

# S.D. STANDARD DRILLING PLC

## SECOND QUARTER REPORT 2019



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## STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF THE COMPANY FOR THE INTERIM CONDENSED FINANCIAL STATEMENTS

In accordance with Article 10 sections (3) (c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Markets) Law of 2007 and 2009 ("Law") we, the members of the Board of Directors and other responsible persons for the drafting of the interim condensed financial statements of S.D. Standard Drilling Plc (the "Company"), for the six months ended 30 June 2019 we confirm that, to the best of our knowledge:

- a) The interim condensed financial statements of the Company for the six months ended 30 June 2019 which are presented on pages 6 to 17:
  - (i) were prepared in accordance with International Financial Reporting Standards IAS 34 "Interim Financial Reporting", as adopted by the European Union in accordance with provisions of Article 10, section (4) of the Law, and
  - (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of the Company, and the business that are included in the financial statements as a total, and
- b) The Interim Management Report provides a fair overview of the information required as per section 6 of article 10 of Law 190(I)/2007.

Limassol, 26 August 2019

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Martin Nes  
Chairman

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Konstantinos Pantelidis  
Independent Director

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George Crystallis  
Independent Director

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Christos Neocleous  
Chief Financial Officer

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Evangelia Panagide  
General Manager

# Second Quarter Management Report 2019

## Selected Financial Information

	Three Months Ended		Six Months Ended	
	2019 Q2	2018 Q2	2019 Q2	2018 Q2
<i>(Amounts in USD 000)</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Operating profit/(loss)	4 564	(2 703)	7 550	(2 553)
Profit/(loss) for the period before tax	4 563	(2 703)	7 547	(2 558)
Total comprehensive income/(loss) for the period	4 563	(2 703)	7 547	(2 558)

## Presentation of Interim Condensed Financial Statements

These interim condensed financial statements for the second quarter of the year 2019 are prepared and presented on a standalone basis, since the Company is an investment entity and shall not consolidate its subsidiary. The Company measures its investment in subsidiary and associates at fair value through profit or loss. Consequently, the Company's investment in Platform Supply Vessels (PSVs) is valued based on estimates made by reputable independent valuers and prices generated by market transactions involving identical or comparable (similar) PSV vessels. Revenue and EBITDA from chartering out the vessels are not consolidated into nor directly reflected in these Financial Statements. More information is available in the Q2 19 presentation, which is released together with this interim report.

## Highlights Second Quarter

1. On 12 April 2019, New World Supply Ltd ("NWS"), where the Company owned 34,4% of the share capital, completed the sale of its four remaining medium sized platform supply vessels (PSVs). The transaction was done at a level that reflect higher vessel value compared to Company's book value and significantly higher than the acquisition price of the shares in NWS purchased by the Company. Following the above-mentioned transaction, NWS and its subsidiaries remained dormant holding only cash and no vessels.
2. On 24 April 2019, the Company acquired through its wholly owned subsidiary Wanax AS, one large size Norwegian built PSV for a total consideration of USD 8,1 million. After the transaction the Company has 100% ownership through its subsidiary of six large-size modern PSVs, in addition to the 9 mid-sized PSVs the Company already has invested in, including one vessel on a bare-boat contract.
3. On 3 May 2019, the Company through its wholly owned subsidiary Wanax AS contributed USD 566 thousands in the form of a shareholders' loan, to its associate Northern Supply AS.
4. In Q2 19, the Company recognized an unrealized profit of USD 4,7 million from the revaluation of its financial assets at fair value whereas for the six months ended 30 June 2019 an unrealized profit of USD 7,6 million was recognised. The fair value of the investments as of 30 June 2019 was USD 112 million.
5. Positive EBITDA (adj.) of USD 2,2 million, excluding start-up cost, dry dock, special survey and maintenance (Q2 18 USD 400 thousands) from chartering out the 6 large -sized PSV's. Including the ownership in Northern Supply AS (25.53%) the group netted a positive EBITDA (adj.) excluding start-up cost, dry dock, special survey and maintenance of USD 2,7 million (Q2 18 USD 200 thousands).
6. Utilisation of the Company's vessels of 93% (Q2 18 95%) for the six large PSV Standard vessels and 90% (Q2 18 88%) for the Northern Supply AS vessels (excluding those in lay-up).
7. At the Annual General Meeting of the Company which was held on 5 June 2019, the Board of Directors were authorized by the shareholders to purchase the Company's own shares as prescribed by the relevant provision of article 57A of the Companies Law, within a time period of twelve months from the date of passing of the resolution. As of today, no such purchase has taken place.

# Second Quarter Management Report 2019 (Continued)

## Selected Financial Information

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### Subsequent Events

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The following events took place between the Balance Sheet date and the date of approval of these interim condensed financial statements:

- 1) In July 2019, through the execution of a written consent and resolution by the shareholders of New World Supply Ltd (“NWS”), it has been resolved that NWS will proceed with the repurchase of 98,86% of the issued ordinary shares from each shareholder for a purchase price of USD 1,35 per share. As a result, the Company has received the amount of USD 14,9 million and its ownership in NWS has been reduced to 0,39% of the issued share capital. It has also been resolved that the remaining shares will be repurchased in the future at such a price and in such a manner to be determined by the board of directors of NWS.

There have been no other material subsequent events that have an impact on these interim condensed financial statements.

# SECOND QUARTER MANAGEMENT REPORT 2019 (CONTINUED)

## RESULTS FOR SECOND QUARTER 2019

The operating profit for the three months ended on 30 June 2019 was USD 4,6 million compared to the three months ended 30 June 2018 loss of USD 2,7 million. The operating profit includes an unrealized profit on revaluation of financial assets of USD 4,7 million, interest income of USD 15 thousands, a net foreign currency gain of USD 22 thousands and is after deducting administration expenses of USD 147 thousands. Finance cost for the period was USD 1 thousand thus a net profit before tax for the period of approximately USD 4,6 million. Earnings per share was USD 0,01 for the Quarter.

## RESULTS FOR THE SIX MONTHS OF 2019 AND FINANCIAL COMPARISON WITH THE SIX MONTHS OF 2018

The operating profit for the six months ended 30 June 2019 was USD 7,6 million compared to the six months ended 30 June 2018 which was a loss of USD 2,6 million. The profit in 2019 compared to 2018's loss is mainly due to an unrealized gain on revaluation of financial assets of approximately USD 7,6 million (compared to a revaluation loss of USD 2,9 million in 2018), administration expenses of USD 241 thousands, interest income USD 60 thousands, and net foreign currency gains of USD 109 thousands. Earnings per share was USD 0,01 for the six months.

## LIQUIDITY AND CAPITAL STRUCTURE

The available cash position of the Company as at 30 June 2019 was USD 6,6 million.

During the six months of 2019 net cash used in operating activities was USD 10 million mainly consisting of capital contribution of USD 9,6 million to subsidiary Wanax AS. The net cash generated from investing activities was mainly consisted from an interest received of USD 60 thousands.

As of 30 June 2019, the Company had 2 088 shareholders. The share price as of 30 June 2019 was NOK 1,22 (USD 0,143).

## PRINCIPLE RISK AND UNCERTAINTIES

The Company's activities are exposed to the overall economic environment as well as regulatory and market risks associated with the PSV market. The Company is also exposed to other financial risks as disclosed in Note 5 of annual financial statements for the year ended 31 December 2018.

The Company has implemented systems and procedures to monitor the market and to stay alert to changes in order to

mitigate market risk. Internal procedures have been and are continuously being developed to mitigate financial and operational risks.

## OUTLOOK

The principal activity of the Company is that of the investment entity within oil and gas sector, directly or indirectly into companies, securities and / or assets, with the aim to control a larger fleet of vessels - all at low values.

The objective of the Company is to generate significant medium to long-term capital growth. The main focus of the Company will be in the PSV market although the Company will pursue any attractive investment opportunities that may arise within the framework of industries it operates.

The Company has a sound financial position and the Board of Directors believe that the Company is well positioned to take advantage of opportunities that may appear in the PSV market in the North Sea Sector and elsewhere going forward. This includes, but is not limited to, asset play or investment directly in other companies. The main drivers are maximizing the return and minimizing the risk.

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*On Behalf of the Board of Directors of  
S.D. Standard Drilling Plc.*

*26 August 2019*

*Martin Nes  
Chairman*

*Christos Neocleous  
CFO*

**INTERIM CONDENSED STATEMENT  
OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2019**

	Note	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
		<b>2019 Q2</b>	2018 Q2	<b>2019 Q2</b>	2018 Q2
<i>(Amounts in USD 000)</i>				<i>Unaudited</i>	<i>Unaudited</i>
<b>Income</b>					
Changes in fair value on financial assets at fair value through profit or loss	5	4 674	(2 250)	7 622	(2 862)
Changes in fair value on financial assets at fair value through profit or loss-held for trading		-	1	-	1
Interest income		15	48	60	62
Net foreign currency gains or (losses)		22	(368)	109	517
<b>Total net income /(loss)</b>		<b>4 711</b>	<b>(2 569)</b>	<b>7 791</b>	<b>(2 282)</b>
<b>Expenses</b>					
Administration fees		(147)	(134)	(241)	(271)
<b>Total operating expenses</b>		<b>(147)</b>	<b>(134)</b>	<b>(241)</b>	<b>(271)</b>
<b>Operating profit/(loss)</b>		<b>4 564</b>	<b>(2 703)</b>	<b>7 550</b>	<b>(2 553)</b>
<b>Finance costs</b>					
Sundry finance income/(expenses)		(1)	-	(3)	(5)
<b>Profit/(loss) for the period before tax</b>		<b>4 563</b>	<b>(2 703)</b>	<b>7 547</b>	<b>(2 558)</b>
Income tax expense		-	-	-	-
<b>Profit/(loss) for the period after tax</b>		<b>4 563</b>	<b>(2 703)</b>	<b>7 547</b>	<b>(2 558)</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Available-for-sale investments – Fair value gains/(loss)		-	-	-	-
<b>Other comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>4 563</b>	<b>(2 703)</b>	<b>7 547</b>	<b>(2 558)</b>
<b>Earnings/(loss) per share</b>					
Basic/diluted earnings/(loss) per share (USD)	4	0,01	(0,00)	0,01	0,00

**INTERIM CONDENSED STATEMENT  
OF FINANCIAL POSITION  
AT 30 JUNE 2019**

<i>(Amounts in USD 000)</i>	Note	<b>30.06.2019</b>	<b>31.12.2018</b>
<b>ASSETS</b>		<i>Unaudited</i>	<i>Audited</i>
Equipment and machinery		2	1
Financial assets at fair value through profit or loss	5	112 206	94 966
<b>Total non-current assets</b>		<b>112 208</b>	<b>94 967</b>
Trade and other receivables		35	25
Current tax asset		1	1
Cash and bank balances		6 590	16 382
<b>Total current assets</b>		<b>6 626</b>	<b>16 408</b>
<b>Total Assets</b>		<b>118 834</b>	<b>111 375</b>
<b>EQUITY AND LIABILITIES</b>			
Ordinary shares	6	17 281	17 281
Share premium	6	96 861	96 861
Accumulated profits/(losses)		4 683	(2 864)
<b>Total equity</b>		<b>118 825</b>	<b>111 278</b>
Trade and other payables		9	97
<b>Total current liabilities</b>		<b>9</b>	<b>97</b>
<b>Total Equity and Liabilities</b>		<b>118 834</b>	<b>111 375</b>

*On Behalf of the Board of Directors of  
S.D. Standard Drilling Plc.*

*Martin Nes  
Chairman*

*Christos Neocleous  
CFO*

**INTERIM CONDENSED STATEMENT  
OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2019**

<i>(Amounts in USD 000)</i>	Share Capital	Share Premium	Fair value reserve - available for sale financial assets	Accumulated Profits/(Losses)	Total
<b>Balance at 01.01.2018</b>	<b>15 281</b>	<b>86 840</b>	<b>(4)</b>	<b>(1 625)</b>	<b>100 492</b>
Changes of accounting policy (note 3)	-	-	4	(4)	-
<b>Balance at 01.01.2018 (restated)</b>	<b>15 281</b>	<b>86 840</b>	<b>-</b>	<b>(1 629)</b>	<b>100 492</b>
<b>Comprehensive income</b>					
Loss for the period	-	-	-	(2 558)	(2 558)
<b>Transactions with owners</b>					
Issue of share capital (note 8)	2 000	10 600	-	-	12 600
Share issue costs	-	(576)	-	-	(576)
<b>Balance at 30.06.2018 (unaudited)</b>	<b>17 281</b>	<b>96 864</b>	<b>-</b>	<b>(4 187)</b>	<b>109 958</b>
<b>Balance at 01.01.2019</b>	<b>17 281</b>	<b>96 861</b>	<b>-</b>	<b>(2 864)</b>	<b>111 278</b>
<b>Comprehensive income</b>					
Profit for the period	-	-	-	7 547	7 547
Other comprehensive income	-	-	-	-	-
<b>Transactions with owners</b>					
Issue of share capital	-	-	-	-	-
Share issue costs	-	-	-	-	-
<b>Balance at 30.06.2019 (unaudited)</b>	<b>17 281</b>	<b>96 861</b>	<b>-</b>	<b>4 683</b>	<b>118 825</b>

INTERIM CONDENSED STATEMENT  
OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2019

	Note	Six Months Ended	
		2019 Q2	2018 Q2
<i>(Amounts in USD 000)</i>			
		<i>Unaudited</i>	<i>Unaudited</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(Loss) for the period before income tax		7 547	(2 558)
Unrealised exchange (gain)/loss		(109)	60
Payments to financial assets at fair value through profit or loss	5	(9 618)	(5 305)
Interest income		(60)	(48)
(Increase)/decrease in trade and other receivables		(10)	(20)
(Increase)/decrease in financial assets fair value through profit or loss	5	(7 622)	2 861
Decrease in trade and other payables		(88)	(98)
<b>Net cash generated from/(used in) operating activities</b>		<b>(9 960)</b>	<b>(5 108)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment to acquire equipment		(1)	-
Interest received		60	48
<b>Net cash generated from/(used in) investing activities</b>		<b>59</b>	<b>48</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		-	12 600
Share issue costs		-	(576)
<b>Net cash generated from/(used in) financing activities</b>		<b>-</b>	<b>12 024</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(9 901)</b>	<b>6 964</b>
Cash and cash equivalents at beginning of year		16 382	12 148
Effect of exchange rate changes on the balance of cash held in foreign currencies		109	(60)
Cash and cash equivalents at end of period		6 590	19 052

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 1 – INCORPORATION AND PRINCIPAL ACTIVITIES

#### Country of Incorporation

S.D. Standard Drilling Plc. (the “Company”) is a limited liability Company incorporated and domiciled in Cyprus on 2 December 2010 in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The Company was converted into a public company on 23 December 2010. On 25 March 2011 the Company’s shares were listed on Oslo Axess and on 31 May 2017 on Oslo Bors. The address of the Company’s registered office is Chrysanthou Mylona 1, Panayides Building, 2<sup>nd</sup> floor, Office 3, 3030, Limassol, Cyprus.

#### Principal Activities

The principal activity of the Company is to operate as an investment entity within oil and gas sector. The Company invest directly or indirectly into companies, securities and/or assets, with the aim to control a larger fleet of assets- acquired at low values. The objective of the Company is to generate significant medium to long term capital growth. The main focus of the Company will be in the PSV market although the Company will pursue any attractive investment opportunities that may arise within the framework of industries it operates.

The Company’s strategy is to invest into high risk investments in distressed asset acquisition held by unquoted companies where the Company takes active role in helping to build and develop these companies with the aim to make its returns through medium to long term capital gains appreciation as opposed to invest for strategic purposes (i.e. for income return).

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The interim condensed financial statements for the six months ended 30 June 2019, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. The interim condensed financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2018. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018 which have been prepared in accordance with IFRS as adopted in the (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

In the current period the Company has adopted all of the new and revised standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual periods beginning on 1 January 2019.

At the date of approval of these interim condensed financial statements, a number of accounting standards and interpretations were issued by the International Accounting Standards Board but were not yet effective. The effect and impact of those standards is not expected to be material to the Company.

### NOTE 3 – CHANGE OF ACCOUNTING POLICY

#### IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policy and an adjustment to the amounts recognized in the financial statements. The new accounting policies are set out in note 2 of the annual financial statements for the year ended 31 December 2018.

#### *Reclassification of equity investments from available to sale to FVPL*

The Company reclassified as of 31 December 2018 its equity investments previously held as available for sale to fair value through profit or loss since the management’s intention was to dispose them within a short-term period. As a result, related fair value losses of USD 4 thousands were transferred from the available for sale financial assets reserve to retained earnings at the statement of changes in equity for the period.

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 4 – EARNINGS/(LOSS) PER SHARE

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

<i>(Amounts in USD 000)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>30.06.2019</b>	<b>30.06.2018</b>
<b>Basic/diluted EPS</b>				
Profit/(Loss) attributable to equity holders of the Company	4 563	(2 703)	7 547	(2 558)
Weighted average number of ordinary shares in issue (thousands)	576 026	576 026	576 026	553 559
<b>Basic/diluted earnings/(loss) per share (USD)</b>	<b>0,01</b>	<b>(0,00)</b>	<b>0,01</b>	<b>0,00</b>

### NOTE 5 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

<i>(Amounts in USD 000)</i>	<b>30.06.2019</b>	<b>31.12.2018</b>
Balance at 1 January	94 966	88 379
Additions	9 618	7 281
Change in fair value	7 622	(694)
<b>Balance at the end of the period/year (note 7.1)</b>	<b>112 206</b>	<b>94 966</b>

Investments designated at fair value through profit or loss are analysed as follows:

<b>Name of Investment</b>	<b>Principal activity</b>	<b>Place of establishment and principal place of business</b>	<b>Proportion of ownership/ interest held</b>	
			<b>30.06.2019</b>	<b>31.12.2018</b>
Wanax AS	Investment holding	Norway	100%	100%
New World Supply Ltd	Investment holding	Cayman Islands	34,4%	34,4%

During the six months of the year 2019, the Company has contributed USD 9,6 million to its subsidiary Wanax AS to support the working capital needs of its investments, as well as the acquisition of additional investments in PSVs.

The above investments are measured at fair value.

<i>(Amounts in USD 000)</i>	<b>30.06.2019</b>	<b>31.12.2018</b>
<i>Other net changes in fair value on financial assets at fair value through profit or loss</i>		
Realised	-	-
Unrealised change	7 622	(694)
<b>Total net gains/(losses)</b>	<b>7 622</b>	<b>(694)</b>
Other net changes in fair values on assets designated at fair value through profit or loss	7 622	(694)
<b>Total net gains/(losses)</b>	<b>7 622</b>	<b>(694)</b>

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 6 – SHARE CAPITAL AND PREMIUM

Authorised	Number of shares (thousands)	Ordinary shares	Total	
<i>(Amounts in USD 000)</i>				
<b>2019</b>				
Balance at the beginning of the period	865 000	25 950	25 950	
Increase of share capital	-	-	-	
<b>Balance at the end of the period</b>	<b>865 000</b>	<b>25 950</b>	<b>25 950</b>	
<b>2018</b>				
Balance at the beginning of the year	516 667	15 500	15 500	
Increase of share capital	348 333	10 450	10 450	
<b>Balance at the end of the year</b>	<b>865 000</b>	<b>25 950</b>	<b>25 950</b>	
<b>Issued and fully paid</b>				
	Number of shares (thousands)	Ordinary shares	Share premium	Total
<i>(Amounts in USD 000)</i>				
<b>2019</b>				
Balance at the beginning of the period	576 026	17 281	96 861	114 142
Issue of shares	-	-	-	-
Share issue costs	-	-	-	-
<b>Balance at the end of the period</b>	<b>576 026</b>	<b>17 281</b>	<b>96 861</b>	<b>114 142</b>
<b>2018</b>				
Balance at the beginning of the year	509 360	15 281	86 840	102 121
Issue of shares	66 666	2 000	10 600	12 600
Share issue costs	-	-	(579)	(579)
<b>Balance at the end of the year</b>	<b>576 026</b>	<b>17 281</b>	<b>96 861</b>	<b>114 142</b>

There have been no movement in shares during the period.

All shares issued have the same rights and are of nominal value of USD 0,03 each.

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 7 – FAIR VALUE MEASUREMENTS

7.1 The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present the Company's fair value hierarchy of the financial assets that are measured at fair value:

<i>(Amounts in USD 000)</i>	Level 1	Level 2	Level 3	Total
<b>At 30 June 2019</b>				
<b>Assets</b>				
Financial Assets through profit or Loss				
- Financials asset at fair value through profit or loss (note 5)		14 939	97 267	112 206
<b>Total financial assets measured at fair value</b>	-	14 939	97 267	112 206
<b>At 31 December 2018</b>				
<b>Assets</b>				
Financial Assets through profit or Loss				
- Financials asset at fair value through profit or loss (note 5)	-	14 606	80 360	94 966
<b>Total financial assets measured at fair value</b>	-	14 606	80 360	94 966

7.2 Valuation processes

a) Valuation processes (Level 3)

The management of the Company obtained fair value estimates from two independent Valuers ("Valuer A" and "Valuer B"). Both Valuers have provided a value range based on a willing buyer and willing seller market scenario. Valuer A has also provided a value range based on distressed values. Valuer B has not provided a distressed value range, however, a distressed value range has been derived by the management by applying the same discount rate to Valuer B's willing buyer and willing seller range as the implied discount rate between Valuer A's willing buyer and willing seller value range and Valuer A's distressed value range. The applied fair value for the assets in the Company's financial statements is then set to the average of these two distressed ranges as the Company decided to apply a more conservative approach due to current market conditions and the frequency of such transactions in the market. Should the Company used the average fair values based on a willing buyer and willing seller market scenario of both Valuers, the total financial assets measured fair value would have been USD 132 million rather than USD 97,3 million.

b) Valuation processes (Level 2)

The fair values of securities that are not quoted in an active market are determined by using valuation techniques and recent comparable transactions. The models used to determine fair values are validated and periodically reviewed by the management of the Company. The inputs in the valuation techniques used include observable data, such as vessel's sale prices and other relevant information generated by recent market transactions involving identical or comparable (similar) PSV Vessels. The data used as of 30 June 2019 is the net asset value of the underlying SPVs representing cash at bank.

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

#### 7.3 Reconciliation of Level 3 fair value measurements

The following table presents the changes in Level 3 investments for the six months ended 30 June 2019:

(Amount in USD 000)

	Financial assets designated at fair value through profit or loss	Total
<b>30 June 2019</b>		
Opening balance	80 360	80 360
Total gains or losses:		
- In profit or loss	7 289	7 289
Purchases	9 618	9 618
Issues	-	-
Disposals/settlements	-	-
Transfers into level 3 from level 2	-	-
Transfers out of level 3	-	-
Closing balance	<u>97 267</u>	<u>97 267</u>

The following table presents the changes in Level 3 investments for the year ended 31 December 2018:

(Amount in USD 000)

	Financial assets at fair value through profit or loss	Total
<b>31 December 2018</b>		
Opening balance	88 379	88 379
Total gains or losses:		
- In profit or loss	(694)	(694)
Purchases	7 281	7 281
Issues	-	-
Disposals/settlements	-	-
Transfers into level 3 from level 2	-	-
Transfers out of level 3 (1)	(14 606)	(14 606)
Closing balance	<u>80 360</u>	<u>80 360</u>

(1) During Q4 2018, financial assets at fair value through profit or loss amounted to USD 14 606 thousands have been reclassified from Level 3 to Level 2 as the valuation technique uses prices and other relevant information generated by market transactions involving identical or comparable (similar) PSV Vessels. The data used is based on observable input. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels at the end of each quarter.

Unrealised gains or (losses) recognized in profit and loss attributable to assets held at the end of the reporting period (included in gains/losses) disclosed above:

30 June 2019	<u>7 289</u>	<u>7 289</u>
31 December 2018	<u>(694)</u>	<u>(694)</u>

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

#### 7.4 Fair value of the Company's financial assets that are measured at fair value on a recurring basis:

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 30/06/2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
<p>1) Financial asset at fair value through profit or loss:</p> <p>(a) Investment in Wanax AS (100%) which holds:</p> <p>(i) 100% participatory interest in Standard Princess AS,</p> <p>(ii) 100% participatory interest in Standard Supplier AS,</p> <p>(iii) 100% participatory interest in Standard Viking AS,</p> <p>(iv) 100% participatory interest in Standard Provider AS,</p> <p>(v) 100% participatory interest in Standard Supporter AS,</p> <p>(vi) 100% participatory interest in Standard Olympus AS,</p> <p>(vii) 25,53% participatory interest in Northern Supply AS.</p> <p>The principal activity of Standard Princess AS, Standard Supplier AS, Standard Viking AS, Standard Provider AS, Standard Supporter AS, Standard Olympus AS and Northern Supply AS is that of the holdings of PSV vessels, all of which are registered in Norway.</p>	USD 97 267 thousands	Level 3 (note 1)	<p>Market Approach</p> <p>The valuation technique uses prices and other relevant information generated by reputable independent valuers in the market in which the Company has invested in. The data used are based on observable inputs adjusted by an unobservable input (discount rate) calculated by the management for Valuer B (note 7.2.a).</p>	Discount rate from willing buyer/seller to distressed valuation from Valuer A, has been applied to Valuer B to predict distressed values for Valuer B, since Valuer B only provided valuation based on willing buyer/seller basis. Discount rate is in the range of 43% to 50%, 25% and 37% to 38% based on the size of the respective vessels (note 7.2).	Significant increases/(decreases) in the range of rates for discounting the vessels' fair values would result in a significantly lower/higher fair value measurement (note 1).
<p>(b) Investment in New World Supply Ltd (34,4%) which holds:</p> <p>(i) 100% Participatory interest in SPV World Diamond,</p> <p>(ii) 100% Participatory interest in SPV World Peridot,</p> <p>(iii) 100% Participatory interest in SPV World Pearl,</p> <p>(iv) 100% Participatory interest in SPV World Emerald,</p> <p>(v) 100% Participatory interest in SPV World Opal.</p> <p>(vi) 100% Participatory interest in SPV World Sapphire</p> <p>The principal activities of the above companies (registered in Cayman Islands) is that of the holding of PSV vessels. All the above companies have disposed their PSV vessels as of 30 June 2019 and remained dormant holding only cash.</p>	USD 14 939 thousands	Level 2	<p>Market Approach</p> <p>The valuation technique used as an observable data the net asset value of the underlying SPVs representing cash at bank (note 7.2.b).</p>	Not applicable	Not applicable

#### Note 1:

A 5% increase/decrease of the discount rate used while all other variables were held constant, would change the fair value of vessels for the investment in Wanax AS by USD 2,3 million/ (USD 2,3) million.

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

#### 7.4 Fair value of the Company's financial assets that are measured at fair value on a recurring basis:

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31/12/2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
<p>2) Financial asset at fair value through profit or loss:</p> <p>(c) Investment in Wanax AS (100%) which holds:</p> <p>(viii) 100% participatory interest in Standard Princess AS,            (ix) 100% participatory interest in Standard Supplier AS,            (x) 100% participatory interest in Standard Viking AS,            (xi) 100% participatory interest in Standard Provider AS,            (xii) 100% participatory interest in Standard Supporter AS,            (xiii) 25,53% participatory interest in Northern Supply AS.</p> <p>The principal activity of Standard Princess AS, Standard Supplier AS, Standard Viking AS, Standard Provider AS, Standard Supporter AS and Northern Supply AS is that of the holdings of PSV vessels, all of which are registered in Norway.</p>	USD 80 360 thousands	Level 3 (note 1)	<p>Market Approach</p> <p>The valuation technique uses prices and other relevant information generated by reputable independent valuers in the market in which the Company has invested in. The data used are based on observable inputs adjusted by an unobservable input (discount rate) calculated by the management for Valuer B. (note 7.2.a).</p>	Discount rate from willing buyer/seller to distressed valuation from Valuer A, has been applied to Valuer B to predict distressed values for Valuer B, since Valuer B only provided valuation based on willing buyer/seller basis. Discount rate is in the range of 44% to 50% and 24% to 29% based on the size of the respective vessels (note 7.2).	Significant increases/(decreases) in the range of rates for discounting the vessels' fair values would result in a significantly lower/higher fair value measurement (note 1).
<p>(d) Investment in New World Supply Ltd (34,4%) which holds:</p> <p>(vii) 100% Participatory interest in SPV World Diamond,            (viii) 100% Participatory interest in SPV World Peridot,            (ix) 100% Participatory interest in SPV World Pearl,            (x) 100% Participatory interest in SPV World Emerald,            (xi) 100% Participatory interest in SPV World Opal.            (xii) 100% Participatory interest in SPV World Sapphire</p> <p>The principal activities of the above companies (registered in Cayman Islands) is that of the holding of PSV vessels. PSV World Emerald and PSV Sapphire disposed the PSV vessels during the year 2018 and remained dormant.</p>	USD 14 606 thousands	Level 2	<p>Market Approach</p> <p>The valuation technique uses prices and other relevant information generated by market transactions involving identical or comparable (similar) PSV Vessels. The data used is based on observable input (note 7.2.b).</p>	Not applicable	Not applicable

#### Note 1:

A 5% increase/decrease of the discount rate used while all other variables were held constant, would change the fair value of vessels for the investment in Wanax AS by USD 2,1 million/ (USD 2,1) million.

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 8 – APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements have been approved by the Board of Directors of the Company on 26 August 2019.

# S.D. Standard Drilling

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## Financial Calendar (Release of Financial Reports)

Q2 2019	27 August 2019
Q3 2019	11 November 2019

## S.D. Standard Drilling Plc

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