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# ***Southern Spars Europe A/S***

Alsion 2, DK-6400

## **Annual Report for 1 January - 31 December 2016**

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CVR No 88 41 74 10

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
11/5 2017

Torben Weis Jacobsen  
Chairman



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## **Management's Statement**

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Southern Spars Europe A/S for the financial year 1 January - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Sønderborg, 11 May 2017

***Executive Board***

Torben Weis Jacobsen

Executive Officer

***Board of Directors***

Richard James Huntley Lott

Trevor Arthur Jenkins

Torben Weis Jacobsen

# Independent Auditor's Report

To the Shareholder of Southern Spars Europe A/S

## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Southern Spars Europe A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstate-

# Independent Auditor's Report

ment, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events

# Independent Auditor's Report

in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Sønderborg, 11 May 2017

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Flemming Callesen

State Authorized Public Accountant

## **Company Information**

### **The Company**

Southern Spars Europe A/S  
Alsion 2  
DK-6400

Telephone: + 45 74620060  
Facsimile: + 45 74630543  
Website: [www.southernspars.com](http://www.southernspars.com)

CVR No: 88 41 74 10  
Financial period: 1 January - 31 December  
Municipality of reg. office: Sønderborg

### **Board of Directors**

Richard James Huntley Lott  
Trevor Arthur Jenkins  
Torben Weis Jacobsen

### **Executive Board**

Torben Weis Jacobsen

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Ellegårdvej 25  
DK-6400 Sønderborg

### **Bankers**

Jyske Bank

## **Management's Review**

Financial Statements of Southern Spars Europe A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

### **Main activity**

The main activity has in accordance with previous years consisted of production and trading with advanced composit products, primarily to the yachting industry.

### **Development in the year**

The income statement of the Company for 2016 shows a loss of DKK 6,187,979, and at 31 December 2016 the balance sheet of the Company shows negative equity of DKK 4,761,230.

The financial outcome is not satisfying.

### **Uncertainty relating to recognition and measurement**

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

### **Unusual events**

The financial position at 31 December 2016 of the Company and the results of the activities of the Company for the financial year for 2016 have been affected by costs of outsourcing danish maintenance facilities.

### **Subsequent events**

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.



## Income Statement 1 January - 31 December

	Note	2016 DKK	2015 DKK
<b>Gross profit/loss</b>		<b>-1.068.632</b>	<b>752.601</b>
Staff expenses	2	-4.603.455	-4.427.536
Depreciation of plant and equipment		-46.921	-95.276
Impairment of current assets		-154.221	0
<b>Profit/loss before financial income and expenses</b>		<b>-5.873.229</b>	<b>-3.770.211</b>
Financial income	3	57.828	38.440
Financial expenses	4	-372.578	-303.896
<b>Profit/loss before tax</b>		<b>-6.187.979</b>	<b>-4.035.667</b>
Tax on profit/loss for the year		0	0
<b>Net profit/loss for the year</b>		<b>-6.187.979</b>	<b>-4.035.667</b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings	-6.187.979	-4.035.667
	<b>-6.187.979</b>	<b>-4.035.667</b>

# Balance Sheet 31 December

## Assets

	Note	2016 DKK	2015 DKK
Plant and machinery		0	46.920
<b>Property, plant and equipment</b>		<b>0</b>	<b>46.920</b>
<b>Fixed assets</b>		<b>0</b>	<b>46.920</b>
<b>Inventories</b>		<b>741.785</b>	<b>1.495.885</b>
Trade receivables		5.241.669	4.677.581
Receivables from group enterprises		1.951.159	1.706.864
Prepayments		1.779.255	1.346.988
<b>Receivables</b>		<b>8.972.083</b>	<b>7.731.433</b>
<b>Cash at bank and in hand</b>		<b>267.579</b>	<b>627.893</b>
<b>Currents assets</b>		<b>9.981.447</b>	<b>9.855.211</b>
<b>Assets</b>		<b>9.981.447</b>	<b>9.902.131</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2016 DKK	2015 DKK
Share capital		2.065.000	2.060.000
Retained earnings		-6.826.230	-3.990.184
<b>Equity</b>	6	<b>-4.761.230</b>	<b>-1.930.184</b>
Other provisions	7	594.347	124.447
<b>Provisions</b>		<b>594.347</b>	<b>124.447</b>
Trade payables		1.638.776	916.037
Contract work in progress, liabilities	5	2.297.916	2.579.652
Payables to group enterprises		9.094.287	6.813.536
Other payables		1.020.951	1.398.643
Deferred income		96.400	0
<b>Short-term debt</b>		<b>14.148.330</b>	<b>11.707.868</b>
<b>Debt</b>		<b>14.148.330</b>	<b>11.707.868</b>
<b>Liabilities and equity</b>		<b>9.981.447</b>	<b>9.902.131</b>
Going concern	1		
Contingent assets, liabilities and other financial obligations	8		
Related parties	9		

## Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 January	2.060.000	-3.990.184	-1.930.184
Exchange adjustments	0	13.433	13.433
Cash capital increase	5.000	3.338.500	3.343.500
Net profit/loss for the year	0	-6.187.979	-6.187.979
<b>Equity at 31 December</b>	<b>2.065.000</b>	<b>-6.826.230</b>	<b>-4.761.230</b>

# Notes to the Financial Statements

## 1 Going concern

The financial statement has been prepared under a going concern condition. The ongoing activity is dependent of continuing financial support from the parent company. Management of the parent company has committed to provide the necessary financial support to Southern Spars Europe A/S.

The sharecapital of the company has been lost. Management has observed the legislative requirements of section 119 of the Danish Companies Act. Management expect to recover the equity through financial support from the parent company as well as through future income.

Management therefore consider the condition of going concern as fulfilled and has prepared the financial statement accordingly.

	<u>2016</u> DKK	<u>2015</u> DKK
<b>2 Staff expenses</b>		
Wages and salaries	4.318.795	4.176.492
Pensions	263.172	201.634
Other social security expenses	21.488	49.410
	<u><b>4.603.455</b></u>	<u><b>4.427.536</b></u>
<b>Average number of employees</b>	<u><b>7</b></u>	<u><b>8</b></u>
<b>3 Financial income</b>		
Interest received from group enterprises	19.673	22.566
Other financial income	0	974
Exchange adjustments	38.155	14.900
	<u><b>57.828</b></u>	<u><b>38.440</b></u>
<b>4 Financial expenses</b>		
Interest paid to group enterprises	205.504	243.967
Other financial expenses	17.751	1.054
Exchange adjustments, expenses	149.323	58.875
	<u><b>372.578</b></u>	<u><b>303.896</b></u>

## Notes to the Financial Statements

	2016 DKK	2015 DKK
<b>5 Contract work in progress</b>		
Selling price of work in progress	1.601.465	3.051.756
Payments received on account	-3.899.381	-5.631.408
	<b>-2.297.916</b>	<b>-2.579.652</b>
Recognised in the balance sheet as follows:		
Prepayments received recognised in debt	-2.297.916	-2.579.652
	<b>-2.297.916</b>	<b>-2.579.652</b>

## 6 Equity

The share capital consists of 2,065 shares of a nominal value of DKK 1,000. No shares carry any special rights.

The share capital has developed as follows:

	2016 DKK	2015 DKK	2014 DKK	2013 DKK	2012 DKK
Share capital at 1 January	2.060.000	2.055.000	2.045.000	2.030.000	2.001.000
Capital increase	5.000	5.000	10.000	15.000	29.000
Capital decrease	0	0	0	0	0
<b>Share capital at 31 December</b>	<b>2.065.000</b>	<b>2.060.000</b>	<b>2.055.000</b>	<b>2.045.000</b>	<b>2.030.000</b>

	2016 DKK	2015 DKK
<b>7 Other provisions</b>		

The Company provides warranties of 1 to 2 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, warranty provisions of kDKK 175 (2015: kDKK 124) have been recognised for expected warranty claims.

Other provisions	419.245	0
Warranty provisions	175.102	124.447
	<b>594.347</b>	<b>124.447</b>

# Notes to the Financial Statements

## 8 Contingent assets, liabilities and other financial obligations

### Contingent liabilities

The company has a contractual liability for rent of administration buildings of 569 TDKK.

## 9 Related parties

### Basis

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#### Controlling interest

Southern Spars Group Partnership  
630 Riverfront Drive, Suite 230  
Sheboygan  
WI 53081 USA

Controlling shareholder

#### Other related parties

Management and Board of Directors.

#### Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Southern Spars Group, LLC, 630 Riverfront Drive, Suite 230, Sheboygan, WI 53081 USA

### Consolidated Financial Statements

The company is part of the Group Annual Report in the parent company:

Name

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Place of registered office

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Southern Spars Group LLC

The Group Annual Report of may be obtained at the following address: [www.southernspars.com](http://www.southernspars.com)

# Notes, Accounting Policies

## Basis of Preparation

The Annual Report of Southern Spars Europe A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in DKK.

## Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

## Leases

All leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

## Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.



# Notes, Accounting Policies

## Income Statement

### Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

### Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

### Depreciation

Depreciation comprise depreciation of plant and equipment.

### Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise, including gains and losses on the sale of intangible assets and property, plant and equipment.

### Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

## Notes, Accounting Policies

### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

There has not been recognised current taxes or changes in deferred taxes in the income statement of the year.

### Balance Sheet

#### Plant and equipment

Plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	8-9 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

#### Impairment of fixed assets

The carrying amounts of plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

#### Inventories

Inventories are measured at the lower of cost under the weighted average method and net realisable value.

## **Notes, Accounting Policies**

The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

### **Receivables**

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

### **Contract work in progress**

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

### **Prepayments**

Prepayments comprise prepaid expenses concerning next financial year.

## **Notes, Accounting Policies**

### **Provisions**

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-2 years. Provisions are measured and recognised based on experience with guarantee work.

### **Financial debts**

Debts are measured at amortised cost, substantially corresponding to nominal value.

### **Deferred income**

Deferred income comprises payments received in respect of income in subsequent years.