal has been to secure a financial run-way that is expected to safeguard the company until the end of 2021
- Farstad faces the downturn with a strong track record of earnings and operational excellence, leading presence in all major markets, and a large and high end fleet – well positioned to capture a recovery in the OSV market
- Transaction is supported by large bondholders in both outstanding bonds and from the company's largest shareholders
- Total liquidity effect of NOK 9.6bn (pre cash sweep)
- Gross debt reduced by NOK 2.41bn through creditor concessions
- Net debt reduced by NOK 3bn
- The proposed combination will create a world class OSV company with potential for significant cost and revenue synergies



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Key risk factors

General

- Investing in shares issued by the Company involves inherent risks. Before deciding whether or not to invest in the shares, an investor should consider carefully the risk factors, all of the information set forth in this Presentation and otherwise publicly available, including without limitation the Company's stock exchange announcements and periodic financial statements.
- The risks described below are not the only ones facing the Company. Additional risks not presently known to the Company, or that the Company currently deems immaterial, may also impair the Company's business operations and adversely affect the price of the shares and the Company's ability to service its debt obligations. The order in which the risks are presented is not intended to provide any indication of the likelihood of their occurrence nor of their severity or significance. If any of the events or circumstances discussed actually occur, individually or together, the Company's business, results of operations and financial position could be materially and adversely affected, and this might have a material adverse effect on the price of the securities, as well as the Company's ability to meet its obligations (including the payment of principal and interest) under the financial indebtedness of the Company.
- An investment in shares is suitable only for investors who understand the risk factors associated with this type of investment and who can afford a loss of all or part of the investment. The information provided is as of the date hereof and is subject to change, completion or amendment without notice.

Key risk factors

Risks related to the business of the Group

- The market value for the Group's current vessels and those it may acquire in the future may decrease, which could cause the Group to incur losses.
- The Group may be unable to attract a sufficient number of customers or experience reduced competitiveness, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.
- Due to the distressed financial situation of the Group, the Group has recently experienced significant difficulties in attracting new customers and customer contracts. Moreover, existing customers have sought to renegotiate existing contracts
- The Group may fail to effectively estimate risks, costs or timing when bidding on contracts and to manage such contracts efficiently which may have a material adverse impact on the profitability of the Group. The success of the Group will depend on identifying key issues and risks with respect to potential projects and ensuring that the contractual arrangements in relation to each project adequately safeguard the Group against such risks.
- There are risks related to new capacity entering the market. The market balance for offshore supply vessels has recently been negatively influenced by excessive newbuild activity, which has led to a stronger growth in supply of vessels than in the demand for vessels. This may consequently have a material adverse impact on the Group's business, results of operations and financial condition.
- The Group may not be able to respond effectively to the time frames associated with bidding and winning short-term contracts. Reduced time frames for new mandates may affect the Group's ability to efficiently utilize its vessels and may result in loss of revenue for the Group.
- The Group's operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in supply and demand for the Group's services, which in turn affect charter rates. In a situation where a vessel faces longer idle periods, reductions in costs may not be immediate as some of the crew may be required to prepare vessels for stacking and maintenance in the stacking period.
- The Group's future contracted revenue for its vessels may not be ultimately realized. The Group may not be able to perform under its current contracts due to events beyond its control or due to default of the Group, and any of the Group's customers may seek to cancel or renegotiate contracts for various reasons, including adverse conditions, or invoke suspension periods, at their discretion, resulting in lower day rates.
- The Group is exposed to contractual (counterparty) risks inter alia and in particular under the Group's charter contracts. For various reasons any of the Group's counterparties may seek to cancel or renegotiate chartering contracts, or invoke suspension of periods, at their discretion. A continued downturn in the offshore market may result in an increase in occurrences of renegotiations, suspension or termination of charter contracts.
- The Group may not be able to renew or obtain new and favourable contracts for vessels whose contracts are expiring or are terminated, which could materially adversely affect the Group's business, results of operations and financial condition.
- The Group may fail to keep pace with technological changes. The market for the Group's services is characterized by continual and rapid technological developments. If the Group is not successful in acquiring new equipment or upgrading its existing equipment, this may have a material adverse effect on the Group's business, results of operations and financial condition.
- The Group engages in contracts with state-owned oil and gas companies that can be subject to different risks due to political shifts and difficulties in enforceability than contracts with other international companies.
- The Group may not be successful in attracting and retaining sufficient skilled employees which may adversely affect the Group's business, results of operations and financial condition.

Key risk factors

Risks related to the industry in which the Group operates

- The offshore market is currently experiencing a serious downturn which has had a significant impact on the Group. The market for offshore vessels is characterized by supply far exceeding demand. As a consequence of low fleet utilization and rates achieved, many vessels in this segment have generated revenue below operating expenses. The Company expects that vessel valuations, in general, will continue to decline.
- The Group's business, results of operations and financial condition depend on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices and may be materially adversely affected by a decline in offshore oil and gas exploration, development and production.
- The Group operates in a marine environment, which is subject to the forces of nature as well as environmental and climatological risks that could cause damage to, loss of, or suspension of operations by the Group's vessels and could result in reduced levels of offshore activity. The Group's vessels are subject to risks particular to marine operations, including capsizing, grounding, sinking, collision and loss and damage from severe weather, storms, fire, earthquakes, tsunamis or explosions. Any of the foregoing circumstances could result in damage to, or destruction of, vessels or equipment, personal injury and property damage, suspension of operations or environmental damage.
- Risk of terrorist attacks, civil wars, acts of piracy, revolutions and natural disasters may limit or disrupt the Group's operations or cause disruption to financial and commercial markets.
- The Group's vessels may suffer damage in the course of loading, transporting or discharging cargo, which could cause suspension of operations and have a material adverse effect on the Group's results of operations, results of operations and financial condition.
- The Group operates in a highly competitive industry, and if the Group is unable to compete effectively, its market positions could be adversely affected, which could have a material adverse effect on the business, results of operations and financial condition of the Group. The Group's larger competitors may have greater resources which could allow them to better withstand industry downturns, compete more effectively on the basis of technology and geographic scope and retain skilled personnel. The Group's operations may be materially adversely affected if its current competitors or new market entrants introduce new products or services with better features, performance, prices or other characteristics than the Group's products and services, or expand into service areas where the Group operates.
- The Group's business involves numerous operational hazards, which may cause personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations which could materially adversely affect the Group's business, results of operations and financial condition.
- The Group is and may be subject to litigation that could have a material adverse effect on the Group's business, results of operations and financial condition, because of potential negative outcomes, the costs associated with prosecuting or defending such lawsuits, and the diversion of management's attention to these matters. The Group is currently involved in litigation relating to the temporary importation of tonnage to Brazil. The Brazilian authorities claim to have identified procedural errors, which in turn has led to fines. The Group is also initiating legal proceedings against a charterer for early termination of charter contracts for two AHTS vessels. The Group may also in the future be involved in other litigation matters from time to time. The Group cannot predict with certainty the outcome or effect of any claim or other litigation matter.
- Uncertainty relating to the development of the world economy may reduce demand for the Group's services or result in contract delays or cancellations. Further, Operations in international markets are subject to risks inherent in international business activities, including, in particular, general economic conditions in each such country where the Group operates, currency fluctuations, unexpected changes in regulatory requirements, complying with a variety of foreign laws and regulations etc.

Key risk factors

Risks related to the industry in which the Group operates Cont'd ...

- Trade sanctions could affect the business, results of operations and financial condition of the Group. Economic and trade sanctions have been imposed in the recent past, mainly at the United States, EU and United Nations level. A large portion of such sanctions cover oil and, therefore, related to the industry in which the Group operates. For example, the United States and the EU have been increasing sanctions on Russia. Such trade sanctions could require the Group to abandon markets and opportunities otherwise available to it.
- Changes in the legislative and fiscal framework governing the activities of the oil and gas business could hinder or delay the Group's operations, increase the Group's operating costs, reduce demand for the Group's services and restrict the Group's ability to operate its vessels or otherwise

Financial risks

- The Group has announced a comprehensive refinancing. Even if the restructuring is completed, the Group will continue to have a significant amount of third party indebtedness and there can be no assurances that the Group in the future may not become in default of the terms of such. A breach of the terms of the Group's loan agreements may cause the lenders to require repayment of the financing immediately and to enforce the security granted over substantially all of the Group's assets, including its vessels. If the Group's operating cash flows are not sufficient to meet its operating expenses and the debt payment obligations of the Group, the Group may be forced to do one or more of the following: (i) delay or reduce capital expenditures; (ii) sell certain of its assets; (iii) forego business opportunities, including acquisitions and joint ventures, and/or (iv) obtain new capital, which may be dilutive to current stakeholders.
- The Group may be dependent on new funding from investors and/or banks to finance its operations going forward and no assurance can be given that sufficient capital will be obtained, or the terms at which such capital can be obtained (if any) or with respect to the amount of capital that will be required. The Company foresees financial challenges from 2017 and at least until 2021, and has several payment obligations coming up during the said period. While the aforementioned challenges to a certain extent are mitigated by the restructuring and the Company on this basis expects to maintain a sufficient liquidity buffer to operate through 2021, no assurances can be made that this will be the case.
- The Group's loan agreements include terms, conditions and covenants that impose restrictions on the operations of the Group. A failure to comply with the conditions and covenants may have a material and adverse effect on the Group. If a default occurs under these agreements (or any of them), lenders could – unless such default is repaired – terminate their commitments to lend and/or accelerate the outstanding loans and declare all amounts borrowed as due and payable. If any of these events occur, the Company cannot guarantee that its assets will be sufficient to repay in full all of its outstanding indebtedness, and the Company may be unable to find alternative financing or, in the event that alternative financing is available, financing on terms that are favourable or acceptable to the Company.
- The Group is exposed to changes in interest rates and exchange rates, which may materially adversely affect the Group's cash flows and financial condition
- In the current market the credit risk has increased, hence the Group's exposure for losses on trade accounts receivables is higher.

Key risk factors

Risks related to the Company's shares

- The trading price of the Company's shares has fallen significantly during the last years and may continue to fluctuate. There can be no guarantee that investors subscribing for or acquiring shares in the Company will be able to sell their shares in the future at a price exceeding the purchase price.
- Future sales of shares by the Company's larger shareholders or any of its primary insiders may depress the price of the Company's shares. The market price of the shares could decline as a result of sales of a large number of shares in the market after the Private Placement or the expectation that these sales could occur.
- Future issuances of shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Company's shares. If the Company raises additional funds by issuing additional equity securities, holdings of existing shareholders may be diluted.
- Investors may not be able to exercise their voting rights for shares in the Company registered in a nominee account. Beneficial owners of shares that are registered in a nominee account (such as through brokers, dealers or other third parties) may not be able to vote such shares unless their ownership is re-registered in their names with the VPS prior to the Company's general meeting of shareholders.
- The ability to bring action against the Company may be limited under Norwegian law. The Company is a public limited liability company organized under the laws of Norway. The Company's directors and executive officers, as well as the Group's assets are located in various jurisdictions. As a result, it may be difficult for investors in other jurisdictions to effect service of process upon the Company, its affiliates or its directors and executive officers in such other jurisdictions or to enforce judgments obtained in other jurisdictions against the Company, its affiliates or its directors and executive officers.
- The transfer of shares is subject to restrictions under the securities laws of the United States and other jurisdictions. The Company's shares have not been registered under the U.S. Securities Act or any U.S. state or territory securities laws or any other jurisdiction outside Norway and are not expected to be registered in the future. As such, the Company's shares may not be offered or sold except pursuant to an exemption from the registration requirements of the U.S. Securities Act and other applicable securities laws.

Risks related to the Combination

- Due to the financial situation of the Company, the Restructuring as well as the proposed combination have been negotiated on an accelerated timeline. No due diligence investigations have been carried out of Solstad Offshore ASA and Deep Sea Supply Plc by the Company and/or any of its advisors and, accordingly, there can be no assurance that there are no unknown liabilities or risks that may have a significant negative effect on the transaction. Moreover, there can be no assurance that the conditions for the proposed combination will be satisfied, and accordingly, that the proposed combination will be effected
- There can no assurance that there will be no negative tax consequences for investors in the convertible bonds as a result of Solstad Offshore ASA assuming the debtor position for the convertible bonds in connection with the proposed combination

