



Deep Sea Supply PLC

Quarter 1 2017

Financial Report

Deep Sea Supply Plc 1Q 2017 Financial Report

BOARD OF DIRECTORS' REPORT

Deep Sea Supply ("DESS" or "Company") reports unaudited results for 1Q 2017.

Highlights

- *Consolidated revenues of MUSD 11.0 and negative EBITDA of MUSD 1.9*
- *Pre-tax profit was negative MUSD 21.7*
- *Awarded contract extensions and new contracts for 7 PSVs and 1 AHTS YTD 2017*
- *Reactivated 3 vessels from lay-up during the quarter*
- *Merger of Deep Sea Supply Plc with Farstad Shipping ASA and Solstad Offshore ASA expected to close in June*

Comparing 1Q 2017 financial figures with 4Q 2016, revenues increased by MUSD 1.8. The main reason for this was higher utilization and on average fewer vessels laid up. However, average rates have been lower in 1Q 2017 compared to 4Q 2016. Despite the reduction in the number of laid up vessels, the vessels' operating expenses decreased by MUSD 0.5 from 4Q 2016 to 1Q 2017, due to underlying reduction of OPEX for both active and laid up vessels.

Merger of Deep Sea Supply Plc with Farstad Shipping ASA and Solstad Offshore ASA

The proposed merger between Solstad Offshore ASA ("SOFF"), Farstad Shipping ASA ("FAR") and Deep Sea Supply Plc ("DESSC") as announced in stock exchange announcements on 6 February 2017 was approved by the companies' extraordinary general meetings held on 25 April 2017. The merger is expected to become effective from the expiry of the 6 week creditor term (approximately 12 June 2017). FAR and DESSC will then be merged with subsidiaries of SOFF with settlement in SOFF shares. Of key importance to the merger process has been that FAR was able to complete a refinancing and restructuring of its debt (including conversion of debt to equity and injection of new equity). This restructuring came into force on 9 March 2017. Furthermore, the merger is conditional upon the harmonization of the main terms of DESSC' and SOFF's bank debt with what FAR has achieved, that SOFF makes a private placement directed towards Hemen Holding Ltd of MNOK 200 (to be injected into DESSC as equity) and that SOFF's convertible loan of MNOK 250 from Aker Capital is converted to equity.

Solstad Offshore ASA will become the parent company and sole listed entity of the consolidated company with a fleet of more than 150 vessels and over 3,000 employees, with headquarters in Skudeneshavn. In addition to the North Sea area, the company will have significant activity in Australia and Brazil, in addition to presence in most other relevant areas. The new name of the company will be Solstad Farstad ASA. The main areas of focus will be the delivery of maritime services to the oil and gas industry, the market for renewable energy and maritime services for the aquaculture industry.

For further information related to the merger process, please see the Information Memorandum published by SOFF on 9 May 2017.

Reporting principles

The 2017 financial statements are prepared in accordance with the IFRS. For the comparative 2016 financial statements, regarding the vessels previously owned by DESS BTG, 50% of total figures are incorporated "line by line" in the statement of comprehensive income and balance sheet in the presentation of 2016 financial figures and in this report from Board of Directors until 15 September 2016. From 16 September 2016 onwards, all 37 vessels are 100% owned and therefore included on a 100% basis in the financial statements. The 31 December 2016 balance sheet therefore includes all 37 vessels on a 100% basis.

Balance sheet

The book value of the fleet was MUS\$ 691.8 by end of 1Q 2017 compared to MUS\$ 702.5 end of 4Q 2016. Total shareholder's book equity is MUS\$ 107.8 or 14.1% of total assets. Total number of outstanding shares in the Company was 291,330,216 at the end of the quarter.

Cash flow

Cash flow from operations was negative MUS\$ 2.1 for the 3 months period ended 31 March 2017. Reactivation of vessels contributed negatively to the operational cash flow, and some receivables from clients were also delayed in 1Q 2017. These issues have now been resolved, and the majority of the overdue payments have been received in 2Q 2017.

Capital expenditure related to scheduled special surveys and upgrading was limited to MUS\$ 0.5.

An amount of MUS\$ 1.7 was provided as financing to Joint Venture DESS Aquaculture Shipping AS. In the balance sheet this is included in "Investment in Joint ventures". The Company is in discussions with banks, export credit institutions and Hemen Holding Ltd to secure financing for the aquaculture business.

During the three month period, the Company has repaid borrowings of MUS\$ 2.3 and paid net interest expenses of MUS\$ 7.8.

Cash and cash equivalents were MUS\$ 36.9 by the end of 1Q 2017, which is a decrease of MUS\$ 14.3 compared to MUS\$ 51.2 by the end of 4Q 2016.

Net interest bearing debt was MUS\$ 591.1 by the end of 1Q 2017, which is an increase of MUS\$ 14 from end of 4Q 2016.

OPERATIONS

Fleet

As per end of 1Q 2017, Deep Sea Supply had 12 AHTS vessels and 25 PSVs in the fleet, in total 37 vessels. The Company's organizations in Singapore, Brazil and Norway perform the chartering activities and the technical management of DESS' fleet.

Newbuilding program

DESS Aquaculture Shipping AS ("DESS Aqua") has two aquaculture vessels under construction; one wellboat to be delivered in 1Q 2018 and one harvest vessel also to be delivered in 1Q 2018. On 23th March 2017, DESS Aqua has also declared the option to buy another wellboat with contractual delivery date in 2Q 2018.

Lay-up of vessels

Deep Sea Supply has per end of May 2017 laid up in total 16 vessels, of which 10 are PSVs and 6 AHTS.

Contracts

The AHTS Sea Tiger was in January 2017 awarded a new contract for operations in Brazil and is firm until end January 2018.

The PSVs Sea Flyer and Sea Forth were in February 2017 awarded extensions of their contracts up until 1 January 2020.

The PSV Sea Tantalus was in January 2017 awarded a new 6 month contract for operations in the North Sea and is firm until 21st July 2017.

EVENTS AFTER END OF 1Q 2017

The PSVs Sea Spear and Sea Spark were in April 2017 awarded a 1 year extension of their contracts with start from end of their current firm period in July 2017.

The PSVs Sea Supra and Sea Swan, were in May 2017 awarded with a contract for two wells with an expected duration 255 days not including options and will commence late May 2017.

OUTLOOK

Although there is still generally low activity in the global OSV markets, and the OSV market in general remains oversupplied, the Company has seen a slight increase in tendering activity for OSVs in certain regions. The contract coverage for the Company is still not satisfactory, but the Board is pleased to see that the Company has been able to secure several contracts and reactivate vessels during the last months.

As a consequence of the weak market, Deep Sea Supply has laid up in total 16 vessels. In addition to laying up vessels to reduce cost, the Company is working hard to further reduce operating expenses for the vessels in operation. The Board is satisfied to recognize an underlying cost reduction for vessels in operation also in 1Q 2017 and expects this to continue.

Even though rates are under severe pressure and the competition is fierce, the Company is not willing to enter into loss making term contracts. All new term contracts secured in 2016 and 2017 are expected to give a positive EBITDA contribution. With the current pipeline of tenders, the Company is confident that we are able add more term work in the near future.

Limassol, 24 May 2017

Deep Sea Supply Plc

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The 2017 financial statements are presented in accordance with IFRS.

Pages 6-9: Financial results as viewed by management

The comparative 2016 financial statements of Deep Sea Supply PLC up to 15th of September 2016 are presented in the following way, as Management believes they give a clearer view to the reader:

- Consolidated Income Statement and Statement of Cash flows: The results (50%) of DESS BTG are added line by line to those of Deep Sea Supply PLC
- The balance sheet as at 31.12.2016 consolidates all of DESS BTG companies at a 100% basis and is in accordance with IFRS.

The presentation is the same as Note 5 of the Annual Report 2016.

On 15th of September 2016, the remaining 50% of DESS BTG was acquired from Deep Sea Supply PLC, thus consolidating all of DESS BTG companies at a 100% basis from that date and onwards.

Pages 10-14: Financial results as per IAS 34

As per IFRS, the proportionate method of presentation used for the comparative 2016 financial statements as viewed by management, is not allowed. Therefore they were presented in pages 10-14 as follows:

- Consolidated Income Statement: The result of DESS BTG (up to 15 September 2016) is apportioned to DESS PLC (50%) and is shown under line "Share of Profit/Loss from JV"
- Consolidated Balance Sheet: Share (50%) of Net Assets/liabilities of DESS BTG are shown as one line called "Investment in Joint Venture"
- Consolidated Statement of Cash Flows: This includes only Cash flows of DESS PLC

FINANCIAL RESULTS

Comparative 2016 Income Statement and Statement of cash flows of DESS BTG (50%) added on a line by line basis up to 15th September 2016.

CONSOLIDATED INCOME STATEMENT

<i>(Unaudited figures in USD 1,000)</i>	1Q 2017	1Q 2016	4Q 2016
Sales - freight revenue	11,027	16,494	9,213
Operating expenses vessels	-9,857	-8,515	-10,363
Other operating expenses	-2,579	-2,249	-2,747
Other gains/(losses)	-297	31	89
Share of profit/(loss) from JV	-179	0	-0
Profit/(loss) from sale of vessels	0	-17,337	0
EBITDA (Operating profit before dep'n)	-1,886	-11,576	-3,807
Depreciation and amortization	-11,678	-9,485	-13,168
Impairment effect	0	0	-78,893
EBIT (Operating profit)	-13,564	-21,060	-95,869
Financial income	50	178	51
Financial expenses	-8,116	-5,065	-8,314
Currency (losses)/gains	-62	522	-404
Net financial items	-8,129	-4,365	-8,667
Profit/(Loss) before income tax	-21,693	-25,425	-104,535
Income tax expenses	-112	-50	774
Profit/(Loss) for the period	-21,804	-25,475	-103,762

Average number of shares	291,330,216	261,197,194	291,330,216
Average number of shares diluted	292,449,652	261,197,194	291,931,608
Earnings per share	-0.07	-0.10	-0.36
Earnings per share diluted	-0.07	-0.10	-0.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1Q 2017	1Q 2016	4Q 2016
Profit/(Loss) for the period	-21,804	-25,475	-103,762
Other comprehensive income	-33	21	143
Total comprehensive income for the period	-21,837	-25,454	-103,619

CONSOLIDATED BALANCE SHEET*(Unaudited figures in USD 1,000)***31.03.2017 31.12.2016****Non-current assets**

Vessels cost	691,846	702,536
Equipment	706	798
Total property, plant and equipment	692,552	703,334
Investment in Joint Ventures	2,873	0
CIRR deposit	9,558	9,459
Total non-current assets	704,984	712,793

Current assets

Inventories	3,439	3,538
Loans to related parties	0	1,424
Other short term receivables	5,977	6,264
CIRR deposit	3,401	3,366
Trade receivables	10,022	9,852
Cash and cash equivalents	36,854	51,202
Total current assets	59,693	75,646
Total assets	764,677	788,439

Long term liabilities

Borrowings	602,893	604,921
CIRR loan	9,558	9,459
Deferred gain	282	299
Total long term liabilities	612,734	614,678

Short term liabilities

Borrowings	25,102	24,822
CIRR loan	3,401	3,366
Trade and other payables	15,564	15,852
Deferred gain	113	120
Total short term liabilities	44,180	44,161
Total liabilities	656,914	658,839
Net assets	107,763	129,600

Shareholders equity

Share capital and share premium	213,313	213,313
Retained earnings and other reserves	-105,550	-83,713
Total shareholders equity	107,763	129,600

CONSOLIDATED STATEMENT OF CASH FLOWS*(Unaudited figures in USD 1,000)*

	Period ended	
	Mar 17	Mar 16
Cash flows from operating activities		
Cash generated from operations	-2,073	4,769
Net cash (used in)/generated from operations	-2,073	4,769
Cash flows from investing activities		
Acquisitions and upgrades of property, plant and	-548	-66
Financing DESS Aqua	-1,668	0
Net cash used in investing activities	-2,216	-66
Cash flows from financing activities		
Interest and finance expenses paid	-7,826	-3,693
Interest received	19	0
Repayments of borrowings	-2,252	-8,649
Net cash from sale of vessel and prepayment of b	0	-6,373
Net cash used in financing activities	-10,059	-18,715
Total changes in liquidity in the period	-14,348	-14,012
Cash and cash equivalents at beginning of period	51,202	87,079
Cash and cash equivalents at end of period	36,854	73,066

RESULTS AS PER IFRS

CONSOLIDATED INCOME STATEMENT

<i>(Unaudited figures in USD 1,000)</i>	Note	1Q 2017	1Q 2016	4Q 2016
Sales - freight revenue		11,027	9,052	9,213
Management fee income from related parties		184	846	131
Operating expenses vessels		-9,857	-4,014	-10,363
Other operating expenses		-2,763	-2,018	-2,878
Share of profit/(loss) from JV	7	-179	-4,068	782
Other gains/(losses)		-297	-92	91
Profit/(loss) from sale of vessels		0	-17,337	0
EBITDA (Operating profit before dep'n)		-1,886	-17,630	-3,024
Depreciation and amortization	4	-11,678	-5,249	-13,168
Impairment effect	4	0	0	-78,893
EBIT (Operating profit)		-13,564	-22,878	-95,084
Financial income		50	284	51
Financial expenses		-8,116	-2,953	-8,314
Currency (losses)/gains		-62	119	-407
Net financial items		-8,129	-2,550	-8,670
Profit/(Loss) before income tax		-21,693	-25,429	-103,754
Income tax expenses		-112	-41	-8
Profit/(Loss) for the period		-21,804	-25,469	-103,762

Average number of shares	6	291,330,216	261,197,194	291,330,216
Average number of shares diluted	6	292,449,652	261,197,194	291,931,608
Earnings per share		-0.07	-0.10	-0.36
Earnings per share diluted		-0.07	-0.10	-0.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1Q 2017	1Q 2016	4Q 2016
Profit/(Loss) for the period	-21,804	-25,469	-103,762
Other comprehensive income	-33	21	143
Total comprehensive income for the period	-21,837	-25,448	-103,619

CONSOLIDATED BALANCE SHEET*(Unaudited figures in USD 1,000)*

	Note	31.03.2017	31.12.2016
Non-current assets			
Vessels cost	4	691,846	702,536
Equipment	4	706	798
Total property, plant and equipment		692,552	703,334
Investment in Joint Ventures	7	2,873	0
CIRR deposit		9,558	9,459
Total non-current assets		704,984	712,793
Current assets			
Inventories		3,439	3,538
Other short term receivables		5,977	6,264
Loans to related parties		0	1,424
CIRR deposit		3,401	3,366
Freight income not received		10,022	9,852
Cash and cash equivalents		36,854	51,202
Total current assets		59,693	75,646
Total assets		764,677	788,439
Liabilities			
Borrowings	5	602,893	604,921
CIRR loan		9,558	9,459
Deferred gain		282	299
Total long term liabilities		612,734	614,679
Borrowings	5	25,102	24,822
CIRR loan		3,401	3,366
Trade and other payables		15,564	15,852
Deferred gain		113	120
Total short term liabilities		44,180	44,160
Total liabilities		656,914	658,839
Net assets		107,763	129,600
Shareholders equity			
Share capital, share premium		213,313	213,313
Retained earnings and other reserves		-105,550	-83,713
Total shareholders equity		107,763	129,600

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited figures in USD 1,000)	Share Capital	Reorganiza tion reserve	Share premium reserves	Other paid- in-capital	Other comprehensive income reserve	Retained earnings	Total
Balance at 1 January 2016	5,224	-123,386	324,183	1,486	-312	84,390	291,585
Loss for the period						-25,470	-25,470
Other comprehensive income					21		21
Balance at 31 March 2016	5,224	-123,386	324,183	1,486	-291	58,920	266,135
Balance at 1 January 2017	5,827	-123,386	328,727	2,145	0	-83,713	129,600
Loss for the period						-21,804	-21,804
Other comprehensive income					-33		-33
Balance at 31 March 2017	5,827	-123,386	328,727	2,145	-33	-105,517	107,763

CONSOLIDATED STATEMENT OF CASH FLOWS*(Unaudited figures in USD 1,000)*

	Note	Period ended	
		Mar 17	Mar 16
Cash flows from operating activities			
Cash generated from operations		-2,073	1,367
Net cash (used in)/generated from operations		-2,073	1,367
Cash flows from investing activities			
Acquisitions of vessels, contraction contracts and other PPE		-548	0
Financing DESS Aqua		-1,668	0
Net cash used in investing activities		-2,216	0
Cash flows from financing activities			
Interest and finance expenses paid		-7,826	-1,987
Interest received		19	0
Repayments of borrowings		-2,252	-4,327
Net cash from sale of vessel and prepayment of borrh		0	-6,373
Net cash used in financing activities		-10,059	-12,687
Total changes in liquidity in the period		-14,348	-11,320
Cash and cash equivalents at beginning of period		51,202	74,186
Cash and cash equivalents at end of period		36,854	62,865

1. General information

Deep Sea Supply PLC (“the Company”) and its subsidiaries’, here after collectively (“the Group”) principal activities are to engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore supply vessel business.

The Company has its primary and only listing on the Oslo Stock Exchange.

These unaudited condensed consolidated financial statements have been approved for issue by the Board of Directors on 24 May 2017.

2. Basis of preparation

These condensed unaudited consolidated interim financial information for the period ended 31 March 2016 have been prepared in accordance with IFRS as adopted by the E.U. applicable to interim financial reporting, IAS 34 ‘Interim Financial Reporting’ and the regulations of Oslo stock exchange. The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by the European Union.

3. Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those financial statements.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

At the date of approval of these financial statements a number of accounting standards were issued by the International Accounting Standards Board but were not yet effective. The effect of those standards is not expected to be material for the Group.

There has been no further impact on the measurement of the Group’s assets and liabilities

4. Property Plant and equipment

	Vessels	Finance lease vessels	Vehicles & equipment	Total
Opening net book value as at 1 January 2016	446,516	16,335	393	463,244
Additions	202	0	47	249
Disposals	-15,964	-16,335	0	-32,299
Depreciation and amortization	-5,202	0	-47	-5,249
Closing net book value as at 31 March 2016	425,552	0	393	425,944
Opening net book value as at 1 January 2017	635,572	66,964	798	703,334
Additions	875	21	0	896
Depreciation and amortisation	-10,254	-1,332	-92	-11,678
Closing net book value as at 31 March 2017	626,193	65,653	706	692,552

5. Borrowings and loans

	31 March 2017	31 March 2016
Borrowings		
Non-current	602,893	197,789
Current	25,102	78,718
	627,995	276,507

Movements in borrowings are analyzed as follows:

Period ended:	31 March 2017	31 March 2016
Opening Balance as at 1 January	629,743	301,683
Replacement of loans (Sea Bear)	0	-9,923
Repayments of loans	-2,252	-16,033
Borrowing costs	504	780
Closing amount end of period	627,995	276,507

6. Earnings per share

	1Q 2017	1Q 2016	4Q 2016
Basic			
Profit attributable to equity holders of the company	-21,804	-25,469	-103,762
Weighted average number of ordinary shares (thousands)	291,330	261,197	291,330
Basic earnings per share (USD per share)	-0.07	-0.10	-0.36
Diluted			
Profit attributable to equity holders of the company	-21,804	-25,469	-103,762
Weighted average number of ordinary shares (thousands)	292,450	261,197	291,932
Diluted earnings per share (USD per share)	-0.07	-0.10	-0.36

7. Investment in Joint Venture (JV)

	2017	2016
At 1 January	0	31,638
Increase in share capital of JV companies	3,084	0
Share of (loss)/profit from JV excluding deferred gain	-178	-4,068
Share of other comprehensive income from JV	-33	0
At 31 March	2,873	27,570