

# S.D. STANDARD DRILLING PLC

## THIRD 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 nine months ended 30 September 2019 we confirm that, to the best of our knowledge:

- a) The interim condensed financial statements of the Company for the nine months ended 30 September 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, 7 November 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

# Third Quarter Management Report 2019

## Selected Financial Information

	Three Months Ended		Nine Months Ended	
	2019 Q3	2018 Q3	2019 Q3	2018 Q3
<i>(Amounts in USD 000)</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Operating profit/(loss)	570	(227)	8 120	(2 780)
Profit/(loss) for the period before tax	569	(233)	8 116	(2 791)
Total comprehensive income/(loss) for the period	569	(233)	8 116	(2 791)

## Presentation of Interim Condensed Financial Statements

These interim condensed financial statements for the third 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 Q3 19 presentation, which is released together with this interim report.

## Highlights Third Quarter

1. In July 2019, New World Supply Ltd ("NWS") completed the repurchase of 98,86% of its 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. From this transaction the Company has realised a gain of USD 3,8 million, all of which has been previously recognised as a fair value gain through profit or loss in the period Q1 17 to Q2 19. Reference is made to note 5 for more information.
2. In Q3 19, the Company recognized an unrealized profit of USD 1 million from the revaluation of its financial assets at fair value whereas for the nine months ended 30 September 2019 a fair value profit of USD 8,7 million was recognised out of which USD 8,3 million were unrealised. The fair value of the investments as of 30 September 2019 was USD 98,5 million.
3. Positive EBITDA (adj.) of USD 3 million, excluding start-up cost, dry dock, special survey and maintenance (Q3 18 USD 300 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 3.3 million (Q3 18 USD 200 thousands).
4. Utilisation of the Company's vessels of 95% (Q3 18 85%) for the six large PSV Standard vessels and 92% (Q3 18 92%) for the Northern Supply AS vessels (excluding those in lay-up).

# Third 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) On 2 October 2019, through its wholly owned subsidiary Standard Provider AS, the Company agreed to sell the PSV vessel Standard Provider for USD 13,5 million. The Transaction was completed on 30 October 2019.

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

# THIRD QUARTER MANAGEMENT REPORT 2019 (CONTINUED)

## RESULTS FOR THIRD QUARTER 2019

The operating profit for the three months ended on 30 September 2019 was USD 570 thousands compared to the three months ended 30 September 2018 loss of USD 227 thousands. The operating profit includes an unrealized profit on revaluation of financial assets of USD 1 million, interest income of USD 71 thousands and is after deducting a net foreign currency loss of USD 412 thousands and administration expenses of USD 120 thousands. Finance cost for the period was USD 1 thousand thus a net profit before tax for the period of approximately USD 569 thousands. Earnings per share was USD 0,00 for the Quarter.

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

The operating profit for the nine months ended 30 September 2019 was USD 8,1 million compared to the nine months ended 30 September 2018 which was a loss of USD 2,8 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 8,7 million (out of which USD 8,3 million were unrealized) compared to a revaluation loss of USD 3 million in 2018, interest income of USD 131 thousands and is after deducting a net foreign currency loss of USD 303 thousands, administration expenses of USD 361 thousands and finance costs of 4 thousand. Earnings per share was USD 0,01 for the nine months.

## LIQUIDITY AND CAPITAL STRUCTURE

The cash position of the Company as at 30 September 2019 was USD 20,9 million.

During the nine months of 2019 net cash generated from operating activities was USD 4,7 million mainly consisting of a cash inflow from disposal of financial assets of USD 14,9 million and an outflow of capital contribution of USD 9,8 million to subsidiary Wanax AS. The net cash generated from investing activities was mainly consisted from an interest income of USD 130 thousands.

As of 30 September 2019, the Company had 2 074 shareholders. The share price as of 30 September 2019 was NOK 1,06 (USD 0,117).

## 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.

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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 to operate as an investment entity within oil and gas sector, with exposure directly or indirectly into companies, securities and / or assets.

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 results in 2019 show that the PSV market is moving in the right direction after several challenging years. Going into the winter season the Company's short term focus will be to secure winter coverage of the vessels and to take part in an expected upturn in the market in the North Sea Sector during the spring and summer season of 2020 and going forward.

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.*

*7 November 2019*

*Martin Nes  
Chairman*

*Christos Neocleous  
CFO*

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

	Note	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
		<b>2019 Q3</b>	2018 Q3	<b>2019 Q3</b>	2018 Q3
<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	1 031	(135)	8 653	(2 997)
Changes in fair value on financial assets at fair value through profit or loss-held for trading		-	-	-	1
Interest income		71	50	131	111
Net foreign currency gains or (losses)		(412)	(13)	(303)	504
<b>Total net income /(loss)</b>		<b>690</b>	<b>(98)</b>	<b>8 481</b>	<b>(2 381)</b>
<b>Expenses</b>					
Administration fees		(120)	(129)	(361)	(399)
<b>Total operating expenses</b>		<b>(120)</b>	<b>(129)</b>	<b>(361)</b>	<b>(399)</b>
<b>Operating profit/(loss)</b>		<b>570</b>	<b>(227)</b>	<b>8 120</b>	<b>(2 780)</b>
<b>Finance costs</b>					
Sundry finance income/(expenses)		(1)	(6)	(4)	(11)
<b>Profit/(loss) for the period before tax</b>		<b>569</b>	<b>(233)</b>	<b>8 116</b>	<b>(2 791)</b>
Income tax expense		-	-	-	-
<b>Profit/(loss) for the period after tax</b>		<b>569</b>	<b>(233)</b>	<b>8 116</b>	<b>(2 791)</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>569</b>	<b>(233)</b>	<b>8 116</b>	<b>(2 791)</b>
<b>Earnings/(loss) per share</b>					
Basic/diluted earnings/(loss) per share (USD)	4	0,00	0,00	0,01	0,00

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

<i>(Amounts in USD 000)</i>	Note	<b>30.09.2019</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	98 464	94 966
<b>Total non-current assets</b>		<b>98 466</b>	<b>94 967</b>
Trade and other receivables		18	25
Current tax asset		1	1
Cash and bank balances		20 936	16 382
<b>Total current assets</b>		<b>20 955</b>	<b>16 408</b>
<b>Total Assets</b>		<b>119 421</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)		5 252	(2 864)
<b>Total equity</b>		<b>119 394</b>	<b>111 278</b>
Trade and other payables		27	97
<b>Total current liabilities</b>		<b>27</b>	<b>97</b>
<b>Total Equity and Liabilities</b>		<b>119 421</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 SEPTEMBER 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	-	-	-	(2 791)	(2 791)
<b>Transactions with owners</b>					
Issue of share capital (note 6)	2 000	10 600	-	-	12 600
Share issue costs	-	(579)	-	-	(579)
<b>Balance at 30.09.2018 (unaudited)</b>	<b>17 281</b>	<b>96 861</b>	<b>-</b>	<b>(4 420)</b>	<b>109 722</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	-	-	-	8 116	8 116
Other comprehensive income	-	-	-	-	-
<b>Transactions with owners</b>					
Issue of share capital	-	-	-	-	-
Share issue costs	-	-	-	-	-
<b>Balance at 30.09.2019 (unaudited)</b>	<b>17 281</b>	<b>96 861</b>	<b>-</b>	<b>5 252</b>	<b>119 394</b>

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

	Note	Nine Months Ended	
		2019 Q3	2018 Q3
<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		8 116	(2 791)
Unrealised exchange (gain)/loss		303	72
Payments to financial assets at fair value through profit or loss	5	(9 784)	(5 305)
Receipts from disposal of financial assets of fair value through profit or loss	5	14 939	13
Interest income		(131)	(50)
(Increase)/decrease in trade and other receivables		7	(12)
(Increase)/decrease in financial assets fair value through profit or loss	5	(8 653)	2 996
Decrease in trade and other payables		(70)	(88)
<b>Net cash generated from/(used in) operating activities</b>		<b>4 727</b>	<b>(5 165)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment to acquire equipment		(1)	-
Interest received		131	50
<b>Net cash generated from/(used in) investing activities</b>		<b>130</b>	<b>50</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		-	12 600
Share issue costs		-	(579)
<b>Net cash generated from/(used in) financing activities</b>		<b>-</b>	<b>12 021</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>4 857</b>	<b>6 906</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		(303)	(72)
Cash and cash equivalents at end of period		20 936	18 982

## 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 nine months ended 30 September 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>Nine Months Ended</b>	
	<b>30.09.2019</b>	<b>30.09.2018</b>	<b>30.09.2019</b>	<b>30.09.2018</b>
<b>Basic/diluted EPS</b>				
Profit/(Loss) attributable to equity holders of the Company	569	(233)	8 116	(2 791)
Weighted average number of ordinary shares in issue (thousands)	576 026	576 026	576 026	561 130
<b>Basic/diluted earnings/(loss) per share (USD)</b>	<b>0,00</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>30.09.2019</b>	<b>31.12.2018</b>
Balance at 1 January	94 966	88 379
Additions	9 784	7 281
Disposals / settlements	(14 939)	-
Change in fair value	8 653	(694)
<b>Balance at the end of the period/year (note 7.1)</b>	<b>98 464</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>30.09.2019</b>	<b>31.12.2018</b>
Wanax AS	Investment holding	Norway	100%	100%
New World Supply Ltd	Investment holding	Cayman Islands	0,39%	34,4%

During the nine months of the year 2019, the following transactions took place:

- The Company has contributed USD 9,8 million to its subsidiary Wanax AS to support the working capital needs of its investments, as well as the acquisition of Standard Olympus which was purchased for USD 8,1 million.
- In July 2019 New World Supply Ltd (“NWS”) completed 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. From this transaction the Company has realised a gain of USD 3,8 million, all of which has been previously recognised as a fair value gain through profit or loss in the period of Q1 17 to Q2 19. USD 333 thousands have been recognised during the first six months of the year 2019.

The above investments are measured at fair value.

<i>(Amounts in USD 000)</i>	<b>30.09.2019</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	333	-
Unrealised change	8 320	(694)
<b>Total net gains/(losses)</b>	<b>8 653</b>	<b>(694)</b>
Other net changes in fair values on assets designated at fair value through profit or loss	8 653	(694)
<b>Total net gains/(losses)</b>	<b>8 653</b>	<b>(694)</b>

## NOTES TO THE FINANCIAL INFORMATION

### NOTE 6 – SHARE CAPITAL AND PREMIUM

<b>Authorised</b>	<b>Number of shares (thousands)</b>	<b>Ordinary shares</b>		
<i>(Amounts in USD 000)</i>			<b>Total</b>	
<b>2019</b>				
Balance at the beginning of the period	865 000	25 950	<b>25 950</b>	
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	<b>15 500</b>	
Increase of share capital	348 333	10 450	<b>10 450</b>	
<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>				
<i>(Amounts in USD 000)</i>	<b>Number of shares (thousands)</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Total</b>
<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 September 2019</b>				
<b>Assets</b>				
Financial Assets through profit or Loss				
- Financials asset at fair value through profit or loss (note 5)	-	31 865	66 599	98 464
<b>Total financial assets measured at fair value</b>	-	31 865	66 599	98 464
<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 have 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 87,7 million rather than USD 66,6 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.

## 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 nine months ended 30 September 2019:

(Amount in USD 000)

	Financial assets designated at fair value through profit or loss	Total
<b>30 September 2019</b>		
Opening balance	80 360	80 360
Total gains or losses:		
- In profit or loss	8 320	8 320
Purchases	9 784	9 784
Issues	-	-
Disposals/settlements	-	-
Transfers out of level 3 (1)	(31 865)	(31 865)
Closing balance (note 7.1)	<u>66 599</u>	<u>66 599</u>

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

(Amount in USD 000)

	Financial assets designated 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 out of level 3 (1)	(14 606)	(14 606)
Closing balance (note 7.1)	<u>80 360</u>	<u>80 360</u>

- (1) During Q3 2019, financial assets at fair value through profit or loss amounted to USD 31 865 thousands (Q4 2018 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 September 2019	<u>8 320</u>	<u>8 320</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 30/09/2019	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 Olympus AS,</p> <p>(v) 25,53% participatory interest in Northern Supply AS.</p> <p>The principal activity of Standard Princess AS, Standard Supplier AS, Standard Viking 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 66 599 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 38% to 45% and 21% to 25% 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 Wanax AS (100%) which holds:</p> <p>(i) 100% participatory interest in Standard Provider AS,</p> <p>(ii) 100% participatory interest in Standard Supporter AS,</p> <p>The principal activity of Standard Provider AS and Standard Supporter AS is that of the holdings of PSV vessels, all of which are registered in Norway.</p>	USD 31 865 thousands	Level 2	<p>Market Approach</p> <p>The valuation technique uses prices and other relevant information generated by recent 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 1,5 million/ (USD 1,5) 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>(iii) 100% participatory interest in Standard Princess AS,</p> <p>(iv) 100% participatory interest in Standard Supplier AS,</p> <p>(v) 100% participatory interest in Standard Viking AS,</p> <p>(vi) 100% participatory interest in Standard Provider AS,</p> <p>(vii) 100% participatory interest in Standard Supporter AS,</p> <p>(viii) 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>(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. 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 7 November 2019.

# **S.D. Standard Drilling**

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## **Financial Calendar (Release of Financial Reports)**

Q3 2019

8 November 2019

### **S.D. Standard Drilling Plc**

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Chrysanthou Mylona 1,  
Panayides Building,  
2nd Floor, Office 3  
CY 3030  
Limassol, Cyprus  
Tel: +357 25875474

[www.standard-drilling.com](http://www.standard-drilling.com)