Properties and Risk associated with Financial Instruments and Holding in General Partnerships

This document contains information about risks related to investment through Clarksons Platou Project Sales AS, as well as risks associated with investment within Real Estate, Shipping and Offshore projects, in Financial Instruments and General Partnerships.

This Document was last revised 1 June 2015

Clarksons Platou Project Sales AS | NO 998 788 129 | Munkedamsveien 62C N-0270 Oslo, Norway | Telephone: +47 23 11 20 00 Telefax: +47 23 11 23 27 | projectsales@clarksons.com www.clarksons.com

Table of Contents

1. Responsibility

It is essential that clients are aware of that:

- Trading in financial instruments and partnership holdings is for the clients' own risk
- Clients must thoroughly familiarize themselves with the Enterprise's General Business Terms and Conditions and other relevant information about the financial instrument/the general partnership and its properties and risk before trading is initiated. This includes the information provided in this document
- Clients must check contract note/assignment information/purchase contract straight away and complain immediately in the event of any errors
- Clients must continuously monitor any changes in the value of the financial instruments and partnership holdings in which they have invested
- Clients must react themselves by selling their positions if that is what is required to reduce the risk of losses on their proprietary investments

2. Introduction

The information has been prepared based on the requirements for product information under the Securities Trading Act Section 10-11 (2) and the Securities Regulations Sections 10-13 and 10-15. Normally there is also other written information about the product in the form of an information memoranda, etc. Investors must not make any decision on any investment without having thoroughly familiarized themselves with all the relevant information about the financial instrument or partnership holding in question.

We underline that any investment object is subject to a major or a minor risk, and Clarksons Project Sales AS ("**CPPS**") does not guarantee any particular result. Each investor must be prepared for the fact that any investment in financial instruments or partnership holdings may lead to the invested capital being totally or partially lost.

As regards joint-stock companies/limited companies such loss will normally be limited to the amount for which the individual investor has subscribed/purchased shares, plus any agreed investment liability.

When investing in limited partnerships (KS), general partnerships (ANS), internally liable partnerships (IS) and other general partnerships they could lose more than the amount paid in (uncalled capital), see below for more information.

When investors subscribe for or purchase shares/holdings in companies, they invest in all the assets and liabilities the partnership has. It may turn out that the partnership has liabilities that are unknown to the issuer/seller/CPPS at the time of the purchase. Historical dispositions in the partnership may also impact on future tax positions not necessarily obvious at the time of purchase.

Below is information about risk related to investment in real estate, shipping and offshore projects. Further there is information on investment in financial instruments and general partnerships. Please note that the description below is not exhaustive when it comes to characteristics of financial instruments and holdings in general partnerships, and please also note that clients wanting to invest in the instruments must study marketing material and other relevant documentation.

3. Risks Involved in Investment through CPPS

3.1 Risk involved in leveraging

There could be 60-90 percent leverage on individual projects in which the funds/partnerships invest. Such leveraging will give the funds/partnerships the opportunity to make bigger investments than usual and to increase the return potential. At the same time leveraging will increase the risk in relation to invested funds since the effect of a fall in prices on underlying projects will have a greater impact.

3.2 Secondary trading

No market has been established for trading shares/partnership holdings in real estate, shipping and/or offshore projects. This means that it may be difficult at times to trade the shares/partnership holdings in the secondary market. Investors should therefore regard investment made through CPPS as long-term investments, and investors should only invest funds that can be tied up for longer periods of time.

3.3 Tax risk

The information about the object/the partnership will be based on the current rules and regulations applicable to the investment in question. Amendments to legislation on taxes and charges may lead to new, changed conditions for investors including reduced profitability for the project.

4. Investment in Shipping and Offshore

4.1 Market risk

When investing in shipping and offshore one operates in competitive markets with many players. At times there will be considerable competition for obtaining objects and it may be difficult to manage to purchase desired objects at desired prices. Similarly, at times it could prove to be difficult to sell objects at the desired price. The trend in the demand and the pricing of the invested companies' services are basically determined by circumstances beyond the companies' control. On the demand side there is uncertainty about the contracting of new ships etc., the extent of future scrapping of ships and alternative applications for the tonnage as a result of changed market conditions, among other things. Moreover, the demand for the products and commodities transported in the various segments is of importance.

4.2 Charterer

The charterer's financial position and financial strength and ability to deal with wages (and any purchase commitments) in a satisfactory manner will be of the essence.

4.3 Residual value and technical risk

Opportunity for rational operation has a major bearing on the ships' and offshore objects' economic lifetime which i.a. depends on continuing maintenance. There will always be a technical risk, particularly in regard to time and voyage charter parties. Unforeseen operational problems may lead to higher operating expenses than those budgeted for and/or more days off hire for the projects that are under time and voyage charter parties. Some of the projects will be subject to less of a technical risk since some ships are on bareboat charter parties.

4.4 Liquidity-related risk – valuation

Ship and offshore projects and shares/partnership holdings in such projects may be a relatively illiquid asset class and it may take a long time both to invest in and realise such investments.

Weak liquidity is one of the most negative properties of shipping and offshore projects as an asset class in a financial portfolio. There will be uncertainty related to the liquidity and the value of specific objects and the liquidity of the individual shipping or offshore project.

4.5 Default under the loan agreement due to a fall in the value of the ship

In the majority of loan agreements for shipping/offshore projects the lender has a claim for the minimum value of the mortgaged unit. This is normally expressed in the form of a Minimum Value Clause stating that the unit(s) is(are) not to have a value of less than a percentage of the net loan at any given time. In a situation where values drop more quickly than debts are reduced through regular repayments, the lender may demand that the Enterprise reduce the debt extraordinarily for the loan not to be defaulted on. This will normally be done by the lender demanding that the participants pay all or part of the uncalled capital in the project or alternatively put up other collateral.

4.6 Insufficient receipt of committed capital

If the other investors default on their commitment to pay their share of the committed capital, this may lead to the investment object defaulting on its obligations or losing the opportunity to invest, which could lead to a loss for the investors.

The investors may also be jointly and severally liable for non-paid-in committed capital, which may mean that defaulting on the part of the other investor may involve a demand for capital to be paid in.

4.7 Rate of exchange risk

Operating income and operating expenses, including interest costs, will largely be in foreign currencies, mainly in USD and EUR. The benchmark currencies for the underlying companies' fixed assets will be USD and EUR. The companies' financing will also be in USD and EUR. Matters related to rates of exchange may influence the object's/ the partnership's book and value-adjusted owners' equity in NOK.

4.8 Interest rate risk/inflation

The various projects that the funds/partnerships invest in will usually be leveraged. Any fluctuations in the interest rates could impact directly on returns. Indirectly the level of interest could impact on the value of ship and offshore objects in the event of a sale. The interest rate could be fixed, fully or in part, in several of the companies, corresponding to the length of the various charter parties/contracts, so that any fluctuations in the interest rates will have reduced or no direct influence on the liquidity of the object/partnership. However, if the need arises to dispose of the holdings before the interest contract expires, e.g. because of the charterer having gone bankrupt, any premium/discount will influence the investor's final settlement. In addition, general inflation may influence the partnership's cash flow. This is particularly relevant in projects where the owner pays for the technical operation of the ships but may also become relevant for bareboat projects but in that case only to a lesser degree since it is only the administration costs that are exposed to inflation.

4.9 Regulatory risk
In recent years the shipping and offshore industry has been subjected to various legislative amendments that have impacted on the industry. There will always be a possibility that new legislative amendments will be proposed and implemented. This could impact on the industry and have a major effect on the ships' economic lifetime and earning potential.

4.10 Pollution
All shipping and offshore business involves the transportation of cargo and other activities that may cause damage to the environment, which in turn may lead to liability for damages, fines etc. Consequently, being an owner of commercial shipping and offshore business carries a pollution risk.

5. Investment in Real Estate

5.1 Market risk
The risk involved in real estate investments is mainly determined by the uncertainty inherent in the value of the property. This risk can thus be broken down based on the main factors influencing real estate values. The two most important factors are the supply-demand balance for commercial property, and the yields (required returns) of investors when purchasing real estate. Real estate values are also affected by the available capacity in the market at the end of a property's lease contract(s), and the demand for the type of premises that the company owns. During certain periods, competition may be fierce for a small number targets, and it may be difficult to obtain desired targets at a desired price. Conversely, in other periods, it may prove difficult to sell properties or companies at the targeted price.

5.2 Macroeconomic conditions
The market for new constructions and larger real estate projects is dependent on the general economic development. Development in rent levels, inflation and employment are key parameters.

5.3 Financial risk
Fluctuations in the interest rates of a real estate project's financing may have a direct impact on investor returns. The level of real interest rates (interest rates adjusted for inflation) over time is a critical factor in the development of property value and thus also for investor returns. Interest levels also indirectly influence rent levels at renewal of lease contracts.

Interest cost constitutes a significant cost for leveraged real estate investments. An increase in interest levels, including increases due to increased margins demanded by lenders, may constitute a strain on the company's liquidity. Interest risk may, however, be reduced by entering into interest rate swap agreements. An interest rate swap is a contract between two parties, whereby the parties agree to pay (respectively receive) a fixed interest for a fixed duration of time, against receiving (respectively paying) the floating interest rate in the same currency and for the same period. The fixed interest rate is determined at the same time of signing, and is valid for the entire duration of the swap. In case of a termination of the swap contract before maturity, and if the actual floating interest rate has moved away from the agreed fixed rate, an MTM ("mark-to-market value difference) may have arisen. An MTM represents the market value of the interest swap, and this market value is influenced by the current market interest rates and remaining time to maturity.

An increase in interest rates is often based on expectations of increased inflation, which may contribute positively to the long term value of the real estate and thus increase the value of the fund or company. The value of the real estate investments will be influenced by changes in real interest rate levels.

At maturity of a company's loan(s), it will be required to refinance its outstanding debt. The company's ability to successfully refinance such debt is dependent on the conditions of the financial markets in general at such time. As a result, the company's access to financing sources at a particular time may not be available on favourable terms, or at all. The company's inability to refinance its debt obligation on favourable terms, or at all, could have material adverse effect on the company's business, financial condition and results of operations.

5.4 Technical condition/operational risk

For newly completed buildings in good technical condition, maintenance cost is limited during the first years. Future public rules and regulations may, however, impact operational cost. When investing in older buildings, significant maintenance costs should be anticipated. The magnitude of operational cost will, for the duration of a lease contract, be influenced by the type of lease contract. A distinction is often drawn between "bare house / bareboat" contracts, where tenant generally covers real estate specific operational costs and replacements, and standard contracts, where owner covers all or part of the operational costs and replacement.

5.5 Tenant risk

The tenant's financial strength and ability to fulfil rental obligations will be crucial for the returns of the real estate project.

5.6 Regulation risk

Changes in legislation, rules and regulations (including zoning) may impact future interest for the property, both the property, both from tenants (for the lease of the property) and from potential buyers (for the purchase of the property).

5.7 Liquidity risk

Real estate as an asset class has low liquidity. It will normally take months both to invest in and realise direct investments in real estate. Real estate objects or projects are not listed on any stock exchange or other regulated market place, and the valuation of individual properties will therefore be uncertain. Potentially poor liquidity is one of the most problematic qualities of real estate projects as an asset class in a financial portfolio, but at the same time they may yield potential liquidity bonus which long-term investors may be able to benefit from. There will be uncertainties regarding the liquidity and the values of specific objects and companies, and the liquidity in the specific real estate project. Also the valuation of real estate projects can involve uncertainties.

6. Investment in Financial Instruments

Shares not taken up for trading in a regulated market will normally have a higher liquidity risk, i.e. the risk of not getting the financial instrument sold at a given time because there is no interest in the market to purchase the share in question. Shares quoted for regulated markets will normally be liquid, but special market conditions or circumstances for the partnership in question could mean that these shares will also become less liquid.

The share price is largely influenced by the partnership's future prospects. A share price may go up or down subject to the parties analyses and assessments of the partnership's potential for gains in the future. The price could fall if the partnership returns poorer results than was expected or in the event of other negative incidents (partnership risk). There are also a number of other relevant risk related to trading in quoted shares, including a general market risk, industry risk, legal risk, rate of exchange risk and liquidity risk.

Every investment in securities funds is subject to risk. Funds invested in securities funds may involve both losses and gains and there is no guarantee what the outcome of such an investment will be. The value of securities funds may also vary over time in step with the market value of the financial instruments in which the fund is invested.

7. Investment in General Partnerships

A limited partnership (KS) is a partnership in which at least one participant has unlimited liability for the partnership's obligations (the general partner) and at least one other participant has limited liability for a set amount of the partnership's obligations (the limited partner). An investor participates as a limited partner but will also be able to participate as a general partner. A limited partnership (KS) must have a set amount of partnership capital. Normally capital is called in from the investors as the need for capital arises for the limited partnership. This means that the investor is obliged to pay in (capital) even after the subscription amount has been paid, and there is a risk associated with insufficient capital being paid in. The limited partnership and the participants (the investors) are regulated by the Partnership Act of 1985.

Internally liable partnerships (IS/DIS) distinguish themselves from other general partnerships in that the partnership does not act as a partnership vis-à-vis a third party. The legal effects, including the investors' liability for called-up capital and risk related to non-receipt of capital, are in most cases the same as for a limited partnership. However, the Partnership Act does not set any particular requirements for partnership capital for an internally liable partnership (IS). These (IS'es) are regulated by the Partnership Act of 1985, and in the case of internally liable partnerships (IS'es) the general partner (the partnership that acts outward) is also normally regulated by the (Limited) Companies Act.

8. Leveraged Trading

In many cases financial instruments may be purchased for capital that is partly borrowed. Since both the capital one has invested oneself and the borrowed capital influence the returns, the client may get a greater gain relative to the leverage if the investment develops positively compared with an investment only made with the client's own paid-up capital.

It does not affect the debt linked to the borrowed capital whether the prices of the instruments purchased change in a positive or a negative way, which is an advantage in the event of a positive price trend. If the price of the instruments purchased develops in a negative direction, the debt will remain unchanged. In the event of a drop in the price the capital one has paid up may therefore be lost completely or partly while the debt can only partially be redeemed with the sales revenues from the financial instruments that were purchased. The remaining debt must be settled by other means.

9. Procedure when Trading Partnership Holdings/Shares

We urge our investors to make contact with CPPS if they want to buy or sell partnership holdings or shares in projects administered by Clarksons Platou Project Finance AS or Clarksons Platou Real Estate AS.

Trading in IS/KS normally requires the approval of the board of directors and the lender(s) in each partnership. CPPS undertakes communication with the board of directors and the bank in that case after adequate information has been gathered from the buyer. It normally takes about 14 days to clear IS and KS holdings.

When trading partnership holdings/shares in shipping/offshore projects in the secondary market a commission/brokerage of approximately 2% is normally charged, based on the assets value. When trading shares in real estate projects in the secondary market a commission/brokerage of approximately 2% is normally charged, based on shares gross value. In the event of internal assignments of holdings/shares between two companies/partnerships in the same group where CPPS has not been involved as a broker, a processing fee of NOK 2,500 will be charged. This will cover costs connected with the board of director's and the lender's/lenders' approval and with the preparation of tax assessment documents, the change notification to the Brønnøysund Register Centre, etc.