



SONGA BULK

Songa Bulk ASA  
Financial Report Q2 2018

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# SONGA BULK

## Second Quarter 2018 Transaction, Highlights, Events, Results and Fleet

### SECOND QUARTER 2018 – TRANSACTION WITH STAR BULK

- On 14 May 2018, the Company entered into an agreement with Star Bulk Carriers Corp. (Star Bulk) to sell all its vessels to Star Bulk against a consideration of 13 688 000 shares of Star Bulk and \$144.55 million in cash, with listing of the consideration shares on Oslo Stock Exchange through a dual listing of Star Bulk and a distribution of these shares to the shareholders of Songa Bulk ASA, with repayment of the bond loan with the cash proceeds at the mandatory prepayment price.
- On 5 June 2018, the annual general meeting of the Company approved the transaction.
- The transaction was completed on 6 July 2018.

### SECOND QUARTER 2018 FINANCIAL HIGHLIGHTS

- The Company reports a net loss of \$3.2 million in Q2 2018 compared to net profit of \$1.6 million in Q1 2018. Net loss in Q2 2018 comprise of loss from discontinued operations of \$3.2 million. The main reason for the loss is financial expenses in connection with redemption of the Company's bond loan at 104% of nominal value. Gain from sale of vessels will be recognized in Q3 2018. The estimated gain from sale of vessels was approximately \$24 million.

### SECOND QUARTER 2018 EVENTS

#### CORPORATE

- On 4 April 2018 a dividend of \$0.10 per share, \$3.6 million in total, was paid to the shareholders. The distribution was considered repayment of paid in capital.
- In the annual general meeting of the Company held on 5 June 2018, the shareholders resolved to reduce the share capital of the company by NOK 178 300 000 (approximately \$21 million). The amount will be distributed to the shareholders at a later stage, either in cash or as distribution in kind.

#### SUBSEQUENT EVENTS:

- On 6 July 2018 the transaction with Star Bulk was completed and all vessels were delivered to the new owner. The Company received 13 688 000 shares of Star Bulk and \$144.55 million in cash. The cash proceeds were used to repay the bond loan at 104% of nominal value plus accrued interests. In connection with completion the Board of Directors of the Company resolved to pay a dividend of \$151 million, equal to \$4.21 per share. The distribution was considered repayment of paid in capital.
- On 13 July 2018 a total of 10 929 550 shares of Star Bulk were distributed to the shareholders and an additional 169 365 shares were distributed on 17 August 2018. The distributions equals approximately \$148 million of the resolved dividend of \$151 million and was effected to shareholders who completed and submitted representation and warranties letters in accordance with instructions given. The remaining amount of about \$3 million will be distributed, mainly as distribution in kind, later upon receipt of representation and warranties letters from shareholders that did not yet submit such letter.
- On 29 August 2018 a total of 1 639 595 shares of Star Bulk were distributed to the shareholders in connection with commencement of the share capital reduction resolved on 5 June 2018. The distribution equals approximately \$20.7 million of the resolved amount of \$21 million and was effected to shareholders who completed and submitted representation and warranties letters in accordance with instructions given. The remaining amount of about \$0.3 million will be distributed, mainly as distribution in kind, later upon receipt of representation and warranties letters from shareholders that did not yet submit such letter.

**SECOND QUARTER 2018 RESULTS**

in \$ thousands		
Financial performance	Q2 2018	Q1 2018
Loss from continuing operations	-50	-50
Profit (-loss) from discontinued operations	-3 171	1 678
Net profit (-loss)	-3 221	1 628
Financial position	30 June 2018	31 March 2018
Total assets	320 316	321 575
Cash and cash equivalents	16 113	16 290
Total equity	168 986	172 207
Cash flow statement	Q2 2018	Q1 2018
Net cash flow from operating activities from discontinued operations	5 633	3 829
Net cash flow used in investing activities from discontinued operations	-2 225	-28 556
Net cash flow from financing activities from discontinued operations	-3 586	-
Net change in cash and cash equivalents from discontinued operations	-178	-24 727

**Financial performance**

Net loss in Q2 2018 was \$3.2 million, compared to a profit of \$1.6 million in Q1 2018. Except for a small amount for general and administrative expenses, being the cost of owning and operating an empty company, all items are considered being results from discontinued operation and classified accordingly. The great difference between Q1 2018 and Q2 2018 is mainly financial expenses in connection with redemption of the Company's bond loan at 104% of nominal value. Gain from sale of vessels will be recognized in Q3 2018. The estimated gain from sale of vessels was approximately \$24 million.

**Financial position**

The Company's total assets amounted to \$320.3 million at 30 June 2018, more or less unchanged from the end of Q1 2018. Non-current assets are in Q2 2018 reclassified to assets held for sale.

**Cash flow**

Net cash flow from operating activities was \$5.6 million in Q2 2018. \$2.2 million were used in investment activities this quarter, being mainly dry-docking and upgrades on one of the vessels. \$3.6 million was paid to the shareholders as dividend. All cash flows, except from \$50 thousand outgoing on operating activities, were from discontinued operations. Cash and cash equivalents at the end of Q2 2018 were \$16.3 million.

## THE FLEET

By the end of the second quarter 2018, the fleet consisted of 15 bulk carriers:

Vessel Name	Ex Name	Type	DWT	Built	Yard
Songa Glory	Equinox Glory	Supramax	58 680	2012	Nantong Cosco
Songa Wave	Xing Fu Hai	Ultramax	61 491	2017	Dalian Cosco
Songa Delmar	Delmar	Kamsarmax	81 501	2011	Hyundai Samho HI
Songa Devi	Goddess Santosh Devi	Kamsarmax	81 918	2014	Tsuneishi Japan
Songa Flama	Flama	Kamsarmax	80 448	2011	STX South Korea
Songa Genesis	Maverick Genesis	Kamsarmax	80 705	2010	STX South Korea
Songa Grain	Nord Navigator	Kamsarmax	82 672	2008	Tsuneishi Japan
Songa Hadong	Hanjin Hadong	Kamsarmax	82 158	2012	Tsuneishi Japan
Songa Hirose	Harbor Hirose	Kamsarmax	83 494	2011	Sanoyas
Songa Maru	Ten Maru	Kamsarmax	82 687	2008	Tsuneishi Zhoushan
Songa Moon	Atlantic Moon	Kamsarmax	82 188	2012	Tsuneishi Japan
Songa Sky	Midland Sky	Kamsarmax	81 466	2010	Universal Shipbuilding
Songa Mountain	Mount Meru	Capesize	179 147	2009	Hyundai HI Korea
Songa Opus	Golden Opus	Capesize	180 716	2010	STX South Korea
Songa Claudine	Cape Claudine	Capesize	181 258	2011	STX South Korea

All vessels are classified as held for sale as at 30 June 2018. The vessels were delivered to Star Bulk Carriers Corp on 6 July 2018.

## OUTLOOK AND STRATEGY

On the date of this report the remaining assets in the Company consist of approximately 700 000 shares of Star Bulk Carriers Corp, and an estimated cash balance by end of Q3 of \$9.5 million. The Company intends to distribute the remaining Star Bulk shares to the shareholders of Songa Bulk based on an interim financial statement as required by the Norwegian Public Limited Companies Act. The distribution is planned to be completed by the end of September 2018.

The Board of Directors is in the process of evaluating new business and strategies for the Company following the third and final distribution of shares. If no viable solution is found which supports the continuous listing on Oslo Axess, the Company will be dissolved and the remaining cash distributed to the shareholders.

## FORWARD-LOOKING STATEMENTS

Forward-looking statements presented in this report are based on various assumptions. The assumptions were reasonable when made, but are subject to uncertainties and contingencies that are difficult or impossible to predict. Songa Bulk ASA cannot give assurances that expectations regarding the outlook will be achieved or accomplished.

# RISK FACTORS

## Risk Factors and Responsibility Statement

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### MAIN RISK FACTORS

The Company is through its ownership of shares in Star Bulk exposed to the dry bulk market. Other risks worth to mention is the risk of any unforeseen conditions resulting in claims either way from the transaction with Star Bulk. However, at the date of this report, there are no indications of such circumstances.

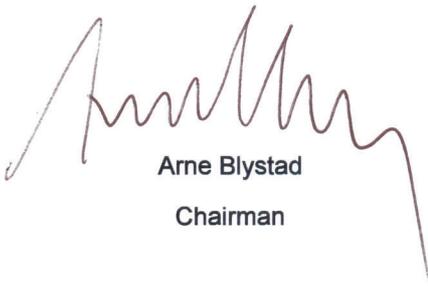
### RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2018 have been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the Company's assets, liabilities, financial position and profit as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the second quarter of the financial year and their impact on the set of financial statements, and a description of the main risks and uncertainties going forward.

Oslo, 31 August 2018

The Board of Directors of Songa Bulk ASA



Arne Blystad  
Chairman



Herman Alf Billung  
CEO



Magnus Leonard Roth  
Director



Christine Rødsæther  
Director



Vibeke Gwendoline Fængsrud  
Director

# FINANCIAL INFORMATION

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

in \$ thousands	Note	Q2 2018 (Unaudited)	Q2 2017 (Unaudited)	YTD Q2 2018 (Unaudited)	YTD Q2 2017 (Unaudited)
General and administrative expenses		50	50	100	100
<b>Total operating expenses</b>		<b>50</b>	<b>50</b>	<b>100</b>	<b>100</b>
<b>Operating profit (-loss)</b>		<b>-50</b>	<b>-50</b>	<b>-100</b>	<b>-100</b>
<b>Loss before taxes</b>		<b>-50</b>	<b>-50</b>	<b>-100</b>	<b>-100</b>
Tax expense		-	-	-	-
<b>Loss from continuing operations</b>	4	<b>-50</b>	<b>-50</b>	<b>-100</b>	<b>-100</b>
<b>Loss from discontinued operations</b>		<b>-3 171</b>	<b>-77</b>	<b>-1 493</b>	<b>-1 129</b>
<b>Net loss</b>		<b>-3 221</b>	<b>-127</b>	<b>-1 593</b>	<b>-1 229</b>
<b>Total comprehensive loss</b>		<b>-3 221</b>	<b>-127</b>	<b>-1 593</b>	<b>-1 229</b>
<b>Basic and diluted earnings from discontinued operations – \$ per share</b>		<b>-0.090</b>	<b>-0.003</b>	<b>-0.044</b>	<b>-0.040</b>
<b>Total basic and diluted earnings – \$ per share</b>		<b>-0.090</b>	<b>-0.003</b>	<b>-0.044</b>	<b>-0.040</b>

## CONDENSED STATEMENT OF FINANCIAL POSITION

in \$ thousands	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Vessels		-	266 770
Deposit vessels		-	3 055
<b>Total non-current assets</b>	2	<b>-</b>	<b>269 825</b>
Inventories		-	2 233
Trade receivables		566	1 312
Other receivables		3 466	2 501
Cash and cash equivalents		16 113	41 017
Assets classified as held for sale	4	300 171	-
<b>Total current assets</b>		<b>320 316</b>	<b>47 063</b>
<b>TOTAL ASSETS</b>		<b>320 316</b>	<b>316 888</b>
Share capital		21 620	21 620
Share premium		150 033	153 619
Other paid-in capital		574	574
Accumulated deficit		-3 241	-1 648
<b>Total equity</b>	3	<b>168 986</b>	<b>174 165</b>
Interest-bearing debt	4	-	136 776
Financial liabilities at fair value through profit or loss		-	490
<b>Total non-current liabilities</b>		<b>-</b>	<b>137 266</b>
Trade payables		3 182	1 745
Income taxes payable		255	124
Dividends payable		-	-
Other liabilities		3 928	3 588
Liabilities related to assets held for sale	4	143 965	-
<b>Total current liabilities</b>		<b>151 330</b>	<b>5 457</b>
<b>Total liabilities</b>		<b>151 330</b>	<b>142 723</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>320 316</b>	<b>316 888</b>

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

in \$ thousands	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Incorporation	3	-	-	-	3
Share issuance 4 November 2016	9 082	65 188	-	-	74 270
Share issuance costs	-	-1 432	-	-	-1 432
Warrants issued to employees	-	-	400	-	400
Net loss 2016	-	-	-	-2 036	-2 036
<b>Equity 31 December 2016</b>	<b>9 085</b>	<b>63 756</b>	<b>400</b>	<b>-2 036</b>	<b>71 205</b>
Share issuance 31 January 2017	600	4 400	-	-	5 000
Share issuance 17 February 2017	11 935	88 311	-	-	100 246
Share issuance costs	-	-2 848	-	-	-2 848
Warrants issued to employees	-	-	174	-	174
Net profit 2017	-	-	-	388	388
<b>Equity 31 December 2017</b>	<b>21 620</b>	<b>153 619</b>	<b>574</b>	<b>-1 648</b>	<b>174 165</b>
Dividends	-	-3 586	-	-	-3 586
Net loss YTD Q2 2018	-	-	-	-1 593	-1 593
<b>Equity 30 June 2018</b>	<b>21 620</b>	<b>150 033</b>	<b>574</b>	<b>-3 241</b>	<b>168 986</b>

**CONDENSED STATEMENT OF CASH FLOWS**

<b>in \$ thousands</b>	<b>YTD Q2 2018</b>	<b>YTD Q2 2017</b>
	(Unaudited)	(Unaudited)
Loss before taxes	-1 593	-1 229
Depreciation	4 654	1 485
Change in inventories	-1 986	-990
Net change in trade receivables/payables	2 183	386
Employee benefit expenses in connection with issuance of warrants	-	174
Change in financial liabilities at fair value through profit or loss	-490	28
Change in amortized cost on bond loan	7 189	
Net change in other current items	-495	142
<b>Net cash flow from operating activities from discontinued operations*</b>	<b>9 462</b>	<b>-4</b>
Purchase of vessels	-28 355	-114 399
Paid deposit on vessels	-	-9 897
Dry docking paid	-2 426	-397
<b>Net cash flow used in investment activities from discontinued operations</b>	<b>-30 781</b>	<b>-124 693</b>
Proceeds from share issuance	-	105 244
Share issuance costs	-	-2 848
Proceeds from issuance of debt	-	74 625
Debt issuance costs	-	-563
Paid dividends	-3 586	
<b>Net cash flow from financing activities from discontinued operations</b>	<b>-3 586</b>	<b>176 460</b>
<b>Net change in cash and cash equivalents</b>	<b>-24 904</b>	<b>51 763</b>
Cash and bank deposits at beginning of period	41 017	57 688
<b>Cash and bank deposits at end of period</b>	<b>16 113</b>	<b>109 451</b>

\*included in the net cash flow from operating activities from discontinued operations is \$100 thousand in operating expenses from continuing operations.

# NOTES

## **Note 1 Accounting policies**

These interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial reporting should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRS, as adopted by the EU.

### **New accounting policies since annual financial statements**

#### *Non-current assets held for sale and discontinued operations*

Non-current assets are classified as held for sale according to IFRS 5 if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met since the sale is highly probable within 12 months at June 30, and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition. Depreciation of the assets ceases once this classification has been made.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Or is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

#### *Operating revenue*

Voyage charter revenues are recognized using the percentage of completion method on a load-to-discharge basis, with cost related to fulfil the contract incurred prior to loading capitalized as mobilization costs and amortized over the associated period for which revenue is recognized, whilst voyage expenses incurred as repositioning for non-committed freight contracts expensed as incurred. Other revenue from services, such as demurrage, is recognized when earned and is included in freight revenue.

#### *Financial instruments*

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 group adopted the simplified expected credit loss model for its trade receivables with only minor effects.

No assets held by the group were subject to reclassifications in IFRS 9.

### New or amendments to standards

The following new or amendments to standards and interpretations have been issued and become effective during the current period. These include:

- IFRS 15 – Revenue from contracts with customers, for periods beginning on or after 1 January 2018.
- IFRS 9 – Financial instruments, for periods beginning on or after 1 January 2018.
- Amendments to IFRS 2 – Share based payments for periods beginning on or after 1 January 2018.

Except for timing differences related to the period of which the revenue is recognized, the above pronouncements are not expected to have a material impact on the financial statements of the Group, beyond disclosures.

The following new or amendments to standards and interpretations have been issued and become effective in years beginning on or after 1 January 2019, assuming European Union adoption. The Group is evaluating the impact of these changes on the financial statements of the Group:

- IFRS 16 – Leases.

### Note 2 Non-current assets

in \$ thousands	YTD Q2 2018	2017
<b>Closing balance previous period total non-current assets</b>	<b>269 825</b>	<b>14 963</b>
Purchase price vessels delivered in the period and other additions	31 410	272 370
Paid deposits previous periods on vessels delivered in the period	-3 055	-3 855
Paid deposits on vessels for delivery in future periods	-	3 055
Book value of vessels sold in the period	-	-11 655
Dry-docking and other additions in the period	2 426	397
Depreciation in the period	-4 654	-5 450
Reclassified to assets held for sale	-295 952	-
<b>Closing balance total non-current assets</b>	<b>-</b>	<b>269 825</b>

### Note 3 Share capital and shareholders

As at 30 June 2018, the Company's share capital consists of 35 860 000 shares, each at a nominal value of \$0.60 (NOK 5). All issued shares are fully paid.

In the annual general meeting of the Company held on 5 June 2018, the shareholders resolved to reduce the share capital of the company by NOK 178 300 000 (approximately \$21 million), from NOK 179 300 000 to NOK 1 000 000.

**Note 4 Discontinued operation**

On 14 May 2018, the Company entered into an agreement with Star Bulk Carriers Corp. (Star Bulk) to sell all its vessels to Star Bulk against a consideration of 13 688 000 shares of Star Bulk and \$144.55 million in cash. The vessels and associated assets and liabilities are consequently presented as held for sale.

*Financial information relating to the discontinued operation:*

	YTD Q2 2018	YTD Q2 2017
Operating income	29 942	6 342
Operating expenses	20 415	7 544
Operating profit	9 527	-1 202
Net financial income (-expenses)	-11 019	74
Profit (-loss) before taxes	-1 492	-1 129
Tax expense	-	-
<b>Net loss of discontinued operation</b>	<b>-1 492</b>	<b>-1 129</b>

*Assets and liabilities of disposal group classified as held for sale:*

Vessels held for sale	295 952	-
Inventory of bunkers and lube oil held for sale	4 219	-
<b>Assets held for sale</b>	<b>300 171</b>	<b>-</b>
Nominal value of issued bond	138 000	-
Call premium early redemption	5 520	-
Accrued interests	445	-
<b>Liabilities related to assets held for sale</b>	<b>143 965</b>	<b>-</b>

**Note 5 Financial instruments**

Set out below is a comparison by category for carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements. The estimated fair value amounts of the financial instruments have been determined using appropriate market information and valuation techniques.

In USD	30 June 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair Value
<i>Financial assets:</i>				
Trade receivables	566	566	1 312	1 312
Other receivables*	2 389	2 389	1 741	1 741
Cash and cash equivalents	16 113	16 113	41 017	41 017
<i>Financial liabilities:</i>				
Interest-bearing debt**	-	-	138 000	138 000
Financial liabilities at fair value through profit or loss	-	-	490	490
Trade payables	3 182	3 182	1 745	1 745
Income taxes payable	255	255	124	124
Other current liabilities*	1 810	1 810	2 665	2 665
Liabilities related to assets held for sale	143 965	143 965	-	-

\*The difference between the balance sheet item other receivables and other receivables in the table above is prepaid expenses which are not considered a financial instrument. The difference between the balance sheet item other current liabilities and other current liabilities in the table above is prepaid revenues which are not considered a financial instrument.

\*\*The difference between the balance sheet item Interest-bearing debt and the table above is debt issuance costs.

#### *Fair value estimation*

The different levels for fair value estimation have been defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable input for the asset or liability

Fair value equals carrying value for all financial instruments. Cash and cash equivalents are valued at level 1, Financial liabilities at fair value through profit or loss, which are warrants issued to shareholder, are valued at level 3.

#### **Note 6 Related party transactions**

The Company has purchased corporate services from Arne Blystad AS under the corporate service agreement as mentioned in the annual report for 2017.

The Company has purchased technical management services from Songa Shipmanagement Ltd for the vessels Songa Maru, Songa Genesis, Songa Delmar, Songa Hadong, Songa Opus, Songa Devi, Songa Mountain, Songa Sky and Songa Claudine under the technical management agreement as mentioned in the annual report for 2017.

#### **Note 7 Subsequent events**

On 6 July 2018 the transaction with Star Bulk was completed. The Company received 13 688 000 shares of Star Bulk and 144.55 million in cash. The cash proceeds were used to repay the bond loan at 104% of nominal value plus accrued interests. In connection with completion the Board of Directors of the Company resolved to pay a dividend of \$151 million, equal to \$4.21 per share. The distribution was considered repayment of paid in capital.

On 13 July 2018 a total of 10 929 550 shares of Star Bulk were distributed to the shareholders and an additional 169 365 shares were distributed on 17 August 2018. The distributions equals approximately \$148 million of the resolved dividend of \$151 million and was effected to shareholders who completed and submitted representation and warranties letters in accordance with instructions given. The remaining amount of about \$3 million will be distributed, mainly as distribution in kind, later upon receipt of representation and warranties letters from shareholders that did not yet submit such letter.

On 29 August 2018 a total of 1 639 595 shares of Star Bulk were distributed to the shareholders in connection with commencement of the share capital reduction resolved on 5 June 2018. The distribution equals approximately \$20.7 of the resolved amount of \$21 million and was effected to shareholders who completed and submitted representation and warranties letters in accordance with instructions given. The remaining amount of about \$0.3 million will be distributed, mainly as distribution in kind, later upon receipt of representation and warranties letters from shareholders that did not yet submit such letter.