Songa Bulk AS
Financial Report Q4 2016

CONTENTS

SONGA BULK

Fourth Quarter 2016 Results, Fleet Development and Corporate

FOURTH QUARTER 2016 RESULTS

The Group reports a loss before taxes of $1 164 809 and a loss after taxes of $2 036 544 in the fourth quarter.

The operating loss in the fourth quarter was $860 730. The fourth quarter of 2016 is the start-up quarter for the Group and operating results are influenced by start-up costs and limited active operations as the first vessel was delivered in December 2016. An expense of $399 581 relates to issued warrants to employees, which is a non-cash expense.

Net financial expenses was $304 080. The main item is a non-cash financial expense of $326 930 related to warrants issued to shareholders.

As a consequence of foreign exchange gain in NOK on bank deposits denominated in USD, the Group reports an Income tax expense of $871 734 of which $393 773 is payable.

Cash and bank deposits are $57.7 million. Net proceeds from increase of capital was $72.8 million while $15.0 million were used in investing in vessels.

FLEET DEVELOPMENT

In September 2016, Songa Maru AS (a wholly owned subsidiary of Blystad Shipholding AS), agreed to acquire a 2008 built Tsuneishi Zhoushan 82 687 dwt Kamsarmax (Songa Maru), at a price of $11.1 million. In connection with the closing of the Private Placement on 2 November 2016, Blystad Shipholding AS transferred 100% of the shares in Songa Maru AS at $0. The vessel was delivered in December 2016 and was chartered out for a period of 9 – 12 months at $7 000 gross per day.

On 27 November 2016, the Company announced the acquisition of a 58 693 dwt Supramax bulk carrier (Songa Marlin), built 2009 at Tsuneishi Zhoushan, at a price of $11.85 million. The vessel was delivered end January 2017 and was chartered out for a period of 7 – 9 months at $7 100 gross per day.

On the same date, the Company announced the acquisition of a 58 680 dwt Supramax bulk carrier (Songa Glory), built 2012 at Nantong COSCO KHI Shipbuilding (NACKS). The agreed purchase price of the vessel was $14.85 million. In connection with the delivery of the vessel, which took place on 1 February 2017, an associated company to Equinox reinvested $5 million of the sales proceeds by the subscription of 1 million new shares in Songa Bulk AS. The vessel was chartered out for a period of 11 – 13 months, at $6 975 gross per day.

On 25 January 2017, Songa Bulk AS announced the acquisition of a 80 705 dwt Kamsarmax bulk carrier (Songa Genesis), built 2010 at STX. The acquisition was done through an auction in Korea and the successful bid was at a price of $13.15 million. The vessel was delivered on 22 February 2017 and was chartered out for a period of 5 - 8 months at a gross hire of $7 750 per day.

On 8 February 2017, Songa Bulk AS announced the acquisition of a 80 448 dwt Kamsarmax bulk carrier (Songa Flama), built 2011 at STX. The agreed purchase price of the vessel was $14.8 million. The vessel is expected to be delivered by the end of March 2017.

CORPORATE

Songa Bulk AS was formed in August 2016.

On 2 November 2016, the Company raised $74.3 million through a private placement.

Songa Bulk AS was registered on the NOTC – list on 11 November 2016, with ticker code SBULK.

On 17 December 2016, the Company was listed on Merkur, with ticker code SBULK-ME

On 7 February 2017, 1 million new shares were issued in connection with the delivery of Songa Glory, as mentioned above. Following the registration of the share capital increase, the Company’s total share capital was NOK 79.3 million divided into 15.86 million shares with a nominal value of NOK 5.

On 10 February 2017, Songa Bulk AS announced the successful Private Placement of approximately $100 million supported by new and existing shareholders. Consequently, the Company’s share capital increased with NOK 100 million to NOK 179.3 million, divided into 35.86 million shares, each with a nominal value of NOK 5.

MARKET

Dry Bulk Market in 2016

A combination of negative seaborne demand and strong increase in tonnage supply set the stage for a historically weak start of the dry bulk market in 2016. By mid-February, all tonnage segments were trading at less than half of the operating costs, with Capesize rates at one point seeing below $1 000 per day. Asset values came under severe pressure and transactions done in the first two months of the year were at similar levels as in the early 1980's. Some shipping analysts argued that the oversupply of tonnage had structurally damaged the dry bulk market. A utilization well below 80% combined with a non-existing long term T/C market, lead to increased scrapping, especially during the first four months.

During the second half of the year, dry bulk rates gradually improved from the very lows of the 1st Quarter. Strong iron ore imports to China and a turnaround in Chinese coal imports helped the rates to move in the right direction. Having fallen for almost two and a half years, coal imports to China started to rise in the month of April and the imports gradually increased during the balance of the year. In addition, Chinese authorities implemented working hour cuts aiming at reducing oversupply as well as improving profitability for domestic miners. This was clearly the largest positive surprise to the dry bulk market in 2016. Bearing in mind that China still imports only about 6% of its total coal consumption, the sensitivity and potential upside of increased Chinese coal imports is substantial.

Even with some levelling off during the month of December, 4th Quarter saw rates moving up sharply with Capesize reaching a T/C rate in excess of $20 000 p/d by mid November and Panamax topping out at $12 500 by early December.

Looking at 2016 as a whole, the total seaborne trade ended up with a 2% growth.

- Iron ore at 1.42 billion mt (+4%)
- Coal at 1.13 billion mt (-0.4%)
- Grain at 472 million mt (+2.8%)
- Minor bulks at 1.89 billion mt (+1.5%)

The total dry bulk fleet in excess of 10 000 dwt had a net fleet growth of 2.2% and the total dry bulk fleet ended up at 785.4 million dwt.

Average gross earnings as reported by the Baltic Exchange for 2016 were:

Supramax (SM6TC): $6 200 per day

Panamax (PC4TC): $5 600 per day

Capesize (CS4TC): $6 400 per day

Asset values were at their lowest by the end of first quarter.

A five year old Supramax was priced at $12 million, a similarly aged Panamax at $13 million and a Capesize at $23.75 million.

By the end of 2016, values were at $15 million (Supramax), $14 million (Panamax) and $25 million (Capesize). Values were then back to levels reported at the beginning of the year with the exception of Supramax, which had 15% year on year value appreciation.

FINANCIAL INFORMATION

Condensed Statement of Comprehensive Income

in USD	Note	Q4 2016 / YTD Q4 2016
		(Unaudited)
Net time charter revenue	3	116 916
Total operating income		**116 916**
Voyage expenses		44 883
Operating expenses vessels	6	116 934
General and administrative expenses	4,10	778 353
Depreciation	5	37 476
Total operating expenses		**977 646**
Operating profit (loss)		**-860 730**
Financial income		34 747
Financial expenses	10,12	-338 827
Net financial income (expenses)		**-304 080**
Profit (loss) before taxes		**-1 164 809**
Income taxes	7	871 734
Profit (loss)		**-2 036 544**
Total comprehensive income		**-2 036 544**
Basic and diluted earnings per share		**-0.242**

Condensed Statement of Financial Position

in USD	Note	31 December 2016
		(Unaudited)
Vessels	5	11 107 586
Deposit vessels	5	3 855 000
Total non-current assets		**14 962 586**
Inventories		26 313
Trade receivables		2 950
Other current receivables	8	131 940
Financial investments		1 311
Cash and bank deposits		57 687 573
Total current assets		**57 850 088**
TOTAL ASSETS		**72 812 673**
Paid-in capital	11	73 241 029
Retained earnings		-2 036 544
Total equity		**71 204 485**
Financial liabilities	12	326 930
Total non-current liabilities		*326 930*
Trade payables		681 577
Income taxes payable	7	393 773
Other current liabilities	8	205 907
Total current liabilities		*1 281 257*
Total liabilities		**1 608 187**
TOTAL EQUITY AND LIABILITIES		**72 812 673**

Condensed Statement of Changes in Equity

in USD	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Incorporation	3 654	-	-	-	3 654
Changes in the fourth quarter 2016:					
Share issue	9 081 683	65 188 317	-	-	74 270 000
Share issuance costs	-	-1 432 206	-	-	-1 432 206
Warrants issued to employees	-	-	399 581	-	399 581
Period loss	-	-	-	-2 036 544	-2 036 544
Equity 31 December 2016	**9 085 337**	**63 756 111**	**399 581**	**-2 036 544**	**71 204 485**

Condensed Statement of Cash Flow

in USD	Q4 2016 / YTD Q4 2016
	(Unaudited)
Profit before taxes	-1 164 809
Depreciation	37 476
Change in inventories	-26 313
Net change in trade receivables/payables	678 627
Net change in other current items	321 205
Net cash flow from operating activities	**-153 814**
Purchase of vessels	-11 145 061
Paid deposit vessels	-3 855 000
Net cash flow from investment activities	**-15 000 061**
Net proceeds from share issue	72 837 794
Net cash flow from financing activities	**72 837 794**
Net change in cash and bank deposits	**57 683 919**
Cash and bank deposits at beginning of period	3 654
Cash and bank deposits at end of period	**57 687 573**

NOTES

Note 1 Corporate information

Songa Bulk AS is a limited liability company incorporated and domiciled in Norway. The Company was incorporated 24 August 2016. The address of the main office is Haakon VIIs gate 1, 0161 Oslo. The Norwegian Enterprise no. is 917 811 288.

The principal activity of Songa Bulk AS is investing in ship-owning subsidiaries within the dry-bulk segment.

The Songa Bulk Group was formed during the 4th quarter of 2016. As of 31 December 2016 Songa Bulk AS owns 3 subsidiaries. One subsidiary took delivery of a vessel in Q4 while the two others have entered into Memorandum of Agreements for delivery of vessels in 2017.

Note 2 Accounting policies

Basis of preparation

These interim financial statements are prepared in accordance with the accounting principles prescribed by International Financial Reporting Standards (IFRS) as adopted by the European Union. The unaudited condensed interim financial statements do not include all the disclosures required by IAS 34, since these condensed interim financial statements cannot be read in conjunction with any prior annual financial statements. The financial statements for the fourth quarter of 2016 are unaudited.

The financial statements have been prepared on a historical cost basis.

Principles of consolidation

The consolidated financial statements comprise the financial statements of Songa Bulk AS and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Use of estimates and judgement in preparation of the financial report

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that may affect assets, liabilities, revenues, expenses and information in notes to the financial statements. Estimates are management's best assessment based on information available at the date the financial statements are authorized for issue. Actual results may differ from these estimates. Such changes will be recognized when new estimates can be determined with certainty.

Functional and presentation currency

The consolidated financial statements are presented in USD, which is also the functional currency for all companies in the Group.

Transactions and balances in foreign currencies

Transactions in foreign currencies are converted to the functional currency at the rate at time of the transaction. Monetary items denominated in foreign currencies are converted into functional currency using the rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit of loss. Non-monetary items which are measured at historical cost in a foreign currency are converted at the currency rates on the dates of the initial transactions.

Balance sheet classification

The group presents assets and liabilities in statement of financial position based on current/non-current classification.

Current assets and current liabilities include items due less than one year from the balance sheet date, and items related to the operating cycle. Other assets are classified as non-current assets.

Revenue recognition

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Freight revenues from time charters are accounted for as operating leases under IAS 17 and are recognized on a straight-line basis over the rental periods of such charters, as service is performed.

Income tax

The vessel owning company is under the Norwegian tonnage tax regime, whereas the other companies are subject to the ordinary Norwegian taxation regime. Current income taxes are measured at the amount expected to be paid to authorities, deferred tax assets/liabilities are calculated based on temporary differences at the reporting date. Deferred tax assets are recognized to the extent that it is probable that they can be utilized in the future.

Leases

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash and cash equivalents are recorded at their nominal values on the balance sheet.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Group regularly reviews its accounts receivables and estimates the amount of uncollectible receivables each period and establishes an allowance for uncollectible amounts. The amount of the allowance is based on the age of unpaid amounts, information about the current financial strength of customers, and other relevant information

Inventories

Inventories, which comprise principally of bunker fuel, lube oil and stores are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out (FIFO) basis.

Fixed assets- vessels and equipment

Fixed assets are stated at historical cost, less subsequent depreciation and impairment. For vessels purchased, these costs include expenditures that are directly attributable to the acquisition of the vessels. Depreciation is calculated on a straight-line basis over the useful life of the assets, taking residual values into consideration, and adjusted for impairment charges, if any.

In accordance with IFRS, each component of the vessels, with a cost significant to the total cost, is separately identified and depreciated, on a straight-line basis, over that component's useful life. Vessels and related equipment have expected useful lives of 2.5 - 25 years. Future depreciations are based on depreciation schedules including residual values. Expected useful lives of long-lived assets, and residual values, are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation calculations are changed accordingly. Residual values for vessels are based on market conditions, taking into consideration the individual vessel's steel quality. Vessels with a higher quantity of stainless steel will have a higher residual value than the market scrap value for vessels without. Ordinary repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. Costs related to major inspections/classification (dry-docking) are recognized in the carrying amount of the vessels if certain recognition criteria are satisfied. The recognition is made when the dry-docking has been performed and is depreciated based on estimated time to the next inspection. Any remaining carrying amount of the cost of the previous inspection is de-recognized. The remaining costs that do not meet the recognition criteria are expensed as repairs and maintenance.

Impairment of vessels

The vessels are reviewed for indication of impairment at each reporting date, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset’s net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arms length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Financial liabilities

A financial liability is any liability that is a contract that will or may be settled in the entity’s own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. Financial liabilities are classified in the category “at fair value through profit or loss”.

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Share issuance

Share issuance costs related to a share issuance transaction are recognised directly in equity after deduction of tax.

Related parties

Transactions with related parties are carried out at market terms. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Events after financial position date

New information regarding the Group’s financial position as of the balance sheet date is taken into consideration in the financial statements. Events occurring after the financial position date, that do not affect the financial position as of the balance sheet date, but which will affect the financial position in the future, are disclosed if significant.

Note 3 Segment information

The group operates within one single segment, which is the shipping dry-bulk segment.

Note 4 General and administrative expenses

in USD	Q4 2016 / YTD Q4 2016
Employee benefit expenses*	523 556
Fees to auditor, lawyers and other professional fees	181 246
Other general and administrative expenses	73 551
Total general and administrative expenses	**778 353**

*399 581 relates to warrants issued to founding shareholders that are also employed by the Group.

Note 5 Vessels

in USD	Dry-bulk vessels	Deposit dry-bulk vessels	Total
Additions Q4 2016	11 145 062	3 855 000	15 000 062
Cost at 31 December 2016	11 145 062	3 855 000	15 000 062
Depreciation 2016	37 476	-	37 476
Acc. depr. at 31 December 2016	37 476	-	37 476
Closing net book value	**11 107 586**	**3 855 000**	**14 962 586**

At 31 December 2016, the Group owns one Kamsarmax bulk carrier, Songa Maru. In addition, the Group has paid deposit for two more vessels at 31 December 2016 for delivery in 2017. See also note 13 Subsequent events.

The vessel is depreciated on a straight-line basis over the expected remaining useful life, which is 17 years.

Note 6 Operating expenses vessels

in USD	Q4 2016 / YTD Q4 2016
Crew costs	70 534
Management fees	23 790
Other operating expenses vessels	22 610
Total operating expenses vessels	**116 934**

Note 7 Taxes

in USD	Q4 2016 / YTD Q4 2016
Income tax expense*	871 734
Tax effect for share issuance costs recognized directly in equity	-477 961
Tax payable	**393 773**

*Taxable income relates to unrealized foreign currency gain in NOK on bank deposits nominated in USD.

Note 8 Receivables and liabilities

in USD	31 December 2016
VAT receivable	73 687
Prepaid expenses	55 308
Other receivables	2 945
Total other current receivables	**131 940**

in USD	31 December 2016
Prepaid revenues	91 280
Accrued expenses	57 104
Public dues payable	46 416
Other liabilities	11 107
Total other current liabilities	**205 907**

Note 9 Group companies

The group consist of the following companies at 31 December 2016

Songa Bulk AS	Parent company
Songa Maru AS	Subsidiary
Songa Marlin AS	Subsidiary
Songa Glory AS	Subsidiary

Note 10 Warrants

At 31 December 2016, the Group has issued warrants to its founding shareholders equal to 7.5% of the shares issued in the private placement on 4 November 2016. The founding shareholders are also entitled to warrants equal to 7.5% of any subsequent issuance of shares carried out in a period of 12 months after 4 November 2016 up to an aggregate amount of $100 million. Each warrant gives the holders the right, but no obligation, to subscribe for one share at a price equal to the share subscription price in each respective share issuance, given certain market conditions are subsequently met. The warrants are valid for a period of 5 years from 4 November 2016.

Warrants held by founding shareholders that are also employed by the Group are accounted for as employee benefit expenses. Other warrants are recognized as financial liabilities and valued at fair value through profit or loss each period.

Note 11 Share capital and shareholders

	Number of shares	Share capital (USD)	Share premium (USD)
31 December 2016	14 860 000	9 085 337	63 756 111

The share capital consist of 14 860 000 shares, each at a nominal value of NOK 5. At 31 December 2016 all issued shares are fully paid.

Note 12 Financial liabilities

Categories of financial liabilities

In USD	At fair value through profit or loss	Total
Derivatives	326 930	326 930
Total financial liabilities	326 930	326 930

Note 13 Subsequent events

On 23 January 2017, the Group took delivery of one Supramax bulk carrier, Songa Marlin.

On 1 February 2017, the Group took delivery of one Supramax bulk carrier, Songa Glory. As part of the deal the seller subscribed for 1 000 000 new issued shares in Songa Bulk AS.

On 22 February 2017, the Group took delivery of a Kamsarmax bulk carrier, Songa Genesis.

On 8 February 2017, the Group entered into a memorandum of agreement for the purchase of a Kamsarmax bulk carrier. Expected delivery is by the end of March 2017.

On 17 February 2017, the Group successfully completed a share capital increase with gross considerations of NOK 840 000 000.