Hunter Group ASA
Fourth-quarter results 2019

28 February 2020

Highlights

Financial highlights

- Total revenues of USD 24.43m
  - USD 12.03m pool revenue
  - USD 12.31m gain on sale of H.No. 5457
  - USD 0.10m primarily related to newbuild supervision services
- Total operating expenses of USD 3.41m
  - Vessel opex incl. insurance of USD 1.44m
  - Voyage expenses of USD 1.97m, primarily relating to “start-up” fuel and voyage related insurance costs prior to pool entry
  - G&A expenses of 0.41m
    - USD 0.11m administrative expenses
    - USD 0.07m legal expenses
    - USD 0.23m non-cash expenses
- Net profit of USD 16.11m

- Average daily net pool earnings of USD 66,600, including maiden voyages for all pool vessels
- Opex incl. insurance of USD 6,240 per day
- Pool days and operating days of 181 and 231, respectively

- USD 120m of yard payments of were made during the quarter, leaving USD 269m of remaining yard obligations as of year end 2019

Key events in Q4 2019

- Hunter Saga was delivered on 19 October 2019, more than 40 days ahead of the original delivery schedule
- Hunter Laga was delivered on 1 November 2019, more than 80 days ahead of the original delivery schedule
- Both vessels were delivered to SFL in accordance with the Sale-and-Leaseback Agreement. The Company received proceeds of USD 120 million from the transaction and subsequently bareboat chartered the vessels back
- Subsequently, all three of the delivered vessels entered the Tankers International Scrubber Pool, and have completed all necessary inspections
- The Company took delivery of H.No. 5457 and the vessel was delivered to her new owner in accordance with the Memorandum of Agreement. All funds have been transferred and the transaction is complete

Subsequent events

- The Company has secured a 3-year USD 220 million loan facility from a syndicate of banks consisting of Danske Bank, DNB, Nordea and SEB. The proceeds will be used to fund the final instalments for the Company's four remaining newbuild VLCCs, as well as general corporate purposes, and will be drawn on delivery of each vessel. The facility will carry a 275bps margin over LIBOR, and have a 16 year repayment profile. Subsequently, the RCF with Apollo has been cancelled
- As of the date of this report around 70% of available pool days have been booked at an average TCE of approx. USD 88,300

Fourth quarter market review

VLCC earnings were strong in Q4 2019, around twice the average observed in Q3, and were primarily driven by improving crude oil demand, tanker supply disruptions and geopolitical tensions in the middle east.

Eighteen VLCC newbuildings were delivered in Q4 2019, while two older vessels were scrapped, leaving net fleet growth at sixteen for the quarter, compared with twelve in Q3. IMO 2020 related supply disruptions contributed positively to the market balance and reduced available supply, however by less than anticipated. While it was widely expected that close to one hundred VLCCs would be off-hire for 30-40 days in December due to scrubber installations, over half of those scheduled for retrofits were postponed, deferring some of the impact into 2020. Furthermore, the sanctions placed on Cosco during Q3 remained in place during the quarter effectively blocking 26 VLCCs from reentering market, while Exxon and others banned use of ships having called on Venezuelan ports during the past twelve months, further limiting net supply growth. New vessel ordering for the tanker space in general has remained limited and the orderbook is declining, however four VLCCs were contracted in December.

Crude oil and tanker demand increased in Q4, with the former reportedly having increased by close to two million barrels per day from Q3 as OPEC increased export, refineries increased runs ahead of IMO 2020 and the Johan Sverdrup and Berbigao fields came online. VLCC cargo loadings were consequently the highest for the year with around 235 loadings concluded in December alone. Exports from the new fields in the North Sea and Brazil have boosted ton-miles and added to owners optionality when considering ballasting towards the Atlantic, which for VLCCs has consisted primarily of US Gulf. Exports from the latter, however, have stabilized in Q4 at 14-15 cargoes per months, down from around 18 in seen Q1, although December production was at a record high of 4.4 million barrels per day.

Market outlook

The tanker market has had a volatile start to the new decade, with benchmark rates starting the year at lofty levels before quickly collapsing along with overall sentiment as the 26 Cosco vessels returned to the market, 10 newbuildings were delivered from yards, Chinese new year celebrations begun and finally the economic disruption following the spread of Covid-19. The virus scare has by varying estimates lead to a decrease in crude oil demand of 3-5 million barrels per day, following travel bans and emergency measures, although reports from OPEC indicate limited demand reductions so far. We do however expect the virus situation to come under control in the near future, and global economic conditions to return to normal. Further Chinese economic stimulus measures are also likely to be implemented to boost activity and avoid any lasting effects, which should lead to a v-shaped recovery. Both newbuilding deliveries and scrubber retrofits are facing substantial delays due to reduced Chinese yard activity and congestion, which should add to a healthy market balance once calm is restored.

As a consequence of the collapse, the VLCC market is currently finding itself in the unsustainable situation where older non-scrubber vessels reportedly are earning close to zero, compared to USD 30,000 – 40,000/day for modern scrubber-equipped vessels. With close to 200 vessels (out of ~800) being 15 years or more and scrap prices at healthy levels, it is only matter of time before rates improve, either naturally following demand improvements or by scrapping of older loss-making vessels.

Longer term, we expect the strong underlying fundamentals to continue due to the combination of healthy oil demand, increasing distances between crude oil supply and demand, an historical high share of older scrap candidates and owners' lack of willingness to invest in replacement tonnage. The latter is due to high uncertainty around future decarbonization requirements and hence "tomorrow's" propulsion technology. In addition to the risk of being stuck with a modern asset with the wrong technology, the newbuild cost premium associated with alternative fuels is high. Illustratively, a VLCC with LNG propulsion is currently priced at a premium of around USD 15m, leading to higher dayrate requirements compared to conventional assets, once the vessel is delivered following an around 18 month construction process.

IMO 2020 effects are still significant, although spreads have narrowed recently along with a lower oil price. The HFO vs. LSFO spread is currently quoted around $150 in Fujairah, indicating substantial savings for VLCCs burning 50-70 tons of fuel per day. However, as economic conditions and oil prices improve, so should the fuel spreads.

The wind and the waves are always on the side of the ablest navigator…

Condensed consolidated financial statements for Q4 2019

Consolidated income statement

	Quarters			Year to date	
(Unaudited figures in USD 1 000)	**Q4 2019**	**Q4 2018**	**Note**	**31.12.2019**	**31.12.2018**
Continuing operations					
Revenues					
Pool revenues	12 026	0	8	12 026	0
Other income	97	52	5, 7	378	52
Net gain on sale of assets	12 308	0		12 308	0
Total Revenues	**24 431**	**52**		**24 712**	**52**
Operating expenses					
Vessel operating expenses	1 442	0		1 442	0
Voyage expenses	1 968	0	1	1 968	0
Depreciation and amortisation expense	1 886	0	1, 7, 8	1 915	0
General and administrative expenses	410	506	4	1 113	2 816
Total operating expenses	**5 706**	**506**		**6 438**	**2 816**
Operating profit (loss) continuing operations	**18 726**	**-454**		**18 274**	**-2 765**
Net interest expense	-2 375	314	8	-2 465	874
Net other financial items	-3	1 321		144	2 406
Net financial income (loss)	**-2 618**	**1 635**		**-2 321**	**3 280**
Profit (loss) before taxes from continuing operations	**16 107**	**1 180**		**15 953**	**515**
Tax on ordinary result	0	76		0	-374
Net profit (loss) from continuing operations	**16 107**	**1 256**		**15 953**	**142**
Discontinued operations					
Net profit (loss) from discontinued operations	0	0		0	-4 410
Net profit (loss)	**16 107**	**1 256**		**15 953**	**-4 268**
Earning per share	0,03	0,00		0,03	-0,05
Earnings per share diluted	0,03	0,00		0,03	-0,05
Earnings per share continuing operations	0,03	0,00		0,03	-0,01
Earnings per share diluted continuing operations	0,03	0,00		0,03	-0,01

(Unaudited figures in USD 1 000)	**Q4 2019**	**Q4 2018**	**31.12.2019**	**31.12.2018**
Total comprehensive income				
Net profit (loss)	16 107	1 256	15 953	-4 268
Translation differences	0	-7 221	1	-2 289
Comprehensive income for the period continuing operations	**16 107**	**-5 965**	**15 954**	**-6 557**
Total comprehensive income attributable to:				
Equity holders of the parent	16 107	-5 965	15 954	-6 557
Total comprehensive income continuing operations	**16 107**	**-5 965**	**15 954**	**-6 557**

Consolidated balance sheet

Assets

(Unaudited figures in USD 1 000)	Note	31.12.2019	30.09.2019	31.12.2018
NON-CURRENT ASSETS				
VLCC vessels	8	254 234	84 837	0
VLCC vessels under construction	5, 8	79 663	162 387	56 682
Other tangible assets	7, 8	217	158	10
Total tangible assets		**334 114**	**247 382**	**56 692**
TOTAL NON-CURRENT ASSETS		334 114	247 382	56 692
CURRENT ASSETS				
Trade and other receivables		7 351	0	83
Other short-term receivables		818	1 217	147
Total current receivables		**8 170**	**1 217**	**231**
Other financial investments		0	0	24 758
Total other financial investments		**0**	**0**	**24 758**
Cash and cash equivalents	**6**	**52 455**	**9 725**	**35 001**
TOTAL CURRENT ASSETS		60 625	10 942	59 990
TOTAL ASSETS		**394 739**	**258 323**	**116 681**

Equity and Liabilities

EQUITY				
Share capital (575 362 013 shares)	2	82 625	82 625	55 376
Share premium	2	112 626	112 467	61 123
Other equity		15 953	0	0
TOTAL EQUITY		211 204	195 092	116 499
LIABILITIES				
Non-current interest-bearing debt	7, 8	174 494	58 730	0
Total non-current liabilities		**174 494**	**58 730**	**0**
Trade creditors		3 077	552	132
Accrued public charges and indirect taxes		15	16	9
Current portion of interest-bearing debt	8	5 932	1 440	0
Other current liabilities	4	16	2 492	42
Total current liabilities		**9 040**	**4 500**	**182**
TOTAL LIABILITIES		183 534	63 230	182
TOTAL EQUITY AND LIABILITIES		**394 739**	**258 323**	**116 681**

Consolidated cash flow statement

	Quarters			Year to date	
(Unaudited figures in USD 1 000)	**Q4 2019**	**Q4 2018**	**Note**	**31.12.2019**	**31.12.2018**
Profit (loss) before tax from continuing operations	16 107	807		15 953	142
Profit (loss) before tax discontinued operations	0	0		0	-4 410
Profit (loss) before tax	16 107	807		15 953	-4 268
Depreciation	1 886	0	8	1 915	1 126
Gain on sale of VLCC	-12 308	0	5	-12 308	0
Net write-down intangible assets and capitalized grants	0	0		0	2 228
Interest received	-506	-314		-509	-874
Interest paid	2 882	0	8	2 974	33
Change in working capital items	-6 673	116		-4 818	-1 222
Net cash flow from operating activities	**1 388**	**609**		**3 208**	**-2 977**
Investments in VLCC newbuilds and PP & E	-122 358	-25 683	5, 8	-312 840	-59 672
Sale of VLCC	46 136	0	5	46 136	0
Investments in other financial investments	0	-31 172		0	-81 502
Sale of other financial investments	0	55 349		24 758	55 349
Net cash flow from investment activities	**-76 222**	**-1 507**		**-241 946**	**-85 825**
Interest received	506	314		509	874
Interest paid	-2 882	0	8	-2 974	-33
Proceeds from borrowings financial institution	120 184	0	8	180 184	-84
Installment leasing-debt (IFRS 16)	-19	0		-48	0
Capital contribution	0	0	2	79 168	92 738
Transaction cost capital contribution	-225	329	2	-647	-1 625
Net cash flow from financing activities	**117 565**	**643**		**256 192**	**91 870**
Total net changes in cash flow	**42 730**	**-255**		**17 454**	**3 068**
Currency effect on cash	0	-2 202		0	-2 125
Cash and cash equivalents beginning of period	9 725	37 459		35 001	34 059
Cash and cash equivalents end of period	**52 455**	**35 001**		**52 455**	**35 001**

Consolidated statement of changes in equity

(Unaudited figures in USD 1 000)	Note	Share Capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity as of 01.01.2018		**18 869**	**31 726**	**0**	**0**	**50 595**
Net profit 2018			-4 268	0	0	-4 268
Foreign currency translation adjustment			-2 289	0	0	-2 289
Total comprehensive income 2018			-6 557	0	0	-6 557
Private placement 9 May 2018	2	10 790	9 064	0	0	19 854
Issuance of shares 14 June 2018	2	23 379	36 471	0	0	59 849
Issuance of shares 19 July 2018	2	2 338	3 647	0	0	5 985
Transactions costs (after tax)			-1 388	0	0	-1 388
Warrants related to VLCC shipbuilding contracts			1 151	0	0	1 151
Distribution in kind, shares in Dwellop AS			-13 236	0	0	-13 236
Transactions costs (after tax)			246	0	0	246
Equity as of 31.12.2018		**55 376**	**61 123**	**0**	**0**	**116 499**
Total comprehensive 2019			0	0	15 953	15 953
Private placement 22 May 2019	2	27 249	51 919	0	0	79 168
Option plan payment			230	0	0	230
Transactions costs			-647	0	0	-647
Equity as of 31.12.2019		**82 625**	**112 626**	**0**	**15 953**	**211 204**

Notes to the Hunter Group condensed consolidated financial statements for Q4 2019

1. Accounting principles

These condensed interim financial statements of Hunter Group where authorized for issue by the Board of Directors on 28 February 2020.

The interim condensed consolidated financial statements for the three and twelve months ending 31 December 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

IFRS 16 Leases

Effective from 1 January, 2019, IFRS 16 covers the recognition of leases and related disclosure in the financial statements, and replaces IAS 17 Leases. In the financial statement of lessees, the standard requires recognition of all contracts that qualify under its definition of a lease as right-of-use assets and lease liabilities in the balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the shorter of each contract's term and the assets' useful life. The standard consequently implies a significant change in lessees' accounting for leases currently defined as operating leases under IAS 17, both with regard to impact on the balance sheet and the statement of income. With regards to lessor accounting IASB has decided to substantially carry forward the lessor accounting model in IAS 17. The standard requires adoption either on a full retrospective basis, or retrospectively with the cumulative effect of initially recognizing the standard as an adjustment to retained earnings at the date of initial application.

The Company has reviewed its rental agreements for assessing if these will change category from operational to financial lease. The standard impacted the accounting of leasing of premises as the Company rent the buildings it operates its business from.

IFRS 16 was implemented using the modified retrospective method. The effect as per 31.12.18 was not significant. Hunter Group adopted IFRS 16 on 1 January, 2019.

After initial recognition, borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

Vessels and equipment

The net cost of the VLCCs (less estimated residual value) is the basis for a straight-line depreciation over the estimated remaining economic useful lives (25 years). Other equipments (excluding vessel upgrades) are depreciated over its estimated remaining useful life (5 years). The estimated residual value for the VLCCs is calculated by multiplying the lightweight tonnage with the market price of scrap per tonne. The market price of scrap per tonne is based on price of scrap at delivery (USD 350/lwt in Pakistan). Residual values are reviewed annually.

Voyage expenses relates to fuel and other costs incurred before the vessel joins the Tankers International pool.

2. Equity transactions

On 9 May 2018, the private placement consisting of 75,000,000 new ordinary shares for gross proceeds of NOK 172.5 million with a subscription price of NOK 2.30 was registered in The Register of Business Enterprises.

On 18 May 2018, issuance of subscription rights to all shareholders in the Company as of 16 May, who were not allocated Offer shares in the Private Placement (NOK 520M) and who are not resident in a jurisdiction where such offering would be unlawful or require a prospectus filing or similar. Subscription price NOK 3.2.

On 30 May 2018, distribution of all the Company's 206,158,013 shares in Dwellop AS as a PIK dividend to all shareholders on record per 18 May 2019.

On 14 June 2018, HUNT has issued 162,500,000 new ordinary shares for gross proceeds of NOK 520.0 million with a subscription price of NOK 3.20, and registered it in The Register of Business Enterprises.

On 19 July 2018, HUNT has issued 16,250,000 new ordinary shares for gross proceeds of NOK 52.0 million with a subscription price of NOK 3.20, and registered it in The Register of Business Enterprises.

On 22 May 2019, HUNT has issued 190,454,000 new ordinary shares for gross proceeds of NOK 695 million (USD 79m) with a subscription price of NOK 3.65, and registered it in The Register of Business Enterprises.

3. Segment information

As the Dwellop-segment was discontinued in 2018, and the Indicator-segment has not had any activity during the last couple of years, the management monitors the operating results in 1 segment which develops and operates the VLCCs.

4. Transactions with related parties

The following table provides the total amount of transactions with related parties controlled by the members of the executive management of Hunter Group for 2019. All related party transactions have been entered into on an arm's length basis.

Transactions with related parties	31.12.2019	31.12.2018
Purchased services in USD 1 000	160	668

For 2018, Middelborg AS has invoiced the Company USD 247t, mainly related to Mr. Vegard Urnes, Investment Manager of Middelborg AS, and former CEO of Hunter Group ASA. The contract was terminated in May 2018.

Gudbrandsneset is owned by the Company's former SVP Business Development (hired on 60% basis) Mr. Eirik Bergsvik. USD 69t were invoiced for consultancy services for the first part of 2018. The contract was terminated in May 2018.

The Group has used the services of the law firm Ro Sommernes DA for legal advice in 2018 and 2019. Ro Sommernes DA has invoiced the Company USD 348t in 2018 and USD 160t as per Q4 2019 YTD. The Company's chairman Henrik Christensen is a partner in Ro Sommernes DA.

From 1 November 2018 the Company rents office space from Dronningen Eiendom AS. The rental agreement is for 36 months. One of the Company's shareholder is also a shareholder of Dronningen Eiendom AS.

On 26 April 2018 Hunter Group entered into a definitive VLCC contract transfer agreement with Apollo Asset Ltd. Apollo Asset Ltd. Is 100% owned by Mr. Arne Fredly, board member and largest shareholder of Hunter Group ASA.

5. VLCC under construction

The Company entered into at total of eight shipbuilding contracts of which one were delivered in September 2019, one in October 2019 and one in November 2019. In addition, one were already sold and redelivered her to her new owner with a gain of USD 12.5m. Please see note 9 for further information.

As per 31 December 2019, Hunter Tankers has made installments totaling USD 373m, of which USD 60m were paid in 2018.

6. Cash and cash equivalents

Of the USD 52.5m in cash and cash equivalents as per 31 December 2019, a major part were in USD.

7. IFRS 16 implementation

The IFRS 16 standard regarding Leases was implemented on 1 January 2019. The new accounting standard replaces IAS 17 Leases. IFRS 16 requires that all leases, except for short-term and low-value leases are reflected in the balance sheet as a lease liability and a Right of Use (RoU) asset. Hunter Group has used the modified retrospective method as from 1 January 2019. The Consolidated balance sheet increased by adding lease liabilities and right of use assets with USD 0,1m. Hunter Group's equity has not been impacted from the implementation of IFRS 16. The weighted average discount rate used to calculate the IFRS 16 opening balance lease liability was 5 %. The following line items in the balance sheet have been impacted:

(unaudited figures in USD 1 000)	**31.12.2018**	**IFRS 16 adjustments**	**01.01.2019**
Property, plant, equipment & machineries	10	92	101
Other interest-bearing debt	0	92	92

IFRS 16

(unaudited figures in USD 1 000)	**2019**
Right of use assets 01.01	92
Addition 2019	167
Depreciation 2019	-48
Right of use assets 31.12	**211**
Other interest-bearing debt 01.01	92
Addition 2019	167
Installments 2019	-48
Other interest-bearing debt 31.12	**211**
Interest 2019	**7**

8. Property, plant & equipment

(Unaudited figures in USD 1 000) Per 31 December 2019	IFRS 16 PP&E	Other tangible assets	VLCC vessels under construction	VLCC vessels	Total
Cost at 1 January 2019	92	10	56 749	0	56 850
Additions in the period	167	0	312 696	0	312 864
Sale of VLCC	0	0	-33 684	0	-33 684
Transfer to VLCC in operation	0	0	-256 098	256 098	0
Cost at 31 December 2019	259	10	79 663	256 098	336 029
Accumulated depreciations at 31 December 2019	-48	-3	0	-1 864	-1 915
Book value at 31 December 2019	**211**	**6**	**79 663**	**254 234**	**334 114**
This year's depreciation	48	3	0	1 864	**1 915**

The Group took delivery of "Hunter Atla" (NB No. 5455) on 24 September 2019, "Hunter Saga" (NB No. 5456) on 19 October 2019 and "Hunter Laga" (NB No. 5460) on 1 November 2019. These are three of seven identical ECO design VLCC newbuildings. In addition, NB No. 5457 were sold and redelivered her to her new owner on 31 October 2019 with a gain of USD 12.5m.

Hunter Tankers AS entered 6 September 2019 into a USD 180 million sale-and-leaseback transaction with Ship Finance International Limited ("SFL"), for the three VLCCs. The Group received net proceeds of USD 60 million per vessel for the sales of Hunter Atla (5455), Hunter Saga (5456) and Hunter Laga (5460), and have subsequently bareboat chartered the vessels back for 5 years. The Group have purchase options for all three vessels, ensuring maximum flexibility in regards to potential future vessel sales. The bareboat rate for the three VLCCs for the first 6 months is $11,500 per day, and they have entered the Tankers International Scrubber Pool where they commenced trading in the spot market.

The acquisition cost of the three VLCCs has as such been transferred from VLCC under construction to VLCC vessels. The depreciation have started in Q4 2019 as the three vessels have started its activities in Q4.

9. Subsequent events

The Company has secured a 3-year USD 220 million loan facility from a syndicate of banks consisting of Danske Bank, DNB, Nordea and SEB. The proceeds will be used to fund the final instalments for the Company's four remaining newbuild VLCCs, as well as general corporate purposes, and will be drawn on delivery of each vessel. The facility will carry a 275bps margin over LIBOR, and have a 16 year repayment profile. Subsequently, the RCF with Apollo

As of the date of this report around 70% of available pool days have been booked at an average TCE of approx. USD 88,300

Hunter Group ASA
Org. nr. 985 955 107

Address: Dronningen 1, 0287 OSLO
E-mail: Erik A. S. Frydendal, CEO, ef@huntergroup.no